The Race and Gender Wealth Gap

By Karuna Jaggar

The economic justice movement has historically focused on income equality. To the extent that attention was given to assets, the assumption was that once families' incomes are not consumed with basic needs, asset accrual will follow. While some gains have been made in narrowing the earnings gap, today wealth inequality is higher in the United States than any other industrialized country: the wealthiest one percent own one-third of the nation's wealth. As with all inequality, it is important to recognize the racial and gendered elements of the disparity. In the United States, families of color own just one-tenth of what white families own.

Lack of wealth is both a cause and an effect of low income and poverty, and the two are highly correlated, creating a cycle of economic instability. Without adequate income, poor people—who are disproportionately people of color and women—are unlikely to acquire assets, whether purchasing a home or saving. Similarly, lack of asset ownership limits income opportunities, such as seeking advanced education or starting a business.

Asset ownership and wealth are in many ways a more elemental measure of economic well-being than income. Income is a short-term measure and is certainly critical for meeting daily living expenses. In contrast, wealth—which is more likely to be affected by previous generations—allows families to weather financial hardships, such as economic downturns and unexpected periods of unemployment. More profoundly, wealth creates opportunity and allows families to move from poverty to long-term prosperity.

If the accrual and maintenance of assets are critical to measuring economic well-being, asset poverty describes the condition of families for whom a sudden interruption in income would immediately produce serious consequences. In California, asset poverty rates are approximately twice income poverty rates, as defined by the federal poverty guidelines. Nearly one quarter of California families are asset poor. The economic situation for women and people of color is even more dire with one quarter of female-headed households and one third of minority-headed households having zero or negative net worth.

Women and people of color fare worse across the board on all common measures of economic security. They are less likely to own a bank account, which increases their vulnerability to predatory check cashing practices. They are also less likely to own their own home—the second most commonly held asset in the United States after vehicles.

Wealth Through the Racial Lens

On every count, people of color own less wealth than white Americans, as revealed by the following data:

African Americans (31 percent) and Latinos (35 percent) are approximately two and a half times more likely than whites (13 percent) to have zero or negative net worth.

Three-quarters of whites own their own homes compared to 46.7 percent Latinos and 48.1 percent African Americans.

More than half of white families have retirement accounts and a majority own some stocks. By comparison only 30 percent of African American households own stocks and they are one-fifth the value of what whites own.

Furthermore, the data shows that even within a given class, white Americans have greater access to assets and removing the wealthy, predominantly white elite from calculations reveals that white working-class people have on average more assets than people of color. Current trends show that this racial wealth gap is continuing to grow. According to the Federal Reserve Bank, from 1995 to 2001, the average family of color saw their net worth fall seven percent to $17,100, while an average white family's net worth grew 37 percent to $120,000 in the same period.

The severity and persistence of the racial wealth gap requires targeted and strategic attention.

Wealth Through the Gender Lens

The gender wealth gap is more difficult to measure because wealth is typically a household-level characteristic, often with people of different genders in the same household. Consequently, most data on wealth disparity between men and women looks only at non-married households, which comprise 47 percent of all households according to the 1998 census.

Women are less likely than men to own almost every type of asset. The median value of assets held by women is almost always lower than that of their male counterparts. A smaller percent of women own stocks, bonds, and other financial assets compared to men. Women are also less likely to hold retirement accounts and a woman's pension is typically smaller than a man's.

Married households are significantly wealthier than non-married households. However, marriage and divorce affect men and women in different ways. Marriage reduces a woman's likelihood of participation in the labor market, whereas no such consequence is found for men. In addition, women's economic status suffers more than men's upon divorce. Even widowed women, who fare best of all non-married women, own only $0.59 for every dollar of wealth owned by widowed men. Never-married women have the least wealth of all household types, owning less than a quarter of the wealth owned by never-married men. Never-married women's median net worth is just $2,500 compared to the $148,700 median net worth of married individuals.

Persistent Factors of Inequality in Wealth

Most private wealth in the United States is inherited, which perpetuates the racial wealth gap. Approximately 80 percent of assets come from transfers from prior generations. Whites are approximately five times more likely than people of color to inherit after the death of a parent and they inherit nearly three times the value. One quarter of white families received an inheritance averaging almost $145,000, but only one in 20 African American families inherited, with an average inheritance of approximately $42,000. In addition, whites are two-and-a-half times more likely than African Americans to receive modest gifts from living relatives, such as contributions to college tuition or a down payment on a home.

Another factor is that for nearly 150 years, the United States government has encouraged asset building through targeted policies, such as the Homestead Act (1862) and the GI Bill (1944). While the stated intention of most asset building policies is to benefit working and poor families, a deeper look shows that they have failed to benefit low-income families; in large part owing to the predominance of asset building policies that operate through the tax code.

Currently, almost $300 billion per year in federal tax expenditures goes to support asset building among individuals in the form of tax credits, deferments, or exemptions for investments, homeownership, and retirement accounts. These policies are of little benefit to many low-income individuals who do not have tax liabilities. Low-income families who cannot afford a down payment on a home do not qualify for a mortgage or the generous income-tax deductions for mortgage interest and property taxes. In fact, it is households earning over $50,000 a year that receive over 90 percent of the benefits of a home mortgage tax deduction.

A new look at asset policy is needed to address centuries of economic inequality. Policies must focus on the specific needs of and unique opportunities for lower-income families, women, and people of color.

Women's Initiative: A Case Study

Since 1988, Women's Initiative has been helping lower income women of color achieve economic security through microenterprise, which typically has very low start-up costs. Its culturally competent, wraparound business and personal development training in English and Spanish is designed to help low income and low asset women facing multiple barriers transform their work experience and ingenuity into a growing asset, which can then be leveraged to acquire additional assets, such as real estate, vehicles, bank accounts, and retirement funds.

About 31 percent of program participants are at or below the federal poverty line at enrollment (average household net worth is $12,968) and about 83 percent are women of color. In addition, many report low credit scores, including one or more bankruptcies, and are unable to access formal banking relationships when they enter the program. Many face other economic obstacles, such as little formal education, physical disability, and a history of domestic violence.

In 2008, Women's Initiative conducted a study of its client data collected between 1998 and 2007, which supports the hypothesis that microenterprise is a very effective way to move low income women and families toward lasting economic self-sufficiency. (For information on research methodology and comprehensive findings, see the full report *Closing the Wealth Gap through Self-employment: Women of Color Achieving the American Dream* at www.womensinitiative.org.

Women's Initiative Client Research

Despite the financial risks often associated with business ownership, women in business have 40 percent higher average household incomes and 48 percent more household net worth than clients who have not yet started their businesses.

Participants in business management training reported an increase in the average value of the businesses from $914 (median: $0) before training to $6,352 (median: $300) two years after training.

More than three out of five clients (62 percent) reported gains in overall household net worth and home ownership doubled to one out of five (20 percent) after program participation.

African American clients reported the greatest average absolute growth (over 1,000 percent) in business equity two years after training, while Latina clients saw the largest relative gains (3,000 percent).

Latina clients experienced greater average gains in overall household wealth than non-Latinas. Moreover, clients who received services in Spanish reported higher average overall household wealth two years after training than clients who received services in English.

Microenterprise: A Possible Equalizer

The persistent income gap for women and people of color contributes to the wealth gap in the United States, as these families are unable to put away savings for investment and other asset building activities. Income inequality persists across generations as wealth is inherited. Government policy—which historically did not equally benefit poor families and women and people of color—generated an initial inequality that has been perpetuated through subsequent poorly-targeted policies. Policies and programs to reduce the racial and gender wealth gap must provide culturally competent and targeted support for asset building.

Research conducted by the Women's Initiative bolsters the case that microenterprise is an important tool for women seeking economic security. In addition to the significant income gains previously documented, there is now compelling evidence that on average, total household net worth rises dramatically after business training. The chance to leverage her skills, creativity, and hard work through business ownership allows a woman to create her own upward mobility. The relatively low start-up costs of microenterprises allows women to build an asset that in turn can be used to generate a safety net of personal wealth for the entire family.

Given the conclusions of the Women's Initiative study, one can confidently argue that any new asset policies targeted at bridging the wealth gap must include culturally-competent, wrap-around business training for lower income women. ■

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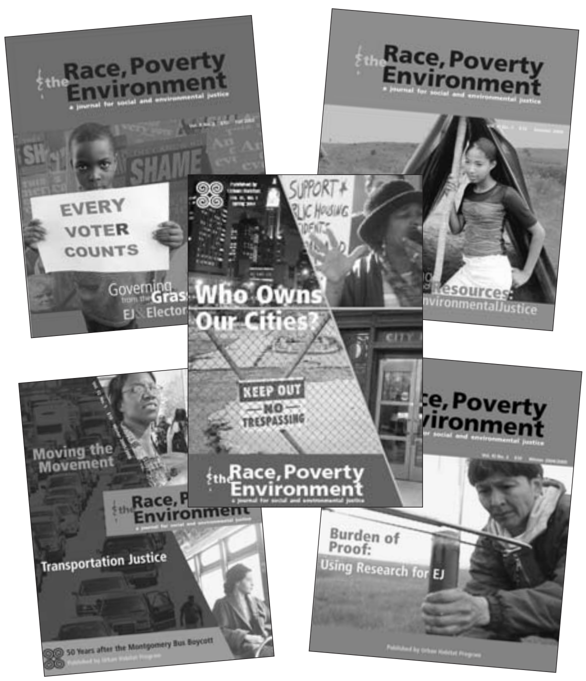

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