



“Summary of article by Melvin L. Oliver and Thomas M. Shapiro: A Story of Two Nations: Race and Wealth” in Frontier Issues in Economic Thought, Volume 5: The Political Economy of Inequality. Island Press: Washington DC, 2000. pp. 48-52

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## **“Summary of article by Melvin L. Oliver and Thomas M. Shapiro: A Story of Two Nations: Race and Wealth”**

Analyses of racial inequality frequently focus on the gap between black and white incomes, implicitly or explicitly assuming that income is a good measure of economic well-being. This book emphasizes the separate importance of wealth, arguing that assets as well as income are required for economic security and stability. Using statistical results from an extensive 1988 survey, the chapter summarized here finds that the disparity between black and white households is far greater in terms of wealth than in incomes. The ratio of black to white median incomes was .62; the ratio for median net worth was .08. Similar racial gaps, though not always equally extreme, can be found within many socioeconomic and demographic subgroups of the population.

### **The Black Middle Class**

Membership in the “middle class” is an ambiguous concept, at times referring to a certain level of income, education, occupation, or self-employment status. Three possible definitions of the middle class, which are useful for statistical analysis, are: those earning between \$25,000 and \$50,000 (in 1988); those with college degrees; and those in white-collar jobs. By any definition, the black middle class is much farther behind its white counterparts in wealth than in income.

The ratio of median black to white incomes is .70 for white-collar workers, and .76 for college graduates. In contrast, the ratio of median black to white net worth, for the three definitions of middle class, ranges from .15 to .35. The median white household had a net worth of \$44,000 to \$75,000, depending on which definition is used; black median net worth was \$8,000 to \$17,000. In terms of net financial assets (i.e., excluding equity in homes and vehicles) the contrast is even more extreme. Median financial assets ranged from \$7,000 to \$20,000 for the three white middle class categories, and from zero to \$300 for the corresponding black groups.

The racial income gap is somewhat narrower among married couples (not restricted to the middle class); the ratio of black/white median incomes is .80 for all married couples, and .85 for two-earner couples. Yet the black/white wealth ratio is .27 for all married couples, and .31 for two-earner couples. The wealth difference among couples does not appear to be declining over time; among young (25 to 35) two-earner couples, the income ratio is .81, while the wealth ratio is .18. In all of these categories, the median black couple has zero net financial assets.

The wealth gap is important because "a middle-class standard of living rests on the twin pillars of income and wealth. The two together create a solid economic foundation that simultaneously safeguards a secure standard of living and enhances future life chances. When either one is lacking, middle-class status is jeopardized." (94)

### **A Wealth Comparison**

By any standard, the black/white wealth gap is substantial. The average black family has modest home and/or car equity, and no other assets; the average white family has more home equity, and financial assets as well. Over time, the gap is getting only slightly narrower in relative terms, and larger in absolute terms. From 1967 to 1988, the net worth of the mean (not median) black family rose from \$4,000 to \$24,000, compared to an increase from \$20,000 to \$96,000 for whites. The gap is narrowest, but still significant, at the highest income levels. Among those with 1988 incomes of \$50,000 or more, the ratio of black/white median net worth was .52.

Has there been black economic progress in recent years? In the survey used in this study, blacks represented 9.2 percent of the population, and received 7.4 percent of total income. While still short of parity, this figure does represent progress over earlier years. However, blacks owned only 2.9 percent of the nation's net worth, and held a mere 1.3 percent of all financial assets. Whites were 82.5 percent of the population, and owned 95 percent of all financial assets. Viewed through the prism of wealth, black economic progress is much harder to see.

### **The Composition of Assets**

Not only the size, but also the composition of assets differs between blacks and whites. Home and vehicle equity accounts for 72 percent of black assets, but only 49 percent of white assets. Financial assets of all types are more common among whites: 76 percent of whites, vs. 43 percent of blacks, have interest-bearing bank accounts; 27 percent of whites, vs. 6 percent of blacks, have IRA or Keogh pension accounts. White households save more than blacks at the same income level, and put a higher proportion of their resources into interest-bearing assets. Such differences are most pronounced at lower incomes; at higher incomes, black and white portfolios and savings rates become increasingly similar.

Home ownership is the most important single asset for both whites and blacks. Blacks own 3.9 percent of all home equity, greater than their share of other forms of wealth, but still far less than proportional to their numbers, or even their incomes. More whites than blacks are homeowners (66 percent vs. 42 percent), and median white home equity is greater as well. Again, the gap is greater at lower income levels, and narrows but does not vanish for those with incomes over \$50,000.

### **Routes to Wealth and Poverty**

Human capital characteristics such as training, skills, and experience have well-known effects on earnings. Intricate patterns of differences can be seen in the data on education. Among those with the lowest level of education (elementary school only), black and white incomes are virtually the same. Then the first several steps up the educational ladder add much more to white

than to black incomes. Finishing high school, for example, adds \$5,800 to median white income, but only \$2,800 for blacks, compared to the incomes of high school drop-outs. The rewards of higher education are much more equal; moving from a high school diploma to a college degree increases white income by \$18,000 and black income by almost \$17,000.

In terms of wealth, each additional level of education is associated with an increase in median net worth, for both whites and blacks. However, the rewards are much greater for whites at every step. High school graduates have median net worth \$9,000 greater than drop-outs among whites, but only \$800 greater among blacks. White college graduates have median net worth \$34,000 greater than those with just a high school diploma; among blacks, the corresponding figure is \$14,000. The contrast between the nearly equal returns to college graduation in terms of income, and the starkly unequal returns in terms of wealth, “suggests that more complex dynamics are at work than we have yet been able to explain.” (110)

Racial disparities also change with age. The racial gap in median incomes narrows from \$12,000 for young people to \$10,000 in the 50-64 age bracket, and less than \$3,000 for seniors. The latter figure, however, does not mean that near-equality is reached in retirement; the difference in wealth is so great that blacks are much more likely to have to continue working after age 65. The racial gap in median net worth starts at \$7,000 for young households and expands steadily to \$70,000 for those who are 50-64. The wealth gap grows with age, even though the income gap does not, in part because more whites begin adult life with assets which grow in value – and in part because whites are more likely to inherit wealth from their parents, which typically happens when the children are in their 40s or 50s.

A final factor to consider is family structure. “Explanations of racial inequality often start, and too often end, with a discussion of changes in black family structure.” (122) Households headed by single women are far worse off than married couples, among whites as well as among blacks. White single-parent households have low incomes and \$4,000 in median net worth; black single-parent households have lower incomes, and, in most cases, no assets whatsoever. As we have seen, black married couples are closer to income parity with whites than the black population in general; yet a huge gap in wealth remains, even among married couples. For every family status – including those who are never married, separated, divorced, or widowed – whites have greater assets and incomes than blacks. One of the starkest racial differences occurs among widows, where whites have median financial assets of over \$15,000, while blacks have none.

Since racial gaps in income, and particularly in wealth, exist within every family structure, it is implausible that black family structure alone could explain inequality. The same is true for other socioeconomic and demographic categories such as education, age, and work experience. “[T]he wealth gap that creates two nations, one black and one white, continues to be America’s great racial divide.” (125)