Testimony before the House Committee on Financial Services Subcommittee on Oversight and Investigations

February 24, 2021

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Discrimination in access to credit and the terms of credit is an important barrier to black wealth accumulation. Elimination of this barrier, albeit wholly desirable, will not eliminate the gaping chasm in net worth between black and white Americans. *The fundamental reason for black-white differences in wealth is not high black indebtedness; the fundamental reason is low black asset holdings.*

A Prosperity Now (Nieves) study in 2019 reported that median black household liabilities were $30,800, while median white household liabilities were more than twice as large at $73,800. However, white households had a median level of assets valued in excess of $260,000 in contrast with the median black households' assets valued at $55,900. The median black household had forty percent of the debt of the median white household, but only 20 percent of the assets. Correspondingly, the ratio of assets to debts for black households was 1.6 versus 2.8 for white households, both measured at the median.

Moreover, households with lower levels of *prior* wealth tend to acquire relatively higher levels of debt to meet their obligations and to try to make investments in future opportunities for wealth-building. For example, for given socioeconomic status, black students obtain more years of schooling and more educational credentials than white students (Mangino 2010, 2012). Their greater drive for educational attainment is a consequence of more restricted options for upward mobility. Unfortunately, because of their families' smaller resource base, especially sharply lower levels of wealth, they must rely disproportionately on loan finance to pursue higher education.

The result is black college graduates owe $25,000 more in student loan debt than white college graduates. Forty-five percent of that indebtedness is due to borrowing to meet graduate school expenses. If black families had higher levels of wealth at the outset, there would be considerably less pressure to seek credit to finance their children's higher education. In short, lower relative levels of wealth drive higher relative levels of indebtedness, especially with respect to student loan debt.

Indeed, black parents are comparatively generous in providing support for their children's higher education. Black parents who provided any support for their sons' and daughters' higher education had a net worth one-third of that for white parents who provided no support for their sons' and daughters' higher education (Nam et al. 2015, Figure 3). Black families do more with less; they could do even more with more.

The magnitude of the racial wealth gap, driven predominantly by a racial gap in asset ownership, is staggering. The 2019 Survey of Consumer Finances (Bhutta et al. 2020) indicates that the black-white wealth gap at the median was $164,000, and, at the mean, it was substantially larger, $840,900. Assuming an average household size of three persons, the median gap per person was $52,500 and the per person mean gap was $280,000. These are conservative estimates of per capita differentials because average white household size actually is less than three people.

Many observers treat the median gap as the target for closure of the black-white gap in wealth. In this context, it may be more appropriate to set the more demanding target at the mean. Wealth is so densely concentrated in the United States that 97 percent of the wealth held by white Americans is in the possession of white households with a net worth above the *white median*. Close to 99 percent of white wealth is held by white households with a net worth above the *national median,* approximately $100,000. Twenty-five percent of white households have a net worth in excess of $1 million in contrast with only four percent of black households (Darity, Addo, and Smith 2020). Centering on the median as the target for eliminating the racial wealth gap leaves vast amounts of white wealth untouched.

The limitations of an exclusive focus on debt reduction rather than asset building as a route toward closing the wealth gap is transparent when considering a policy of student loan relief. Whether one eliminates student debt by trying to erase the difference at the median or the mean gap, there will be, at best, an incremental effect on the racial wealth differential. The average level of student loan debt for all black students and graduates is $23,400, while the average for white students and graduates is $16,000.

Gauging the amount of the gain in net worth by erasure of student loan debt requires applying weights to these values by enrollment rates for each group; persons who do not enroll in college or university do not acquire student loan debt. Whites currently have a higher enrollment rate than blacks (41 percent versus 36 percent, respectively). Adjusting the amounts by enrollment rates, the black gain in wealth becomes $8424, while the white gain in wealth becomes $6560. The net reduction in the gap will be $1856. The reduction amounts to only three percent of the total median gap of $52,500. It amounts to less than a one percent reduction at the mean gap of $280,000.

The key to understanding the sources of the racial wealth gap is government policy that supported white wealth accumulation and stifled black wealth accumulation. Black wealth accumulation has undergone a sustained process of *asset underdevelopment* via an array of American programs and practices.

In January 1865, General William T. Sherman, after Secretary of War Edwin Stanton and he held a consultation with a group of black leaders in Savannah, Georgia issued Special Field Orders No. 15. His directive assigned 5.3 million acres of land stretching from the Sea Islands of South Carolina to the portion of northern Florida bordered by the St. John's River as a site for settlement and property for the freedmen. Here was an intended preliminary phase of a substantial land reform, on behalf of the formerly enslaved, that would have amounted to at least 40 million acres of land for the four million persons released from bondage (Darity and Mullen 2020, 156-159).

Ultimately, only 40,000 persons settled on 400,000 acres, but even that small allotment was lost by the end of the year. Andrew Johnson, the successor to the Presidency after Lincoln's assassination ended the land allocation program and restored the properties to the former slaveholders. The promise of 40 acres land grants remained unfulfilled.

Simultaneously, the federal government, under the auspices of the Homestead Act of 1862, was distributing 160 acres tracts of land to upwards of 1.5 million white families in the western territories. This mammoth asset-building policy has resulted in benefits carrying over to a conservative estimate of 45 million white living descendants of Homestead Act patents.

The racial wealth gap in the United States originates with the failure to provide the formerly enslaved with 40 acres while white Americans, including new immigrants, were given 160 acres of land.

Conditions worsened with wave upon wave of white massacres that took place between the end of Civil War and World War II. In the “Red Summer” of 1919 upwards of 35 white terrorist actions took place across the country in locations ranging from Chicago, Illinois to Omaha, Nebraska to Washington DC to Elaine, Arkansas. The most notorious of the massacres took place win Wilmington, North Carolina in 1898 and Tulsa, Oklahoma in 1921. These white uprisings frequently targeted black communities where some measure of visible prosperity had been achieved. They led to the loss of black lives and either the destruction or seizure of black-owned property by white terrorists. The lynching trail also was a path of intentional appropriation of black property (Darity and Mullen 2020, 207-217).

In the twentieth century, national asset-building policies shifted from provision of land grants to support for homeownership. Federally sanctioned redlining reduced the credit available for black households to engage in home buying (Rothstein 2017). Discriminatory access to homeownership subsidies under the New Deal legislation and the G.I. Bill gave a further edge to white wealth growth, an advantage denied black households (Katznelson 2005).

Racial zoning practices (Silver 1997) and tax policies that disproportionately favor the already wealthy exacerbate the black-white wealth gap. Vanessa Williamson (2020) has indicted the effects of the long carry-over of state tax policies that date from the early years of the Jim Crow period as having an especially pernicious effect on prospects for black wealth accumulation.

Dorothy Brown (2018-2019) highlights the importance of the regressive nature of the home mortgage interest deduction in producing asset-building deficits for black Americans. Not only is there a racial gap in rates of homeownership (73 percent for whites versus 45 percent for blacks), there is a racial gap in the equity values associated with white and black owned homes. Zillow listing prices indicate that a home in a neighborhood with no black residents has a median value of $341,000. In contrast, homes in neighborhoods with a majority of black residents have a median value of $184,000 (Perry, Rothwell, and Harshberger 2018). The average level of equity whites hold in their homes is $216,000; for blacks the average level is $94,000 (Ross 2020).

Moreover, there are wide differences in the possession of other types of assets by race. Sixty percent of white households have retirement accounts but only 34 percent of black households. Fifteen percent of white households have family owned business equity but a mere 15 percent of black households. Sixty percent of white households have publicly traded stocks but only 31 percent of black households (Ross 2020).

There is a tendency to overemphasize homeownership as the primary route toward asset-building. Plainly, equity in a home is the core asset for households in the middle of the wealth distribution. However, for persons in the upper quarter of the wealth distribution, homeownership is markedly less important in comparison with non-residential land ownership, business ownership, and stocks and other financial assets.

The effects of these disparities, transmitted across generations, result in the contemporary black-white wealth gap. Several major factors come into play with respect to the impact of intergenerational transfers of wealth-building opportunities: inheritances, gifts ("in vivo" transfers), reduced anxiety, better education, better health, and greater confidence in taking risks (a "cushion" effect).

The disproportionate growth in black debt matters in explaining America's racial wealth gap, but the disproportionate deprivation in black assets matters far more. By all means, steps should be taken to make the credit market more racially equitable, but if the objective is to eliminate the black-white difference in wealth, the focus must be placed on building black assets to a level consistent with white asset ownership (Darity and Mullen 2020).

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