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# Umbrellas Don't Make it Rain: Why Studying and Working Hard Isn't Enough for Black Americans

Darrick Hamilton  
William Darity, Jr.  
Anne E. Price  
Vishnu Sridharan  
Rebecca Tippet

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## **About the Authors**

**Darrick Hamilton**, Ph.D., is an Associate Professor of Economics and Urban Policy at Milano- *The New School* for International Affairs, Management and Urban Policy and the Department of Economics at *The New School* for Social Research, and a faculty research fellow at the Schwartz Center for Economic Policy Analysis.

**William A. (“Sandy”) Darity, Jr.**, Ph.D., is the Samuel DuBois Cook Professor of Public Policy, African and African American Studies, and Economics and the director of the Duke Consortium on Social Equity at Duke University. He has served as chair of the Department of African and African American Studies and was the founding director of the Research Network on Racial and Ethnic Inequality at Duke.

**Anne E. Price**, M.A., is Managing Director and Chief Asset Officer at the Insight Center for Community Economic Development. She manages the Closing the Racial Wealth Gap Initiative.

**Vishnu Sridharan**, J.D., has worked on international and domestic anti-poverty platforms for the last decade. He is a member of the Experts of Color Network at the Insight Center.

**Rebecca Tippet**, Ph.D., is the Director of the Carolina Demography at the Carolina Population Center at UNC-Chapel Hill.

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## **About the National Asset Scorecard and Communities of Color**

*The National Asset Scorecard and Communities of Color* (NASCC) uses hard metrics to highlight the economic well-being of people of color in the United States. Funded by the Ford Foundation’s Building Economic Security Over a Lifetime (BESOL) Initiative, NASCC shows the asset holdings of people of particular national origin groups and breaks down heterogeneous designations such as Latino and Asian into specific subgroups such as Mexican, Puerto Rican, Korean, Indian, etc. NASCC offers a body of previously unknown data on racial and ethnic wealth disparities, while also comparing the economic well-being of specific ethnic and racial groups within the same metropolitan area. In addition, it also disaggregates data from Native American and African American communities on the basis of tribal affiliation and national origin respectively.

The NASCC project is conducted by Duke University’s Research Network on Racial and Ethnic Inequality. The researchers are led by William Darity, Jr, at Duke University and Darrick Hamilton at The New School. The NASCC research team – with expertise in survey design, analysis of group differences in asset accumulation and debt burden, and general patterns of ethnic/racial group inequality, – was assembled to conduct the investigation and analyze the data generated from the study. The study is intrinsically multidisciplinary; members of the team represent the following fields: statistics, economics, sociology, political science, ethnic studies, and urban planning.

### **About the Insight Center for Community Economic Development**

The Insight Center for Community Economic Development is a national research, consulting, and legal organization dedicated to building economic health and opportunity in vulnerable communities. The Closing the Racial Wealth Gap Initiative( CRWG) at the Insight Center is a national effort to build awareness and support for efforts to address racial and ethnic wealth inequities based on structural factors. For more information, visit [www.racialwealthgap.org](http://www.racialwealthgap.org).

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## For People of Color, All the Right Choices Don't Equal All the Right Outcomes

America prides itself on a long-standing belief that anyone can make it financially by working hard and tugging on their proverbial boot-straps. According to a 2014 Pew Research survey, 57 percent of Americans *disagree* with the statement “(s)uccess in life is pretty much determined by forces outside our control.”<sup>1</sup> From the pioneers to the financiers, wealthy Americans are acclaimed as self-made men (and on occasion self-made women), succeeding on pure grit, gumption, and ingenuity. But America’s egalitarian promise of opportunity and individual agency remains unfulfilled.<sup>3</sup> An analysis of who holds America’s wealth makes clear how life outcomes can diverge radically, in particular for those subject to systemic historically rooted discrimination, which is not related to the amount of personal effort exerted.

A comprehensive understanding of wealth – the value of what you own minus what you owe – demonstrates how vulnerability to economic calamity like the Great Recession can have vastly different consequences. Differences in wealth accumulation are important to examine because wealth – whether invested in a debt-free education, small business creation, housing or retirement savings – generates opportunity and improves well-being. In addition, wealth provides the freedom to innovate. Starting a business, inventing a new product, making land productive, attending vocational training, and making investments all beget greater wealth – but they require liquid wealth to get started. In sum, wealth provides people with initial capital to purchase an appreciating asset, which in turn, iteratively generates more wealth. Accumulated wealth can also be passed on to children, begetting yet more wealth and opportunity in an intergenerational manner.

Research and public policy have traditionally focused on education and income as drivers of upward mobility. There is compelling evidence, however, that education alone does little to explain the source of different levels of economic well-being, especially across race.<sup>4</sup> *Observing an association between higher levels of educational attainment and higher levels of net wealth and concluding that education produces wealth is tantamount to observing an association between the presence of umbrellas during rainfalls and concluding that umbrellas cause the rain.* It is more likely that the relative wealth of different races explains the educational attainment differences across race groups.<sup>5</sup>

For black families and other families of color, studying and working hard is not associated with the same levels of wealth amassed among whites. Black families whose heads graduated from college have about 33 percent less wealth than white families whose heads dropped out of high school. The poorest white families—those in the bottom quintile of the income distribution—have slightly more wealth than black families in the middle quintiles of the income distribution. The average black household would have to save 100 percent of their income for three consecutive years to overcome the obstacles to wealth parity by dint of their own savings activity.<sup>6</sup>

It is the unearned birthright of inheritance or other family transfers that has the greatest effect on wealth accumulation, and likewise is the largest factor erecting barriers to wealth accumulation for people of color. White families have had significantly more time to pass

wealth from generation to generation. These generational transfers include financing their children’s college education, giving them down payments for houses, and more generally providing them with inheritance and other gifts to seed asset accumulation. Intergenerational transfers are central sources of wealth building. Black families, however, have never had comparable resources to pass down to succeeding generations. As such, black families whose members study and work hard are still hindered in their efforts to generate the resources necessary for their own security and to ensure the well-being of their children.<sup>7</sup>

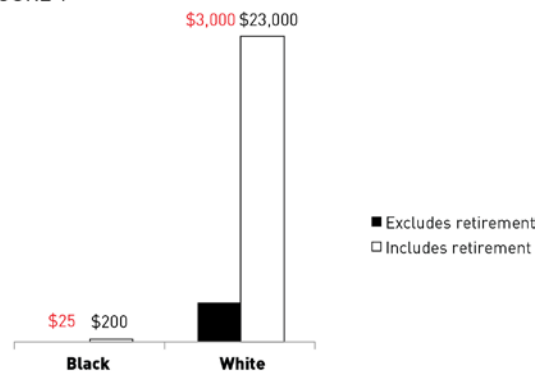
This report aims to move beyond the empirically unsubstantiated “individual effort leads to economic success” paradigm, which focuses on purported racial differences with regards to effort in school and work. We illustrate that educational attainment, employment, and income cannot explain the enormous racial differences in wealth, which is the paramount indicator of economic success. Finally, we outline solutions to address the unjust distribution of wealth that is rooted in the source of the economic disparity in the first place.

## Worsening Disparity in America’s Post Recession

For many Americans, the Great Recession and its aftermath highlighted that “working hard” and “playing by the rules” is no guarantee of economic success. Today, ordinary middle and working class families work long hours, often at multiple jobs, in the quest to provide for themselves and their families. But although the recession officially ended years ago, many Americans’ lives are still fraught with economic instability and insecurity.

Americans took a hit from the speculation fueled crash of the Great Recession. From 2005 to 2009, the typical white family saw 16 percent of their wealth taken. The hit was even more devastating for the typical black family, which had over half (53 percent) of their already relatively low wealth stripped away. Before the Great Recession the typical black family had a little less than a dime for every dollar in wealth of the typical white family. After the recession, the barrier to wealth for the typical black family was made twice as high —with them having about a nickel for every dollar in wealth as the typical white family. In the economic recovery period between 2009 and 2011, the race-based impediments to wealth accumulation have only slightly improved. The typical black family now has about six cents for every dollar in wealth held by the typical white family. The 2011 racial wealth gap exceeds \$100,000. The median black family has \$7,113 in wealth, while the median white family has \$111,740 in wealth.<sup>8,9</sup>

FIGURE 1



### Blacks Have Virtually No Wealth to Draw Upon in Times of Financial Crisis

Liquid wealth by race, SIPP 2011

The distance blacks are kept from well-being is even larger when we consider liquid assets — those assets that can readily be converted to cash.<sup>10</sup> Many Americans do not have a sufficient financial buffer to offset the loss of a job, a medical emergency or relationship break up and remain in the middle class; the typical black family essentially has no economic cushion. Most black families have no more than \$25 in non-retirement liquid wealth and the figure rises to only \$200 when retirement savings are included. In contrast, white families typically have over 100 times these amounts with \$3,000 and \$23,000, respectively, in liquid wealth without and with retirement savings included.

## Education is Not the Great Equalizer When It Comes to Race and Wealth

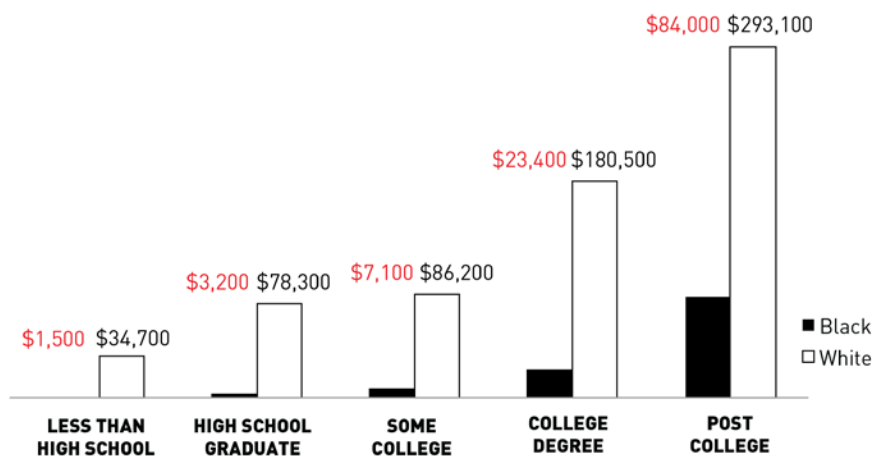
Conventional wisdom proclaims a college education is the primary vehicle for economic mobility and the “great equalizer” when it comes to black-white disparity. In reality, a college degree does little to undo the massive difference in wealth across race.

Higher education is associated with greater wealth within race groups, but more education will not solve the problem of racial wealth disparity. The financial positions of similarly credentialed black and white families are markedly different. For families with household heads that have a college degree, the typical white household has \$180,500 in wealth while the typical Black household has \$23,400, a setback of nearly \$160,000. Indeed, black families whose head earned a college degree have only 2/3 of the wealth of white families headed by a high school dropout. Moreover,

white families whose head completed some college, but did not earn a four-year degree, have slightly more wealth than black families with a head that earned a graduate or professional degree.

Families with assets buy crucial advantages for their children, such as the ability to obtain a college degree without accruing costly educational debt. Lack of wealth (primarily inherited wealth) prevents many black families from accessing

FIGURE 2



## Education is not the Great Equalizer

Median wealth by educational level and race, SIPP 2011

this advantage, contributing to an ever-increasing distance between those born with resources and those who were not.<sup>11</sup>

A recent analysis of how families provide access to educational opportunities through intergenerational financial transfers by researchers Yunju Nam, Darrick Hamilton and William Darity, Jr. indicates that when black and white families are similarly resourced, black parents provide substantially greater financial transfers to their children for the purpose of their education, but in general, black families have far fewer resources to transfer in the first place.<sup>12</sup> These findings reinforce that black families, despite precarious financial circumstances, are committed to educating their children. This commitment, however, cannot alone overcome the more privileged position in which white children are born.

## Working Hard is Not the Great Equalizer When It Comes to Race and Wealth

Data from the U.S. Department of Labor shows that blacks are systemically denied access to employment. Over the past 40 years there has been only one year, 2000, in which the black unemployment rate fell below 8 percent, in contrast, there have only been four years in which the white rate has exceeded 8.0 percent. The March 2015 unemployment rate for whites is 4.7 percent, while the 10.1 percent unemployment rate for blacks is consistent with a double-digit

FIGURE 3



## Employment is Not the Great Equalizer

Median wealth by employment/labor force status and race, SIPP 2011

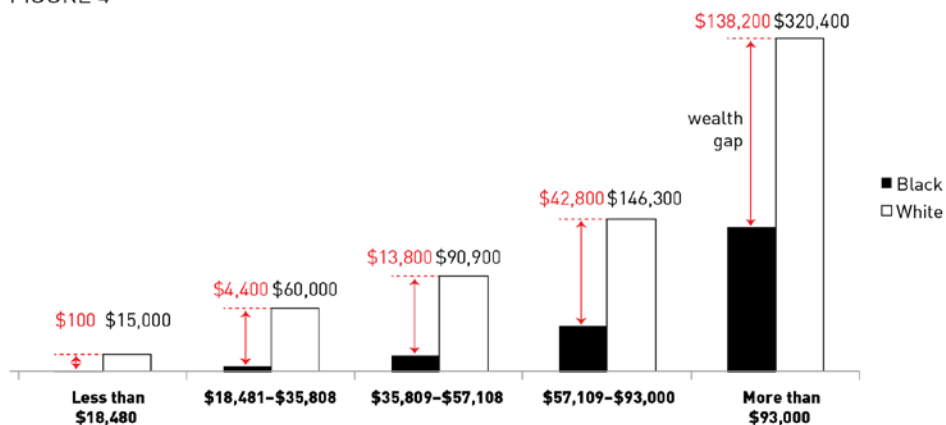
unemployment trend that has persisted since the onset of the Great Recession. Moreover, it continues a structural trend where blacks are kept from employment roughly twice as often as whites.<sup>13</sup>

Despite these dramatic differences, employment does not explain the massive racial disparities in wealth. Figure 3 illustrates that white families with a head that is unemployed have nearly twice the median wealth of black families with a head that is working full-time (\$21,892 versus \$11,649). Further, the typical black family with a head that is unemployed, discouraged (e.g.

officially not enrolled in school, retired or employed, and not officially seeking employment), or enrolled in school has no wealth, whereas similarly situated whites have at least some wealth.

Income also fails to explain dramatic racial wealth disparities. Black and white families with similar incomes have vastly different wealth. For instance, the typical black family in the poorest 20 percent of the income distribution—those with incomes under \$18,480 annually has virtually no wealth, while the equivalent white family holds nearly \$15,000 in wealth (Figure 4). In fact, those same white families at the lowest end of the income distribution have a higher median wealth than middle-income blacks whose incomes ranged between \$36,000 and \$54,000. This means that the \$15,000 median wealth associated with low-income whites provides greater capacity to invest in education, a small business, a house or retirement savings than the \$100 afforded to low-income blacks.<sup>14</sup>

FIGURE 4



## Family Income is Not the Great Equalizer

Median wealth by income quintiles and race , SIPP 2011

Among the black upper-middle class, the relative situation is not much better: the typical black family earning between \$54,000 and \$93,000 a year has a much smaller nest egg to draw upon than their white counterpart. The median wealth for an upper-middle class white family, \$136,390, is more than triple the \$36,430 median wealth for upper-middle class black families, an absolute difference of \$100,000.



## Conclusion: How Can We Ensure Greater Prosperity for All?

Racial wealth differences cannot be explained by education, employment, or income. Economists estimate that, by far, the largest factors explaining these differences are gifts and inheritances from older generations: a down payment on a first home, a debt-free college education, or a bequest from a parent.<sup>15</sup> Insofar as we are truly interested in living up to the American promise of economic opportunity for all, we need to acknowledge and address the role of intergenerational resource transfers, non-merit based attributes related to circumstance at birth. Given the roles of intergenerational wealth transfer, and past and present barriers that have kept black families from building wealth, private action and market forces alone cannot be expected to address wide-scale racial wealth inequality. Public sector intervention is needed.

One route toward this goal would be to implement substantial **Child Trust Accounts** (Baby Bonds).<sup>1</sup> These accounts could provide an opportunity for asset development for all newborns regardless of the financial position into which they are born. The program is analogous to a social security plan that would provide capital finance for young adults to begin a lifetime of building assets and economic security independent of the financial positioning and decision making of the families in which they are born. The program would be universal, but the amount of the account endowment would be graduated on the basis of the child's parental wealth. We envision endowing American newborns with an average account of \$20,000 that gradually rises to \$60,000 for babies born into the lowest wealth families. The accounts would be federally managed and grow at a federally guaranteed annual interest rate of 1.5–2 percent. They could be accessed when the child becomes an adult and used for asset-enhancing endeavors, such as purchasing a home or starting a new business. With approximately 4 million infants born each year, and an average endowment of around \$20,000, we estimate the cost of the program to be \$80 billion. In relative proportional costs, this would have constituted only 2.2 percent of 2012 federal expenditures.<sup>16</sup>

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<sup>1</sup> Since Child Trust Accounts would only directly impact coming generations, we must also use other policy solutions to address chronic joblessness and dismantle barriers to economic success for current generations. One of the most powerful levers at our disposal would be a **Federal Job Guarantee**. By offering employment as a guaranteed right, the federal government could direct capital to the communities where it is most desperately needed, while employing those communities themselves to do the work needed to improve their own quality of life, such as cleaning and replacing those oft-decried broken windows, filling potholes, clearing slum housing and replacing it with decent housing, and caring for the elderly and for the children of working parents.

## ENDNOTES

<sup>1</sup> Pew Research Center. (October 2014). "Emerging and Developing Economies Much More Optimistic than Rich Countries about the Future." <http://www.pewglobal.org/2014/10/09/emerging-and-developing-economies-much-more-optimistic-than-rich-countries-about-the-future/>

<sup>3</sup> Reeves, Richard. (August 20, 2014). "Saving Horatio Alger: Equality, Opportunity, and the American Dream," Brookings Institution.

<sup>4</sup> Tressie McMillan Cotton's essay in the Washington Post ("No, college isn't the answer. Reparations are," May 29, 2014) assails education as "The New Civil Rights Movement." She points out that the landmark civil rights case of *Brown v. Board of Ed.*, in her words, "...was initially conceived as a means for justice, not its end." In essence, she is critiquing the overemphasis on schooling as a means to tide the racial divide.

<sup>5</sup> Dalton Conley's *Being Black, Living in the Red* (University of California Press, 1999) demonstrates how the controlling for parental wealth as a child can explain away racial differences in educational attainment.

<sup>6</sup> Hamilton, Darrick, and William Darity, Jr. (September/October 2009). "Race, Wealth, and Intergenerational Poverty: There will never be a post-racial America if the wealth gap persists," *The American Prospect*. <http://prospect.org/article/race-wealth-and-intergenerational-poverty>

<sup>7</sup> The extraction of wealth in communities of color is well documented (see for examples, Melvin Oliver and Thomas Shapiro, *Black Wealth/White Wealth*. (Routledge, 2006); and Meizhu Lui, Barbara Robles, Betsy Leonard-Wright, Rose Brewer, and Rebecca Adamson, *The Color of Wealth: The Story Behind the U.S. Racial Wealth Divide*. (The New Press, 2006). Throughout U.S. history, federal and state governments provided "wealth starter kits" for some Americans, giving gifts of land, education, government-backed mortgages and farm loans, a social safety net, and business subsidies to white families – sometimes exclusively, usually disproportionately, and subsidized precisely by those who were excluded: families of color. Beginning with the period of chattel slavery, when blacks were literally the property of white slave owners, and continuing through the use of restrictive covenants, redlining, general housing and lending discrimination—policies that generated a white asset-based middle class—and the foreclosure crisis (which was characterized by predation and racially disparate impacts), blacks have faced structural barriers to wealth accumulation.

Historian Ira Katznelson in *When Affirmative Action Was White: An Untold History of Racial Inequality in Twentieth-Century America* (W.W. Norton & Company, 2005) documents how post-Great Depression and World War II New Deal policies accelerated racial disparities and generated an asset-based middle class for whites overwhelmingly at the exclusion of blacks. Katznelson (2005; p. 29) states that "(i)n essence, the compromise reached to the core of New Deal. By not including occupations in which African Americans worked, and by organizing racist patterns of administration, New Deal policies for Social Security, social welfare, and labor market programs restricted black prospects while providing positive economic reinforcement for the great majority of white citizens."

<sup>8</sup> Tippet, Rebecca, Jones-DeWeever, Avis, Rockey Moore, Maya, Hamilton, Darrick and Darity, William Jr. (May 2014). "Beyond Broke: Why Closing the Racial Wealth Gap is a Priority for National Economic Security," Center for Global Policy Solutions.

<sup>9</sup> For information on the wealth of Latinos and Asian families see Tippet, Jones-DeWeever, Rockey Moore, Hamilton and Darity Op. Cit.; and Munoz, Ana Patricia, Kim, Marlene, Chang, Mariko, Jackson, Regine O., Hamilton, Darrick and Darity, William Jr. (2014). "The Color of Wealth in Boston," Federal Reserve Bank of Boston, Duke University and The New School. <http://www.bostonfed.org/commdev/color-of-wealth/color-of-wealth.pdf>

<sup>10</sup> Liquid assets include assets such as checking and savings accounts and retirement accounts. Wealth that is linked to a tangible asset, such as home equity, vehicle equity, or business equity is excluded from measures of liquid assets.

<sup>11</sup> William Elliot III's (2011) research shows that family assets are an essential resource for translating educational success into higher income and earnings, stable employment, and greater levels of wealth. Elliott, W. (2011). "When Effort and Ability are not Enough to Reduce the College Enrollment Gap, Does College Savings Help?" Center for Social Development. Working Papers No. 11-31.

<sup>12</sup> Nam, Yunju, Hamilton, Darrick and Darity, William Jr. (Forthcoming 2015). "Inherited Opportunities: Parents' Economic Resources, Intergenerational Financial Assistance-, and Black-White Disparities in Economic Achievement."

<sup>13</sup> Aja, Alan, Bustillo, Daniel, Darity Jr., William, and Hamilton, Darrick. (Summer, 2014). "From a Tangle of Pathology to a Race-Fair America," *Dissent*.

<sup>14</sup> It is noteworthy that white families in the lowest income quintile, those making below \$18,000, have dramatically more net worth than comparable black families, these same white families typically have very little liquid assets, \$120

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(and \$55 when retirement savings are removed). Thus, the poorest white families have very little cash on hand to deal with economic shock and emergencies as well.

<sup>15</sup> See for examples Blau, F., and J. Graham. (1990). "Black White Differences in Wealth and Asset Composition," *Quarterly Journal of Economics* 105(2):321–339; Charles. K.K., and Hurst, E. (2003). "The Correlation of Wealth Across Generations," *Journal of Political Economy*, Vol. 111; Chiteji, N. S. & Hamilton, D. (2002). "Family connections and the black-white wealth gap among middle-class families," *The Review of Black Political Economy*, 30(1): 8–28; Gittleman, M, and E. Wolff. (2004). "Racial Differences in Patterns of Wealth Accumulation," *The Journal of Human Resources* 39(1):193--227; Jayakody. R. (1998). "Race differences in intergenerational financial assistance: the needs of children and the resources of parents," *Journal of Family Issues*, 19(5): 508-533; and McKernan, S.-M., C. Ratcliffe, M. Simms, & S. Zhang (2014). "Do Racial Disparities in Private Transfers Help Explain the Racial Wealth Gap? New Evidence From Longitudinal Data," *Demography*, 51(3): 949-974.

<sup>16</sup> Aja, Bustillo, Darity Jr. and Hamilton Op. Cit.