

Behind the Findings: Policies that Contribute to Racial and Ethnic Disparities in Net Worth Poverty

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This brief summarizes the findings from *Net Worth Poverty in Child Households by Race and Ethnicity, 1989–2019* in the *Journal of Marriage and the Family*¹ and offers historical context for U.S. policies that have contributed to racial and ethnic differences in net worth poverty in child households.

Data from waves of the Survey of Consumer Finances (SCF) on households with at least one resident child under the age of 18 were used to measure net worth poverty among childhood households across racial and ethnic groups. Net worth poverty is measured as household net worth (defined as total assets minus total debts) that is less than 25 percent of the federal poverty line.

¹“Net Worth Poverty in Child Households by Race and Ethnicity, 1989-2019,” C. M. Gibson-Davis, L.A. Keister, L.A. Gennetian. *Journal of Marriage and Family* (2020).

Introduction

Discriminatory policies over the past 160 years have resulted in more than 50 percent of Black and Latino children living in net worth poverty. Net worth poverty is measured as household wealth (assets minus debts) that is less than 25 percent of the federal poverty line (\$6,625 for a family of four in 2020).¹ While economic deprivation is typically measured by the absence of income, it can also refer to an absence of wealth. Households that are net worth poor (or lack a substantial level of wealth) cannot meet unexpected expenses, adequately invest in their children, or weather economic shocks—such as the COVID pandemic—that deplete financial reserves. Additionally, wealth influences children’s life chances through its effects on educational attainment, academic achievement, and socioemotional functioning.^{2,3,4} The importance of wealth to children’s well-being is of particular concern, given that Black and Latino child households have just pennies for every dollar of white wealth.⁵

These racial/ethnic disparities in childhood net worth poverty may very well increase with the economic fallout of COVID-19 and the disease’s disproportionate impacts on the financial well-being of Black and Latino households.⁶ The future economic resilience of U.S. households with children will likely be shaped not only by income but also by wealth.

¹U.S. Department of Health and Human Services. (2021, February 03). 2021 Poverty Guidelines. Retrieved from <https://aspe.hhs.gov/2021-poverty-guidelines>

²Conley, D. (2001). Capital for college: Parental assets and postsecondary schooling. *Sociology of Education*, 74(1), 59-72.

³Diemer, M. A., Marchand, A. D., & Mistry, R. S. (2020). Charting how wealth shapes educational pathways from childhood to early adulthood: A developmental process model. *Journal of Youth and Adolescence*, 49, 1073-1091.

⁴Pfeffer, F. T. (2018). Growing wealth gaps in education. *Demography*, 55(3), 1033-1068.

⁵Percheski, C., & Gibson-Davis, C. (2020). A Penny on the Dollar: Racial Inequalities in Wealth among Households with Children. *Socius*, 6, 2378023120916616

⁶Parolin, Z., & Wimer, C. (2020). Forecasting estimates of poverty during the COVID-19 crisis. *Poverty and Social Policy Brief*. New York, NY: Center on Poverty and Social Policy at the Columbia School of Social Work, 4(6).

Findings from Net Worth Poverty in Child Households by Race and Ethnicity, 1989–2019

Net worth poverty is more common than income poverty: in 2019, one-third of all households with children were net worth poor, a poverty rate more than twice as high as the income poverty rate. White, Black, and Latino households with children were two to three times more likely to be net worth poor than income poor.

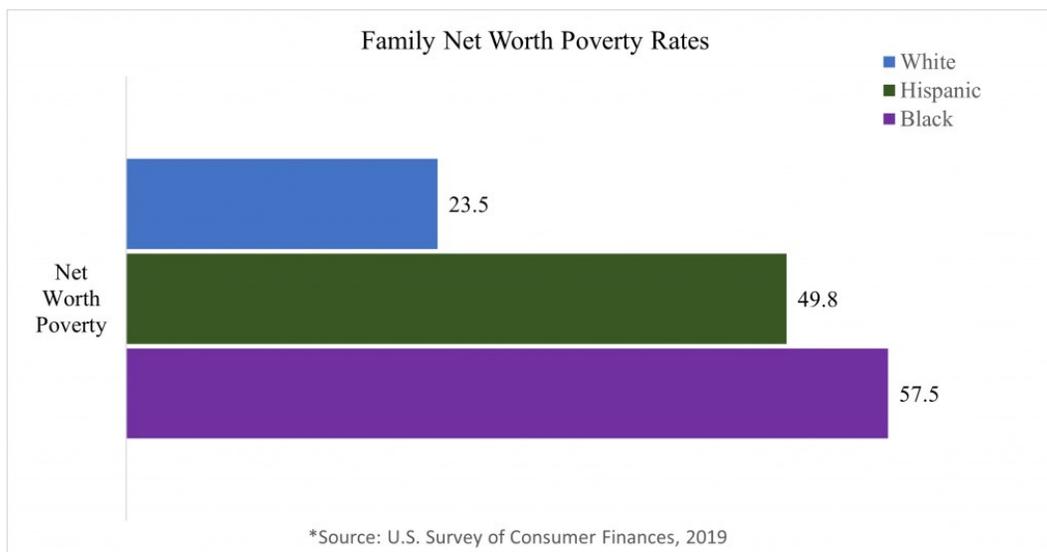
Researchers found income poverty decreased over time, particularly for Black and Latino child households. Most households with children that were net worth poor were not income poor. White households with children were less likely than Black and Latino households with children to experience both types of poverty. The fraction of net worth poor households with children that were also income poor was lower for white (20%) than for Black and Latino child households (28%, respectively).

Between 1989 and 2019, a time when income poverty rates were falling, net worth poverty rates were increasing. Among Black and Latino child households that were poor, net worth poverty was more common than income poverty and has risen over time. At every time point examined, Black and Latino households had significantly higher rates of income poverty and net worth poverty than white households did.

Racial Disparities in Net Worth Poverty

Net worth poverty is not distributed equally by race and ethnicity; Black and Latino households with children are two to three times more likely to be net worth poor as white households with children, consistent with a long history of structural racism that impeded wealth accumulation among non-whites.⁷

Although racial/ethnic disparities in income poverty narrowed over time, racial/ethnic disparities in net worth poverty increased from 1989 to 2019. In 2019, strikingly high numbers of Black (57%) and Latino children (50%) lived in net worth poverty, compared to 19 percent of white children (see Figure 1). Over the past 30 years, net worth poverty increased for Black households, and subsequently, white-Black disparities in net worth poverty grew. The increase in net worth poverty for Black households, combined with no growth over time for white households, has widened the racial wealth gap.



⁷Darity Jr, W. A., & Mullen, A. K. (2020). *From Here to Equality: Reparations for Black Americans in the twenty-first century*. UNC Press Books.

Latino-white disparities in net worth poverty remained relatively constant. Changes in Latino net worth poverty were small, and trends for Latino households closely mirror those for white households. As a result, white-Latino disparities in net worth poverty were similar in 1989 and 2019.

Findings indicate that the estimated differences by racial/ethnic group in net worth poverty were not explained by homeownership status. Although households with children that did not own homes had high net worth poverty rates (from 73 to 95%), homeownership did not protect against net worth poverty.

Historical Context—Policies Behind the Gap

The racial and ethnic disparities in net worth poverty found in this study are a legacy of centuries of racist and discriminatory policies and practices that have systematically impeded wealth accumulation for people of color in the United States. For most of American history, from slavery through Jim Crow and more modern incarceration practices, U.S. government policies have been crafted to primarily, or exclusively, benefit whites and concentrate wealth among white households. The following are examples of structural racism that have contributed to the concentration of net worth poverty in Black and Latino child households.

New Deal

The New Deal was a series of programs, projects, regulations, and reforms instituted by President Franklin D. Roosevelt that aimed to provide relief to the unemployed and to boost the recovery of the national economy during the Great Depression. Even though Black Americans in particular suffered the consequences of the Great Depression—experiencing the highest unemployment rates in the country—they were excluded from many of the New Deal’s programs and reforms.⁸ The National Recovery Administration (NRA) indirectly put thousands of Black Americans out of work, as some white employers considered the NRA’s minimum wage too high for Black workers and replaced them with white workers.⁹ Furthermore, the Social Security Act, which provided retirement pensions, and the Fair Labor Standards Act, which established a federal minimum wage and overtime requirements, excluded individuals employed in agricultural or domestic work—industries in which Black workers were concentrated.¹⁰ Labor laws encouraging collective bargaining often left out Black workers as well, as they did not prevent unions from excluding Black workers, which was common.¹¹ These policies thus trapped Black families in poverty and denied them opportunities of economic mobility, which contributed to the inequities found in this study.

Federal Housing Policies

As part of the New Deal, the Federal Housing Authority (FHA) was created to subsidize housing development. The FHA instituted explicitly racist policies, including subsidizing the development of housing throughout America with the requirement that the homes could not be sold or resold to Black families. The FHA also created the practice of redlining—the designation of

⁸ Library of Congress. (n.d.). Race Relations in the 1930s and 1940s: Great Depression and World War II, 1929-1945. Retrieved from <https://www.loc.gov/classroom-materials/united-states-history-primary-source-timeline/great-depression-and-world-war-ii-1929-1945/race-relations-in-1930s-and-1940s/>

⁹ Foner, P. S. (2018). *Organized labor and the black worker, 1619-1981* (Vol. 594). New York: International Publishers.

¹⁰ Solomon, D., Maxwell, C., & Castro, A. (2019, August 7). Systematic Inequality and Economic Opportunity. Retrieved from <https://www.americanprogress.org/issues/race/reports/2019/08/07/472910/systematic-inequality-economic-opportunity/>

¹¹ Perea, J. F. (2011). The Echoes of Slavery: Recognizing the racist origins of the agricultural and domestic worker exclusion from the National Labor Relations Act. *Ohio St. LJ*, 72, 95.

minority neighborhoods as financially risky areas, which mortgage lenders and insurance companies often used as grounds for rejecting mortgage applications.¹² Redlining did not just deny minorities the ability to build equity through homeownership but also segregated them into neighborhoods of low opportunity. Federal housing policy throughout much of the twentieth century systematically denied Black and Latino families the wealth-building opportunity of home ownership, which is one of the most significant means of intergenerational wealth building.¹³ Even after passage of the Fair Housing Act of 1968, the impact of redlining and the deliberate segregation of the American suburbs can be seen in neighborhoods, schools, and family wealth.

GI Bill

Officially the Servicemen's Readjustment Act of 1944, the GI Bill provided a range of benefits for returning World War II veterans, including low-cost mortgages, low-interest loans to start a business or farm, and dedicated payment of tuition and living expenses to attend high school, college, or vocational school. While the GI Bill is often considered one of the greatest pieces of social legislation in American history, it was designed to allow for Jim Crow laws, thus denying Black veterans and their families their fair share of these benefits. Banks and mortgage agencies refused loans to Black service members, often based on federal policy, denying them the multi-generational, enriching impact of home ownership and economic security that the GI Bill granted to a majority of white veterans. Furthermore, Black veterans faced limited options and outright denial in their pursuit of educational advancement. Colleges in the North avoided admitting Black students, and southern universities excluded Black students entirely. The Department of Veterans Affairs (VA) itself encouraged Black veterans to apply for vocational training instead of university admission. As employment, college attendance, and wealth surged for whites following this legislation, disparities with their Black counterparts not only continued but also widened, contributing to this study's findings.

Reverse Redlining

While the legacies of redlining are visible in our nation's racial wealth gap, this practice has been replaced by "reverse redlining," in which lenders target minority households for subprime loans and other predatory loan practices. Racially segregated, low-opportunity neighborhoods created by redlining provided lenders with targets for subprime loans. Federal legislative changes in the 1980s and 1990s led to the growth of subprime loans created by banks and mortgage companies, which were designed to offer interest rates above "prime" rates to people who did not qualify for prime rates. However, data show that people of color were targeted and channeled into subprime loans, including refinanced mortgages, even when they qualified for prime rate loans. Predatory lending practices targeting communities of color imposed unfair and abusive loan terms on borrowers, including high interest rates and terms that strip the borrower of equity.

¹² Thurston, C. N. (2018). *At the Boundaries of homeownership: Credit, discrimination, and the American state*. Cambridge University Press.

¹³ Darity Jr, W. A., & Mullen, A. K. (2020). *From Here to Equality: Reparations for Black Americans in the twenty-first century*. UNC Press Books.

¹⁴ Rugh, J. S., & Massey, D. S. (2010). Racial segregation and the American foreclosure crisis. *American Sociological Review*, 75(5), 629-651.

¹⁵ Stuart, G. (2003). *Discriminating Risk: The U.S. mortgage lending industry in the twentieth century*. Cornell University Press.

¹⁶ Steil, J. P., Albright, L., Rugh, J. S., & Massey, D. S. (2018). The social structure of mortgage discrimination. *Housing Studies*, 33(5), 759-776. doi:10.1080/02673037.2017.1390076

The rise of racially targeted subprime lending preceding the Great Recession destabilized minority neighborhoods by decreasing the stability of Black home ownership and increasing the rate of exiting homeownership, which destroyed much accumulated wealth.¹⁷

Current Asset-Building Policies

Current policies serve to reinforce and exacerbate the racial wealth gap created by the previously mentioned policies. Asset-building tax subsidies contribute to the widening racial wealth gap by primarily benefiting high-income workers: the top 20 percent of income-earners—who are predominantly white—receive approximately two-thirds of homeownership tax subsidies and retirement subsidies. A far lower share of these subsidies go to Blacks and Latinos, who have lower average incomes.¹⁸

Racial and ethnic disparities in net worth poverty are the result of government policies both past and present that have limited opportunities for people of color to accumulate wealth. Federal policies across many areas, including social services, housing, and veteran services, were intentionally crafted to benefit whites and exclude Black and Latino workers, veterans, and homeowners. These policies have been tremendously successful at helping white families accumulate wealth while limiting the ability of Black and Latino families to do so. Reducing disparities in net worth poverty will take sustained government attention and investment, with particular attention to Black and Latino households that have historically been excluded from federal policies designed to build household capital and wealth.

¹⁷ Bond, C. & Williams, R. (2007). “Residential segregation and the transformation of home mortgage lending.” *Social Forces* 86(2), 671–98.; Shapiro, Thomas M., Meschede, Tatjana, Sullivan, Laura. 2010. “The Racial Wealth Gap Increases Fourfold.” Institute on Assets and Social Policy Research and Policy Brief. Brandeis University. Retrieved June 14, 2010 from <http://iasp.brandeis.edu/pdfs/Racial-Wealth-Gap-Brief.pdf>.

¹⁸ Steuerle, C. E., Harris, B. H., McKerna, S.M., Quakenbush, C., & Ratcliffe, C. (2014). *Who Benefits from Asset-Building Tax Subsidies?* Washington, DC: Urban Institute. Retrieved from: <http://webarchive.urban.org/UploadedPDF/413241-Who-Benefits-from-Asset-Building-Tax-Subsidies.pdf>