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Understanding the Wealth Gap:

A Brief Exploration of Wealth and Race in the United States



Introduction

The United States has some of the highest income and wealth inequality among developed countries[1]. Much of this inequality falls along racial lines: White families have seven times the net worth of their Black counterparts. More plainly, for every $7 of White net worth, Black families have $1[2].

So why is there such an imbalance of wealth in the United States? First, we must consider the compounding effects of our history and the impact on Black Americans[2].

1619-1865 Slavery

- 246 years of no asset building for Black families.
- Yet, enslaved labor was the most valuable asset at the time. At the start of the Civil War, the total value of all enslaved people was $3 billion, which exceeded the value of all banks, factories, and railroads combined.
- Formerly enslaved people were promised 40 acres and a mule, but this promise was rescinded after President Lincoln was assassinated. In fact, some former slave owners were actually compensated for their enslaved people, up to $300 per slave.
- Today, "40 Acres and a Mule" would be worth as much as $60 trillion, adjusted for inflation[4].

1865-1964 Reconstruction & Jim Crow

- Brief gains in wealth post-Civil War were quickly reversed when White politicians began to once again limit the political power of Black citizens.
- State laws known as "Black Codes" restricted civic and economic rights for Black people.
- "Jim Crow" laws segregated people and, as a result, financial opportunity.
- Southern states imposed laws intended to restrict Black voters and limit the ability for Blacks to own land, further extending economic inequities.
- Home Owners Loan Act of 1933 institutionalized housing segregation by including race as a factor in underwriting (also known as the original "redlining").

1965-Present It's Complicated

- Property tax dollars fund local schools, meaning wealthy communities have more resources to educate students. This creates perpetual "funding gaps" and a resulting two-grade achievement gap for Black students.
- Black men are 6x more likely to be incarcerated than White men.
- Black families are 6x more likely to be unbanked or underbanked, resulting in higher debt and lower savings.
- 70% of middle-class Black children were more likely to become poorer than their parents as adults.
- Black individuals have 50% lower interview call-back rates for jobs and earn 13% less when employed in the same job.

These data points are not independent anomalies. Instead, they tell a predictable story of the economic inequity that occurs when a group of people is repressed for generations. Only by acknowledging this history can we begin building a more equitable society.

How Does Wealth Inequality Impact the Economy?

Racial wealth gaps are not some theoretical concern for policymakers and other academics to wring their hands over. There are real implications to our financial system. The difference in wealth between races devalues our economy and limits overall growth.

Wealth gaps mean that our economy underperforms. People of color cannot as easily afford higher education, which means they earn less across their careers. This leads to lower consumption levels for our economy and lower savings rates. Fewer homes are purchased, fewer investments are made, and fewer businesses are started. This drags us all down: Citi found that we lost out on $16 trillion of GDP in the last 20 years because of racial disparities[5].

The lower levels of wealth in minority communities, in addition to the compounding effects of history, prevent people of color from being full participants in our economy. Wealth is the ticket to so many things: owning a home, starting a business, or obtaining a loan. Without it, or access to people with it, accomplishing many of these life milestones is more difficult, and much more expensive:



Buying a Home

With lower levels of wealth, people of color have a difficult time buying a home. They end up with less expensive houses and more debt, making it harder to sustain their homeownership[6]. This trend is compounded by the fact that the United States still has incredibly high levels of housing segregation and "White" neighborhoods are valued at higher rates than "non-White" neighborhoods, even if the housing quality is the same[7].



Starting & Growing a Business

It can cost entrepreneurs of color up to $250,000 more to start a business than their White peers[8]. This is for many reasons, one being that many people of color lack access to "friends and family" money, which can be an easy way to cover start-up costs when establishing a new business. While it's challenging to start a business, it's even more difficult to grow one, especially to the point of scalability. Fewer than 5% of firms with venture capital support are founded by Black owners.



Getting a Loan or Investment

Black business owners are denied loans at higher rates than White owners with similar characteristics. They are also charged higher interest rates and require more financial paperwork for approval than their White peers[9]. Some of this is due to less financial collateral, which is frequently the value of someone's home. Furthermore, the investment industry is overwhelmingly White with almost 98% of U.S. assets under management controlled by White men[10].

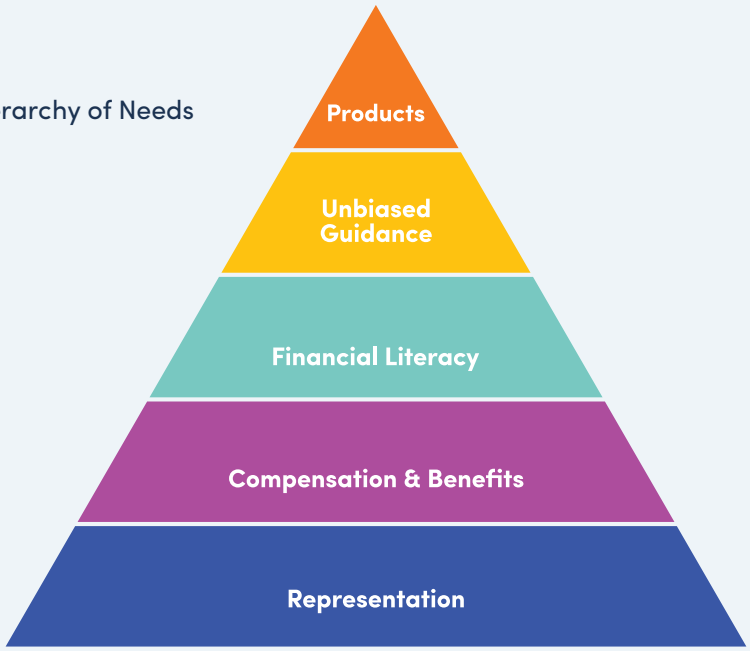
Buying a home, starting a business, or receiving an investment are all opportunities to build wealth. Yet, all require wealth to access. This toxic cycle prohibits Black families from building any type of meaningful affluence and perpetuates the growing wealth gaps in our country. This is why, even if we eliminated the racial disparities in savings, capital accumulation, and income, it would take more than 100 years to close racial wealth gaps[11].

Exploring Economic Justice and The Hierarchy of Needs

Many companies have made commitments to racial justice and equity by investing in DEI ("diversity, equity, and inclusion") initiatives. Of the 100 largest employers in the US, all but two have made some dedicated commitment to increasing racial equity within their company. Most of these companies have integrated anti-discrimination policies or training programs into their workforce, but few have taken broader steps to support economic advancement[12].

Yet the primary goal of these DEI commitments is economic justice. Economic justice is the idea that the economy will be more successful if everyone involved is treated justly. Accordingly, we've developed a hierarchy of needs, similar to Maslow's original hierarchy, that walks through steps organizations can take to close the wealth gap.

The Hierarchy of Needs



The hierarchy of needs begins by addressing the fundamental necessities that have the most significant impact on the largest number of lives. As you ascend the pyramid, you'll find more acute support that can accelerate progress.

Below we delve into how the hierarchy of needs can facilitate the narrowing of the wealth gap.

Representation

The most basic requirement needed to close the wealth gap is the representation of people of color within and across companies.

Black people represent roughly 5% of senior leadership positions in corporate America[13]. Black executives made up slightly more than 6% of board members for Russell 3000 companies[14]. In 2022, there was a "record" number of Black Fortune 500 CEOs – at six total, up from five in 2020[15].

Corporate America plays a significant role in the wealth inequities of our country. Until companies reform their hiring processes and begin proactively seeking out more diverse representation on everything from their boards to their C-suites to senior management to upwardly mobile jobs like developers, the gap will continue to widen. This should include promotions as well – Black employees are promoted at lower rates than their non-Black peers.

Many complain of a "pipeline" challenge with a lack of options for diverse executives and professionals. This is partially due to historic disparities in education, but also because of rigid thinking around management. As the workforce and the consumer base diversifies, boards and executives should reflect this diversity.

Compensation and Benefits

Even with acceptable representation in the workplace, people of color still need to overcome the obstacle of equal pay.

The Federal Reserve found that Black households make about 50% less in wages than White households[16]. In addition, employees of color disproportionately held jobs that are often not benefits-eligible. And, for those who are, few have access to the most important wealth-building benefit, equity in the company (e.g., stock options).

Employers should level compensation and benefits to create an even playing field. This will not be as simple as ensuring that there is equality of benefits and salary within roles. Because people of color are overrepresented in lower-paying jobs, companies must invest in capacity-building programs to support the growth and development of employees to obtain higher-paying roles.

Financial Literacy

As we move up the hierarchy of needs, we approach the next step toward economic justice – financial literacy.

Only seven states require a standalone personal finance course to graduate from high school, with an additional 15 states requiring one or two weeks of personal finance embedded into another course[17]. For adults, Black financial literacy scores are 21% lower than Whites[18]. This lack of knowledge contributes to lower savings rates, higher debt, lower retirement plan participation, and less comfort with investing.

Banks and credit unions, for example, have ample resources and communication channels to provide objective financial education to their customers. However, Black people are twice as likely to be unbanked as compared to White people, which means they don't have access to this kind of unbiased financial guidance or the resources needed to help them build wealth[19]. Financial institutions should step up and fill in the gaps to get customers the education they need.

Unbiased Guidance

As we make strides in representation, compensation, and financial literacy, we can accelerate progress by offering unbiased guidance.

A vast majority of the middle class does not have a financial advisor due to limited options, high fees, and, at times, lack of trust. Financial advising has historically focused on the wealthy to make their business models viable. Unfortunately, this lack of guidance disproportionately impacts households of color and can perpetuate the cycle of living paycheck to paycheck. A financial plan developed by a licensed professional is the first step on the journey toward long-term financial success.

Similar to financial literacy, unbiased guidance requires a client-centric approach to understanding the needs and goals of an individual before tailoring a plan around those goals. Organizations should lean on their retirement plan advisors, and other financial professionals, to work with their clients of color, build trust and create plans focused on wealth building as part of an overall financial strategy.

Financial Products

The peak of the hierarchy includes financial products. These can be powerful when an individual has representation, equal compensation, literacy, and support.

Unfortunately, products are often the beginning of the journey, rather than the endpoint, which can lead to predatory situations if someone does not have a solid financial foundation.

Predatory financial products are pervasive in communities of color. Black people use payday loans – which often have 400% annual percentage rates – three times the rate of White borrowers[20]. Fintech companies are at the forefront of developing innovative financial products that can be strong alternatives to traditional, and oftentimes discriminatory, options. But like anything else, customers need to be diligent when making major financial decisions.

With equitable representation, compensation, literacy, and support, educated consumers will be better equipped to choose products that work for them. Companies should support this by vetting products against the economic hierarchy of needs and using their purchasing power to drive the development of better options.

Where Do We Go From Here?

U.S. companies sit in a unique position of influence as the vehicles for economic growth in modern capitalism. Accordingly, they have immense power to move the needle on social and economic justice.

The wealth gap has emerged over the last 400 years, so we need to have ambitious yet realistic goals for progress. However, striving for perfection shouldn't stop us from moving forward. Organizations can foster financial literacy and empower people of color to accumulate personal wealth by providing access to more resources and educational opportunities. Initiating a financial literacy program, purposefully selecting candidates for the next role, or collecting data to gain a better understanding of the issue are all excellent starting points.

There's work to do. *Let's do the work.*

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