how the most important developments and challenges of the decade affect racial wealth inequality.

Chapter 9 poses the question of the meaning and implications of these changes. We incorporate new understandings from the first section and then synthesize them with our assessment of asset-based policy for the poor. We conclude by suggesting ways to challenge deeply embedded structures that support racism and racial inequality, and how policies that help families and communities build resources for human development and change can be integrated into this strategy. Examining wealth inequality trends since 1995 is a good starting point.

Notes

1. As with the original book, we have chosen to continue the focus on the black-white racial dynamic. This is not to exclude the vital importance of other groups in the racial and wealth dynamics of the United States. Other scholars have taken up this agenda, and they are doing a more comprehensive analysis than we could conduct in this venue. For examples of new work in this vein, see Kochhar; the work of the First Nations Development Institute on Native American assets; Hao; and the forthcoming seminal collection edited by Nembhard and Chiteji.

Wealth Inequality Trends

The wealth story in the decade since we wrote Black Wealth/White Wealth involves two fundamental narratives. The growth and dispersion of wealth continues a trend anchored in the economic prosperity of post–World War II America. Between 1995 and 2001, the median net worth of all American families increased 30 percent, and median net financial assets grew by 60 percent. The growth of pension accounts (IRAs, Keogh plans, 401(k) plans, the accumulated value of defined contribution pension plans, and other retirement accounts) and stock holdings seem to account for much of this wealth accumulation.

While wealth grew and spread to many American families, there was little action at the bottom of the wealth spectrum as the percent of families with zero or negative net worth only dropped from 18.5 to 17.6, and those with no financial assets fell from 28.7 to 25.5.

Wealth remains highly concentrated, especially financial wealth, which excludes home equity. In 2001, the richest 5 percent of American households controlled over 67 percent of the country’s financial wealth; the bottom 60 percent had 8.8 percent; and the bottom 40 percent just 1 percent.

The context of wealth growth and inequality in the last decade situates our concern about racial inequality and the progress of American families, as indeed, the rich have gotten richer. The number of families with net worth of
black Americans vis-à-vis white Americans. Most commentators and analysts were familiar and comfortable with income comparisons that provided a window on whether there was growing or declining racial economic inequality. But the focus on wealth, “the net value of assets (e.g., ownership of stocks, money in the bank, real estate, business ownership, etc.) less debts” created a different gestalt or perspective on racial inequality.

This gestalt had two dimensions. The first is the conceptual distinction between income and assets. While income represents the flow of resources earned in a particular period, say a week, month, or year, assets are a stock of resources that are saved or invested. Income is mainly used for day-to-day necessities, while assets are special monies not normally used for food or clothing but are rather a “surplus resource available for improving life chances, providing further opportunities, securing prestige, passing status along to one's family,” and securing economic security for present and future generations. The second dimension is the quantitative; to what extent is there parity between blacks and whites on assets? Do blacks have access to resources that they can use to plan for their future, to enable their children to obtain a quality education, to provide for the next generation’s head start, and to secure their place in the political community? For these reasons, we focused on inequality in wealth as the sine qua non indicator of material well-being. Without sufficient assets, it is difficult to lay claim to economic security in American society.

The baseline indicator of racial wealth inequality is the black-white ratio of median net worth. To what degree are blacks approaching parity with whites in terms of net worth? The change in gestalt is amply demonstrated in comparisons of black-white median income ratios to black-white median net worth ratios. For example, the 1988 data reported on in Black Wealth/White Wealth showed that black families earned sixty-two cents for every dollar of median income that white families earned. However, when the comparisons shift to wealth, the figure showed a remarkably deeper and disturbing level of racial inequality. For every dollar of median net worth that whites controlled, African Americans controlled only eight cents! This markedly different indicator of inequality formed the basis of the analysis contained in Black Wealth/White Wealth as we attempted to describe its origins, its maintenance, and its continuing significance for the life chances of African American families and children.

How has this landmark indicator on racial inequality changed in the period since the publication of Black Wealth/White Wealth? Using the most recent...
data available, it appears, not unsurprisingly, that the level of racial wealth inequality has not changed but has shown a stubborn persistence that makes the data presented in 1995 more relevant than ever because the pattern we discerned suggests a firmly embedded racial stratification. The most optimistic analyses suggest that the black-white median net worth ratio is 0.10, that is, blacks have control of ten cents for every dollar of net worth that whites possess. However, the most pessimistic estimate indicates that the ratio is closer to seven cents on the dollar. This slim range demonstrates that the level of wealth inequality has not changed appreciably since the publication of Black Wealth/White Wealth. However, the story is far more complex.

Using 1988 data, we tabulated the racial wealth gap at $60,980. By 2002 the racial wealth gap increased to $82,663, meaning the wealth of the average African American family fell further behind whites by more than $20,000 over this period. Isolating the period and dynamics of the past decade a little more closely, the racial wealth gap grew by $14,316 between 1996 and 2002. In the decade since Black Wealth/White Wealth, then, white wealth grew and then leveled off; black wealth grew and then declined. As a result, the overall racial wealth gap ratio persists at a dime on the dollar, and the dollar amount of the racial wealth gap grew.

To gain a flavor for what has happened to African American wealth since 1998, we take the liberty to present four “composite cases” that characterize some of the circumstances that have contributed to the persistence of racial wealth inequality during this period. These “composites” are based on our extensive academic and policy experience in trying to understand the dynamics of wealth accumulation in the United States over the past ten years, and our work with many organizations around the country that has led to a deep familiarity with hundreds of families who have struggled to secure a solid asset base. None of these stories represent actual people, but their circumstances are those that many face, with the consequences being that black wealth has stagnated relative to white wealth, and that ten years after our initial publication of the baseline data on racial wealth inequality, there has been a gnawing persistence of the basic trends.

A Striving Black Middle Class

Cynthia and James Braddock are the epitome of the black middle class. Both are college graduates, have steady jobs (Cynthia as a public school teacher and James as a corporate middle manager in the human resources division of a Fortune 500 company). During the 1980s and 1990s they have saved steadily in their employer-sponsored 403(b) and 401(k) savings plans, converting part of it into a down payment on their first home. They provide their two children with fashionable clothes, extra tutoring, and social opportunities that enrich them both academically and culturally. Since the stock market bust of 1999 they have seen their savings eaten away at by diminishing stock returns and found their purchasing power eroded by paltry pay raises. Consequently, maintaining their standard of living is increasingly dependent on the five credit cards that they have, two of which have reached their maximum. Their net worth has increased thanks to the increasing value of their home, but the decline of their stock portfolio in their employment-sponsored savings program has not been replaced by higher earnings even though they make steady monthly contributions.

The Struggling Working Class

The lives of Kenneth and Barbara Jones characterize the struggling working class of black America. Married for ten years, they have managed in the last five years to both gain steady employment. Kenneth works for a local retail establishment that does not have a broad array of benefits programs. His wife Barbara is a teacher’s aide who does have access to health care and an employer-sponsored savings program, which provides needed benefits for the whole family (one preschooler and one child in a local public elementary school). They have not been able to save much, but demonstrated a strong record of making their rent and utility payments on time that helped them qualify for an affordable mortgage sponsored by a major bank in their city. With no down payment, they were able to purchase a small home that costs about the same in terms of monthly costs as their rental unit. They depend on credit cards to make routine and emergency repairs and are thus in debt. However, with the value of their home increasing, they generally feel optimistic about their future and that of their children.

The Disenfranchised Black Elderly

Rose Williams is a resident of an inner city community whose homes were among the first owned by African Americans in the mid-fifties in a formerly all-white neighborhood. She is representative of what is happening to too many African American elders who worked hard to pay off their homes and had hoped to live a life of dignity and respect in their final years in their own home. Instead, Mrs. Williams has lost her home as a consequence of a contract she entered into with a subprime lender who promised her a sufficient loan to not only make a major repair but to also have money left over that
The Legacy of TANF

Donna Smith, head of a household that includes three school-aged kids, joined the labor market for the first time because of the stringent requirements associated with Temporary Assistance for Needy Families. Working first in a temporary job, Donna landed a position as a housecleaner in a hotel where the wages do not lift her and her family out of poverty. In fact, Donna cannot make ends meet from paycheck to paycheck. Without a credit history and with only a recent employment record, Donna cannot obtain credit from conventional lenders or even major credit card suppliers. Her only recourse is to secure payday loans so that she can pay her electricity before her service is canceled or provide money for her daughter’s field trip that the school requires. Consequently, she is falling further and further behind economically because the payday lender has already garnished her meager check, making it even more difficult to make ends meet.

Embedded in these composite stories are some of the contradictory facts and new dimensions of financial life in America that have affected the persistence of the black-white racial wealth gap. They include a strong economy of the 1990s that enabled greater savings, especially in employer-based savings programs, but which has petered out recently; a stock market bust that punished some of the newest entrants into the market most severely; increasing credit card debt; a growing trend of black home ownership complemented by growing subprime and predatory lending directed at minority communities; and growth in the working poor due to the influx of the TANF population into the labor market. This mix of factors weaves the mosaic underlying the story of the continuing racial wealth gap in the first decade of the twenty-first century.

The Story of the Persistence of the Racial Wealth Gap

Traditionally, economists assume that wealth accumulation is the consequence of a “combination of inheritance, earnings, and savings and is enhanced by prudent consumption and investment patterns over a person’s life course.”

How these individual variables interact with the human capital attributes of family members, their education, their occupation, and their ability to begin asset accumulation at an early stage in their life course (the earlier one begins to accumulate assets, the more wealth one can accrue) moves us forward in explaining how differential accumulation occurs. But these individual factors are not the whole story.

As Black Wealth/White Wealth convincingly demonstrated, wealth accumulation occurs in a context where these individual attributes unfold to produce varying levels of wealth for different families and social groupings. It has been the different “opportunity structure” for savings and investment that African Americans have faced when compared with whites that has helped to structure racial inequality in wealth holding.

We developed a sociology of wealth and racial inequality in Black Wealth/White Wealth, which situated the study of wealth among concerns with race, class, and social inequality. This theoretical framework elucidated the social context in which wealth generation occurs and demonstrated the unique and diverse social circumstances that blacks and whites face. Three concepts we developed provided a sociologically grounded approach to understand the racial wealth gap and highlighted how the opportunity structure disadvantages blacks and contributes to massive wealth inequalities between the races.

The first concept, racialization of state policy, explores how state policy has impaired the ability of most black Americans to accumulate wealth from slavery throughout American history to contemporary institutional discrimination. The “economic detox” helps us understand the relatively low level of entrepreneurship among the small scale and segmentally niched businesses of black Americans, leading to an emphasis on consumer spending as the route to economic assimilation. The third concept—the sedimentation of racial inequality—explores how the cumulative effects of the past have seemingly cemented blacks to the bottom of America’s economic hierarchy in regards to wealth.

These concepts do much to show how this differential opportunity structure developed and worked to produce black wealth disadvantages. It also builds a strong case that layering wealth deprivation generation after genera-
tion has been central to not only blacks' lack of wealth but also whites' privileged position in accumulating wealth. As we noted:

What is often not acknowledged is that the accumulation of wealth for some whites is intimately tied to the poverty of wealth for most blacks. Just as blacks have had "cumulative disadvantages," whites have had "cumulative advantages." Pragmatically every circumstance of bias and discrimination against blacks has produced a circumstance and opportunity of positive gain for whites. 13

The past opportunity structure that denied blacks access or full participation in wealth-building activities serves as a powerful deterrent to current black ambitions for wealth. Without an inheritance that is built on generations of steady economic success, blacks, even when they have similar human capital and class position, lag far behind their white counterparts in their quest to accumulate a healthy nest egg of assets. In Black Wealth/White Wealth we examined those current institutional and structural constraints that African Americans faced in the 1980s and early 1990s that curtailed and limited the ability of many African Americans to build assets. One area we focused upon was housing, the largest single element of most American's portfolio of assets, and a major part of the wealth in most African American's asset portfolio. We identified a number of institutional constraints ranging from differential access to mortgages, higher costs of mortgages, and differential levels of equity accumulation in homes owing to persistent residential segregation.

We want to extend this mode of theorizing and analysis to the period of the 1990s and into the first decade of the twenty-first century. We attempt to formulate a compelling picture of why African Americans continue to lag so far behind whites in asset holding. Here we focus on the social context of the labor market, the stock and housing market, and growing debt.

The Rise and Decline of a Tight Labor Market and a Bull Stock Market

Black Wealth/White Wealth documented wealth data that reflected a period in the American economy characterized by relatively high unemployment rates and a stagnant economy. However, this period was followed by one of the largest and longest economic expansions in the history of the United States. From its beginning in March 1991 to its ending in November 2001, the United States endured a record expansion. Positive economic indicators that were in sharp contrast to the previous period characterized this expansion. For example, family incomes went from stagnation during the 1979 to 1993 period, where they grew only 0.7 percent over the entire time frame to an increase of 17 percent, or more than $7,000 per family, from 1993 to 2000. In terms of job growth, during the 1992 to 2000 period, the nation created more jobs than at any similar period in American history: 22.6 million, 92 percent of which were in the private sector. Moreover, in contrast to the previous period, where 1.9 million manufacturing jobs were lost, the 1992 to 2000 period saw manufacturing job growth increase by 303,000. Finally, the unemployment rate fell by 42 percent, reaching below 5 percent from July 1997 through January 2001. The 4 percent unemployment rate in 2000—the lowest in over 30 years—stands in striking contrast to an average unemployment rate of 7.1 percent for the 1980 to 1992 period. 14

For African Americans this was a period of tight labor markets that led to greater levels of labor force participation owing to the existence of greater demand for their participation in the economy. Employers made "extra efforts ... to overcome the barriers created by skill and spatial mismatch" to reach out to African American workers to fill their growing labor needs. 15 Moreover, "employers may find discrimination more costly when the economy is strong and their usually preferred type of job candidate is fully employed elsewhere." 16 In the throes of a heated and tight labor market, Business Week proclaimed, "With the economy continuing to expand and unemployment at its lowest point in 30 years, companies are snipping up minorities, women, seniors, and anyone else willing to work for a day's pay." 17

African Americans, however, did not wholly benefit from this extraordinary period in American history. Black joblessness continued to be a problem. The historical ratio of two-to-one black-to-white unemployment rates persisted with black men averaging 7.1 percent compared with 3 percent for white men, while black women averaged 6.8 compared with 3.2 percent for white women in the latter half of 1999. Nevertheless, those African Americans who were employed during this period saw real wage gains that could be translated into savings, investments, and an increase in net worth.

Another aspect of the expansion of the economy during the 1990s was the rapid rise in the stock market. Fueled by technology stocks and the growth of key stocks like Microsoft, Sun, Yahoo, and other new stock offerings in the technology sector, the stock market started to attract investments not only from high-income and high-wealth individuals, but also from an increasing
number of middle-class families and even working-class families. This investment was facilitated by growing participation in employer-sponsored savings programs that enabled employees to make tax-deferred and/or matched contributions through payroll deductions. The ease of the transaction and the constant media and public interest in the high-flying stock market encouraged mass participation. The market rose steadily and rapidly. Beginning from a monthly average in 1992 in the low 400s, the Standard and Poor’s 500 tripled in size by 1999. If one were lucky enough to purchase Microsoft or Yahoo early then his or her gains would have been astronomical. For example, when Yahoo was first available as a public offering shares were sold for $1.24. By December 1999 Yahoo listed for $108.17. It was the desire for these kinds of returns that fueled an overheated market and led to the description of “irrational exuberance” concerning the frenzy for the “market.”

African Americans, while constrained by resources, also entered into this frenzy. The decade of the 1990s was the breakthrough era for African American involvement in the stock market. Facilitated by employer savings plans and, for the first time, sought after by stock and brokerage firms, African Americans invested readily into the market. In 1996 blacks had a median value of $4,626 invested in stocks and mutual funds. At the height of the market, that value had almost doubled to $8,669. During this period African American stock market investors had closed the black-white ratio of stock market value from twenty-eight cents on the dollar to forty cents on the dollar. However, the market’s plunge after 1999 sent African American portfolio values down to a median average of $3,050. This brought the black-white ratio of stock market value back in line with the 1996 level, eroding all the gains that the bull market had bestowed.

African Americans did better in 401(k) and thrift savings plans, which were more likely to be diversified holdings. In 1996 African American investors held a median average of $6,939 in these instruments. With the market surging and regular savings deposits facilitated by payroll deductions, African Americans increased their value in savings or thrift plans to a median average of $10,166 in 2002. The comparison to whites is quite interesting in regard to thrift plans. Between 1996 and 2002 African Americans closed the black-white ratio slightly from 0.43 to 0.50. This is in striking contrast to the data on stock ownership.

Home Ownership, New Mortgage and Credit Markets

Over the past several years more families than ever across the United States have been able to buy homes. Home ownership rates reached 69 percent in 2004, a historic high. The main reasons for the high level of home ownership include the new mortgage market, where capital is readily available to both families and economic sectors where home ownership was always part of the American Dream—but in dream only. With home ownership comes the opportunity to accumulate wealth because the value of homes appreciates over time. Indeed, approximately two-thirds of all the wealth of America’s middle class families is not in stocks, bonds, investments, or savings accounts but in the form of home equity.

Home equity is the most important wealth component for average American families, and even though home ownership rates are lower, it is even more prominent in the wealth profiles of African American families. Although housing appreciation is very sensitive to many characteristics relating to a community’s demographics and profile (which realtors euphemistically call “location, location, location”), overall home ownership has been a prime source of wealth accumulation for black families. For example, for the average black home owner, homes created $6,000 more wealth between 1996 and 2002. However, fundamentally racialized dynamics create and distribute housing wealth unevenly. The Federal Reserve Board kept interest rates at historically low levels for much of this period, and this fueled both demand and hastened converting home equity wealth into cash.

Black Wealth/White Wealth demonstrated the color coding of home equity, and Shapiro’s 2004 book, The Hidden Cost of Being African American, updates the data and extends our understanding of how residential segregation affects home equity. The typical home owned by white families increased in value by $28,000 more than homes owned by blacks. Persistent residential segregation, especially in cities where most blacks live, explains this equity difference as a compelling index of bias that costs blacks dearly. This data point corroborates other recent research demonstrating that rising housing wealth depends upon a community’s demographic characteristics, especially racial composition. One study concludes that homes lost at least 16 percent of their value when located in neighborhoods that are more than 10 percent black. Thus, a “segregation tax” visits black home owners by depressing home values and reducing home equity in highly segregated neighborhoods. Shapiro
summarizes the case: “The only prudent conclusion from these studies is that residential segregation costs African American home owners enormous amounts of money by suppressing their home equity in comparison to that of white home owners. The inescapable corollary is that residential segregation benefits white home owners with greater home equity wealth accumulation.” Furthermore, most African American families rent housing and thus are not positioned to accumulate housing wealth, mainly because of affordability, credit, and access issues.

The term “affordable housing” has many meanings. We are concerned with increasing minority home ownership because of the use value of homes to owners and because home owners are more likely to become stakeholders in communities, schools, local politics, and civic engagement. Most pertinent to the racial wealth gap is that home equity is the largest component in the portfolio of the average American families. We limit this discussion to affordable home ownership, even though, in comprehensive and progressive housing policy, affordable housing includes a spectrum from renting to owning that supports asset accumulation.

Affordable home ownership programs come in many varieties and from many sources, including federal and state programs, regional and local initiatives, churches, community organizations, foundations, and the private sector. They aim to bring home ownership opportunities to lower income families and communities previously precluded because of affordability, bad credit histories, or lack of knowledge and information. Premortgage education and counseling, agreements with lenders, and connecting potential home owners to responsive lenders are some of the methods used in home ownership programs. Mortgage terms that make mortgages more accessible to low- and moderate-income families are another critical component of these programs. Recommendations often include:

- Increased public and private financing, such as down payment assistance programs and purchase-rehabilitation programs
- High-quality and local home ownership training programs
- Better dissemination regarding home ownership opportunities
- Marketing to communities of color
- Consistent enforcement of fair housing laws
- Hiring and training staff people of color
- Financial literacy programs around housing, finance, mortgages, and credit

But, home ownership and the new opportunity to accumulate wealth also bring additional risks.

The home mortgage marketplace has evolved considerably since 1990, when mortgage packages were offered at a unitary price reflecting the terms of the loan, targeting prospective home owners who met stringent credit history rules and financial criteria. As housing wealth grew and the United States mortgage market became integrated into the global market system, mortgage products proliferated and thus has changed the way American families buy homes. Underwriting standards have become more relaxed, both as financial institutions ease rules to compete in this evolving market and as federal regulations and oversight has become less stringent.

Minorities are making significant inroads into all segments of the housing market. Indeed, important components feeding the general trends of increasing rates of new home construction and home value appreciation include the demographic push from new immigrants, the accomplishments of second-generation immigrants, and the success of a segment of African American families. In 2004, home ownership reached historic highs as 69 percent of American families live in a home they own. In 1995, 42.2 percent of African American families owned homes, increasing to a historic high, 49.5 percent, in 2004. This 17.3 percent increase in African American home ownership is quite remarkable, indicating striving, accomplishment, and success. The black-white home ownership gap in 1995 stood at 28.5 percent and narrowed to 26.2 percent in 2004. We might expect the home ownership gap to continue closing as black home ownership starts from a considerably lower base while the higher white rate may be close to exhausting the potential of those who want to become home owners.

In 1995, access to credit for minorities was a major issue. Financial institutions responded both to criticisms regarding credit discrimination and to the newly discovered buying capacity of minorities. Increasing numbers of African American and Hispanic families gained access to credit cards throughout the 1990s: 45 percent of African American and 43 percent of Hispanic families held credit cards in 1992 and by 2001 nearly 60 percent of African American and 53 percent of Hispanic families held credit cards. The irony here is that as access to credit broadened under terms highly favorable to lenders, debt became rampant and millions of families became ensnared in a debt vice.
Credit card debt nearly tripled from $238 billion in 1989 to $692 billion in 2001. These figures represent family reliance on financing consumption through debt, especially expensive credit in the form of credit cards and department store charge cards. During the 1990s, the average American family experienced a 53 percent increase in credit card debt—the average family’s card debt rising from $2,697 to $4,126. Credit card debt among low-income families increased 184 percent. Even high-income families became more dependent on credit cards: There was 28 percent more debt in 2001 than in 1989. The main sources of credit card debt include spiraling health care costs, lower employer coverage of health insurance, and rising housing costs amid stagnating or declining wages after 2000 and increasingly unsteady employment for many. This suggests strongly that the increasing debt is not the result of frivolous or conspicuous spending or lack of budgetary discipline; instead, deferring payment to make ends meet is becoming the American way for many to finance daily life in the new economy.

Given that a period of rising income did not lift the African American standard of living, and given the context of overall rising family debt, an examination of the racial component of credit card debt furthers our understanding of the contemporary processes associated with the continuation of the economic downturn and the further sedimentation of inequality. The average credit card debt of African Americans increased 22 percent between 1992 and 2001, when it reached an average of nearly $3,000. Hispanic credit card debt mirrored blacks by rising 20 percent in the same period to $3,691. As we know, the average white credit card debt was higher, reaching $4,381 in 2001. One of the most salient trends involves the magnitude and depth of African American reliance on debt. Among those holding credit cards with balances, nearly one in five African Americans earning less than $50,000 spend at least 40 percent of their income paying debt service. In other words, in every 8-hour working day these families labor 3.2 hours to pay off consumer debt. Even though black families carry smaller monthly balances, a higher percentage of their financial resources goes toward servicing debt.

The median net worth of African American families at the end of 2002 was $5,988, essentially the same as it was in 1988. Again, it is not as if nothing happened since we wrote Black Wealth/White Wealth; indeed, African American fortunes expanded with good times and contracted with recessions and the bursting of the stock market bubble. In the last decade, the high point of African American (and Hispanic) wealth accumulation was 1999, when it registered $8,774, just before the bursting of the stock market bubble in early 2000. Between 1999 and 2002, African American wealth declined from $8,774 to $5,988, wiping out more than a decade’s worth of financial gains.

Median wealth and racial wealth gap data tell us about absolute wealth accumulation and the relative positioning of African American families. Another sense of the dynamics of the last ten years concerns the dispersion of assets among African American families. In 1996, 31.9 percent of African American families owned zero net worth or—worse still—had bottom lines that put them in the red. By 1999, this figure declined to 28.2 percent but deteriorated again after the stock market burst and the beginning of the recession, by increasing to 32.3 percent in 2002. This has left more African American families in absolute asset poverty than at the time of the book’s initial publication.

New Dynamics of Markets and Institutions
As we have indicated, the decade between 1995 and 2006 really is marked off by two distinct periods: African American family wealth accumulates considerably and more families move into positive wealth positions until early 2000. From 2000 through 2005, however, the financial wealth of African American families made a U-turn, both losing actual wealth and increasing the number of families with zero or negative wealth once more. Throughout the entire period, home ownership and home equity continued to rise for all segments of American families, including African Americans. An important narrative, then, involves this great expansion of financial wealth, home ownership, and housing wealth; understanding what happened to this wealth; examining the opportunities this new wealth created, especially for financial institutions looking for new markets; and importantly, the impact of these developments and new dynamics on African Americans.

Housing Wealth and Its Uses
Households cashed out $407 billion worth of equity from homes in just three years, 2002 through 2004, in the refinancing boom that began in 2001. Although such data have not been collected for very long, American families were refinancing homes at record levels, three times higher than any other period. Nearly half of all mortgage debt was refinanced between 2002 and
The Dark Side of Home Ownership

Subprime lending is targeted to prospective homebuyers with blemished credit histories or with high levels of debt who otherwise would not qualify for conventional mortgage loans. A legitimate niche for these kinds of loans brings home ownership within the grasp of millions of families. These loan products are essential in expanding home ownership rates. In return for these riskier investments, financial institutions charge borrowers higher interest rates, often requiring higher processing and closing fees, and often containing special loan conditions like prepayment penalties, balloon payments, and adjustable interest rates.

The subprime market expanded greatly in the last decade as part of new, aggressive marketing strategies among financial institutions hungrily eying rising home ownership and seeing promising new markets. Moreover, the mortgage finance system in the United States became well integrated into global capital markets, which offer an ever-growing array of financial products, including subprime loans. Subprime loan origination grew fifteen-fold, from $35 billion to $50 billion between 1994 and 2004. Reflecting the increasing importance of subprime loans to the financial industry, the subprime share of mortgage loans has seen a parallel meteoric rise from less than 4 percent in 1995 to representing about 17 percent of mortgage loans in 2004.37

Loan terms like prepayment penalties and balloon payments increase the risk of mortgage foreclosure in subprime home loans, even after controlling for the borrower's credit score, loan terms, and varying economic conditions.38 One study from the Center for Community Capitalism demonstrates that subprime prepayment penalties and balloon payments place Americans at substantially greater risk of losing their homes.

A key finding is that subprime home loans with prepayment penalties with terms of three years or longer faced 20 percent greater odds of entering foreclosure than loans without prepayment penalties. Prepayment restrictions mean that home owners are stuck with loan terms, unable to refinance, to obtain lower rates, to weather financial difficulties, or to take advantage of lower interest rates. Another important finding shows that subprime home loans with balloon payments, where a single lump sum payment many times the regular payment amount is due at the end of the loan term, face 46 percent greater odds of entering foreclosure than loans without such a term. In addition, borrowers whose subprime loans include interest rates that fluctuate face
49 percent greater odds of entering foreclosure than borrowers with fixed rate subprime mortgages. Under these terms, home borrowers are more likely to lose their homes.

In the fourth quarter of 2003, 2.13 percent of all subprime loans across the country entered foreclosure, which was more than ten times higher than the rate for all prime loans. One in five of all first-lien subprime refinance loans originated in 1999 had entered foreclosure by December 2003.39

Delinquency (falling behind in mortgage payments) and losing one's home through foreclosure are hitting vulnerable neighborhoods hardest. Concentrated foreclosures can negatively affect the surrounding neighborhoods, threatening to undo community building and revitalization efforts achieved through decades of collaborative public–private partnerships, community organizing, and local policy efforts.

Los Angeles is a case in point.40 In a short three-year period, 2001 to 2004, over 14,000 Los Angeles families lost their homes through foreclosure. The foreclosure rate is highest in the most vulnerable neighborhoods. In predominately minority neighborhoods (80 percent or more minority) of Los Angeles County the foreclosure rate is almost four times the rate that it is in neighborhoods where minorities are less than 20 percent of the population. In the City of Los Angeles, foreclosures occur nearly twelve times more often in predominately minority communities compared with areas that have fewer than 20 percent minorities.

About one in four of all homes in Los Angeles lost through foreclosures occur in neighborhoods where low-income minority families are concentrated. The impact has been devastating because 7.2 percent of all families paying mortgages lost their homes between 2001 and 2004. Los Angeles is not alone; data from Atlanta, Baltimore, Boston, Chicago, and others show that Los Angeles is part of the larger, national pattern.

A study examining pricing disparities in the mortgage market provides more context, placing the Los Angeles story in a broader pattern. Of all conventional loans to blacks, nearly 30 percent were subprime compared with only 10 percent for whites.41 These ratios would be in closer alignment in lending markets operating with maximum efficiency and equity. Creditworthy criteria, like debt-to-income ratios, do not explain the greater propensity for African Americans to receive subprime loans. The report also discovered that subprime loans in minority communities increased with levels of racial segregation. This finding suggests an alarming new form of modern redlining that targets minority neighborhoods for subprime loans.

Using a testing methodology adapted from those that explored job discrimination, the National Community Reinvestment Coalition was able to explore how pricing disparities resulting from intensified subprime lending in minority areas occurred. Essentially, white and black testers with similar credit records and qualifications applied for preapproval for mortgages. Given similar scripts and profiles (with African Americans actually presenting better qualifications), the testing uncovered a 45 percent rate of disparate treatment based on race. The testing revealed practices that may have destructive effects on African American families and communities. These include: differences in interest rates quoted; differences in information about fees, rates, loan programs, and loan terms; and whites more often referred up to the lender's prime lending division. In Black Wealth/White Wealth we wrote that differences in loan rejection rates and interest rates did not result from discriminatory lending practices but from blacks bringing fewer financial assets to the mortgage table; as a result, they paid higher loan terms. Racial pricing disparities and the targeted spread of subprime lending to minority communities, however, now persuades us that minority America is experiencing a new form of redlining organized by race and geographic space.

With data like this, foreclosure, transparency, fair lending, and federal regulatory responsibility have become central to public policy debates. In particular, while the Los Angeles foreclosure story is not specific to subprime or predatory lending practices, it is safe to assume that it is a large part of the story.

Black Wealth/White Wealth demonstrated the power of policy, government, institutions, and history to order and maintain racial inequality. The previous sections show further the significance of financial institutions in granting access to credit and the terms of credit, and the increasing dependence on credit and debt. The basis for excluding African Americans from opportunities and creating different rules in the competition for success is no longer just who is a capable worker. Now we must add who is a worthy credit risk and on what terms. Job discrimination against individual blacks based on perceived characteristics is not the only major arena in the struggle against inequality; exclusion in terms of creditworthiness is as well.
Developments and Challenges of the Past Decade

The significant increase in housing wealth in the last decade also financed a consumption boom. That boom brought to our attention the relative underemphasis of consumption and its racialization in our original book. Moreover, the recent spate of cashing out home equity appears to be an essential component of personal consumption that drives the economy, accounting for a good chunk of economic growth in the United States. The amount of home equity cashed out increased tenfold from $13.9 billion in 1995 to $139.2 billion in 2004.42 These cash-rich households accounted for a third of the growth in personal consumption in 2004.43 In other words, housing wealth effects became an important player in economic growth over the past ten years, especially so since 2001, as cash from home owner wealth has led the economy out of the recession and kept spending levels high. Families without large amounts of housing wealth utilized easier access to credit to keep pace, and in the process faced the dangers of easy credit.

Fewer Ways Out: Changes in the Bankruptcy Law

As we have seen in the past decade, credit card companies have made credit easier, credit card debt and debt hardship has skyrocketed, and more American families are losing their homes through foreclosure. Personal bankruptcy filings broke the one-million mark in 1996 and reached a historic high in 2003 when 1.6 million people filed for personal bankruptcy. Prior to 2004, most individual bankruptcies were simple to file and the consumers did not need to repay all their debts. But they still suffered the consequence of badly damaged credit records, which greatly restricted future access to credit, home ownership, and entrepreneurship since bankruptcies remained on a person's financial history for up to ten years. The 2005 reform of bankruptcy, dubbed the "vampire bill" by one expert, favors financial institutions over consumers. This makes it harder for people to declare bankruptcy and allows financial institutions a better chance of recouping their credit along with mountains of interest and late fees.

Financial institutions and their lobbyists applied tremendous pressure, supporting and passing the new bankruptcy law that protects their loans in the face of record high credit card debt, debt hardship, and foreclosures. The new law closed the most frequently used legal option available to consumers overwhelmed by debt.

The bankruptcy code, even including the new revision, systematically favors debtors with wealth over those with income because it lets debtors—especially Chapter 13 debtors—retain some of their property but requires them to use only disposable income to repay debts. Specifically, to benefit the most from bankruptcy laws, the "ideal debtor" would be a married, employed home owner who is the beneficiary of a trust or has a large employer-provided retirement account; provides financial support only to legal dependents; and has little (or no) student loan, alimony, or child support debt. According to one recent law review article, "because statistical data suggest that white people are more likely to fit the Ideal Debtor profile, race matters in bankruptcy."44

The 2005 bankruptcy law was framed in the language of "irresponsible consumers" avoiding their responsibilities by declaring bankruptcy. Some saw this as an attempt to code the debate in racialized terms.45 This racialized framing prevented other explanations of the rise of bankruptcies—like consumer bankruptcies resulting from traumatic or chronic health events—from framing the political debate and culture war over debt.

A 2005 study of bankruptcy filers concludes that medical causes trigger half of personal bankruptcies, essentially indicating that Americans are experiencing a wave of medical bankruptcies.46 Among those whose illnesses triggered bankruptcy, out-of-pocket medical costs averaged $11,854. Most American families do not have $12,000 in bank accounts, stocks, or bonds to meet unexpected medical costs like these, especially considering that chronic or serious medical conditions also mean employment is severely curtailed or no longer possible. Thus, it is not too many trips to the mall for trendy sneakers but the cost of health care (and its increasingly private financing) and health status that explains most legal bankruptcies. Consumption, debt, and bankruptcy thus circle back to our understandings of the economic detour and racialization of state policy, which in turn link back to health disparities.

Black Consumers and the Urban Market

Our discussion of the "economic detour" stressed that blacks were the only group that came to America and found insurmountable barriers to establishing sustainable businesses. This has led to their being "forced into the role of the consumer."47 At the eve of the twenty-first century, blacks have come to be identified in corporate America as one of the most important market niches for consumer goods. Euphemistically termed the "urban market," black com-
munities and black youth are bombarded with and urged to consume a range of commodities that are designed to meet their perceived "cultural tastes" and "lifestyle." These goods range from fashionable clothes to the latest athletic shoes, from cigarettes and specialized alcoholic beverages to high-tech stereo and audio equipment. With a combined purchasing power of $372 billion in 2002, major retail and consumer services have found the "urban market" to be a motherlode of opportunity. As a consequence, African Americans are targeted through advertisements that are designed to reach them specifically, whether through television, radio, magazines, or billboards. For example, magazine advertisers spent over $300 million dollars in 2002 in the top twelve advertising categories (e.g., toiletries and cosmetics, apparel, auto, etc.) directly targeted toward African Americans. Their advertising dollars bring strong returns. For example:

- African Americans account for more than 30 percent of industry spending in the $4 billion hair market.
- Black consumers spend more on telephone services than any other consumer group. Their expenditures in this category totals $918 per capita annually, or 8.1 percent more than the average.
- According to a 2001 study by Cotton Incorporated, African American consumers will spend an average of $1,427 on clothing per year for themselves—$458 more than the average consumer.
- The average African American family spends 30 percent more on weekly groceries than the U.S. population at large.  

In Black Wealth/White Wealth we underplayed the "conspicuous consumption" thesis, pointing out that the African American savings rate was as high or higher than the white rate of savings, especially at higher class levels. However, it is clear that African Americans, at least on some consumer goods, especially those that are necessities (e.g., food and clothing), may be areas in which African Americans spend more owing to the direct impact of intense and directed advertising campaigns. On the face of it, this appears as incontrovertible evidence of conspicuous consumption.

But the evidence is not that this is conspicuous consumption, but rather it is the consequence of living in communities and cities where the cost of goods and services, especially for the poor, are higher. Data consistently show that the "poor pay more" for essential goods and services. The following are some examples from a recent study of Philadelphia.  

- Car purchases—Lower-income families can pay over $500 more for the same car bought by a higher-income household.
- Car loans—Poor buyers pay higher interest rates than the average buyer.
- Car insurance—For an inner city neighborhood, the poor pay $400 more for the same car and driver than middle-income car owners.
- Establishing utility service—Lower-income households pay a higher security deposit than other households.
- Gas prices—The typical inner-city family pays $300 more than those in the suburbs.

Moreover, low-income families have less access to mainstream financial institutions and thus are much more likely to need the services of a check casher, typically a storefront operation offering check-cashing services and payday loans. Unusually high interest rates and fees distinguish these alternative financial services, which more low-income families rely upon because low-income and minority communities are not where mainstream banks look for customers or locate branches. Reports from Philadelphia and North Carolina demonstrate that storefront payday services target poor communities. In North Carolina, for example, African American communities have three times as many payday lending storefronts as white neighborhoods. This ratio increases as the proportion of blacks in a neighborhood increases. In North Carolina, the threefold disparity is related to race because the disparity remained even when income, home ownership rate, poverty level, unemployment, and other sociological variables were held constant.

Many low-income families live paycheck-to-paycheck. When a pothole in the road blows out a tire, a child needs to visit the emergency room for medical treatment, or the family budget simply comes up short of the next paycheck, emergency loans seem to offer a temporary fix. Short-term loans come with a high price, especially when they come from payday lenders. These cash advances or borrowing against the next paycheck invariably lead to further financial crisis. The Center for Responsible Lending reports that repeat borrowers account for 99 percent of payday loans and that the average payday borrower pays $800 to borrow $325, which includes all fees, interest, and charges.
Check-cashing services and predatory payday lending is part of the price that families pay for being poor and living in neighborhoods where low-income minorities are concentrated.

Given the overrepresentation of African Americans among the low-income population of urban central cities across the country, a significant part of their consumer dollars goes into a "poor tax" that comes about because of higher prices, limited information, and lack of access to high-quality, fairly valued goods and services. As well, weak regulation of lenders has facilitated "abuses" that take advantage of low-income households. As the authors of the Philadelphia study note: "Higher prices undermine the ability of low-income working families in Philadelphia to accumulate wealth, stalling the efforts underway to make the economy truly competitive."51

Even with these greater costs of goods and services, they may not approach the spending of whites. Data indicate that whites disproportionately spend on alcoholic beverages, reading materials, small appliances, and gifts.52 While we may not be able to answer definitively to what extent these differences between blacks and whites contribute to the racial gap in wealth, it is clear that they do deprive African Americans of a source of discretionary spending that could go into asset building. But we still contend that there is little systematic data that would support a conspicuous consumption thesis. Nevertheless, the conspicuous consumption thesis is a popular canard that continues to "stigmatize" African Americans whether it comes from Bill Cosby and his comments on African Americans' preference for "expensive tennis shoes over Hooked on Phonics" or is embedded in the still-prevalent stereotypes of African Americans as "indulgent, impulsive, and wasteful."

On the other side, however, is the role that the black middle class plays in producing demand for consumer products. It has long been known that one of the chief domains in which blacks have found success in corporate America is marketing.54 Bringing their own insight from growing up black in America in combination with their training and talent, black marketing experts have been called upon to develop the ad campaigns that gain entrée and dominance in the underserved urban market. Thus, while black consumerism may drain the black lower and working class of discretionary dollars for asset building, it surely builds black wealth through the economic success that it brings to black corporate employees (and increasingly black CEOs and executives) whose reputation and value derives from their ability to tap the urban black market.

The developments discussed in the last section resulted from changes in African American wealth created by home ownership, how this wealth was used, credit hardship, and a burgeoning new African American urban consumption market. This extends our mode of theorizing into the areas of credit and consumption. The next section continues this theme by extending our conceptualization of the racialization of state policy into the arena of the criminal justice system and incarceration. This analysis is important because prison time and records have direct negative impacts on job prospects, wealth accumulation opportunities, and citizenship.

The Racialization of State Policy: Incarceration

Over the past thirty years we have seen a sixfold increase in the U.S. penal population, leaving 1.3 million men in state and federal prisons by the end of the century. For African American men this has been a catastrophic tragedy, with 12 percent of black men in their twenties in prison or jail in 2002.55 Compared with whites, incarceration rates for blacks are about eight times higher, and prison inmates usually have low levels of education, averaging less than 12 years of completed schooling. These high rates of incarceration are related in large part to changes in state crime control policy and policing procedures responsible for sweeping up large numbers of African American men into the criminal justice system.56 This is especially the case in regard to the war on drugs. As the pioneering research of Marc Mauer demonstrates, the intensification of the criminalization of drug use has bloated the state and federal prison populations by increasing arrest rates, making the risk of imprisonment almost certain, and lengthening the jail term owing to mandatory sentencing.57 As Wacquant argues, the racial disparity in the incarceration of African Americans and the growth of the penal system developed in tandem with the economic decline of the central city.58 This has led to a "racialization of U.S. imprisonment" fed by a large "population of younger black men who either reject or are rejected by the deregulated low-wage labor market."59

Since most analyses of economic indicators used in this book and other reports exclude the incarcerated population, there is a strong likelihood that we are underestimating the gap between black and white wealth because we are not including a large segment of the black population who, if included, would most likely have low levels of wealth accumulation. In taking young prime-age working and school-age males out of the possibility of securing
schooling or gaining a foothold in the labor market, the racialization of U.S. imprisonment ensures that this population will not be able to begin the process of wealth accumulation at an early age, increasing the racial wealth gap between them and their white counterparts. Given that their presence in prison creates a stigma that has a negative effect on labor market and economic outcomes during their postprison reentry, this group will be further disadvantaged in attempting to build wealth over their life course.

If this "racialization of imprisonment" continues, it will negatively affect the accumulation of wealth among African American households for generations into the future. As Petit and Western note, "imprisonment has become a common life event for recent birth cohorts of black noncollege men." In fact, about 30 percent of this group had gone to prison by their mid-thirties. The group most at risk is the less educated (that is, those without a college education). Their lifetime risk of incarceration has doubled from 1979 to 1999. Analyzing the probability of a cohort of black men born between 1965 and 1969 on being in jail or the military, Petit and Western concluded, "For black men in their mid-thirties at the end of the 1990s, prison records were nearly twice as common as bachelor's degrees" and among the noncollege black men in this cohort "imprisonment was more than twice as common as military service."

Summary of Developments
Our review of important developments affecting racial inequality in the past decade yields some significant themes. As wealth accumulation among African American families began to expand, recession, declining stock prices, and processes of financial institutions converge to shrink, strip, and consume it. New home ownership and credit markets, in particular, arose in response to new wealth and wealth-creating opportunities in minority communities, and this poses new opportunities, challenges, and dangers. Amid these contractions, the bottom line is that the racial wealth gap worsened during the last decade. Thus, even though we could make an argument that African American achievements on the job and in schools were improving, an escalating racial wealth gap reversed these accomplishments. Increased incarceration rates have dampened African Americans' ability to compete and succeed—much less accumulate wealth—in America even further.

This sets the stage for chapter 9, which focuses on scholarly developments in wealth inequality, the public response to wealth and big-ticket tax policy, and asset-based public policies. The issues we highlight in the next chapter raise serious political challenges that must be confronted in the campaign for racial equality and justice. No doubt, the toughest challenge involves the age-old dilemma of how to simultaneously improve the well-being and mobility of millions of American families through asset-based social policy for the poor, regardless of race, while continuing to confront the deep structures of race in America.