A Sociology of Wealth and Racial Inequality

Understanding Racial Inequality
African Americans are vastly overrepresented among those Americans whose lives are the most economically and socially distressed. As William Julius Wilson has argued in *The Truly Disadvantaged*, "the most disadvantaged segments of the black urban community" have come to make up the majority of "that heterogeneous grouping of families and individuals who are outside the mainstream of the American occupational system," and who are euphemistically called the underclass. With little or no access to jobs, trapped in poor areas with bad schools and little social and economic opportunity, members of the underclass resort to crime, drugs, and other forms of aberrant behavior to make a living and eke some degree of meaning out of their materially impoverished existence. Douglas Massey and Nancy Denton's *American Apartheid* has reinforced in our minds the crucial significance of racial segregation, which Lawrence Bobo calls the veritable "structural linchpin" of American racial inequality.

These facts should not be in dispute. What is in dispute is our understanding of the source of such resounding levels of racial inequality. What factors
were responsible for their creation and what are the sources of their continuation? Sociologists and social scientists have focused on either race or class or on some combination or interaction of the two as the overriding factors responsible for racial inequality.

A focus on race suggests that race has had a unique cultural meaning in American society wherein blacks have been oppressed in such a way as to perpetuate their inferiority and second-class citizenship. Race in this context has a socially constructed meaning that is acted on by whites to purposefully limit and constrain the black population. The foundation of this social construction is the ideology of racism. Racism is a belief in the inherent inferiority of one race in relation to another. Racism both justifies and dictates the actions and institutional decisions that adversely affect the target group.

Class explanations emphasize the relational positioning of blacks and whites in society and the differential access to power that accrues to the status of each group. Those classes with access to resources through the ownership or control of capital (in the Marxian variant) or through the occupational hierarchy (in the Weberian variant) are able to translate these resources into policies and structures through their access to power. In some cases this can be seen in the way in which those who control the economy also control the polity. In other cases it can be observed in the way in which institutional elites control institutions. In any case the class perspective emphasizes the relative positions of blacks and whites with respect to the ownership and control of the means of production and to access to valued occupational niches, both historically and contemporaneously. Because blacks have traditionally had access to few of these types of valued resources, they share an interest with the other have-nots. As Raymond Franklin notes in *Shadows of Race and Class*, “Ownership carries with it domination; its absence leads to subordination.” The subordinated and unequal status of African Americans, in the class perspective, grows out of the structured class divisions between blacks and a small minority of resource-rich and powerful whites.

Each of these perspectives has been successfully applied to understanding racial inequality. However, each also has major failings. The emphasis on race creates problems of evidence. Especially in the contemporary period, as William Wilson notes in *The Declining Significance of Race*, it is difficult to trace the enduring existence of racial inequality to an articulated ideology of racism. The trail of historical evidence proudly left in previous periods is made less evident by heightened sensitivity to legal sanctions and racial civility in language. Thus those who still emphasize race in the modern era speak of covert racism and use as evidence racial disparities in income, jobs, and housing. In fact, however, impersonal structural forces whose racial motivation cannot be ascertained are often the cause of the black disadvantage that observers identify. Likewise, class perspectives usually wash away any reference to race. Moreover, the class-based analysis that blacks united with low-income white workers and other disadvantaged groups would be the most likely source of collective opposition to current social economic arrangements has given way to continued estrangement between these groups. The materialist perspective that policy should address broad class groups as opposed to specific racial groups leaves the unique historical legacy of race untouched.

Despite these weaknesses it is imperative that race and class factors be taken into consideration in any attempt to understand contemporary racial inequality. It is clear, however, that a singular focus on one as opposed to another is counterproductive. Take, for example, earnings inequality. As economists assert, earnings are affected today more by class than by racial factors. Human capital attributes (such as education, experience, skills, etc.) that may result from historical disadvantages play an important role in the earnings gap between blacks and whites. But because of the unique position of black Americans, earnings must be viewed in relation to joblessness. If you do not have a job, you have no earnings. Here it is clear that race and class are important. As structural changes in the economy have occurred, blacks have been disproportionately disadvantaged. Such structural changes as the movement of entry-level jobs outside of the central city, the change in the economy from goods to service production, and the shift to higher skill levels have created a jobless black population. Furthermore, increasing numbers of new entrants into the labor market find low-skill jobs below poverty wages that do not support a family. Nevertheless, race is important as well. Evidence from employers shows that negative racial attitudes about black workers are still motivating their hiring practices, particularly in reference to central-city blacks and in the service economy. In service jobs nonblacks are preferred over blacks, particularly black men, a preference that contributes to the low wages blacks earn, to high rates of joblessness, and thus to earnings inequality.

Because of the way in which they reveal the effect of historical factors on contemporary processes, racial differences in wealth provide an important
means of combining race and class arguments about racial inequality. We therefore turn to a theoretical discussion of wealth and race that develops aspects of traditional race and class arguments in an attempt to illuminate the processes that have led to wealth disparities between black and white Americans.

Toward a Sociology of Race and Wealth

A sociology of race and wealth must go beyond the traditional analysis of wealth that economists have elaborated. Economists begin with the assumption that wealth is a combination of inheritance, earnings, and savings and is enhanced by prudent consumption and investment patterns over a person's lifetime. Of course, individual variability in any of these factors depends on a whole set of other relationships that are sociologically relevant. Obviously one's inheritance depends on the family into which one is born. If one's family of origin is wealthy, one's chances of accumulating more wealth in a lifetime are greater. Earnings, the economists tell us, are a function of the productivity of our human capital: our education, experience, and skills. Since these are, at least in part, dependent on an investment in training activities, they can be acquired by means of inherited resources. Savings are a function of both our earning power and our consumption patterns. Spendthrifts will have little or no disposable income to save, while those who are frugal can find ways to put money aside. Those with high levels of human capital, who socially interact in the right circles, and who have knowledge of investment opportunities, will increase their wealth substantially more during their lifetime than will those who are only thrifty. And since money usually grows over time, the earlier one starts and the longer one's money is invested, the more wealth one will be able to amass. Economists therefore explain differences in wealth accumulation by pointing to the lack of resources that blacks inherit compared to whites, their low investment in human capital, and their extravagant patterns of consumption.

Sociologists do not so much disagree with the economists' emphasis on these three factors and their relationship to human capital in explaining black-white differences in wealth; rather, they are concerned that economists have not properly appreciated the social context in which the processes in question take place. Quite likely, formal models would accurately predict wealth differences. However, in the real world, an emphasis on these factors isolated from the social context misses the underlying reasons for why whites and blacks have displayed such strong differences in their ability to generate wealth. The major reason that blacks and whites differ in their ability to accumulate wealth is not only that they come from different class backgrounds or that their consumption patterns are different or that they fail to save at the same rate but that the structure of investment opportunity that blacks and whites face has been dramatically different. Work and wages play a smaller role in the accumulation of wealth than the prevailing discourse admits.

Blacks and whites have faced an opportunity to create wealth that has been structured by the intersection of class and race. Economists rightly note that blacks' lack of desirable human capital attributes places them at a disadvantage in the wealth accumulation process. However, those human capital deficiencies can be traced, in part, to barriers that denied blacks access to quality education, job training opportunities, jobs, and other work-related factors. Below we develop three concepts—the racialization of the state, the economic detour, and the sedimentation of racial inequality—to help us situate the distinct structures of investment opportunity that blacks and whites have faced in their attempts to generate wealth.

Racialization of the State

The context of one's opportunity to acquire land, build community, and generate wealth has been structured particularly by state policy. Slavery itself, the most constraining of social systems, was a result of state policy that gave blacks severely limited economic rights. Slaves were by law not able to own property or accumulate assets. In contrast, no matter how poor whites were, they had the right—if they were males, that is—if they had the ability, to buy land, enter into contracts, own businesses, and develop wealth assets that could build equity and economic self-sufficiency for themselves and their families. Some argue that it was the inability to participate in and develop a habit of savings during slavery that directly accounts for low wealth development among blacks today.19 Using a cultural argument, they assert that slaves developed a habit of excessive consumerism and not one of savings and thrift. This distorts the historical reality, however. While slaves were legally not able to amass wealth they did, in large numbers, acquire assets through thrift, intelligence, industry, and their owners' liberal paternalism. These assets were used to buy their own and their loved ones' freedom, however, and thus did not form the core of a material legacy that could be passed from generation to generation. Whites
could use their wealth for the future; black slaves' savings could only buy the freedom that whites took for granted.

Slavery was only one of the racialized state policies that have inhibited the acquisition of assets for African Americans. As we have seen in chapter 1, the homestead laws that opened up the East during colonial times and West during the nineteenth century created vastly different opportunities for black and white settlers. One commentator even suggests land grants "allowed three-fourths of America's colonial families to own their own farms."11 Black settlers in California, the "Golden State," found that their claims for homestead status were not legally enforceable.12 Thus African Americans were largely barred from taking advantage of the nineteenth-century federal land-grant program.

A centerpiece of New Deal social legislation and a cornerstone of the modern welfare state, the old-age insurance program of the Social Security Act of 1935 virtually excluded African Americans and Latinos, for it exempted agricultural and domestic workers from coverage and marginalized low-wage workers.13 As Gwendolyn Minck shows in "The Lady and the Tramp," men's benefits were tied to wages, military service, and unionism rather than to need or any notion of equality. Thus blacks were disadvantaged in New Deal legislation because they were historically less well paid, less fully employed, disproportionately ineligible for military service, and less fully unionized than white men. Minority workers were covered by social security and New Deal labor policies if employed in eligible occupations and if they earned the minimum amount required. Because minority wages were so low, minority workers fell disproportionately below the threshold of coverage in comparison to whites. In 1935, for example, 42 percent of black workers in occupations covered by social insurance did not earn enough to qualify for benefits compared to 22 percent for whites.

Not only were blacks initially disadvantaged in their eligibility for social security, but they have disproportionately paid more into the system and received less. Because social security contributions are made on a flat rate and black workers earn less, as Jill Quadagno explains in The Color of Welfare, "black men were taxed on 100 percent of their income, on average, while white men earned a considerable amount of untaxed income."14 Black workers also earn lower retirement benefits. And benefits do not extend as long as for whites because their life span is shorter. Furthermore, since more black women are single, divorced, or separated, they cannot look forward to sharing a spouse's

benefit. As Quadagno notes, again, the tax contributions of black working women "subsidize the benefits of white housewives." In many ways social security is a model state program that allows families to preserve assets built over a lifetime. For African Americans, however, it is a different kind of model of state bias. Initially built on concessions made to white racial privilege in the South, the social security program today is a system in which blacks pay more to receive less. It is a prime example of how the political process and state policy build opportunities for asset accumulation sharply skewed along racial lines.

We now turn to three other instruments of state policy that we feel have been central to creating structured opportunities for whites to build assets while significantly curtailing access to those same opportunities among blacks. Sometimes the aim was blatantly racial; sometimes the racial intention was not clear. In both instances, however, the results have been explicitly racial. They are the Federal Housing Authority already discussed in chapter 1, the Supplementary Social Security Act, which laid the foundation for our present day Aid to Families with Dependent Children (AFDC); and the United States tax code. In each case state policies have created differential opportunities for blacks and whites to develop disposable income and to generate wealth.

FHA

As noted in chapter 1, the development of low-interest, long-term mortgages backed by the federal government marked the appearance of a crucial opportunity for the average American family to generate a wealth stake. The purchase of a home has now become the primary mechanism for generating wealth. However, the FHA's conscious decision to channel loans away from the central city and to the suburbs has had a powerful effect on the creation of segregated housing in post–World War II America. George Lipsitz reports in "The Possessive Investment in Whiteness" that in the Los Angeles area of Boyle Heights, FHA appraisers denied home loans to prospective buyers because the neighborhood was "a melting pot area literally honeycombed with diverse and subversive elements."15 Official government policy supported the prejudiced attitudes of private finance companies, realtors, appraisers, and a white public resistant to sharing social space with blacks.

The FHA's official handbook even went so far as to provide a model "restrictive covenant" that would pass court scrutiny to prospective white
homebuyers. Such policies gave support to white neighborhoods like those in East Detroit in 1940. Concerned that blacks would move in, the Eastern Detroit Realty Association sponsored a luncheon on “the benefits of an improvement association” where the speaker, a lawyer, lectured on how “to effect legal restrictions against the influx of colored residents into white communities.” He went on to present the elements needed to institute a legally enforceable restrictive covenant for “a district of two miles square.” Such a task was too much for one man and would require an “organization” that could mobilize and gain the cooperation of “everyone in a subdivision.” Imagine the hurdles that are placed in the path of blacks’ attempts to move into white neighborhoods when communities, realtors, lawyers, and the federal government are all wholly united behind such restrictions!

Restrictive covenants and other “segregation makers” have been ruled unconstitutional in a number of important court cases. But the legacy of the FHA’s contribution to racial residential segregation lives on in the inability of blacks to incorporate themselves into integrated neighborhoods in which the equity and demand for their homes is maintained. This is seen most clearly in the fact that black middle-class homeowners end up with less valuable homes even when their incomes are similar to those of whites. When black middle-class families pursue the American Dream in white neighborhoods adjacent to existing black communities, a familiar process occurs. As one study explains it:

“White households will begin to move out and these neighborhoods will tend to undergo complete racial transition or to ‘tip.’ Typically, when the percentage of blacks in a neighborhood increases to a relatively small amount, 10 to 20 percent, white demand for housing in the neighborhood will fall off and the neighborhood will tip toward segregation.”

Even though the neighborhood initially has high market value generated by the black demand for houses, as the segregation process kicks in, housing values rise at a slower rate. By the end of the racial transition housing prices have declined as white homeowners flee. Thus middle-class blacks encounter lower rates of home appreciation than do similar middle-class whites in all-white communities. As Raymond Franklin notes in *Shadows of Race and Class*, this is an example of how race and class considerations are involved in producing black-white wealth differentials. The “shadow” of class creates a situation of race. To quote Franklin:

In sum, because there is a white fear of being inundated with lower-class black “hordes” who lack market capacities, it becomes necessary to prevent the entry of middle-class black families who have market capacities. In this way, middle-class blacks are discriminated against for purely racial reasons… Given the “uncertainty inherent in racial integration and racial transition,” white families—unwilling to risk falling property values—leave the area. This, of course, leads to falling prices, enabling poorer blacks to enter the neighborhood “until segregation becomes complete.”

The impact of race and class are also channeled through institutional mechanisms that help to destabilize black communities. Insurance redlining begins to make it difficult and/or expensive for homes and businesses to secure coverage. City services begin to decline, contributing to blight. As the community declines, it becomes the center for antisocial activities: drug dealing, hanging out, and robbery and violence. In this context the initial investment that the middle-class black family makes either stops growing or grows at a rate that is substantially lower than the rate at which a comparable investment made by a similarly well-off, middle-class white family in an all-white community would gain in value. Racialized state policy contributed to this pattern, and the pattern continues unabated today.

**AFDC**

Within the public mind and according to the current political debate, AFDC has become synonymous with “welfare,” even though it represents less than 10 percent of all assistance for the poor. The small sums paid to women and their children are designed not to provide families a springboard for their future but to help them survive in a minimal way from day to day. When the initial legislation for AFDC was passed, few of its supporters envisioned a program that would serve large numbers of African American women and their children; the ideal recipient, according to Michael Katz in *In the Shadow of the Poor House*, “was a white widow and her young children.” Until the mid-1960s states enforced this perception through the establishment of eligibility requirements that disproportionately excluded black women and their children. Southern states routinely deemed black women and their children as “unsuitable” for welfare by way of demeaning home inspections and searches. Northern states likewise created barriers that were directly targeted at black-female-headed families. They participated in “midnight raids” to discover whether a “man was in the house” or recomputed budgets to find clients ineligible and keep
them off the rolls. Nonetheless, by the mid-1960s minorities were disproportionately beneficiaries of AFDC, despite intentions to the contrary. In 1988 while blacks and Hispanics made up only 44 percent of all women who headed households, they constituted 55 percent of all AFDC recipients.21

In exchange for modest and sometimes meager levels of income support, women must go through an "assets test" before they are eligible. Michael Sherraden describes it this way in his Assets and the Poor:

The assets test requires that recipients have no more than minimal assets (usually $1,500, with home equity excluded) in order to become or remain eligible for the program. The asset test effectively prohibits recipients from accumulating savings.22

As a consequence, women enter welfare on the economic edge. They deplete almost all of their savings in order to become eligible for a program that will not provide more than a subsistence living. What little savings remain are usually drawn down to meet routine shortfalls and emergencies. The result is that AFDC has become for many women, especially African American women, a state-sponsored policy to encourage and maintain asset poverty.

To underscore the impact of AFDC's strictures let us draw the distinction between this program and Supplementary Security Income (SSI), a program that provides benefits for women and children whose spouses have died or become disabled after paying into social security. In contrast to AFDC benefits, SSI payments are generous. More important perhaps, eligibility for SSI does not require drawing down a family's assets as part of a "means test." The result, which is built into the structure of American welfare policy, is that "means tested" programs like AFDC and "non-means tested" social insurance programs like social security and SSI, in Michael Katz's words, have "preserved class distinctions" and "in no way redistribute income."23 It is also an example of how the racialization of the state preserves and broadens the already deep wealth divisions between black and white.

The Internal Revenue Code

A substantial portion of state expenditures take the form of tax benefits, or "fiscal welfare." These benefits are hidden in the tax code as taxes individuals do not have to pay because the government has decided to encourage certain types of activity and behavior and not others. In America: Who Really Pays the Taxes? Donald Barlett and James Steele write that one of the most cherished privileges of the very rich and powerful resides in their ability to influence the tax code for their own benefit by protecting capital assets. Tax advantages may come in the form of different rates on certain types of income, tax deferral, or deductions, exclusions, and credits. Many are asset-based: if you own certain assets, you receive a tax break. In turn, these tax breaks directly help people accumulate financial and real assets. They benefit not only the wealthy but the broad middle class of homeowners and pension holders as well. More important, since blacks have fewer assets to begin with, the effect of the tax code's "fiscal welfare" is to limit the flow of tax relief to blacks and to redirect it to those who already have assets. The seemingly race-neutral tax code thus generates a racial effect that deepens rather than equalizes the economic gulf between blacks and whites.

Two examples will illustrate how the current functioning of the tax code represents yet another form of the "racialization of state policy." The lower tax rates on capital gains and the deduction for home mortgages and real estate taxes, we argue, flow differentially to blacks and whites because of the fact that blacks generally have fewer and different types of assets than whites with similar incomes.

For most of our nation's tax history the Internal Revenue Code has encouraged private investment by offering lower tax rates for income gained through "capital assets." This policy exists to encourage investment and further asset accumulation, not to provide more spendable income. In 1994, earned income in the top bracket was taxed at 39.6 percent, for example, while capital gains were taxed at 24 percent, a figure that can go as low as 14 percent. One has to be networked with accountants, tax advisers, investors, partners, and friends knowledgeable about where to channel money to take advantage of these breaks. Capital gains may be derived from the sale of stocks, bonds, commodities, and other assets. In 1989 the IRS reported that $150.2 billion in capital gains income was reported by taxpayers.24 While this sounds like a lot of capital gains for everyone to divvy up, the lion's share (72 percent) went to individuals and families earning more than $100,000 yearly. These families represented only 1 percent of all tax filers. The remaining $32 billion in capital gains income was reported by only 7.2 million people with incomes of under $100,000 per year. This group represented only 6 percent of tax filers. Thus for more than nine of every ten tax filers (93 percent) no capital gains income was reported. Clearly then, the tax-reduction benefits on capital gains income are
highly concentrated among the nation's wealthiest individuals and families. Thus it would follow that blacks, given their lower incomes and fewer assets, would be much less likely than whites to gain the tax advantage associated with capital gains. The black disadvantage becomes most obvious when one compares middle-class and higher-income blacks to whites at a similar level of earnings. Despite comparable incomes, middle-class blacks have fewer of their wealth holdings in capital-producing assets than similarly situated whites. As we shall discuss in greater depth in chapter 5, our data show that among high-earning families ($50,000 a year or more) 17 percent of whites' assets are in stocks, bonds, and mortgages versus 5.4 percent for blacks. Thus while race-neutral in intent, the current tax policy on capital gains provides disproportionate benefits to high-income whites, while limiting a major tax benefit to practically all African Americans.

Accessible to a larger group of Americans are those tax deductions, exclusions, and deferrals that the IRS provides to homeowners. Four IRS-mandated benefits can flow from home ownership: (1) the home mortgage interest deduction; (2) the deduction for local real estate taxes; (3) the avoidance of taxes on the sale of a home when it is "rolled over" into another residence, and (4) the one-time permanent exclusion of up to $125,000 of profit on the sale of a home after the age of fifty-five. Put quite simply, since blacks are less likely to own homes, they are less likely to be able to take advantage of these benefits. Furthermore, since black homes are on average less expensive than white homes, blacks derive less benefit than whites when they do utilize these tax provisions. And finally, since most of the benefits in question here are available only when taxpayers itemize their deductions, there is a great deal of concern that many black taxpayers may not take advantage of the tax breaks they are eligible for because they file the short tax form. The stakes here are very high. The subsidy that goes to homeowners in the form of tax deductions for mortgage interest and property taxes alone comes to $54 billion, about $20 billion of which goes to the top 5 percent of taxpayers.

These examples illustrate how the U.S. tax code channels benefits and encourages property and capital asset accumulation differentially by race. They are but a few of several examples that could have been used. Tax provisions pertaining to inheritance, gift income, alimony payments, pensions and Keogh accounts, and property appreciation, along with the marriage tax and the child-care credits on their face are not color coded, yet they carry with them the potential to channel benefits away from most blacks and toward some whites. State policy has racialized the opportunities for the development of wealth, creating and sustaining the existing patterns of wealth inequality and extending them into the future.

Black Self-Employment: The Economic Detour

In American society one of the most celebrated paths to economic self-sufficiency, both in reality and in myth, has been self-employment. It is a risky undertaking that more often than not fails. But for many Americans the rewards of success associated with self-employment have been the key to economic success and wealth accumulation. Blacks have been portrayed in the sociological literature as the American ethnic group with the lowest rate and degree of success in using self-employment as a means of social mobility. The successful Japanese and Jewish experiences in self-employment, for example, have been used to demonstrate a range of supposed failings in the African American community. This form of invidious comparison projects a whole range of "positive" characteristics onto those who have been successful in self-employment while casting African Americans as socially deficient and constitutionally impaired when it comes to creating flourishing businesses. This same argument has been extended to newly arrived Cubans, Koreans, and Jamaicans. Ethnic comparisons that disadvantage blacks fail to adequately capture the harsh effects of the kind of hostility, unequaled in any other group, that African Americans have had to face in securing a foothold in self-employment. Racist state policy, Jim Crow segregation, discrimination, and violence have punctuated black entrepreneurial efforts of all kinds. Blacks have faced levels of hardship in their pursuit of self-employment that have never been experienced as fully by or applied as consistently to other ethnic groups, even other nonwhite ethnic groups.

The deficit model of the so-called black failure to successfully create self-employment needs to be amended. The stress placed by this model on the lack of a business tradition, the inexperience and lack of education that black business owners have often had, and the absence of racial solidarity among black consumers must be transcended. Instead we need to view the black experience in self-employment as one similar to that of other ethnic groups whose members have sometimes been encouraged by societal hostility to follow this
path to economic independence. The distinction is that black Americans have taken this path under circumstances inimical to their success.

As Max Weber pointed out in The Protestant Ethic and the Spirit of Capitalism, when groups face national oppression, one form of reaction is entrepreneurship. Immigrant groups like the Japanese in California and the Chinese in Mississippi responded to the societal hostility (e.g., discrimination) against them by immersing themselves in small business enterprises. But unlike blacks, as John Butler states in his Entrepreneurship and Self-Help Among Black Americans, “they were able to enter the open market and compete.” They faced few restrictions to commerce. They could penetrate as much of a market as their economic capacity and tolerance for risk could accommodate. They thus carved comfortable economic niches and were able to succeed, albeit on a moderate scale.

Blacks, by contrast, faced a much grimmer opportunity picture. Here is where the concept of the “economic detour” has relevance. With predispositions like those of immigrants to the idea of self-employment, blacks faced an environment where they were by law restricted from participation in business on the open market, especially from the postbellum period to the middle of the twentieth century. Explicit state and local policies restricted the rights and freedoms of blacks as economic agents. Many types of businesses were off-limits to them, and more important, they were restricted to all-black segregated markets. While whites and other ethnic groups could do business with blacks, whites, and whomever else they pleased, black business was prohibited from entering into any but all-black markets. This restriction had a devastating impact on the ability of blacks to build and maintain successful businesses. As Edna Bonacich and John Modell point out in The Economic Basis of Ethnic Solidarity with regard to the Japanese, this group’s greatest success occurred when they developed customer bases outside the Japanese community. When they were restricted to their own group, their economic success was not nearly as great. The African American experience in entrepreneurship re-creates this duality. As John Butler observes, “it is true throughout history, when Afro-American business enterprises developed a clientele outside their community, they were more likely to be successful.”

Barred from the most lucrative markets and attempting to provide high levels of goods and services under the constraints of segregation and discrimi-

nation, blacks remain the only group who have been required to take what Merah Stuart in 1940 first called an “economic detour.”

This [exclusion from the market] is not his preference. Yet it seems to be his only recourse. It is an economic detour which no other racial group in this country is required to travel. Any type of foreigner, Oriental or “what not,” can usually attract to his business a surviving degree of patronage of the native American. No matter that he may be fresh from foreign shores with no contribution to the national welfare of his credit; no matter that he sends every dollar of his American earned profit back to his foreign home ... yet he can find a welcome place on the economic broadway to America.

The African American, by contrast, despite “centuries of unrequited toil” in service to building this country, “must turn to a detour that leads he knows not where.” What he does know is that he must seek his customers or clients “from within his own race,” no matter the business. And in doing so, he must compete for those customers with others who simultaneously enjoy access to greater and more lucrative markets.

This policy created conditions in which blacks, again according to Stuart, “were forced into the role of consumer.” Self-employment became an important symbol of community empowerment. As M. S. Stuart goes on to suggest:

Seeking a way, therefore, to have a chance at the beneficial reaction of his spent dollars in the form of employment created; seeking a way to avoid buying insults and assure himself courtesy when he buys the necessities of life; seeking respect, the American Negro has been driven into an awkward, selfish corner, attempting to operate racial business to rear a stepchild economy.

The inability of blacks to compete in an open market has ensured low levels of black business development and has kept black businesses relatively small. Despite the obstacles they have faced, however, blacks have produced impressive results at various times in American history, even under conditions associated with the “economic detour.” Before slavery was abolished, free blacks, in both Southern and Northern cities, built successful enterprises that required substantial skill and ingenuity. The 1838 document entitled “A Register of Trades of Colored People in the City of Philadelphia and Districts” lists over five hundred persons in fifty-seven different occupations and a host of business owners in industries ranging from sailboat building to lumber, catering, and blacksmithing. Free blacks during Reconstruction, as Abram Harris’s classic The Negro as Capitalist points out, “had practically no compe-
Negroes has contributed to the development of an attitude that the Negro consumer is obligated, as a matter of racial loyalty, to trade with enterprises owned and operated by Negroes. 41

The overwhelming odds that black business owners faced render all the more resounding the victories that they were able to achieve. In Durham, North Carolina, blacks were able to develop what we would describe today as an "ethnic enclave." 42 Anchored by a major African American corporation, North Carolina Mutual Insurance Company, by 1949 over three hundred African American firms dotted the business section of Durham dubbed "Hayti." Owing to a combination of factors, African Americans in Durham managed to establish thriving businesses that served both the black and white markets: restaurants, tailor shops, groceries, and a huskery mill. Despite urban renewal in the 1960s, which destroyed over one hundred enterprises and six hundred homes, the enclave character of the "Hayti" district survives today. But this is a unique story. The other extreme is the experience of cities like Wilmington, North Carolina, and Tulsa, Oklahoma. Once home to flourishing black businesses that managed to provide decent livings for their proprietors and their families, these cities today retain no more than fleeting memories of a time long past, a time washed away from historical and contemporary memory by the deadliest obstacle of all to black business, organized violence.

What appear to have been vibrant middle-class business communities that served as the foundation of black life in both Wilmington and Tulsa were destroyed at the hands of white mobs. Black business success in these cities both threatened white business competitors and provoked the racial fears of poor whites. According to Leon Prather's We Have Taken a City, in Wilmington, "there was grumbling among the white professional classes" because... "black entrepreneurs, located conspicuously downtown, deprived white businessmen of legitimate sources of income to which they thought they were entitled." 43

Marking the nadir of black oppression, the Wilmington Riot of 1898 created an "economic diaspora" in which black businessmen were forced to steal away in the night, seeking refuge in the woods and subsequently dispersing to Northern and Southeastern cities. Prather evaluates the impact of the riot by noting that, "immediately after the massacres, white businesses moved in and filled the economic gaps left by the flight of the blacks. When the turbulence receded the integrated neighborhoods had disappeared." Prather concludes that this racial coup d'etat was largely forgotten in the annals of America but
notes that blacks kept the story alive, combining it with similar incidents in a collective narrative.

A similar “economic diaspora” was promulgated in Tulsa in 1921. Blacks in Tulsa developed their own business district within the boundaries of the economic downturn. John Butler recounts that the Greenwood district encompassed forty-one grocers and meat markets, thirty restaurants, fifteen physicians, five hotels, two theaters, and two newspapers. The black community also included many wealthy blacks who had invested in and profited from oil leases. Some five hundred blacks who owned small parcels of oil land resisted all offers and threats made by whites to sell these lands. “Every increase in the price of oil made the strife more bitter.” In early 1921 prominent blacks had been warned to leave Oklahoma or suffer the consequences. Fearing that a local black delivery boy was about to be lynched for allegedly attacking a white woman, the black community took up arms to ensure that the judicial process would be followed. In response to a spiral of rumors, whites organized, looted stores of arms, and invaded the Greenwood District. Blacks fought back but the violence did not stop with individual assaults. Stores were burned. Churches, schools, and newspapers that had been built by blacks also met the torch. When the destruction was over, eighteen thousand homes and enterprises were left in cinder, over four thousand blacks were left homeless, and three hundred people died (both black and white). As Butler understatedly reports: “what happened in Tulsa was more than a riot. It was also the destruction of the efforts of entrepreneurs and the end of the Greenwood business district.”

The Sedimentation of Racial Inequality

The disadvantaged status of contemporary African Americans cannot be divorced from the historical processes that undergird racial inequality. The past has a living effect on the present. We argue that the best indicator of this sedimentation of racial inequality is wealth. Wealth is one indicator of material disparity that captures the historical legacy of low wages, personal and organizational discrimination, and institutionalized racism. The low levels of wealth accumulation evidenced by current generations of black Americans best represent the position of blacks in the stratificational order of American society.

Each generation of blacks generally began life with few material assets and confronted a world that systematically thwarted any attempts to economically better their lives. In addition to the barriers that we have just described in connection with the racialization of state policy and the economic detour, blacks also faced other major obstacles in their quest for economic security. In the South, for example, as W.E.B. Du Bois notes in Black Reconstruction in America, blacks were tied to a system of peonage that kept them in debt virtually from cradle to grave. Schooling was segregated and uniquely funded. Blacks in the smokestack industries of the North and the South were paid less and assigned to unskilled and dirty jobs. The result was that generation after generation of blacks remained anchored to the lowest economic status in American society. The effect of this “generation after generation” of poverty and economic scarcity for the accumulation of wealth has been to “sediment” this kind of inequality into the social structure.

The sedimentation of inequality occurred because blacks had barriers thrown up against them in their quest for material self-sufficiency. Whites in general, but well-off whites in particular, were able to amass assets and use their secure economic status to pass their wealth from generation to generation. 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.” Practically every circumstance of bias and discrimination against blacks has produced a circumstance and opportunity of positive gain for whites. When black workers were paid less than white workers, white workers gained a benefit; when black businesses were confined to the segregated black market, white businesses received the benefit of diminished competition; when FHA policies denied loans to blacks, whites were the beneficiaries of the spectacular growth of good housing and housing equity in the suburbs. The cumulative effect of such a process has been to sediment blacks at the bottom of the social hierarchy and to artificially raise the relative position of some whites in society.

To understand the sedimentation of racial inequality, particularly with respect to wealth, is to acknowledge the way in which structural disadvantages have been layered one upon the other to produce black disadvantage and white privilege. Returning again to the Federal Housing Act of 1934, we may recall that the federal government placed its credit behind private loans to homebuyers, thus putting home ownership within the reach of millions of citizens for the first time. White homeowners who had taken advantage of FHA financing
policies saw the value of their homes increase dramatically, especially during the 1970s when housing prices tripled. As previously noted, the same FHA policies excluded blacks and segregated them into all-black areas that either were destroyed during urban renewal in the sixties or benefited only marginally from the inflation of the 1970s. Those who were locked out of the housing market by FHA policies and who later sought to become first-time homebuyers faced rising housing costs that curtailed their ability to purchase the kind of home they desired. The postwar generation of whites whose parents gained a foothold in the housing market through the FHA will harvest a bounteous inheritance in the years to come. Thus the process of asset accumulation that began in the 1930s has become layered over and over by social and economic trends that magnify inequality over time and across generations.

Studying Wealth

Studying Wealth and Racial Inequality

As we argued in chapter 1, a thorough analysis of economic well-being and racial equality must include a wealth dimension. A lack of systematic data on wealth accumulation, however, partly explains the generality of such an analysis until now. The data best suited to inform our study are of different sorts: a large representative sample and in-depth interviews to examine the importance of wealth to the average American family, to investigate racial wealth differences thoroughly we must have access to a representative sample of households that mirrors the American population.

After exploring a large quantitative database, we concluded that survey analysis is absolutely necessary to any attempt to answer the questions we were asking, it nevertheless fails to capture the experiential dimension of the social processes we sought to understand and describe. Anecdotal and very different sort of evidence was needed to complement the survey findings: specifically, targeted, purposeful, in-depth interviews of a range of black and white families. Interviews were conducted in Boston and Los Angeles focusing on how assets were generated.