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The wealth-gap machine (transcript)

The Center for Public Integrity : 23-30 minutes : 3/15/2022

Reading Time: 15 minutes

[Sounds of people saying "hello"]

JAMIE SMITH HOPKINS, HOST: ReShonda Young and I are in the Black Hawk County recorder's office.

COUNTY RECORDER SANDIE SMITH: Sorry, what did you say? It was miscellaneous book ...?

JAMIE SMITH HOPKINS: Miscellaneous records.

COUNTY RECORDER SANDIE SMITH: OK!

[Sounds of faint talking and movement continue]

It's on the second floor of the county courthouse, a big, rectangular building with rows of identical square windows.

The office is full of enormous, leather-bound books. They hold all kinds of records from Waterloo's history — birth certificates, marriage licenses and property records.

We open a red book labeled "miscellaneous" records and turn to an old restriction on the deed for ReShonda's house. It's three pages long, and it's the first time ReShonda's seeing this document.

RESHONDA YOUNG: This is put on the first day of May in 1945. So 22 days before my mother was born, this covenant, restrictive covenant was put on my house.

"No such tract shall be used or occupied by persons of any race other than the Caucasian race, except that domestic servants of races other than the Caucasian race may be employed by and domiciled with owners or tenants."

HOST: It's a restrictive covenant banning anyone other than white people from moving into the property.

Restrictive covenants were common starting in the early 20th century — they were a way of ensuring that neighborhoods were segregated.

The U.S. government encouraged them. The Federal Housing Administration said they would "provide the surest protection against undesirable encroachment" ... as in, having Black neighbors.

This covenant was signed by people who lived in the neighborhood.

RESHONDA YOUNG: Oh, there's lots of signatures.

JAMIE SMITH HOPKINS: 18 pages.

RESHONDA YOUNG: Unbelievable. And then, let's see ... they're not all full. But [counting softly] 1,2,3,4,5,6 ...

JAMIE SMITH HOPKINS: It ranges from like a half page to a full page.

RESHONDA YOUNG: So there's 36 lines and they're not all full, but I mean, even if you had 20 signatures on average on a page, that's 360 signatures. ... And so, I mean, that would be pretty much every single person in the neighborhood signing ... which is incredible, that you could get that much consensus around this.

HOST: ReShonda recognizes a few names — they're from the Rath family. The Raths were really important in Waterloo for decades. They owned a meatpacking company in

town and employed thousands of people.

RESHONDA YOUNG: I think of all of the Black people that they had working for them, but they weren't good enough to live near them.

HOST: The courts upheld these covenants for decades and even ordered Black families out of houses they owned. In 1948, the Supreme Court said that had to stop: Courts could no longer enforce the agreements.

But it wasn't until the late '60s that restrictive covenants themselves were finally outlawed.

RESHONDA YOUNG (over the soft background sounds of office work, a copying machine): I mean, there was intention and concerted effort put forth to make sure that non-whites were kept out of more desirable places, but even seeing this and then knowing what things are like today it's like, change may be slow, but it should not be *this* slow. [Sad laugh] Oh my gosh.

HOST: This document and all the history it holds is why it's hard for ReShonda to open a bank in Waterloo.

It's part of the wealth gap's roots here.

I'm Jamie Smith Hopkins. From the Center for Public Integrity and Transmitter Media, this is The Heist.

The wealth gap is a *national* heist, a theft carried out through centuries of deliberate exclusion and discrimination.

You can see it across the country: in documents like restrictive covenants tucked away at county offices. In segregated cities like Waterloo. In the vastly different homeownership rates for Black and white Americans. And in the challenges ReShonda is facing raising funds to open a Black-owned bank.

You can boil all this history down to a single statistic: \$11 trillion. That's the estimated size of the wealth gap.

The wealth gap is a machine. It's manmade, built and fueled by the U.S. government and helped along by other powerful institutions like banks.

Once this machine got going, it was self-perpetuating, *stomping* its way through U.S. history.

And as ReShonda tries to fight the wealth gap, the wealth gap fights back ... with all this history and momentum behind it.

[BREAK]

HOST: When I went to meet ReShonda in person, we stood together on her front lawn and she told me about her neighborhood. She said she used to walk through Highland when she was a kid.

She dreamed about living in this little pocket of the east side.

RESHONDA YOUNG: This neighborhood when it was built: mostly doctors, lawyers, big business owners in town. They're the ones who lived in these homes.

HOST: Families like the Rathes lived here.

RESHONDA YOUNG: As more and more people started to move in, became more diverse, more and more of the wealthy families started to move away ... probably in the early/mid-1980s. And then it became a much more integrated neighborhood in the years after that.

HOST: ReShonda says today the neighborhood is a pretty even mix of Black and white families.

The houses are beautiful and surrounded by tall trees. They're not cookie-cutter homes — each has its own character and style: colonial, Tudor, Cape Cod. Some are brick or stone, others are wood or stucco.

ReShonda loves her neighborhood.

RESHONDA YOUNG: Such a fun, neighborly environment. And you don't feel the racial tension here that you sometimes feel in other areas, you know. And with the first duplex that I purchased, which was on the other side of town, ... people, they were cordial, but I was always conscious of, "OK, yeah, all right, yep," reminded I am the Black girl in the neighborhood. Like not really all that warm and welcoming, but, you know, it was OK. But here you don't feel *any* of that.

HOST: She bought her house here in 2013, and she's really made it her own. It was built in the early 1900s, and you can feel it. There are dark wooden beams and ornate woodwork.

RESHONDA YOUNG: The kitchen is probably my *favorite* place in the house.

HOST: There are lots of cooking utensils, squash and eggplants and apples from her garden, a big freezer, and sayings on the wall that speak to her faith.

RESHONDA YOUNG: The first one is, "For the Lord is good. His love endures forever," which is Psalms 105. And then the second is just a little wall ornament thing that one of my former teenage employees had given to me, and it says, "The will of God will not take you where the grace of God will not protect you."

HOST: This house is just a few minutes away from where she grew up. Unlike many Black families ReShonda knew, her family owned their house.

RESHONDA YOUNG: My mom and her side of the family grew up in Mississippi during the Jim Crow South era. Moved to Iowa, Waterloo in particular, in 1965, and, you know, coming here with nothing.

One of the things that I was really impressed about with my grandparents was that they rented for a little while ... and then purchased a home. ... So they didn't have much at all, but they made sure that what they had was theirs.

And so then with my mom and her siblings, like everyone's a homeowner. ... It's been something that I know in terms of my mom has been a really big deal for her. She just wants to make sure that something is passed down to me.

HOST: In the U.S, homeownership — like owning a small business — is one of the pillars of building wealth and passing it down. It's often the largest asset a family has.

You buy a house, you maintain it, maybe improve it. As the value of the house grows and you pay down your mortgage, the asset becomes more and more valuable. And you grow your wealth.

Restrictive covenants are one way Black families were held back from building wealth. Redlining was another.

In the 1930s, a federal agency — with help from banks — created color-coded maps marking the "riskiness" of home lending in a neighborhood. Red meant high risk. Green or blue meant low risk.

One of the ways these maps defined "risk"?

Black residents.

Before I got to Waterloo, I spent a lot of time looking at *its* old redlining map. I zoomed in on one "high risk" pocket and saw this blunt explanation for a "hazardous" rating — "this is the colored section."

Redlining played out a little differently in cities across the country, but here's how it probably worked in Waterloo:

If a Black family living in that so-called high risk part of town went to a bank and tried to get a mortgage, they'd likely be denied.

Some families got loans from private individuals instead. And the terms might have been worse than what a white family would get from a bank.

If a Black family crossed over the Cedar River and tried to buy a house in a white neighborhood labeled low risk, they'd probably *still* be denied a mortgage. The Federal Housing Administration based its policies on the racist assumption that if Black people moved into a neighborhood, property values would go down — and white residents' home loans would become "risky" too.

Banks were helping *enforce* segregation.

You can still see how that's shaped Waterloo.

ReShonda's neighborhood is in a little section of east Waterloo that was labeled low risk during redlining. So we got into her car and drove to another part of the east side ...

RESHONDA (over the sound of driving, turn signal): This is the television station area. And ... so, East Fourth Street: So this pretty much, like the Walnut neighborhood, which is straight ahead, which is like the poorest neighborhood in the whole Cedar Valley, this would be like the area that Blacks were redlined into, starting through here. ... So this is where pretty much every Black person you knew when I was growing up lived around or close to this area.

HOST: Then we drove across the river to the west side of town, to one of Waterloo's most expensive neighborhoods. And honestly, the homes didn't look very different from the ones on ReShonda's street. But ...

RESHONDA: The *prices*, oh my gosh. So in our neighborhood there's, I mean, most houses would be in the \$100-something-thousand. You're going to get a couple that are going to sell for \$200-and-something. But over *here*, you're talking about, like, really not much is going to be for less than \$200,000. ...

Like, I purchased my house in 2013 for \$100,000 flat. ... But the value is just not going to go up the way that houses on this side of town are. It's just not going to happen. ... So, they're able to create wealth a lot faster because their home values are going up so much faster.

HOST: A family that bought a house here in the 1930s watched its value grow and grow. That's wealth they could pass down to the next generation, which could then pass down even more.

But if a Black family was able to buy a home on the east side, like ReShonda's did, its value probably hasn't grown as much. Since the days of redlining, homes in Black neighborhoods have been undervalued — they still are.

So when Black families were able to buy homes, they weren't building and passing on as much wealth as white families.

In Waterloo, the percentage of Black families who own a home has actually gone down since the '50s — by a lot. Today, around 32 percent of Black people in Waterloo own a home, compared to 68 percent of white residents.

And while it's illegal for banks to discriminate like they used to, ReShonda says she's heard from many Black residents who were denied home loans, even when they had a good income and a good credit score and savings.

I wanted to understand more about how the wealth gap got started.

WILLIAM DARITY: I'm William Darity, known by many as Sandy. And I am the Samuel DuBois Cook professor of public policy, African and African American studies, economics and business at Duke University.

HOST: I reached out to Dr. Darity because he's spent more than 30 years researching the wealth gap, looking at this powerful machine, piece by piece, and figuring out how those pieces fit together.

He says the U.S. government engineered this machine and gave it big boosts of energy, helping white families build their assets while making it difficult or impossible for Black families to do the same.

Dr. Darity makes his case like a prosecutor. He starts at one moment, after the Civil War, when people who were formerly enslaved were promised 40 acres of land. But only about 1% of eligible people got anything ...

WILLIAM DARITY: ... before President Andrew Johnson shuttled the entire land reform effort and restored that 400,000 acres to the former slaveholders. At the same time, the federal government had introduced the Homestead Act of 1862, which provided 160-acre land grants to upwards of one and a half million white families in the United States. A stunning foundation in terms of an opportunity to accumulate wealth. And this is how the nation settled the Western territories that had been taken from the Native populations. ...

So that's the beginning of the racial wealth gap, and it's policy driven: The government provides land to white families and doesn't do so for Black families.

HOST: For decades afterward, the U.S. government also allowed wealth to be stolen from Black families and communities — often violently.

WILLIAM DARITY: There was a wave of upwards of a hundred massacres that took place across the country ... and these massacres involved not only massive loss of Black lives, but also the appropriation and seizure of Black-owned property by the terrorists — and the federal government did not intervene. It did not prevent this from happening. It did not provide any form of compensation to the victims. And in some instances, there was actual federal complicity from the standpoint of the provision of the arms that were used by the white mobs.

HOST: The 1921 Tulsa Race Massacre is one of the most significant examples. White mobs looted and burned a thriving Black business district and neighborhood — and murdered as many as 300 people. In the years after the massacre, the neighborhood was redlined.

During and after the Great Depression, the U.S. government was feverishly passing legislation, launching huge national efforts to help families build wealth.

The Federal Housing Administration and the G.I. Bill made it easier and cheaper for white Americans to buy a home. To grow their assets.

But the Federal Housing Administration excluded Black Americans. And the G.I. Bill left it up to banks to decide who got home loans. Black veterans, who had just risked their lives fighting in World War II, were often denied mortgages, effectively blocking them from the GI Bill's massive homeownership program.

WILLIAM DARITY: And federal support for homeownership was critical in building what we now refer to as the new middle class. But it was a middle class that was almost exclusively white as a consequence of the discrimination that was exercised in the provision of these homeownership subsidies.

JAMIE SMITH HOPKINS: What you're describing is a situation where it just keeps compounding, multiple policies over multiple decades, over and over and over. Correct?

WILLIAM DARITY: It's a cumulative array of policies that have had effects across generations. So it's multi-generational deprivation of wealth.

HOST: Once the wealth gap machine was built and the gears started turning, it was pretty much self-perpetuating.

People who had been given opportunities to grow their wealth could keep multiplying it. Profit from selling property or a home became money to put into the stock market or to start a business.

And the people who had been kept out of growing wealth kept getting shut out.

Even if you work hard or have a good income, so much American wealth comes from what's inherited, from assets that have built up over generations. Wealth that's been denied to generations of Black families.

How do you fix it?

How do you shut down a machine powered by centuries of calculated exclusion?

[BREAK]

HOST: Black-owned banks have often been proposed as a solution to the wealth gap. They've been promoted by Martin Luther King Jr., Richard Nixon, Marcus Garvey, Malcolm X, Jimmy Carter, Alan Greenspan and Barack Obama.

But in the grand scheme of the U.S. banking system, the Black banking sector is *tiny*.

WILLIAM DARITY: They have a combined set of assets that are less than \$5 billion. JPMorgan Chase has \$3 *trillion* in assets. The 250th-ranked white-owned bank, Bryn Mawr Bank, actually has a higher level of assets than all ... of the Black-owned banks combined.

HOST: And these banks face the same logic of wealth that families face. You need wealth to create wealth. If you don't have it, you're stuck trying, and often failing, to get it.

The banks themselves are often undercapitalized, which means they have fewer resources to weather storms like a recession.

WILLIAM DARITY: We're accustomed to thinking that the banks would be a vehicle for building wealth in the Black community. I think we have to think about it the other way around. That if we had an initial, more substantial base of wealth in the Black community, then we would have a more successful apparatus of Black-owned banks. And *then* they might be in a position to contribute to further growth in Black wealth.

HOST: This is exactly why it's hard for ReShonda to open a Black-owned bank.

She's trying to raise at least \$10 million. When we visited in September 2021, she was just 5% of the way there.

And even if she can get all the money she needs, Dr. Darity says the wealth gap is just so enormous, so gaping, that even a large, well-capitalized network of Black banks couldn't close it.

WILLIAM DARITY: It would require approximately a minimum of \$11 trillion. ... And that would require a reparations program.

HOST: By reparations, Dr. Darity means direct payments from the federal government to descendants of enslaved people who identify as Black or African American.

He says it's the only way to make up for generations of being held back. It's how to help Black families get to where white families are on the wealth racetrack.

WILLIAM DARITY: These atrocities took place under conditions in which they were completely *legal*, even if they were immoral. ...

The federal government is responsible for the policies that produced the racial wealth gap. ... The antidote has to be federal policy as well, but federal policy that builds Black asset levels to levels that are comparable to the level of assets that are currently held by white households.

HOST: If there were more wealth on Waterloo's east side, ReShonda's bank would have more capital to give more loans, to build more wealth, which would create even more capital for her bank, which would build even more wealth in the community.

The U.S. government has never attempted to close the wealth gap.

In 1968, just after ReShonda's family moved from Mississippi to Waterloo, the government passed the Fair Housing Act, which prohibited racial discrimination in home sales and rentals.

But Dr. Darity says there's a difference between making it illegal to discriminate and actually helping Black families who were *harmed* by that discrimination to grow their assets.

WILLIAM DARTY: From the 1960s on, the federal government has not actually supported any new asset-building initiatives on the scale of what was attempted under the Homestead Act or on the scale of what was attempted via the Federal Housing Administration or the G.I. Bill. In fact, what the federal government has done is primarily focused on policies that supplement income. The only major asset-building initiatives have been built into the tax structure and have largely benefited people who already are wealthy.

JAMIE SMITH HOPKINS: What you're describing is that, right at the point where the country said, "OK, we're not going to discriminate on the basis of race anymore," at least in terms of the laws that were being passed, is when the country stopped doing this.

WILLIAM DARTY: Asset building, yep.

JAMIE SMITH HOPKINS: Yes.

WILLIAM DARTY: I think that's right. ... We have never attempted to offset the adverse effects of the policies that created the racial wealth gap. ... As a consequence, the nation has simply perpetuated these types of disparities and they were aggravated in large measure because there's been an enormous run-up in the value of financial assets. ...

And so as a consequence, individuals who were already in the world of financial assets, because they had sufficient wealth to get into those types of assets, have seen an enormous growth in their wealth.

HOST: The wealth gap between Black and white families today is no better than it was in the early 1960s.

It's actually larger.

And there's never been a New Deal — or some other kind of sweeping legislation — to fix it.

Dr. Darity says reparations are a way of doing that — of finally, at a national scale, giving Black Americans the wealth they've been systematically denied.

WILLIAM DARTY: I've long wondered what the United States would look like today if the formerly enslaved had been given the 40 acres. ...

What would happen in the future if Black Americans had an equal wealth position with white Americans? I think it would open the doors for a flowering of Black creativity and contributions to American society that have been shunted or blocked as a consequence of economic deprivation.

HOST: If you increase wealth in the Black community, there's more money flowing through the entire economy. Money to spend at local businesses and to buy homes and to hire contractors and landscapers to keep improving those homes. And money to put into the stock market. And money to create jobs. And money to spend on college tuition.

Dr. Darity says everyone benefits.

RESHONDA YOUNG: Do I think that reparations are needed? I absolutely do. You know, I look at, even with my mom and her siblings or my stepdad or my dad, and them growing up as kids working in cotton fields and, you know, working from seven, eight years old, out in the fields, not able to start school on time. ...

And these are people who are still *living*. You know, it's not like, "Oh, that happened 400 years ago. Why are you guys still crying about that?"

It's like, no, no. My parents saw so many of these things firsthand, you know, hangings in trees and all that stuff. It's like, or in the cotton fields where they're spraying the crops and they have to lay down and DDT is sprayed over them. And it's, I mean, it's a wonder that she's even still alive today.

JAMIE SMITH HOPKINS: Do you feel like there's a conversation, any conversations like that happening in Iowa or is this really about getting the federal government to do something?

RESHONDA YOUNG: Ultimately, it's something that I think the federal government needs to lead because it's sins of the nation, and the nation needs to address them.

HOST: For more than three decades, elected officials have tried to get Congress to consider reparations.

There's a lot of resistance.

It wasn't until 2021 that the House of Representatives managed to even get a bill out of committee to *study* reparations.

So ReShonda isn't waiting around. For years, she's seen banks perpetuating the wealth gap. And she's trying to open a bank that won't do that, a bank that will fight against the wealth gap.

Throw a wrench into its grinding gears.

At least in Waterloo.

And that means somehow finding enough money to make her bank happen.

Next week, on the final episode of the season, ReShonda gets a sign.

RESHONDA YOUNG: So it was just confirmation that I was walking a path with somebody I could trust and a vision that, you know, aligned, and knowing that our connection is a godly connection.

HOST: And she faces some new challenges.

[CREDITS]

This season of the Heist is hosted by me, Jamie Smith Hopkins, and brought to you by the Center for Public Integrity and Transmitter Media.

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