Black households never recovered from the Great Recession, a UW-Madison report on racial wealth gaps suggests

A new report is highlighting how much the Great Recession widened racial wealth gaps, particularly on the basis of income and homeownership.

“Racial Disparities in Household Wealth Following the Great Recession,” authored by University of North Carolina at Chapel Hill professor Fenaba R. Addo and Duke University Professor William A. Darity Jr., found that Black and Latino households continue to lag behind white households in wealth and income statistics.

The report was published this month through the University of Wisconsin-Madison’s Institute for Research on Poverty and used Survey on Consumer Finances data to come to its conclusions.

Here are some of the key findings:

- For households in the bottom 20% of income distribution, white households held a median average of $26,340 in assets compared with $1,900 in the assets of Black families.
- By 2019, white working-class households had nearly triple the median wealth of Black professional-class households (and almost six times the wealth of Black working-class households).
- Black heads of household with a college degree, on average, have only two-thirds of the net worth of white heads of household who never finished high school.
- Prior to the recession, the net worth of white households was eight times that of Black households. Following the “recovery” period, the net worth of white households was 10 times the net worth of Black households.

The report's authors provided several reasons for the gaps, but crucial themes that emerged were the differences in income, debt accrued and access to credit.

For example, the report noted significant differences in income, despite the fact that the number of Black professionals increased by 5 percentage points from 2010 to 2019 while the percentage of white professionals stayed the same.

Tim Smeeding, a distinguished economics and public policy professor at UW-Madison, is part of a National Academy of Sciences endeavor to study income, wealth and consumption statistics for policy and research purposes. He attributed part of the gap between working-class white households’ wealth and Black professionals’ household wealth to the differences in the way Black and white graduates take on college debt.
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Part of the reason young Black professionals are less likely to be doing well is because they had to go into debt to finance their college education," he explained. “They were less likely to have their college paid for by parents and grandparents.”

Working white households, he said, are more likely to receive financial help from family and less likely to be jailed or imprisoned for criminal offenses.

Criminal justice involvement, disproportionately experienced by Black males, leads to another type of debt: legal debt and the fees associated with restitution payments, court costs or even unpaid child support while a person is behind bars.

Another primary reason for the gap is fallout from the housing crash. The targeting of Black and Latino households for subprime mortgages led to a disproportionate loss of homeownership, which remains one of the nation’s major drivers of wealth.

Smeeding noted that although homeownership rates among white, and to a smaller extent Latino, households rebounded following the Great Recession, Black households have never recovered from that decline in homeownership.

Historically, the denial of VA loans, exclusion from higher-paying jobs and practices such as redlining and inequitable home appraisals meant many Black households were already several generations behind in wealth accumulation before the Great Recession.

To be thinking about homeownership, you’re going to need a decent credit rating, some sort of a job history and you can’t have a lot of debt,” he said. “If you’ve got student loan debt, which you have to repay and this is your first good job, you’re much less likely to get well-rated, and it will be more expensive to buy a home.”

“If they gave you a subsidy for your first home, that would make a big difference in a city like Milwaukee,” Smeeding said, referring to the $15,000 First-Time Homebuyer Act proposed by the Biden Administration, but not yet passed. “It’s not that the homes are so expensive, it’s that incomes are so low and credit ratings are so shaky."

Finally, Addo and Darity noted that generational wealth transfers have widened the gap with white households — from the working class to more affluent classes — are more likely to receive family financial gifts and inherit real estate, cash, investments and other assets.

Retirement savings, which represents one of the most common sources of inheritance and help for other family members, is sorely lacking among Black households, who often rely on Social Security pensions and meager — if any — savings after leaving the workforce.

Relative to white households, Black households’ lower income, lack of homeownership and credit access, high likelihood to incur various types of debt, and dearth of retirement savings have made closing the racial wealth gap extremely difficult.

The coronavirus pandemic, the report estimated, will only exacerbate the gaps, despite a more concerted focus on racial equity in recent years.

Even with some of the economic relief and child allowance payments distributed during the pandemic, Smeeding noted that the loss of Black-owned businesses, massive layoffs...
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To Black and Latino workers and inflation in the housing sector are likely to perpetuate the gap.

“While you may find a short-term increase in consumer debt or bills owed, the recovery generally strengthened the well-to-do and weakened the wealth position of those in the lower or middle-income distribution.”

Talis Shelbourne is an investigative solutions reporter covering the issues of affordable housing and lead poisoning. Have a tip? You can reach Talis at (414) 403-8651 or tshelbourn@jrn.com. Follow her on Twitter at @talisseer and message her on Facebook at @talisseer.

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