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Wealth Inequality in Black and White: Cultural and Structural Sources of the Racial Wealth Gap

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Abstract Using data from the 2013 Survey of Consumer Finances, this research examines competing and complementary cultural and structural explanations of the sources of racial differences in wealth. We use OLS regression and quantile regression to identify the major individual-level sources of wealth differences between African Americans and whites. Whites have more favorable wealth characteristics than do African Americans on all of the variables in the analysis: gender of household head, bankruptcies, spending patterns, stock ownership, business ownership, home ownership, inheritance, educational attainment, income, occupation, age, and number of children. Cultural factors, having a female-headed family, spending patterns, and inheritance account for little of the racial wealth gap. Racial differences in income, stock ownership, and business ownership account for much of the explained racial wealth gap. Moreover, compared with whites, African Americans receive significantly lower wealth returns to education, age, income, stock ownership, and business ownership. We discuss the implications of our findings.

Keywords Racial inequality · Wealth inequality · Racial wealth gap · Net worth and race

Several studies have documented racial and ethnic differences in wealth ownership (Parcel 1982; Horton 1992; Oliver and Shapiro 2006; Lewin-Epstein et al. 1997; Conley 1999; Keister 2000a, b; Avery and Rendall 2002; Shapiro 2004; Semyonov and Lewin-Epstein 2011, 2013). Although researchers agree that there are extreme and persistent racial differences in wealth, the reality of the ever-increasing wealth gap in the USA has spawned scholarly debates about the root causes of this phenomenon (e.g., Massey and Denton 1993; Oliver and Shapiro 1995; Conley 1999; Keister and Moller 2000; Shapiro et al. 2013; Sullivan et al. 2015). Indeed, there are now competing explanations in the "race-class" debate concerning wealth accumulation and inequality. Some scholars have taken the view that racial differences in wealth are primarily the result of differences in cultural and behavioral factors such as familial patterns, amounts of self-control, willingness to delay gratification, and investment and consumption patterns (e.g., Lewis 1963; Wilson 1987; Brimmer 1988; Keister and Moller 2000; Lawrence 1991; Altonji and Doraszelski 2005; Charles et al. 2009). Others focus on historical and contemporary structural factors and unequal ownership opportunities as the primary determinants of black–white wealth inequality (e.g., Oliver and Shapiro 1995; Conley 1999, 2001; Neckerman and Torche 2007; Sullivan et al. 2015).

Competing and complementary theories identify several factors that may help account for racial differences in wealth in the USA. This paper provides an examination of several social science theories that seek to explain racial disparities in wealth. Using data from the 2013 Survey of Consumer Finances, it looks at the relative contribution of contemporary cultural factors (e.g., family structure and spending patterns), structural factors (e.g., housing ownership and business ownership), human capital (e.g., educational attainment), and investment decisions (e.g., ownership of stocks). Guided by these social science explanations of racial wealth inequality, we use nationally

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representative data from the 2013 Survey of Consumer Finances to carry out regression analysis to identify the major individual-level sources of wealth differences between African Americans and whites. We attempt to show which factors identified by the cultural and behavioral literature, the literature that focuses on structural and unequal ownership opportunities, as well as those that identify other sociodemographic and human capital variables operate differently for African Americans and whites. Below, we provide a brief overview of those literatures.

Review of the Literature

Cultural and Behavioral Explanations of the Racial Wealth Gap

Cultural and behavioral explanations of the racial wealth gap often argue that wealth differentials result from one or more cultural traits of African Americans. The emphasis is on family arrangements, attitudes, and values rather than social structure, although the two types of factors are often linked together in these models. Scholars in this tradition argue that racial wealth inequality is the result of differences in cultural factors such as lack of self-control, the unwillingness to delay gratification, and problematic consumption patterns (e.g., Lewis 1963; Galenson 1972; Wilson 1987; Brimmer 1988; Lawrence 1991; Szydlik 2004). The “culture of poverty thesis,” for example, argues that the lack of wealth (i.e., poverty) is caused by cultural and behavioral practices that are antithetical to wealth accumulation (Frazier 1957; Lewis 1963; Banfield 1974; Brimmer 1988; Charles et al. 2009). Cultural explanations of economic inequality also often view the lack of wealth as a result of cultural pathology. Frazier (1957), for example, attempted to explain why seemingly affluent African Americans continued to lag behind whites. He argued that affluent African Americans—who he dubbed the black bourgeoisie—developed a serious inferiority complex due to their continued exposure to white racism and ideology. He contended that the black bourgeoisie lived in a world of make believe that insulated them from their internalized realization that they were inferior to whites in the market place and in society overall. This world of make believe included extreme partying, gambling, sex, and lavish spending on such things as houses, cars, and clothes. These behaviors masked the reality that they had less wealth and access to the polity than they deserved. These behavioral patterns supposedly also stunted the economic prosperity of African Americans in the middle class. Frazier (1957) further characterized African Americans as conspicuous consumers who engaged in excessive spending on frivolous items. Frazier (1957) ultimately argued that economic and other types of inequality were a result of middle-class African Americans’ pathological behavior and self-hating desire to be white.

There are more recent explanations of the racial wealth gap that also focus on problematic conspicuous consumption and lavish spending by African Americans (Charles et al. 2009). Under the conspicuous consumption thesis, individuals will purchase goods and services that are not needed. This will result in a lack of financial assets. This argument is used to help explain the wealth gap between African Americans and whites by asserting that African Americans spend their money frivolously and fail to invest in income-generating assets (Brimmer 1988). While consumption patterns are not enough to account for the wealth gap between blacks and whites (Hamilton and Darity 2010), it is still important to examine such factors as contributors to the racial wealth gap.

Another kind of cultural theory of racial wealth disparities focuses on racial differences in family structure and family background (Wilson 1987; Keister 2004). Keister (2004) suggests that racial differences in family structure are important to explaining the black–white wealth gap. One of her central claims is that family structure and family background are important determinants of wealth. Moreover, because family structures differ by race in the USA, racial disparities in adult wealth accumulation are a function of dissimilarities in family type and resources. Moreover, Keister (2004) argues that female-headed households are disadvantaged compared to two-parent (i.e., husband wife coupled) households because women continue to work in segregated labor markets, earn less than men, and have more difficulty securing resources that translate into income-generating assets. She shows that married couples have more wealth than do other households. Similarly, Wilson (1987) argues that the female-headed household is one factor related to poverty. Other scholars also support the claim that married couples are more likely to own homes, have higher housing values, and have greater wealth compared with other family types. Married couples have distinct advantages in wealth accumulation over other family types because they have the potential for dual earners. However, there is also a distinct gender dynamic that occurs. African American women, in particular, have especially low amounts of wealth (Brown 2012). Even when there is only one earner in the married family, these households earn more than female-headed households. Yet, when married couples send the wife into the workforce, their wealth lags behind those families that send only the husband into the workforce. This is directly related to gender inequality in the labor market.

In short, cultural and behavioral explanations of racial differences in wealth have in common the idea that African Americans do worse than white Americans because of some cultural deficiency or shortcoming among African Americans. These explanations place far less emphasis on structural and opportunity-related factors that might account for racial differences in wealth.

Structural and Unequal Ownership Opportunity Explanations of the Racial Wealth Gap

In contrast to the view that African Americans' pathological behaviors as the major contributing factors to economic inequality, proponents of structural and unequal ownership opportunity explanations point to discriminatory practices and racialized policies in labor markets, housing markets, and credit markets as key sources of racial wealth disparities. Such discriminatory practices and policies have created generational consequences that continue to impact African Americans today (e.g., inherited poverty). Historically, whites have been more able than African Americans to secure wealth in the form of businesses, homes, and stocks because of governmental policies that favored whites. African Americans were, by and large, denied the opportunity to acquire and pass down accumulated wealth until the 1960s.

Lower wages and incomes are also related to the wealth gap between whites and African Americans (Conley 1999). These lower wages and incomes are, in part, products of labor market discrimination and unequal returns to human capital characteristics such as education. Moreover, such discrimination in labor markets accumulates over the life course (Thomas et al. 1994). "Blacks have had much less opportunity than whites to earn, save, or to inherit wealth. Because of this historical legacy, black families have had few opportunities to accumulate wealth and to pass it on to their descendants" (Brimmer 1988:153).

One important way that wealth is acquired and transferred from generation to generation is through home ownership (Conley 1999; Keister 2000a, b; Avery and Rendall 2002; Campbell and Kaufman 2006). Home ownership continues to be a significant source of wealth for most people in the USA (Wolff 1995; Ratcliff and Maurer 1995; Keister 2000a, b; Shapiro et al. 2013; Sullivan et al. 2015). Unfortunately, however, discrimination in housing markets and home financing are also major factors contributing to racial wealth inequality (Massey and Denton 1993). African Americans are often denied housing loans in locations that would allow them to acquire housing that appreciates at the same rate as for whites. Thus, housing in racially segregated housing markets is a leading cause of racial inequality in the USA. because equity in housing represents a substantial portion of most people's wealth. This results in gaps in wealth holdings between African Americans and whites (Rugh and Massey 2010).

"Redlining" is another important reason for the racial wealth gap. "Redlining is a process by which goods or services are made unavailable, or are available only on less than favorable terms, to people because of where they live regardless of their relevant objective characteristic" (Squires 1992:2). Prior to the Civil Rights Act of 1964, "fewer than 1 % of all mortgages in the nation were issued to African Americans" (Kirp et al. 1995:7). This was a consequence of redlining practices supported by the US government. This injurious practice restricted African Americans' full participation in the housing market (Massey and Denton 1993). In a similar vein, restrictive covenants—"contractual agreements among property owners stating that they would not permit a black to own, occupy, or lease their property … signing the covenant bound themselves and their heirs to exclude blacks from the covered area for a specific period of time" (Massey and Denton 1993:36)—made it nearly impossible for blacks to acquire home financing through the Federal Housing Administration (FHA) (Massey and Denton 1993; Conley 1999; Lipsitz 2006).

Despite current federal laws prohibiting discrimination in housing, disparities remain (Lipsitz 2006). These discriminatory practices continue to restrict the ability of blacks at all income levels to leverage their resources in order to dramatically reduce the disparity in wealth (Oliver and Shapiro 1995). Once the housing bubble burst in the mid-2000s, it had a greater impact on African American households (Taylor et al. 2011). Black households lost 53 % of their wealth compared with whites who lost 16 % because blacks were "more dependent on home equity as a source of wealth" (Taylor et al. 2011:7). Relatedly, Shapiro (2006) suggests that subprime lending became the new redlining. He argues that banks systematically targeted African Americans through "objective" criteria such as credit scores to offer them subprime loans. These loans often had higher fees, interest, penalties, and were, therefore, more difficult to fulfill (Shapiro 2006; Henderson et al. 2015). Many African Americans were able to purchase their first home with such contracts; unfortunately, many of these loans resulted in African Americans falling further into debt, foreclosure, and wealth depletion.

Another, often overlooked structural source of racial differences in wealth is business ownership. In a survey of affluent Americans (i.e., with incomes over $100,000), 70 % of those with at least $3 million in assets had acquired the bulk of their wealth through business ownership (US Trust 2013). In addition, net worth is greater for white business owners than for other demographic groups (Butler and Herring 1991; Cavalluzzo and Wolken 2002). For example, in 1998 the mean (median) value of net worth was $687,719 ($150,000) for white business owners compared to $159,962 ($80,000) for African American business owners (Cavalluzzo and Wolken 2002). Moreover, whites are significantly more likely to be business owners than are African Americans (Butler and Herring 1991; Bates 2006). Combined, these factors suggest that racial differences in business ownership may also provide a potential explanation of the racial wealth gap.

According to this unequal ownership opportunity framework, African Americans have also been disproportionately denied access to loans for business development by banks (Conley 1999). Whites, on the other hand, were provided low-interest loans and access to wealth-generating banking options (Conley 1999). African Americans have historically engaged in entrepreneurial activities (Butler and Herring 1991; Graham 2000); however, as Butler (1991) suggests, African Americans engaged in what he called the economic detour model of economic development. By this, he means that they could not conduct business in non-black communities. Not only were African Americans forbidden from entering the traditional workforce without being discriminated against, they were also forced to endure discrimination in their business operations (Butler 1991). Such practices have contributed to racial disparities in business ownership and wealth inequality.

Is It Cultural, Structural, or a Little of Both?

Thus far, this paper has focused on cultural and structural frameworks that seek to explain the continued racial wealth gap. However, cultural and structural explanations of wealth inequality are not mutually exclusive. Indeed, some factors like inheritance and intergenerational wealth transfers are incorporated into both types of explanations in different fashions. This point is illustrated in qualitative works such as Johnson's (2014) *The American Dream and the Power of Wealth.* Johnson (2014) shows how beliefs in meritocracy and opportunity not only serve to gloss over educational inequality, but more significantly, serve to reproduce racial wealth inequality. She shows how meritocratic ideology is passed down from one generation to the next. In doing so, she explores the paradoxical beliefs of sympathetic Americans who agree with the ideal of hard work while reaping the benefits of unearned privilege. Her interviews with affluent children reveal that they have several similarities with their parents. They hold views of inequality that, while proclaiming a commitment to hard work and equal opportunity, really exhibit stereotyped and racially tinged views of the poor and demonstrate an unawareness of the centrality of inherited advantages. So, while much of privilege and disadvantage of wealth is inherited and passed along from generation to generation, so too are cultural beliefs and values that prop us such differences in wealth.

Explanations do not always fit neatly within cultural or structural categories. In particular, consumption, investment, and inheritance patterns have both cultural and structural elements. There are other sociodemographic, life cycle, and human capital factors that may play a central role in explaining the racial wealth gap. This section reviews these factors and discusses other social forces that are not typically linked to the racial wealth gap debate.

Age and the Life Cycle

Age is not usually associated with the racial wealth gap debate. However, life cycle approaches can offer powerful insights into racial differences in wealth. The life cycle model can help identify critical events in people's lives that have consequences for their ability to accumulate wealth. For example, racial differences in parents' ability to pay for college education for their children will have lifelong effects on wealth accumulation. Those whose parents cannot or do not pay are likely to be saddled with student loans that exceed their ability to repay them *if* they are able to go to college at all (Shapiro 2004). Similarly, whites are more likely than are African Americans at crucial points in their lives (e.g., when marrying or buying a home) to receive substantial wealth transfers from family members in the form of no interest loans or cash (Shapiro 2004). There are also racial differences in health status, morbidity, mortality, and life expectancy that have implications for wealth accumulation. And once people reach retirement, they deplete assets and lower their overall wealth (Ando and Modigliani 1963; Rhee 2013; National Institute on Aging and National Institutes of Health 2015). The life course approach does not fully account for findings that show differential patterns of accumulation and depletion of wealth over the life cycle for different racial groups (Keister and Moller 2000). Still, it calls attention to the possibility that age and other life course forces can play central roles in racial disparities in wealth.

Chiteji (2010) also provides a life cycle explanation of racial wealth inequality. She argues that African Americans are systematically disadvantaged in credit markets compared with their white counterparts. The practice of charging African Americans higher interest has resulted in lower wealth transfers and decreased ability to accumulate wealth throughout the life course.

Finally, Herring et al. (2013) put forth evidence in support of a "cumulative effects of discrimination" model, which claims that the black–white wealth gap increases over the life course for each historical period. They propose that younger African Americans have always done better than older African Americans when compared with similar whites because the negative impact of discrimination is cumulative over the life course. In other words, the effects of race on disparities in wealth accumulate over the life course and lead African Americans to have a cumulative disadvantage in wealth.

Investments

Oliver and Shapiro (1995) show that at lower income levels, African Americans spend relatively more than whites on housing and transportation rather than income-producing assets. However, such spending is a consequence of home mortgage discrimination and the need for many African Americans to purchase reliable cars in order to commute longer distances to work because of labor market segregation that locates their jobs longer distances from their homes. Oliver and Shapiro (1995) also show that at higher income levels, African Americans save more while whites invest in more wealth-generating instruments.

Brimmer (1988) argues that the investment patterns of African Americans reflect risk aversion and lack of familiarity with the stock market. These different behaviors are related to differences in social networks and connections that affect amounts and types of information about the inner workings of the stock market. He argues that the lack of useful information about investment strategies lead to very different asset holdings between African Americans and whites.

Similarly, at the time of the Great Recession, African Americans lost 71 % of their investments compared with a 9 % loss of stock investments for whites (Taylor et al. 2011). Even more, “since the official end of the recession in mid-2009, the housing market in the USA has remained in a slump while the stock market has recaptured much of the value it lost from 2007 to 2009. Given that a much higher share of whites than blacks or Hispanics own stocks—as well as mutual funds and 401(k) or individual retirement accounts (IRAs)—the stock market rebound since 2009 is likely to have benefited white households more than minority households” (Taylor et al. 2011:5). Thus, it is likely that investment patterns play a role in the racial wealth gap.

While there is little evidence of different savings rates between African Americans and whites at similar income levels (Gittleman and Wolff 2004), whites generally have greater savings, and thus, they may be more likely to use these savings to invest in the market (Brimmer 1988). Brimmer (1988) suggests that as African Americans begin to invest more often in the stock market and develop cultural capital to share with others in their communities, their involvement and share of the market will increase. Although Brimmer (1988) considers some structural factors, his arguments about risk-taking and family structure are primarily cultural inasmuch as they invoke personal responsibility and choice as the major factors related to the black–white wealth gap. Oliver and Shapiro (1995) suggest that although there are differences in investment strategies between African Americans and whites, these strategies reflect structural barriers for some groups and privileges for others rather than cultural patterns that demonstrate pathology or cultural competence.

Inheritance and Intergenerational Wealth Transfers

Inheritance and intergenerational wealth transfer have also been viewed as central sources of the racial wealth gap (Oliver and Shapiro 1995; Conley 1999; Darity et al. 2001; Semyonov and Lewin-Epstein 2001; Gittleman and Wolff 2004; Shapiro 2004). Inheritance creates and maintains social inequality (Szydlik 2004); still, African Americans have less wealth, in part, because of their lower intergenerational transfers of wealth (Smith 1995). Oliver and Shapiro (1995) argue that, through inheritance, the children of whites and blacks chart very different economic courses. Through inheritance and wealth transfers, white families pass on more than money. They also transfer class and racial privileges, as well as disadvantages from one generation to another (Shapiro 2004). “Blacks received 8 cents of inheritance for every dollar inherited by whites” (Shapiro 2004:69). Yet, it is still important to analyze wealth transfers between living parties because as much as 43 % of all wealth may be transferred while both parties are living (Shapiro 2004). Shapiro also documented that “28 % of whites received bequests, compared to just 7.7 % of black families” (p. 69). In part, this can be explained by the lower asset holdings of African Americans that make intergenerational wealth transfers less possible; however, this does not fully account for the racial wealth gap nor does it fully explain why African Americans provide lower amounts of inheritance to their children (Smith 1995).

Shapiro (2004) indicated that many whites acknowledge that they receive substantial wealth transfers from their family members in the form of low or no interest loans, cash, and college tuition. Yet, these beneficiaries continued to proclaim that they had earned their wealth through their own hard work and canny investment strategies. They were blind to the link between their unearned wealth and the standing of others in the social hierarchy (Shapiro 2004).

This list of factors is not exhaustive. It does not include the impact of residential segregation, discriminatory credit markets, nor macroeconomic factors that go beyond the individual. It does, however, include most of the major individual-level factors put forth by social science theories of wealth that are available for analysis in the 2013 Survey of Consumer Finances. Below, we provide an analysis that includes factors consistent with the competing and complementary explanations of the racial wealth gap. First, however, we provide more details about the data and our analysis strategy.

Data, Methods and Analysis Strategy

The Sample

The 2013 Survey of Consumer Finances (SCF) is a nationally representative survey sponsored by the Federal Reserve Board that collects information on US families' wealth, incomes, and demographic characteristics (Bricker et al. 2014). To ensure the representativeness of the study, respondents were selected using two techniques for random sampling: First, a geographically based random sample (multistage area-probability) was selected to provide coverage of characteristics that are broadly distributed in the population. Second, a supplementary (list) sample that disproportionately includes wealthy families was drawn from records derived from tax returns (Bricker et al. 2014:38). Only individuals listed as being among the wealthiest 400 people in the USA were excluded from sampling. The response rate for the area-probability sample was 70 %, and the response rate for the list sample was 30 %. The Survey of Consumer Finances is "a unique data set that provides highly accurate information on cross sections of top income earners and wealth owners" (Keister 2014:350). The analysis is based on the 4271 white and African American respondents for whom wealth (net worth), race, and other variables in the analysis were available. The list of variables and their operationalizations used in the analysis are presented in Table 1.

Analysis Strategy

In order to examine racial differences in wealth in a multivariate context, we used Stata 13.0 to carry out three different analytical strategies: (1) ordinary least squares (OLS) regression analysis and (2) quantile regression analysis. The dependent variable is wealth or net worth. The central independent variable is race. In addition, the multivariate models take into consideration gender of household head, bankruptcies, spending patterns, stock ownership, business ownership, home ownership, inheritance, educational attainment, income, occupation, age, and number of children. We report results based on median and mean wealth. Because the SCF had a complex sampling design, we used the svyset command within Stata to appropriately weight the data. Also, because the data file contains multiply imputed values, we used the mim subroutine and the micombine command.

Multivariate Analysis: Ordinary Least Squares Regression and Quantile Regression

In ordinary least squares (OLS), the primary goal is to determine the conditional mean of random variable Y, given some explanatory variable x_i, reaching the expected value $E[Y|x_i]$. Frequently, however, error terms are not constant across a distribution and thereby violate the assumption of homoscedasticity. Also, by focusing on the mean as a measure of central tendency, information about the tails of a distribution is lost. Finally, OLS is sensitive to extreme outliers, which can distort the results significantly.

Quantile regression overcomes some of the problems associated with OLS regression when assumptions about homoscedasticity are violated. In particular, one major advantage of quantile regression relative to OLS regression is that quantile regression estimates are more robust against outliers in the dependent variable because the median—a commonly used quantile—is far less sensitive to extreme values. Another advantage is that quantile regression allows for more comprehensive analysis of the relationship between variables because it also estimates multiple rates of change (slopes) from the minimum to maximum response, and thus providing a more complete picture of the relationships between variables missed by other regression methods (Koenker and Gilbert 1978).

Ordinary least squares (OLS) linear regression estimates the conditional mean function $E(Y_i|x_i)$ with a linear predictor $x_i'\beta$. In contrast, quantile regression estimates the τth conditional quantile function $Q_\tau(Y_i|x_i)$ with a different linear predictor $x_i'\beta(\tau)$, where the quantile level τ ranges between 0 and 1. If the data are heteroscedastic—as is typically the case with wealth—the median regression estimators used in quantile regression are more efficient than mean regression estimators, and quantiles are robust with respect to outliers (Koenker and Gilbert 1978). However, because mean regression gives a sense of the dispersion of wealth and the degree to which very high (or very low) values influence disparities, we also include analysis based on OLS regression.

Because the OLS regressions and quantile regressions show different things about wealth, we include both. The OLS (mean) regression gives a sense of the dispersion of wealth and the degree to which very high (or very low) values influence *disparities.* This allows us to look at average black–white wealth differences at any point in the wealth distribution. Quantile (median) regression estimates the median, a more common indicator of central tendency in studies of wealth. Median regression estimators have useful properties when data are skewed, but they also mask the magnitude of differences, especially between groups because they give the same computational weight to

Table 1 List of variables and operationalizations used in the analysis

Variable	Operationalizations
Wealth/net worth (-$-227,019 to $3,000,000)	Respondent's difference between assets and debt in 2013 dollars
Race (black = 1; white = 0)	Respondent's race/ethnicity: white, black/African American, American Indian, Alaska Native, Asian, Native Hawaiian or other Pacific Islander? Only respondents who reported that they are white or black were included in the analysis
Female-headed household (yes = 1)	Sex of head of household
Bankruptcy (yes = 1)	Respondent reports household member has declared bankruptcy in the past 5 years
Excessive spending (yes = 1)	Respondent reported that his/her spending exceeded his/her income
Stock ownership (yes = 1)	Respondent reports household member has shares of stock
Business ownership (yes = 1)	Respondent reports household member has an active or non-actively managed business(es)
Home ownership (yes = 1)	Respondent reports household member owns a house, ranch, farm, mobile home, condo, or coop
Inheritance (yes = 1)	Respondent reports household member received an inheritance
Educational attainment	Respondent's highest completed grade/level of school or college
Bottom 20 % of income distribution (yes = 1)	Respondent's total family income falls within the bottom 20 % of the income distribution
Top 20 % of income distribution (yes = 1)	Respondent's total family income falls within the top 20 % of the income distribution
Professional/managerial occupation (yes = 1)	Respondent's occupation is a professional or managerial one
Age (18–95)	Respondent's age
Number of children (0-8)	Respondent's number of children in household

"typical" values and "extreme" values. However, a given value (e.g., $150,000) that might be considered extreme for one racial group (e.g., median wealth for African Americans is $8935) might be fairly typical for another racial group (e.g., median wealth for whites is $143,000). Presenting results from both OLS and quantile regression, as we do, makes it possible to examine both *typical* wealth amounts for racial groups and racial *disparities* in wealth.

Finally, we use interaction terms between race and each independent variable in the analysis. Doing so makes it possible to estimate how much each such factor helps account for the wealth gap between African Americans and whites. The central question is how much of the wealth difference can be accounted for by racial differences in the predictors.

Results

Summary Statistics

Figure 1 presents mean and median wealth (net worth) by race. It shows that the median wealth for whites was $143,000 in 2013. This compares with $8935 for African Americans. As substantial as this gap is ($134,065), it pales in comparison with the mean racial wealth gap ($325,125). Although use of the median rather than the mean provides robustness against outliers in the wealth distribution, arguably, it conceals as much as it illuminates because it does not provide much information about just how skewed the wealth distribution is.

If wealth were normally distributed, the skew would equal 0. Panel A of Fig. 2 shows that the overall wealth data are positively skewed (skew = 1.20). As Panel B shows, for whites wealth is somewhat less positively skewed (skew = .99) than for the overall distribution. Among African Americans, wealth is substantially more positively skewed (skew = 5.62). This suggests that the mean wealth of African Americans is even more affected by influential cases of very wealthy respondents than is the mean wealth of whites.

Table 2 presents selected characteristics of African Americans compared with whites. This table shows that whites have more favorable wealth characteristics than do African Americans on all of the variables in the analysis: family structure, bankruptcies, spending patterns, stock ownership, business ownership, home ownership, inheritance, educational attainment, income, occupation, age, and number of children. There are statistically significant differences between whites and African Americans on all of these variables. In short, there are several cultural, behavioral, structural, ownership opportunity,

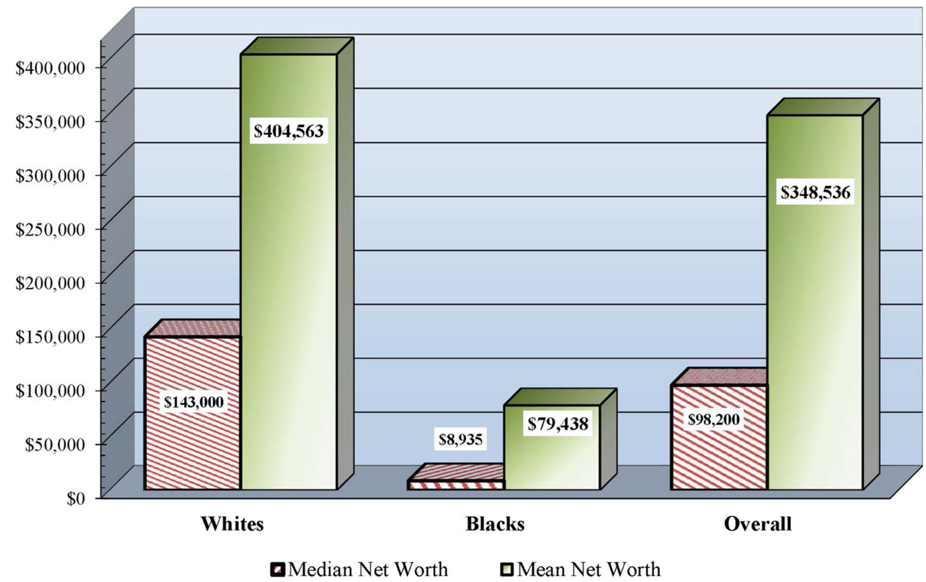

Fig. 1 Mean and median net worth by race

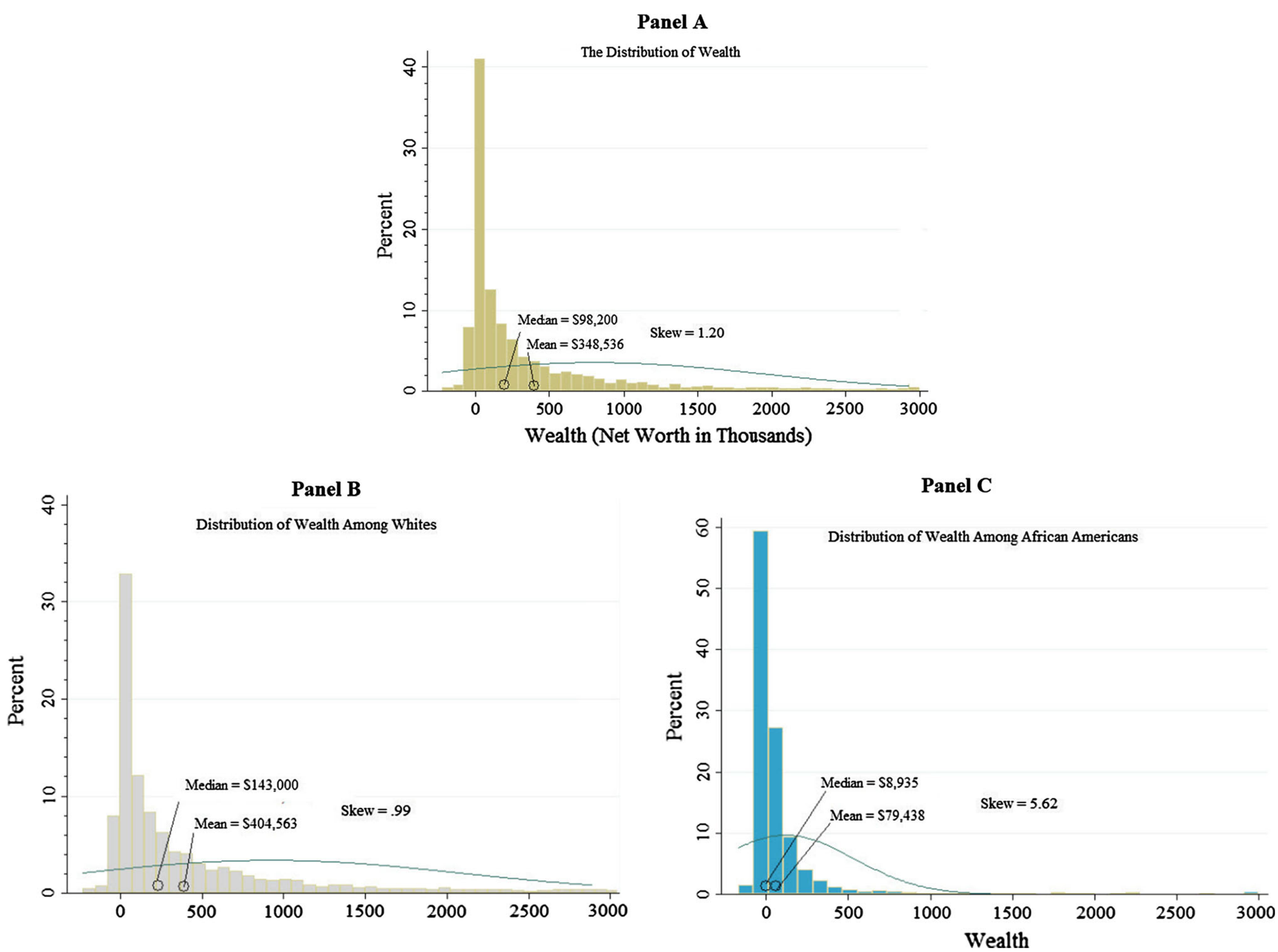

Fig. 2 Distribution of wealth by race

Table 2 Selected characteristics of respondents by race

Variable	Whites	Blacks	Overall
Median net worth	$143,000	$8935***	$98,200
Mean net worth	$404,563	$79,438***	$348,536
% with female-headed household	24.9	50.2***	29.3
% with bankruptcy	3.8	6.2***	4.2
% with excess spending	13.3	20.2***	14.5
% with stock ownership	17.2	3.3***	14.8
% with business ownership	13.7	6.3***	12.4
% with home ownership	73.1	44.0***	68.1
% with inheritance	26.6	10.4***	23.8
Mean educational attainment	13.8	13.1***	13.7
% in bottom 20 % of income distribution	16.3	33.3***	19.2
% in top 20 % of income distribution	24.2	7.5***	21.3
% with professional occupation	30.7	23.2***	29.4
Mean age	53.1	48.8***	52.3
Mean number of children	0.7	1.0***	0.7
N	3535	736	4271

* $p < .05$; ** $p < .01$; *** $p < .001$

sociodemographic, and human capital differences between African Americans and whites that should be taken into consideration when making comparisons between their levels of net worth. Our multivariate analysis takes such factors into consideration.

Table 3 presents results from both an OLS regression model (mean) and a quantile regression model (median) predicting wealth with race, net of the other wealth-related factors. Model 1 (the OLS regression) shows that, when controlling for other factors, there was a net mean racial wealth gap of more than $41,000 ($p < .001$). Some analysts believe that the magnitude of discrimination is much bigger than the race coefficients effect itself because even differences in other traits, characteristics, and credentials may be the result of racial discrimination. For example, it is possible that African Americans were discouraged from

Table 3 OLS and simultaneous quantile regression models predicting net worth with race, net of cultural and behavioral factors, structural and ownership opportunity factors, sociodemographic and human capital factors, and other factors

Independent variables	Model 1 Mean wealth OLS regression	Model 2 Median wealth Quantile regression
Black	−41.02***	−17.27***
Female-headed family	−39.26***	−13.82***
Bankruptcy	−99.34***	−45.23***
Excess spending	−32.39***	−19.67***
Stock ownership	240.9***	263.3***
Business ownership	229.8***	223.6***
Home ownership	85.77***	72.40***
Inheritance	117.9***	48.26***
Educational attainment	24.70***	8.433***
Bottom 20 % of income distribution	−41.34***	−21.25***
Top 20 % of income distribution	339.7***	342.5***
Professional/manager	23.32***	7.204**
Age	5.960***	2.262***
Number of children	−5.933*	−1.698
Constant	−549.1***	−17.27***
N	4271	4271
Adjusted R^2/pseudo-R^2	.417***	.262***

* $p < .05$; ** $p < .01$; *** $p < .001$

pursuing higher education, business ownership, home ownership, etc., due to existing discriminatory barriers, Therefore, those who believe in widespread discrimination in society may argue that the race coefficient underestimates the magnitude of discrimination; hence, gross wealth disparities may be an outcome of discrimination. Note that other factors that are also significantly related to wealth include gender of household head, bankruptcies, spending habits, stock ownership, business ownership, home ownership, inheritance, educational attainment, income, occupational status, age, and number of children. Combined, these factors account for more than 45 % of the variance in net worth. The results from the quantile regression (Model 2) show similar patterns (with the exception of occupational status and number of children). Here, however, the net median racial gap is $17,267 when controlling for the other factors. Again, however, it is possible the correlates of wealth differ in how they are related to net worth for African Americans and whites.

Table 4 illustrates this point by providing a stratified analysis. Model 1 predicts median wealth among African Americans with gender of household head, bankruptcy status, spending habits, stock ownership, business ownership, home ownership, inheritance, educational attainment, income, professional-managerial status, age, and number of children. Model 2 predicts median wealth among whites with the same factors. A comparison of the models, however, suggests that these variables operate very differently for African Americans and whites. In particular, being a stock owner is associated with a $245,000 increase in wealth for whites, but a $16,154 increase in wealth for African Americans. Similarly, business ownership is associated with a $252,100 increase in wealth for whites, but a $84,523 increase in wealth for African Americans. And being among the top income earners is associated with $348,400 in wealth for whites, but $124,350 for African Americans.

Why do such massive racial gaps in wealth occur? Table 5 presents the results from a model that interacts race with each of the independent variables in the analysis. Significant interaction terms indicate that wealth is related to a variable of interest in a fashion that is different for African Americans and whites. The results in Table 5 suggest that *every* variable in the analysis is related to wealth differently for African Americans and whites. The model shows that, net of all the factors and interactions in the model, African Americans average $156,115 less wealth than comparable whites. In other words, if African Americans had the same characteristics as whites, there would still be a wealth gap of more than $150,000. For ease of interpretation of the interactions, Fig. 3 presents the wealth gaps for each variable in the analysis. By holding constant all other factors in the analysis, we estimate the wealth of African Americans and whites for each variable. We then subtract the value for African Americans from whites to obtain the wealth gap for each variable. For example, it shows that if African Americans and whites had the same characteristics, African American and white stock owners would still differ in wealth by an average of $425,600. Similarly, African American and white business owners would differ by an estimated $212,000.

Table 4 Simultaneous quantile regression models predicting net worth, stratified by race, net of cultural and behavioral factors, structural and ownership opportunity factors, sociodemographic and human capital factors, and other factors

Independent variables	Model 1 Median wealth African Americans	Model 2 Median wealth Whites
Female-headed family	1.217	−24.74***
Bankruptcy	−7.046***	−62.77***
Excess spending	−4.041***	−28.69***
Stock ownership	16.15	245.0***
Business ownership	84.52***	252.1***
Home ownership	57.19***	78.05***
Inheritance	8.163*	59.67***
Educational attainment	−.140	12.00***
Bottom 20 % of income distribution	−9.969***	−36.05***
Top 20 % of income distribution	124.4***	348.4***
Professional/manager	.135	6.694
Age	.320***	3.176***
Number of children	−.039	−5.755***
Constant	−5.332	−261.0***
N	736	3535
Pseudo-R^2	.178***	.264***

* $p < .05$; ** $p < .01$; *** $p < .001$

Table 5 OLS regression model predicting net worth with race and interaction terms, net of other factors

Independent variables	Mean wealth
Black	−156.115***
Female-headed family	−44.3903***
Bankruptcy	−137.779***
Excess spending	−45.0136***
Stock ownership	271.578***
Business ownership	233.804***
Home ownership	87.128***
Inheritance	131.727***
Educational attainment	−5.151***
Bottom 20 % of income distribution	−109.163***
Top 20 % of income distribution	375.123***
Professional/manager	43.976***
Age	3.7442***
Number of children	−33.583***
Black × female-headed family	47.84698***
Black × bankruptcy	103.223***
Black × excess spending	39.220***
Black × stock ownership	−271.011***
Black × business ownership	−56.564***
Black × home ownership	−6.893***
Black × inheritance	−132.299***
Black × educational attainment	12.081***
Black × bottom 20 % of income distribution	90.946***
Black × top 20 % of income distribution	−110.090***
Black × professional/manager	−32.112***
Black × age	−1.974***
Black × number of children	26.368***
N	4271
Adjusted R^2	.556***

* $p < .05$; ** $p < .01$; *** $p < .001$

Figure 3 provides some insight into the importance of various cultural and behavioral factors, structural and ownership opportunity variables, and sociodemographic and human capital variables. These results suggest that if African Americans and whites were the same on all characteristics, blacks and whites who are in female-headed households would differ by $112,300; African Americans and whites with excessive spending behavior would differ by $118,280; and African Americans and whites who have experienced and bankruptcies would differ in wealth by $54,000. If African Americans who received and inheritance or wealth transfer were similar to whites on all characteristics, they would still have $286,100 less in wealth.

Figure 3 also shows that a sizeable portion of the racial wealth gap is associated with differential returns to education for African Americans and whites. A substantial literature exists on the economic returns to education (e.g., Hoffman 1984; Thomas et al. 1996; Loury and Garman 2001; Sakamoto et al. 2006; Black et al. 2006). There are several plausible explanations for the racial differences in wealth for given levels of education. Thomas et al. (1996) suggest that discrimination, especially in occupational attainment and earnings determination in the labor market, is central in racial and gender differences in returns to education. Similarly, Oliver and Shapiro (1995) point out that education is differentially related to wealth for blacks and whites because white parents are more able to send their children to private schools and colleges, which provide large salary premiums (Brewer et al. 1999). Sakamoto et al. (2006) point to racial differences in fields of study that yield differential rewards. Systematically understanding the relative importance of these factors to differential wealth returns to education for blacks and whites is an important topic that should be the focus of future research on racial disparities in wealth.

These results also show that the net racial wealth gap grows over the life course ($179,400 at age 20 and $268,200 by age 65). This is consistent with the idea of the cumulative effects of discrimination on wealth over the life course (Herring et al. 2013). As age increases, the wealth of whites accumulates more rapidly than that of African Americans.

The analysis also shows that the racial wealth gap increases as income increases. The wealth gap between African Americans and whites in the bottom income quintile is $7400, but the wealth gap between comparable African Americans and whites in the top income quintile is $264,700.

What does this analysis tell us? As noted above, the mean racial wealth gap (in Fig. 1) is $325,125. If African Americans had the same levels of income, business ownership, stock ownership, and home ownership and other characteristics as whites, the wealth gap would be cut in half. However, the mean racial wealth gap would still be more than $155,000. Generally, the results suggest that cultural and behavioral factors explain less of the racial wealth gap than structural and ownership opportunity variables. Still, because of differential wealth returns to education, aging, income, stock ownership, and business ownership for whites and African Americans, much of the racial wealth gap remains.

Discussion and Conclusions

This paper began with the observation that several studies have documented racial differences in wealth as a key determinant of advantage and privilege in America. Informed by social science explanations of racial wealth

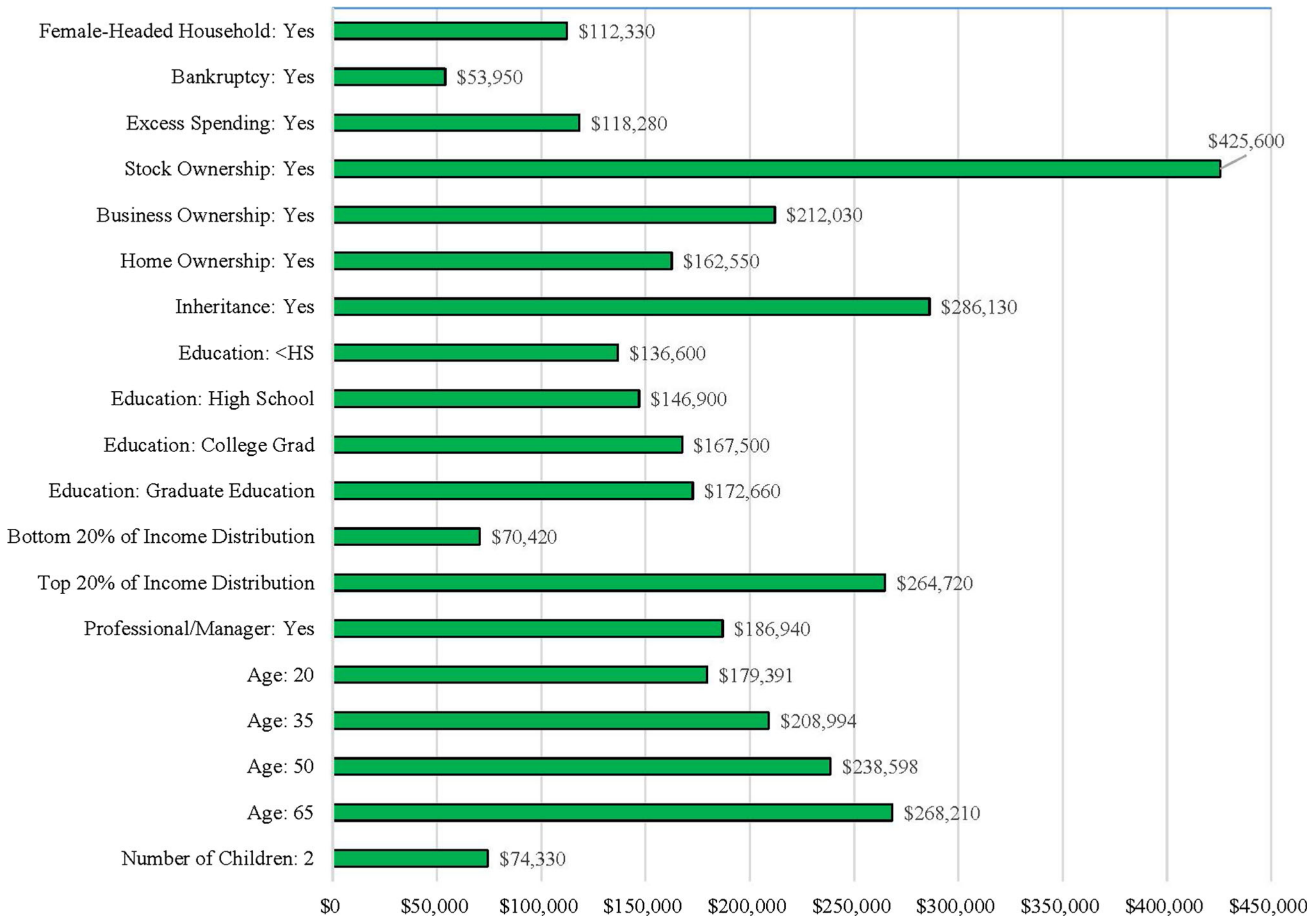

Fig. 3 Estimated racial wealth gap by selected characteristics

inequality, we used data from the 2013 Survey of Consumer Finances to carry out OLS regression and quantile regression to model mean and median wealth with race. We also used interaction models to identify the major individual-level sources of wealth differences between African Americans and whites.

Even after taking into account several cultural and behavioral factors, structural and ownership opportunity variables, and sociodemographic and human capital factors normally thought to explain wealth accumulation, massive racial differences in wealth remain. Structural and ownership opportunity variables are associated with much larger portions of the racial wealth gap. However, even if African Americans had the same characteristics on these variables as whites, there would still be a racial wealth gap of more than $155,000.

This paper has some limitations. In particular, with cross-sectional data it is difficult to sort out which factors are "causes" of wealth and which are the "results" of wealth. For example, home ownership typically requires certain minimum thresholds of wealth to acquire the property; however, owning a home may also be a source of wealth when a property generates rent, appreciates in value, or as one gains more equity in it. The same can be said of other variables in the analysis such as business ownership, stock ownership, or even educational attainment. Thus, no claims about causality are made in this analysis.

Another limitation of the analysis is that it does not contain comprehensive indicators for some of the critical behavioral and cultural factors identified in the literature (e.g., beliefs and attitudes about finances, information about family of origin, etc.). Similarly, it is not possible in this analysis to include many of the structural variables identified by the literature. For instance, there are no indicators of residential segregation, credit market discrimination, labor market discrimination, nor other group-level variables that may be important to explaining the racial wealth gap. Still, the analysis does incorporate some ownership opportunity factors (e.g., home ownership and business ownership) referred to by some structural explanations.

The racial wealth gap is more intransigent than other forms of inequality. It tends to compound and accumulate over time and from generation to generation. It offers security and protection to whites, but puts African Americans at risk. Racial wealth inequality is built into the structure of American society. It operates in the normal working relationships of institutions, and its perpetuation requires only that people continue to do business as usual. Its eradication requires much more than good will. It requires active review of the assumptions and practices by which American institutions operate.

Because of the cumulative nature of wealth and racial disparities in wealth, we must be cognizant of past discrimination that set current-day disparities in motion. While the processes and mechanisms by which racial wealth inequality operate may be difficult to discern, their effects are be readily apparent. Such racial disparities in wealth provide material goods, opportunities, resources, services, and psychological satisfactions for whites, and they serve to penalize African Americans by decreasing their quality of life.

While these benefits are never distributed equally, racial gaps in wealth are structured in such a way that they compound the effects of past discrimination. As a consequence, African Americans are much less likely than white people to receive wealth from their parents or other relatives to pay for college, to start a business or to make a down payment on a home. As our analysis has shown, lack of these wealth-building assets makes the prospects of accumulating wealth a more precarious proposition; therefore, it is not surprising that white families are more likely to own homes than are African American families. But it is more disquieting that business ownership, stock ownership, and high income do not yield the same returns in wealth to African Americans as they do for whites. These appear to be some of the true sources of racial differences in wealth.

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