Wealth Generation

SUMMARY:

After the abolition of slavery, African Americans had to start from ground zero on their quest to accumulate wealth in America. Blacks were further riddled with hurdles strategically and systematically designed to prevent them from achieving wealth. The Black Codes, implemented shortly after the end of slavery, forced freedmen back into dependence on white farmers as sharecroppers, often to their former masters. After the 14th amendment ended the Black Codes, they were almost immediately replaced with Jim Crow policies that legally excluded blacks from mainstream social, political, and economic institutions and opportunities. When blacks did manage to foster some semblance of wealth, it was often destroyed or stolen by racially motivated and infuriated white mobs. Due to these policies and attacks, Southern blacks were only able to muster one tenth of the wealth of white landowners in the first 52 years after slavery. Governmental policies continued to target black communities and prevent their accumulation of wealth throughout the 20th century. The federal government subsidized the accumulation of white Americans' wealth, while overtly excluding people of color. Redlining practices deemed communities of color as hazardous, financial risks, so initiatives to ameliorate the economic hardships of the Great Depression, including the Home Owners Loan Act and the National Housing Act, overwhelmingly benefited white Americans while almost completely excluding blacks. Such policies contributed to intergenerational wealth accumulation for whites, whereas blacks were left in marginalized, segregated, communities facing high poverty rates that are still experienced today. White households today have 10 times more wealth that black households, and blacks are twice as likely to have their home loan applications rejected, data that can be largely credited to the racist housing and mortgage policies of the 20th century. Moreover, residential segregation continues to block upward mobility for blacks, even when education and socioeconomic status are controlled for. Even college educated, middle-class blacks are less likely to own homes and more likely to live in impoverished communities relative to whites who didn't graduate high school and are low-income. Blacks continue to experience salary inequities, and neighborhoods are more segregated today than they were decades ago.

Major policy intervention is needed to repair these injustices and afford people of color opportunities to accumulate generational wealth. Policymakers need to revisit the Fair Housing Act, providing mortgage assistance to those previously barred from participation due to racist redlining policies, in addition to other policies that promote and enforce integration of residential communities.

> ***"It was never the case that a white asset-based middle class simply emerged. Rather, it was government policy, and to some extent literal government giveaways, that provided whites the finance, education, land and infrastructure to accumulate and pass down wealth" (Hamilton & Logan, 2019).***

When blacks were freed from slavery, they had to try to build a new life and generate wealth from essentially nothing. The Homestead Act of 1866 intended to provide black farmers with public land, but most of the farmable land was already occupied by whites, leaving swampy or forest land that was unconducive to farming for black farmers to claim. This, along with poor implementation of the program and terrorism from southern whites, contributed to the ineffectiveness of the program, which was only minimally helpful to very few blacks. Instead, much of the land was settled by whites working for the logging industry (The University of Richmond, 2015). The Black Codes, among other things, mandated that black sharecroppers and tenant farmers sign yearly contracts with white landowners, who pocketed a share of their earnings and prevented blacks from accumulating wealth of their own. Refusal often meant being arrested and loaned out as a convict worker. As such, many blacks ended up working as sharecroppers for their former masters (Khan Academy, n.d.). Black Codes were ended with the passage of the 14th Amendment, but were immediately replaced with Jim Crow policies that extended well into the 20th century, which "often translated to the total exclusion of black people from public facilities, institutions, and opportunities" (Equal Justice Initiative, 2017).

When blacks did manage to gain property and wealth, it was often destroyed or stolen. Whitecapping, the practice of threatening violence to prevent blacks from participating in certain businesses or occupations, was often used to force blacks off the land they were farming so whites could seize their land and possessions (Hamilton & Logan, 2019). Other examples include race riots, such as the aforementioned Memphis riot in 1866, the St. Louis, Illinois riot of 1917, and the Tulsa Race Massacre in 1921. Black workers, who had migrated north to escape lynching persecution in the south, created economic competition for the white workers. Unfortunately, lynchings were not limited to the south. Enraged from being replaced by black workers, a mob of whites ambushed black workers as they finished their factory shifts. The violence spilled into the nearby communities, resulting in $400,000 of property damage, and the brutal deaths of dozens of black men, women, and children, who were beaten to death, hung, shot, or burned alive after being forced into burning buildings (Equal Justice Initiative, 2017). In Tulsa, for instance, there was a booming business district in the Greenwood District where black Tulsans lived. It black was referred to as the Black Wall Street. During the riot, thousands of whites, some armed by city officials, stormed the Greenwood District, looting and burning the homes and businesses of black

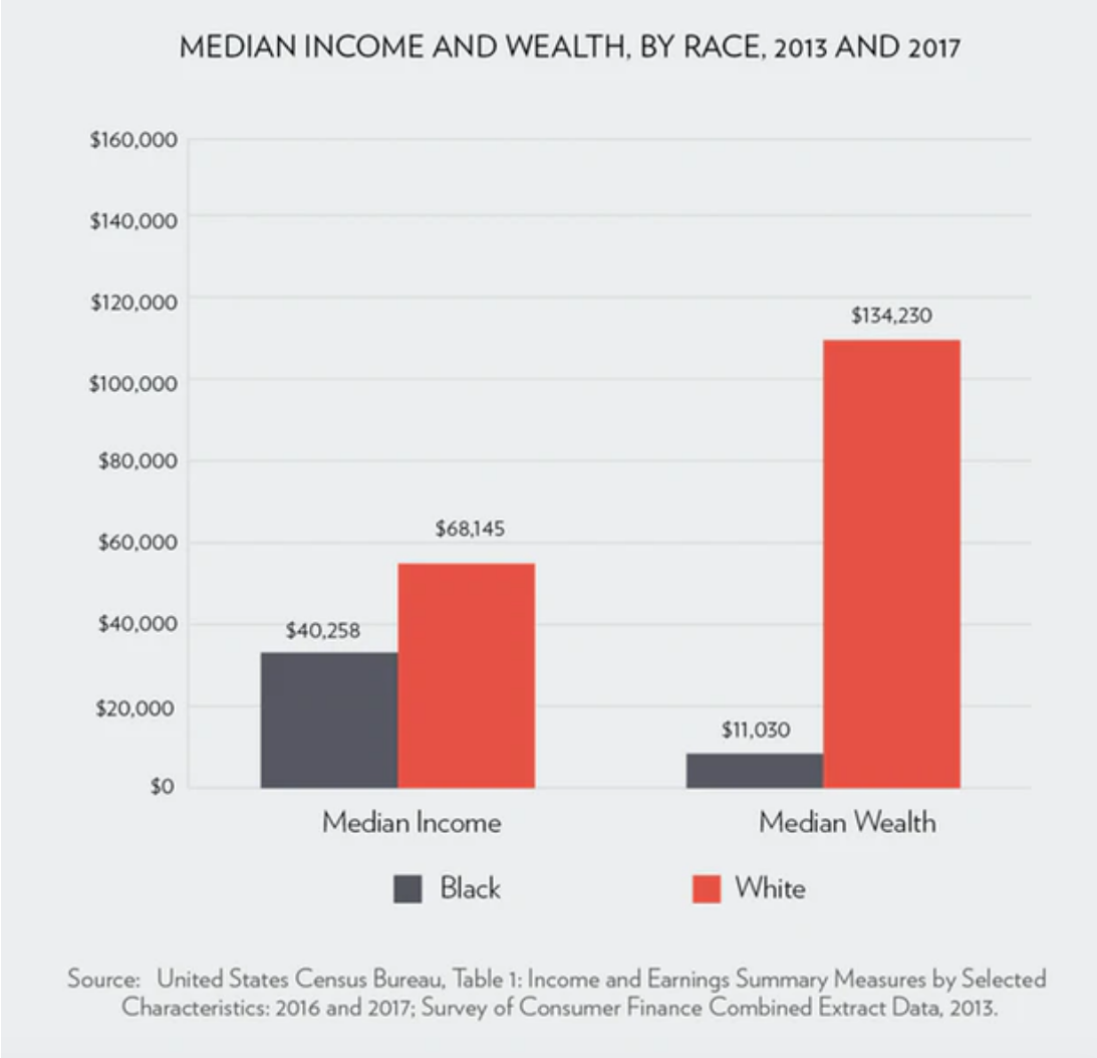
residents. In the end, numerous businesses were destroyed, hundreds were killed, and thousands were left homeless (history.com). No members from the mob were ever convicted of these heinous crimes (Equal Justice Initiative, 2017).

By 1915, 52 years after the end of slavery, blacks owning property in the South had accumulated only one-tenth of the wealth of white landowners. This trend remained constant for the next 50 years. In 1965, blacks comprised 10 percent of the U.S. population but accounted for merely 2 percent of the wealth in the U.S. (Hamilton & Logan, 2019). Fundamentally, the distribution of wealth in the U.S. was ultimately the same as it was during the slavery era, with blacks structurally deprived the opportunity to accumulate wealth.

This sign, aimed at maintaining racially segregated communities, was posted in a Detroit neighborhood in 1942
(Wikimedia Commons via Quick & Kahlenberg, 2019)

Black people's inability to accumulate wealth was not simply due to the violence of white citizens or the lack of consequences passed down from government officials. The problem had much deeper, systemic roots. Housing policies, often branded in a positive light as creating new public areas and boosting economic development, actually displaced blacks into segregated areas and decimated communities. Throughout the 20th century, local, state, and federal policies subsidized the development of white suburbs. To alleviate the economic hardship of the Great Depression, President Roosevelt signed the Home Owners' Loan Act and the National Housing Act. These policies prevented foreclosures and made renting and home ownership more affordable. However, the Home Owners Loan Corporation (HOLC) created maps to display the assessed risk of mortgage refinancing. They then used these maps to dictate which areas it would guarantee mortgages. Areas they deemed were financial risks and threats to property values were colored red and labeled "hazardous." These areas were denied the federal home loans. The problem was that the HOLC factored in racial composition when making its risk assessment. This process, now known as red lining, restricted the benefits of the Home Owners Loan Act and the National

Housing Act from reaching families of color. Due to redlining, only 2 percent of the $120 billion in loans that were distributed from 1934 to 1962 were given to families of color. The GI Bill, passed in 1944, has been deemed by historian Ira Katznelson as "deliberately designed to accommodate Jim Crow" (Solomon, Maxwell, & Castro, 2019). The GI Bill allowed banks to discriminate against black veterans and deny them loans despite the fact that the federal government would have guaranteed their mortgages. To exemplify the damage of this allowance, in Mississippi, where half the population in 1947 was black, only 2 of the 3,000 mortgages guaranteed by the Veteran's Administration went to black veterans.



A visual display of income and wealth disparities across race in 2013 and 2017 (Quick & Kahlenberg, 2019).

These programs allowed for white Americans to own homes and accumulate assets that were transferable across generations. The effects of these racist practices are still seen today and have perpetuated segregation and have largely contributed to the current racial wealth gap, in which the

average white household is 10 times more wealthy than the average black household. Also, 74 percent of the areas deemed "hazardous" remain low to moderate income areas (Solomon, Maxwell, & Castro, 2019).

> ***In fact, people of color are still 32 percent less likely to own homes than whites, even when controlling for education, income, age, geographical location, state, and marital status. Shockingly, even black people <u>with college degrees</u> are less likely to own homes than whites who <u>dropped out of high school</u>. Further, "<u>middle-class</u> blacks with annual salaries of $100,000 or more live in disadvantaged neighborhoods with higher poverty rates than <u>low-income</u> whites earning less than $30,000 per year" (Quick & Kahlenberg, 2019).***

Current disparities are driven by residential segregation and the continuation of mortgage loans being denied to people of color, despite an official ban on racial discrimination in home financing under the Fair Housing Act of 1968 (Debruyn, 2018). In 2017, black individuals applying for loans (all types) were more than twice as likely to be rejected as white applicants. These disparities are even more drastic when focusing on home-purchase loans with blacks being rejected in 19.3 percent of applications whereas whites were rejected 7.9 percent of the time. Lenders defend their racially disparate rejection rates, claiming they stem from "economic and wealth disparities among racial groups" and not illegal, discriminatory practices (Harney, 2018). It is likely that both racial discrimination and wealth disparities contribute to these inequitable rejection rates. However, even if this racial gap could completely be explained by wealth disparities, this is still unacceptable, and African Americans' inability to accumulate wealth is inextricably linked to racist policies that systematically excluded them from opportunities to generate wealth that were afforded to white Americans.

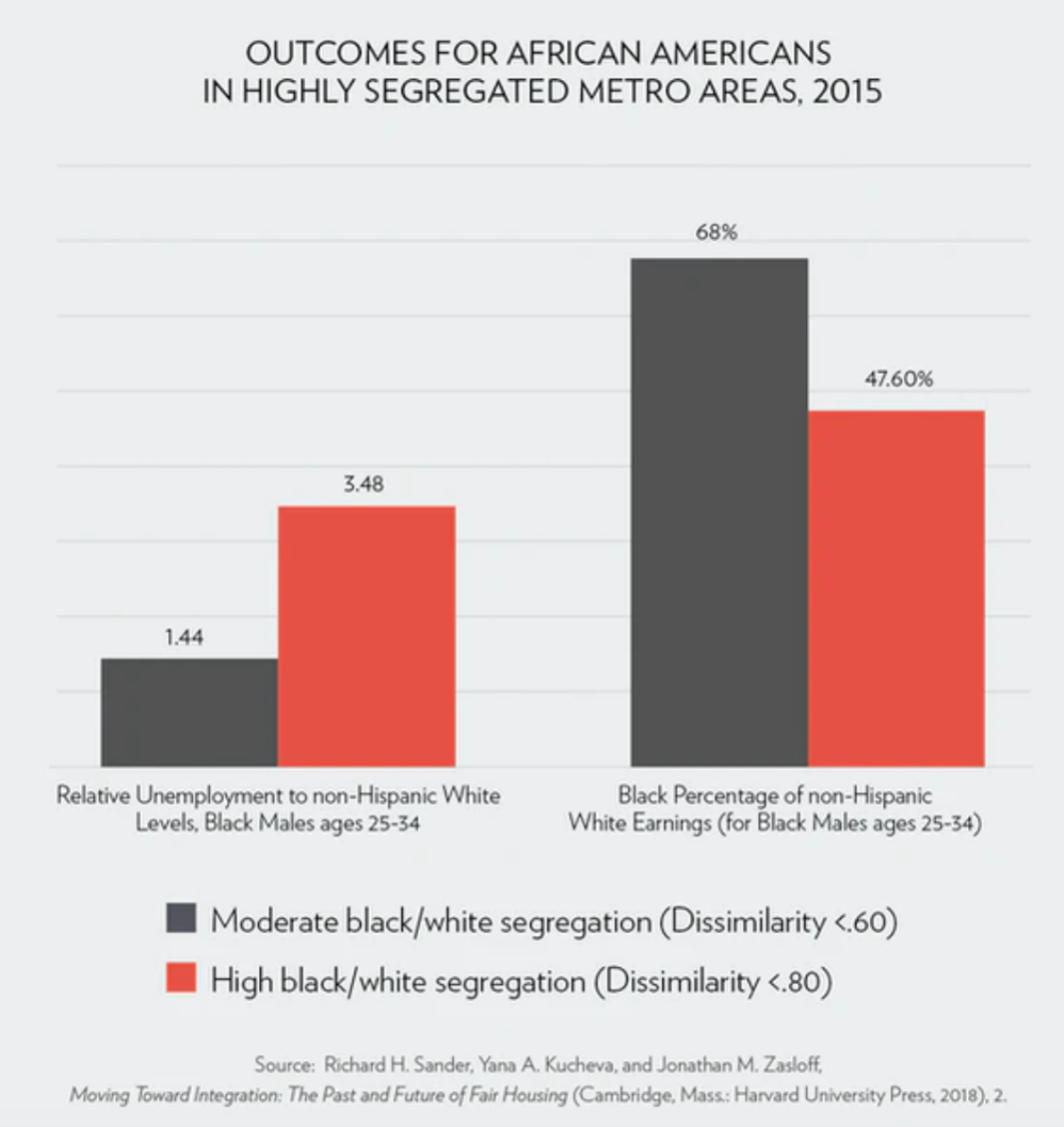
Even when people of color are able to become homeowners, they experience foreclosure and lower returns on their investments, namely due to predatory and discriminatory lending practices. Corrupt real estate agents capitalized on these misconceptions, convincing white homeowners to sell their homes at discounted prices to them, since black people were moving in and would decrease the property value. They then turned around and sold the homes to black people at increased prices and interest rates. Furthermore, the homes were often sold on contracts as opposed to traditional loans, allowing the real estate agents to evict black families for missing even one payment. The accumulated losses realized by black families totaled $4 billion, all the while government officials sat back and allowed it to happen (Solomon, Maxwell, & Castro, 2019). These trends persisted into the 21 century. Banks continue to issue speculative loans with extremely high interest rates to people of color despite their qualifications for less risky loans. These discriminatory practices are correlated with the 44 to 48 percent of lost wealth Black and Latinx households experienced during the financial crisis (Solomon, Maxwell, & Castro, 2019).

The tendency for the government and real estate agencies to cater to the development and expansion of white communities continues today. Gentrification displaces tens of thousands of low income and black families, pushing them out of their communities to make space for affluent, white newcomers. The acclaimed economic benefits of such practices never seem to trickle down to the community's original residents that are forced to relocate (Solomon, Maxwell, & Castro, 2019).

Segregation continues to limit economic opportunities for people of color, fueling racial disparities in employment rates, average household incomes, jobs, and salaries, all of which are key indicators of upward mobility (Semuels, 2020). In fact, in 2017, black men and women were paid only 69.7 cents, and 60.8 cents, respectively, for every dollar white men made, a pay gap that had remained stagnant since the turn of the century (Gould, Jones & Mokhiber, 2018). Segregation further prohibits upward mobility and wealth accumulation by producing schools that are underfunded, segregated, and more likely to funnel youth into the carceral system that higher education. Residential segregation remains at levels consistent or exceeding those decades ago, with some areas becoming *increasingly* segregated (Semuels, 2020). Moreover, while race and poverty often confounded, and economic segregation certainly exists, "racial segregation today remains starker and more pervasive than economic segregation" (Quick & Kahlenberg, 2019). In fact, U.S. Census data from 2013 to 2017 determined that the dissimilarity index between blacks and whites was 0.526 percent, indicating that approximately 53 percent of blacks or whites would have to relocate in order to fully integrate the area (Quick & Kahlenberg, 2019).

Efforts to address segregation have fallen short, and in some instances, backfired. Programs allowing blacks living in public housing to move to less impoverished areas have been made difficult by laws passed in suburbs prohibiting affordable housing units in their neighborhoods. Even in recent years, these integration efforts have faced resistance from whites who want to maintain the current status quo of their overwhelmingly white, affluent communities (Semuels, 2020). This is evidenced by the battle to integrate Beaumont, Texas neighborhoods in 2015. The federal government offered $12.5 million to reconstruct a dilapidated public housing complex that housed mostly poor, black Texans. The proposal was to rebuild in an area that provided a more equitable experience for residents and avoid nearby environmental hazards. However, the city of Beaumont declared it would rather relinquish the funds than rebuild the housing complex in a whiter, more affluent neighborhood (Semuels, 2015).

The Low-Income Housing Tax Credit attempted to mitigate wealth disparities by incentivizing the construction of affordable public housing. However, since states had discretion for how these funds were used, many opted to concentrate housing complexes in highly segregated, high-poverty neighborhoods, which exacerbated, rather than ameliorated, segregation (Semuels, 2020).



Lower levels of segregation contribute to elevated employment levels and earnings for blacks (Quick & Kahlenberg, 2019).

Reparations must be made to reverse the overtly racialized policies that displaced and isolated black communities without a second thought, simply because it was politically expedient or convenient to do so, while simultaneously dishing out millions of dollars in federal funds to white Americans. Since discriminatory public policies engineered segregation and the racial wealth gap, effective efforts to address these disparities must start in the public policy arena (Quick & Kahlenberg, 2019). Policymakers should extend new mortgage assistance initiatives under the Fair Housing Act that enable individuals to buy homes that were previously in "redlined," excluded areas, and should allocate resources in fighting further discrimination by mortgage lenders and employees. Additionally, government officials must put an end to zoning policies and other contemporary practices that effectively perpetuate segregation, replacing them with "inclusionary zoning" policies that promote housing mobility. Evidence shows that blacks in "moderately"

segregated communities experience improved levels of employment, earnings, and health outcomes. Future policies should also focus on restricting gentrification and encouraging investment in current residents and local businesses (Quick & Kahlenberg, 2019).