

Class Action Book of the Month: July 2005

Thomas Shapiro's *The Hidden Cost of Being African American: How Wealth Perpetuates Inequality* (Oxford 2004)

This is a very important book about the interaction of race and class. In 1996, Tom Shapiro teamed up with Melvin Oliver to write *Black Wealth, White Wealth*, a groundbreaking book about the causes of the racial wealth gap. In this new book, Shapiro provides more insights into the ways that hereditary class and racial advantages fuel inequality of wealth.

The main point of this book is that small inheritances can greatly transform the economic prospects of different families. Because of a legacy of racial discrimination in wealth-building, white families are more likely to have money to pass on. As a result, even with efforts to foster greater equality in the workplace or in educational establishments, inherited wealth perpetuates racial inequalities. As Shapiro writes:

“The real story of the meaning of race in modern America, however, must include a serious consideration of how one generation passes advantage and disadvantage to the next –how individual’s starting points are determined. While ending the old ways of outright exclusion, subjugation, segregation, custom, discrimination, racist ideology, and violence, our nation continues to reproduce racial inequality, racial hierarchy, and social injustice that is very real and formidable for those who experience it.”

Through interviews with hundreds of families, Shapiro explains how white families are able to provide financial gifts to their children to purchase homes, weather job losses, and pay for education and training. These “transformative assets,” including forgivable loans or gifts of \$10,000 or \$15,000, can make enormous differences in terms of whether a family is able to rent or buy, get on the wealth-building train or go deeper into debt. He contrasts this with Black families that have little in the way of family wealth to pass on to children and are unable to get on the asset-building train.

For people interested in understanding the interaction of race and class, this book is important because it reveals some of the underlying attitudes between racial and economic haves and have nots. Many of the white families interviewed did not consider their financial gifts of family help as “inheritances” or “subsidies.” They continued to think of themselves as largely “self-made” and independent of private or government subsidies. The fact that many of white families are passing on family wealth built through homes financed by post-World War II federal subsidies is lost on the next generation. If they believe they did it themselves, they will be unlikely to support public policies aimed at expanding homeownership and opportunity for those

without inherited class and race advantages. Here is one example of Shapiro's insight:

“My interviews reinforce the wisdom of historian George Lipsitz's observation that modern racism often is seen in universal or neutral terms without any personal benefits or over racist intent. In this way, individuals evade personal responsibility for any resulting inequality. I spoke to many families, for example, who see no paradox in using inherited wealth to leverage advantages and opportunities unavailable to others. Their insistence upon how hard they work and how much they deserve their station in life seems to trump any recognition that unearned successes and benefits come at a price for others. This insistence upon wrapping advantage in the American Dream blurs the difference between thinking you are self-made and being self-made. Coming from families living in homes and communities they can afford only because of inherited wealth, the constant admonitions to the poor to take responsibility betrays and distorts the dream.” (p. 13)

Some of the reasons that African-Americans accumulate wealth at lower rates include:

- White families have much greater capacity to provide down-payment assistance and gifts for higher education.
- Homes purchased in some predominantly African-American neighborhoods don't appreciate at the same rate as white neighborhoods.
- The differential in lifetime earnings and income;
- The likelihood that Blacks are supporting parents: In white families, financial resources flow from parents to children. In black families, money flows from children to parents and other relatives and friends in need.

Contrary to the myth that the racial wealth gaps is the result of “cultural factors” such as “poor future orientation,” excess consumption, and lack of deferred gratification on the part of African-Americans resulting in lower savings. Shapiro cites the evidence to the contrary: “The facts speak otherwise....economists Francine Blau and John Graham reviewed the small number of studies on savings by race and found no evidence that African-Americans have a lower savings rate than whites.” (p. 96). Savings rates rise with incomes; since African Americans have lower incomes, then some differences emerge.

As a solution, Shapiro proposes a program of “assets for equality.” His list of solutions includes: housing down payment accounts and asset accounts. Shapiro advocates retaining estate taxes, calling it an Opportunity Act, with revenues earmarked for asset-building policies.