

Exploration of the Racial Wealth Gap Via Housing Acquisition

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Abstract

The relationship between racial wealth and housing appreciation was examined to determine how systemic racism and institutional factors, such as redlining and democratization, affected the financial stability of African Americans in relation to their ability to acquire a house. Research suggests the cause of the growing racial wealth gap resides in the inability for Black Americans to acquire housing. The absence of this financial asset causes these marginalized groups to fall behind in wealth. This paper will explore how white flight and suburbanization in the 1940s created a rhetoric for segregation, and disparity in access to affordable housing. Additionally, this paper will demonstrate how institutional racism continues to prevent both the integration of Black Americans into suburban neighborhoods and the procurement of a home.

Keywords: White Flight, Suburbanization, Marginalization

1. Introduction

The United States prides itself on being the world hegemon, exerting its dominance in wealth, national security, and economics. However, the United States (U.S.) has the highest incidents of homelessness, hunger, and general poverty in the developed world, which perpetuates one of the country's most controversial issues—the growing wealth gap between races (Rank 16). In 2018, “thirty-eight million Americans lived in poverty, [with] minority racial groups more likely to experience multidimensional poverty than their White counterparts.

¹ Today, the United States remains silent about the growing gap, which is linked to America's darkest hour of segregation, racism, and discrimination. Currently, homeownership largely coincides with socioeconomic status, seeing as home equity is a vital financial asset. According to the U.S. Census Bureau, in the first quarter of 2020, 44 percent of Black families owned their homes, which shows large disparities in homeownership, as 73.7 percent of White families own their homes.² Unfortunately, government policies, such as redlining and democratization, prevail in American society, causing African Americans to suffer most when trying to acquire homes or integrate into predominately white neighborhoods. American people must shift their separatist desire toward the integration of Black Americans in higher level structural institutions in order to heal the wounds of segregation, and close the wealth gap.

Historically, the U.S. has used race to divide people by class, economic status, and political value. Segregation was a vital role in controlling social mobility. Ultimately, it prevented African Americans from securing jobs, achieving higher education, and buying homes. The completion of World War II marked the end of the Great Depression; however, it also sparked the height of the Great Migration. During this time, many African Americans left the rural south in hopes of escaping crippling Jim Crow Laws, with the expectation of freedom and integration in the North. Unfortunately, the rapid influx of blacks created strain between African Americans and Whites, prompting a new era of white flight from cities to suburban areas. During this time, “the median city, which had 200,000 white residents,

absorbed 19,000 black migrants,” ultimately prompting, “the departure of 52,000 white residents, resulting in a 17 percent net decline in the urban population.”³ White flight caused a myriad of social problems for marginalized individuals in American society. White emigration out of the city and into the suburbs caused a separation of wealth between the two areas. Minimum wage jobs, poor education, and limited social mobility are all aspects created by white flight, and continue to perpetuate structural inequalities.

2. The Marginalization of Blacks

Marginalization of Black Americans was a direct externality of white flight. The creation of suburban neighborhoods in effort to ensure segregation has created a perpetual cycle of poverty and socioeconomic strife for African Americans. The departure of Whites from urban areas prompted a decline in economic opportunities for Black Americans, including social networks and commerce, which, “reinforce[d] a cycle of failure and poverty”⁴ that continues to affect African Americans in modern day society. Educational institutions also suffered from White departure. Today, urban and rural schools are less developed and funded than their suburban counterpart. In fact, these schools, “may not ever have the ability to recover from economic hardship, thus subjecting the educational institutions . . . and those that they serve . . . to a substandard education.”⁵ When students are forced to attend schools with lower funding, they are more likely to lack the resources they need to finish school. Accelerated learning programs and classes for students with learning disabilities will suffer most from lack of funding, and will leave students at a disadvantage to those who attend suburban schools. In the wake of a growing credential society, the value of a high school diploma and higher education is incredibly high. By devaluing inner-city schools, Whites solidified the social hierarchy through white flight by placing their children in ‘better’ educational environments, therefore solidifying their chances of attaining a secure job. Research shows, “[m]igratory resources [also] lead to shifting tax resources, creating gentrification and stratification of social class.”⁶ Many African Americans and other marginalized individuals live in inner-city areas. Historically, White Flight removed many Whites from inner-city public schools, and relocated them to better financed public institutions in the suburbs. Evidently, “Whites . . . avoid[ed] individuals they perceive[d] to be low status, whether by moving to all-white or mostly white neighborhoods or enrolling their children in all-white or mostly-white schools.”⁷ Consequently, those left in inner-city school systems were subjected to underfunded public schools, whose education quality paled in comparison to its suburban counterpart. The longstanding effect of this is a cycle of low-income jobs with little economic vertical mobility. This creates a cycle of poverty, which also becomes tied to the groups of races experiencing these circumstances.

2.1 African Americans and Racial Hierarchy

Unfortunately, African Americans have been systematically disadvantaged due to the hierarchical classist system, ultimately leaving them racially and economically at the bottom of the social pyramid. “Skin colors and facial features commonly used to define race are selected precisely because, when arranged hierarchically, they resemble the country’s class-and-status hierarchy. The darkest people are for the most part at the bottom of the class-status hierarchy.”⁸ This system of racial classification continues to be used to determine economic mobility, job qualification, and worth. In fact, African Americans are the only racial group whose features are not automatically associated with upward mobility.⁹ In addition to this, criminalization of blacks creates a framework which depicts them in a negative light. African Americans occupy the lowest class in the American hierarchy. Their historical struggle of being downtrodden, held in captivity, and viewed as fugitives has created a narrative for present day individuals. Because African Americans are criminalized and are associated with poverty, they carry a connotation of being dangerous, lazy, and unworthy of job opportunities. They must, “constantly prove that they are worthy of equal access to the American Dream.”¹⁰ This prevents them from moving up the social hierarchy, making economic gains, or building assets for themselves. Forced segregation created a false consciousness about the criminalization of African Americans. This perception was also created through news media, which reports crime in poverty ridden areas, where African Americans and people of color were forced to reside.

3. Racial Disparities in Home Acquisition and Appreciation

Perception plays an important role in the procurement of a home. Racial disparities in home appreciation and ownership stem from lasting discrimination of white flight. Though the Fair Housing Act of 1968 supposedly, “eliminate[d] overt discrimination and disparities in the housing market,”¹¹ a two-tiered housing system, The Home Owners’ Loan Corporation (HOLC) and Federal Housing Administration (FHA), still target white borrowers and exclude[s] African Americans by institutionalizing redlining and democratization. Legalized acts such as redlining and democratization of housing allow industries to decide which individuals are favorable for housing. Seeing as equal ownership in housing between blacks and whites is not socially accepted, these legal institutions will refuse housing loans to Black Americans because, in doing so, they will be preventing housing prices from dropping. These practices are linked to the, “reverberations of differences in wealth generated by forces such as slavery, sharecropping, and redlining that echoed, however powerfully, from a distant past.”¹² These legal loopholes are historical reminders of how the U.S. has perpetuated a desire for segregation.

3.1 The Racial Wealth Gap in Relation to Homeownership

Racial disparities in home appreciation continues to widen the wealth gap between African Americans and Whites. Maintaining secure housing has been a reoccurring issue for African Americans. In fact, “Black and Hispanic homeowners are less likely to sustain homeownership and more likely to return to renting than their white counterparts.”¹³ Home equity is one of the greatest assets a person can have. When racial disparities in homeownership occur, the lack of assets can be detrimental to an individual’s credit. This lowers one’s chances of building credit and bettering their economic standing. Also, “[b]y inhibiting the transitions of African Americans into homeownership, the creation of subprime lending destabilized homeownership through the exit from homeownership.”¹⁴ Because White homeownership is higher than African American ownership, Whites have better monetary assets. This contributes to the wealth gap between the two races. With limited opportunity to better economic standing, the gap between African Americans and Whites will continue to grow.

3.2 White Attitudes Toward Suburban Integration

Though de jure laws supporting housing discrimination were abolished, de facto ideals continue to perpetuate racism in home buying and ownership in suburban areas. One researcher conducted a survey to find if integrating blacks into suburban neighborhoods is more accepted in modern day than in 1976. “In 1976, three-quarters [white Detroit residents] said they would be comfortable if their neighborhood had one black family. Twenty-eight years later, whites almost universally accepted the minimum of[sic] level of integration: 93 percent were comfortable.”¹⁵ After the passage of the HOLC and FHA, discriminative attitudes were still prevalent among brokers and white homeowners. Unfortunately, as recent as 2004, “two-thirds of whites said they would be comfortable living in a neighborhood of 10 white and 5 black households.”¹⁶ In continuation of the study, Farley conducted the experiment again and raised the racial composition integration to 50-50. In this survey, “just one-half said they would be comfortable in such a neighborhood,”¹⁷ when in 1976, only one-quarter agreed. Discriminative attitudes towards integrating Black Americans into suburban areas contributes greatly to the gap of wealth and homeownership between Whites and African Americans. If there is a general attitude not to accept the movement of blacks into predominantly white neighborhoods, home loaning institutions will use this as an argument that blacks bring down property values and are not economically stable enough to own homes in suburban areas.

Neighborhoods with a large population of African Americans are connotated as economically unstable. Many home loaning companies deny black borrowers’ money on the premise that their existence would lower the value of homes in their residing area. Unfortunately, “neighborhoods with a large population of African Americans and other people of color typically received the lowest ratings and were deemed too risky to secure government backed mortgages.”¹⁸ This can cause economic strife for African Americans intending to borrow from government back loaners because studies have proven the increase of blacks negatively affects the housing market. One study found, “a ten-percentage point increase in the black population share is associated with a 6% [sic] decline in housing process.”¹⁹ Stereotyping African Americans based on preconceived notions about their economic success is detrimental to their chances of owning homes and building financial assets. Those who cannot receive a loan may experience the opposite effect of the issue—too much loan debt.

4. The History of Suburbanization and Segregation

Suburbanization was the fastest way for Whites to segregate themselves from their black counterparts. Suburban areas formed around historically black communities, emphasizing the desire to remain segregated from one another by choosing to live on the outskirts of black communities. History played a role in segregating racial groups through the creation of black communities when slaves escaped from their masters. These groups banded together for survival during the era of slavery, and continued to value their communities upon emancipation. In doing so, these neighborhoods emphasized, “the legacy of slaveholding and abolitionist activity combined with strong migration to the area before World War I, [which] laid the basis for a larger number of historic black communities.”²⁰ Segregation most likely persisted in these areas willingly, seeing as wounds of racial injustice were still fresh.

4.1 Redlining

Though early self-segregation played a role in the separation between African Americans and Whites, the primary driver of segregation in the U.S. was discriminatory government policies. Feeding off “white flight” tactics, the government created a series of policies to prevent Black Americans from integrating into White neighborhoods and towns. In 1933, upon facing a housing shortage, the federal government began a program to increase America’s housing stock. Franklin D. Roosevelt’s main prerogative was to provide housing for white middle- and lower-middle class families. African Americans were left out of this deal, and were instead pushed into the inner-city housing projects. When Black Americans attempted to pursue homes in suburbanized areas, government institutions such as HOLC and the FHA prevented them from doing so. Redlining became a vicious tactic used by these agencies to stifle the movement of African Americans into White communities. During the New Deal Era, the HOLC and FHA were given color-coded maps of metropolitan areas depicting which races inhabited certain areas of the city. Areas that were densely populated with African Americans were coded in red, warning builders to refuse Black homebuyers. These red-coded maps

also indicated to appraisers that these areas were too risky to insure mortgages. Additionally, the Underwriting Manual of the FHA clearly once stated that, “incompatible racial groups should not be permitted to live in the same neighborhood,” ultimately meaning that loans for African Americans would be impermissible.²¹ Unable to acquire housing, African Americans lost the opportunity to build wealth in an era that was once ideal for accruing assets.

Experts continue to study the lasting devastating effects of redlining. There is a noticeable difference between White and Black wealth when examined. Today, White wealth is thirteen times greater than Black wealth, with the idea of inheritance as the driving divider of wealth. Economist Darrick Hamilton and Sandy Darity concluded that inheritances and other intergenerational transfers “account for more of the racial wealth gap than any other demographic and socioeconomic indicators.”²² With White families inheriting more money than Black families. This is heavily correlated to the amount of wealth White families were able to accrue from homeownership and ultimately pass down to their family members overtime, while Black families struggled to acquire housing, a major monetary asset. Thus, redlining not only contributed to residential segregation, but also fueled the racial wealth gap as well. Discriminatory laws permitting redlining were later removed from the FHA manual in the Fair Housing Act of 1968 and Community Reinvestment Act of 1977, which banned any agency from discriminating against buyers based on race and criminalized agencies for imposing predatory interest rates or fees on minorities and African Americans.²³

4.2 The G.I. Bill

The Services Readjustment Act, most commonly known as the G.I. Bill, was passed in 1944 by president Franklin D. Roosevelt to help returning servicemembers assimilate back into civilian life. This act would come to aid nearly 2.4 million veterans achieve homeownership.²⁴ Unfortunately, disparities in dispersal of this monetary aid created a fissure of wealth between White and Black servicemembers. Black veterans were not permitted to use their G.I. provisions due to the refusal of banks making loans for mortgages in African American neighborhoods. The inability for Black veterans to use their G.I. benefits played an integral role in deepening the racial wealth gap seen today. The G.I. bill aided in fostering an abundance of wealth for White servicemembers by perpetuating a cycle of inheritance. When White servicemembers used their G.I. Bills to receive home loans, they were able to buy homes and pass down the wealth accrued by said homes to their children. Notably, Black servicemembers who were refused home loans via their G.I. Bill lost the opportunity to acquire the wealth their White counterparts received.²⁵ Furthermore, the G.I. Bill aided in funding mortgages in upcoming suburbs, a sly measure which also worked to prevent African Americans from integrating into White neighborhoods. These suburban homes rose vastly in value, creating a plethora of household wealth for White homeowners during the postwar era.

4.3 White Flight

Though factors including economic opportunity, overpopulation, and limited social mobility played a role in the emigration of Whites, White flight was primarily a result of racial discrimination against African Americans. Shetzer et al. concluded, “segregation was moderate in the early twentieth century, increasing to a high level only after the acceleration of the Great Migration of blacks from the rural south to selected northern cities after 1920.”²⁶ The premise of integration was virtually unheard of prior to white flight, let alone the idea of African Americans working for their own financial standing, instead of for the economic prosperity of their owner. Through segregation, Whites could continue to live through their discriminative ideals while also gaining a better economic status. This system also created a hierarchy of social standing which dictates wealth and job opportunity. White flight promoted the continuation of racism and superiority over African Americans.

5. The Solution to Minimize the Racial Wealth Gap

Increasing homeownership among African Americans will allow economic growth that will decrease the size of the current wealth gap between blacks and whites by providing the asset of home equity. A Pew Research survey found, “81[sic] percent of adults still believed that buying a home is the best long-term investment that a person can make,” while another study concluded that, “homeownership is an appropriate strategy to attack the racial wealth gap.”²⁷ Additionally, taxes on inheritance, reforms on capital income, and greater taxation of the wealthy are among many other possible solutions for closing the wealth gap.²⁸

When Black Americans attain homeownership, they will reach a better economic standing because it boosts their credit. As more African Americans gain better financial standing, the premise of neighborhood integration will no longer be hindered by the notion that Blacks and people of color will lower housing value due to their inequity of wealth.

6. Conclusion

White flight and government policies created detrimental implications for the accrual of wealth for African Americans. Inevitably, the wealth gap will continue to expand if the U.S. government does not take a deeper look at its role in the creation of these wealth disparities. Government agencies, educational institutions, and people alike must come together to heal the wounds of

its discriminatory history. Without a greater understanding in the causes and effects of institutional racism, opportunities for wealth reconciliation will not prevail.

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