CHAPTER ONE

Wealth Matters

> Property is theft.
> *Pierre Joseph Proudhon, 1809–65*

If I could cite one statistic that inspired this book, it would be the following: in 2007, the median white family held assets worth more than fifteen times those of the median black family. Even when we compare white and black families at the same income level, whites enjoy a huge advantage in wealth. For instance, at the lower end of the income spectrum (less than $21,000 per year), the median African American family has no assets, while the equivalent white family holds $9,000 worth of equity. Among the top income quintile (greater than $95,000 per year), white families enjoy a median net worth of over $395,000, more than three times the figure for upper-income African American families ($109,151).[1]

Herein lie the two motivating questions of this study. First, why does this wealth gap exist and persist over and above income differences? Second, does this wealth gap explain racial differences in areas such as education, work, earnings, welfare, and family structure? In short, this book examines where race *per se* really matters in the post–civil rights era and where race simply acts as a stand-in for that dirty word of American society: class. The answers to these questions have important implications for the debate over affirmative action and for social policy in general.

An alternative way to conceptualize what this book is about is to contrast the situations of two hypothetical families. Let's say that both households consist of married parents, in their thirties, with two young children.[2] Both families are low-income—that is, the total household income of each family is approximately the amount that the federal government has "declared" to be the poverty line for a family of four (with two children). In 2009, this figure was $22,050.

Brett and Samantha Jones (family 1) earned about $12,000 that year. Brett earned this income from his job at a local fast-food franchise (approximately two thousand hours at a rate of $6 per hour). He found himself employed at this low-wage job after being laid off from his relatively well-paid position as a sheet metal worker at a local manufacturing plant, which closed because of fierce competition from companies in Asia and Latin America. After six months of unemployment, the only work Brett could find was flipping burgers alongside teenagers from the local high school.

Fortunately for the Jones family, however, they owned their own home. Fifteen years earlier, when Brett graduated from high school, married Samantha, and landed his original job as a sheet metal worker, his parents had lent the newlyweds money out of their retirement nest egg that enabled Brett and Samantha to make a 10 percent down payment on a house. With Samantha's parents cosigning—backed by the value of their own home—the newlyweds took out a fifteen-year mortgage for the balance of the cost of their $30,000 home. Although money was tight in the beginning, they were nonetheless thrilled to have a place of their own. During those initial, difficult years, an average of $209 of their $290.14 monthly mortgage payment was tax deductible as a home mortgage interest deduction. In addition, their annual property taxes of $800 were completely deductible, lowering their taxable income by a total of $3,308 per year. This more than offset the payments they were making to Brett's parents for the $3,000 they had borrowed for the down payment.

After four years, Brett and Samantha had paid back the $3,000 loan from his parents. At that point, the total of their combined mortgage payment ($290.14), monthly insurance premium ($50), and monthly property tax payment ($67), minus the tax savings from the deductions for mortgage interest and local property taxes, was less than the $350 that the Smiths (family 2) were paying to rent a unit the same size as the Joneses' house on the other side of town.

That other neighborhood, on the "bad" side of town, where David and Janet Smith lived, had worse schools and a higher crime rate and had just been chosen as a site for a waste disposal center. Most of the residents rented their housing units from absentee landlords who had no personal stake in the community other than profit. A few blocks from the Smiths' apartment was a row of public housing projects. Although they earned the same salaries and paid more or less the same monthly costs for housing as the Joneses did, the Smiths and their children experienced living conditions that were far inferior on every dimension, ranging from the aesthetic to the functional (buses ran less frequently, large supermarkets were nowhere to be found, and class size at the local school was well over thirty).

Like Brett Jones, David Smith had been employed as a sheet metal worker at the now-closed manufacturing plant. Unfortunately, the Smiths had not been able to buy a home when David was first hired at the plant. With little in the way of a down payment, they had looked for an affordable unit at the time, but the real estate agents they saw routinely claimed that there was just nothing available at the moment, although they promised to "be sure to call as soon as something comes up. . . ." The Smiths never heard back from the agents and eventually settled into a rental apartment.

David spent the first three months after the layoffs searching for work, drawing down the family's savings to supplement unemployment insurance—savings that were not significantly greater than those of the Joneses, since both families had more or less the same monthly expenses. After several months of searching, David managed to land a job. Unfortunately, it was of the same variety as the job Brett Jones found: working as a security guard at the local mall, for about $12,000 a year. Meanwhile, Janet Smith went to work part time, as a nurse's aide for a home health care agency, grossing about $4,000 annually.

After the layoffs, the Joneses experienced a couple of rough months, when they were forced to dip into their small cash savings. But they were able to pay off the last two installments of their mortgage, thus eliminating their single biggest living expense. So, although they had some trouble adjusting to their lower standard of living, they managed to get by, always hoping that another manufacturing job would become available or that another company would buy out the plant and reopen it. If worst came to worst, they felt that they could always sell their home and relocate in a less expensive locale or an area with a more promising labor market.

The Smiths were a different case entirely. As renters, they had no latitude in reducing their expenses to meet their new economic reality, and they could not afford their rent on David's reduced salary. The financial strain eventually proved too much for the Smiths, who fought over how to structure the family budget. After a particularly bad row when the last of their savings had been spent, they decided to take a break; both thought life would be easier and better for the children if Janet moved back in with her mother for a while, just until things turned around economically—that is, until David found a better-paying job. With no house to anchor them, this seemed to be the best course of action.

Several years later, David and Janet Smith divorced, and the children began to see less and less of their father, who stayed with a friend on a "temporary" basis. Even though together they had earned more than the Jones family (with total incomes of $16,000 and $12,000, respectively), the Smiths had a rougher financial, emotional, and family situation, which, we may infer, resulted from a lack of property ownership.

What this comparison of the two families illustrates is the inadequacy of relying on income alone to describe the economic and social circumstances of families at the lower end of the economic scale. With a $16,000 annual income, the Smiths were just above the poverty threshold. In other words, they were not defined as "poor," in contrast to the Joneses, who were.[3] Yet the Smiths were worse off than the Joneses, despite the fact that the U.S. government and most researchers would have classified the Jones family as the one who met the threshold of neediness, based on that family's lower income.

These income-based poverty thresholds differ by family size and are adjusted annually for changes in the average cost of living in the United States. In 1998, more than two dozen government programs—including food stamps, Head Start, and Medicaid—based their eligibility standards on the official poverty threshold. Additionally, more than a dozen states currently link their needs standard in some way to this poverty threshold. The example of the Joneses and the Smiths should tell us that something is gravely wrong with the way we are measuring economic hardship—poverty—in the United States. By ignoring assets, we not only give a distorted picture of life at the bottom of the income distribution but may even create perverse incentives.

Of course, we must be cautious and remember that the Smiths and the Joneses are hypothetically embellished examples that may exaggerate differences. Perhaps the Smiths would have divorced regardless of their economic circumstances. The hard evidence linking modest financial differences to a propensity toward marital dissolution is thin; however, a substantial body of research shows that financial issues are a major source of marital discord and relationship strain.[4] It is also possible that the Smiths, with nothing to lose in the form of assets, might have easily slid into the world of welfare dependency. A wide range of other factors, not included in our examples, affect a family's well-being and its trajectory. For example, the members of one family might have been healthier than those of the other, which would have had important economic consequences and could have affected family stability. Perhaps one family might have been especially savvy about using available resources and would have been able to take in boarders, do under-the-table work, or employ another strategy to better its standard of living. Nor do our examples address educational differences between the two households.

But I have chosen not to address all these confounding factors for the purpose of illustrating the importance of asset ownership *per se*. Of course, homeownership, savings behavior, and employment status all interact with a variety of other measurable and unmeasurable factors. This interaction, however, does not take away from the importance of property ownership itself.

The premise of this book is a relatively simple and straightforward one: in order to understand a family's well-being and the life chances of its children—in short, to understand its class position—we not only must consider income, education, and occupation but also must take into account accumulated wealth (that is, property, assets, or net worth—terms that I will use interchangeably throughout this book). While the importance of wealth is the starting point of the book, its end point is the impact of the wealth distribution on racial inequality in America. As you might have guessed, an important detail is missing from the preceding description of the two families: the Smiths are black and have fewer assets than the Joneses, who are white.

At all income, occupational, and education levels, black families on average have drastically lower levels of wealth than similar white families. The situation of the Smiths may help us to understand the reason for this disparity of wealth between blacks and whites. For the Smiths, it was not discrimination in hiring or education that led to a family outcome vastly different from that of the Joneses; rather, it was a relative lack of assets from which they could draw. In contemporary America, race and property are intimately linked and form the nexus for the persistence of black-white inequality.

Let us look again at the Smith family, this time through the lens of race. Why did real estate agents tell the Smiths that nothing was available, thereby hindering their chances of finding a home to buy? This well-documented practice is called "steering," in which agents do not disclose properties on the market to qualified African American home seekers, in order to preserve the racial makeup of white communities—with an eye to maintaining the property values in those neighborhoods. Even if the Smiths had managed to locate a home in a predominantly African American neighborhood, they might well have encountered difficulty in obtaining a home mortgage because of "redlining," the procedure by which banks code such neighborhoods "red"—the lowest rating—on their loan evaluations, thereby making it next to impossible to get a mortgage for a home in these districts. Finally, and perhaps most important, the Smiths' parents were more likely to have been poor and without assets themselves (being black and having been born early in the century), meaning that it would have been harder for them to amass enough money to loan their children a down payment or to cosign a loan for them. The result is that while poor whites manage to have a median net worth of several thousand dollars, impoverished black families enjoy essentially no assets whatsoever.[5]

Since wealth accumulation depends heavily on intergenerational support issues such as gifts, informal loans, and inheritances, net worth has the ability to pick up both the current dynamics of race and the legacy of past inequalities that may be obscured in simple measures of income, occupation, or education. This thesis has been suggested by the work of sociologists Melvin Oliver and Thomas Shapiro in their recent book *Black Wealth/White Wealth*.[6] They claim that wealth is central to the nature of black-white inequality and that wealth—as opposed to income, occupation, or education—represents the "sedimentation" of both a legacy of racial inequality as well as contemporary, continuing inequities. Oliver and Shapiro provide a textured description of the divergence of black-white asset holdings. They touch on some of the causal factors leading to this growing gap, such as differential mortgage interest rates paid by black and white borrowers. However, because they use a "snapshot" of families as their primary source of information—that is, cross-sectional data collected at one point in time (the 1984 Survey of Income and Program Participation)—they are limited in the scope of their investigation of the causes and consequences of black-white wealth differentials over time.

I hope to build on the work of Oliver and Shapiro by developing a formal model for the inclusion of assets into statistical models of socioeconomic attainment and family processes, thereby mapping out the role that wealth inequities play in the larger context of a cycle of racial inequality. Specifically, it is the hypothesis of this book that certain tenacious racial differences—such as deficits in education, employment, wages, and even wealth itself among African Americans—will turn out to be indirect effects, mediated by class differences. In other words, it is not race *per se* that matters directly; instead, what matters are the wealth levels and class positions that are associated with race in America. In this manner, racial differences in income and asset levels have come to play a prominent role in the perpetuation of black-white inequality in the United States.

This is not to say that race does not matter; rather, it maps very well onto class inequality, which in turn affects a whole host of other life outcomes. In fact, when class is taken into consideration, African Americans demonstrate significant net *advantages* over whites on a variety of indicators (such as rates of high school graduation, for instance). In this fact lies the paradox of race and class in contemporary America—and the reason that both sides of the affirmative action debate can point to evidence to support their positions.

THE RACE-CLASS DEBATE

A brief review of the discourse on racial inequality may help to put the thesis of this book in historical perspective. The concept of equality most often used in public discourse was inherited from the French Revolution: *equality of opportunity.* Under this concept, equality would be achieved if each individual in a society enjoyed the right to compete in a contest unimpaired by discrimination of any kind. This form of equality would clearly be incompatible with an active, "color-aware" form of racial oppression such as the refusal to serve someone at a lunch counter or the denial of a job to an individual based on his or her physiognomy. Further, this concept fits very well with the game-like image many Americans have of the capitalist system. If the game is fair, our whole society is bettered by it. By contrast, if the rules are stacked in favor of one group, society is not making maximal use of its human resources. For example, if African Americans are barred from higher education, society as a whole may be deprived of the skills of a great surgeon or engineer who could not attend a university because of skin color. With this premise, arguments for equality of opportunity can often be made on the basis of efficiency rather than equity.

Because of this ideological safety valve, equality of opportunity is perhaps the least threatening type of equality to many in the white majority, who see a place for all at the starting gate as an underlying premise of the capitalist system. Lingering conscious or unconscious ideas of white superiority may have additionally blunted fears. According to this logic, whites would not have much to lose by allowing blacks into the economic game; if whites are inherently superior, why should they fear the entry of blacks into the contest? The belief in white superiority that had formed part of the public discourse since the early days of Western imperialism, we can speculate, may have provided a sense of security to some of the more privileged whites who did not fear for their class position, particularly during the period of rapid economic growth after World War II.

For these reasons, equality of opportunity served as the underlying philosophy and rallying cry that drove the liberal political triumphs of the 1950s and early 1960s, capped by the 1964 Civil Rights Act and the Voting Rights Act of 1965. With such legislation, equality of opportunity—in name at least—had been achieved. In theory, after 1965, discrimination in hiring, housing, and other aspects of life was illegal. It was at this point, according to sociologist William Julius Wilson[7] and others, that an overt phase of racial oppression ended in the United States and was replaced by economic subordination.

While legal equality of opportunity might have been established and some income gains made, institutionalized racism persisted nonetheless, and the scars of centuries of overt repression remained. A second type of equality had yet to be realized: *equality of condition*—more progressive and less ideologically acceptable to the American public than equality of opportunity. According to political scientist Jennifer Hochschild, "Three-fourths or more of both races agree that all people warrant equal respect, that skill rather than need should determine wages, that 'America should promote equal opportunity for all' rather than 'equal outcomes.'" She adds that most Americans think that everyone should attempt to amount to more than their parents and that "trying to get ahead is very important in making someone a true American."[8] Clearly, upward mobility and socioeconomic success are fundamental to at least the rhetoric of what it means to be American. By such a definition, African Americans may, in fact, be the most American of all, for by some socioeconomic indicators, they have made incredible progress since the passage of civil rights legislation. By other measures, however, they are not so "American"—that is, for whatever reason, upward mobility has been more difficult.

Although as a group African Americans have made progress in a number of socioeconomic areas, the base from which they were starting in the 1960s was dismally low. For instance, in 1964, only 9.4 percent of blacks held professional or managerial positions, compared to 24.7 percent of whites.[9] The median family income in the black community was less than half that in the white community. By the end of the decade (1969), 41.2 percent of black children still lived in poverty, compared to only 9.9 percent of white children.[10] Even when we compare blacks and whites with similar educational credentials, African Americans suffered from lower incomes and worked in less prestigious occupations than their white counterparts.[11] Statistics aside, the televised ghetto riots of the late 1960s may have been evidence enough for many American observers that substantial racial inequities remained in the United States.

Overall, conditions were worse for blacks than for whites across America. In addition, the mechanism by which inequality was transferred from generation to generation was different in the African American community. In their classic 1967 study, *The American Occupational Structure,* sociologists Peter Blau and Otis Dudley Duncan observed that the relationship between the occupations of black fathers and the occupations of their sons was weaker than the similar relationship among whites: regardless of class origin, African American individuals seemed destined to end up in the lower, manual sector of the economy. Blau and Duncan called this condition "perverse equality." In the same vein, the higher an African American attempted to rise in the occupational hierarchy, the more discrimination the individual faced. "In short," wrote Blau and Duncan, "better educated Negroes fare even worse relative to whites than uneducated Negroes."[12]

Despite a lack of equality of condition, many sociologists and historians agree that the period of the 1950s and 1960s was a time of important gains for African Americans. For instance, between 1949 and 1969, the median income (adjusted for family size) increased by 173 percent among African Americans, in contrast to a 110 percent increase for whites. (Keep in mind, however, that blacks were starting from a base income that was slightly more than a third that of whites in

1949.)[13] Additionally, between 1940 and the early 1970s, the black middle class grew at a faster rate than the white middle class. Based on a definition of "middle class" as having a family income twice the poverty line (note the income-based conception of class), the percentage of African American households in this group rose from a minuscule 1 percent in 1940 to 39 percent in 1970.

The period since 1970—the era of "economic subordination," according to Wilson—has been difficult to interpret in terms of race. Some of the positive trends continue for middle-class African Americans; other statistics, however, tell a different tale, a story of poor African Americans getting poorer. In deciphering the current state of race in America, it may help to view racial inequality in the context of the life course, starting with birth. Black infants, for example, are much more likely than white infants to be born with a low (under 2,500 grams) or a very low (under 1,500 grams) birth weight. In 1994, medical complications associated with low birth weight were the primary cause of death among black infants and the third leading cause for white infants. Correspondingly, the mortality rate among black infants in 2005 (13.6 per thousand) was over twice that among white and Hispanic babies (5.8 per thousand for whites, 5.5 for Mexicans, 4.7 for Central and South Americans, and 4.4 for Cubans).[14]

Looking beyond infancy, we find that over half of all African American children under the age of six live in poverty, three times greater than the proportion in the white community.[15] When we move up the age ladder, the news gets better before it gets worse again. In examining educational statistics, we find that the high school completion rates for blacks and whites are essentially the same among younger adults (ages twenty-five to thirty-four, the group for whom civil rights advances should have had an effect), with 85 percent of African Americans attaining at least a high school education, compared to 88 percent of whites. Among this same age group, 50 percent of non-Hispanic blacks have received some college education (not necessarily a degree), compared with 66 percent of non-Hispanic whites. When we examine college completion rates, we find that Whites are about 1.5 times as likely as blacks to complete a bachelor's degree (28 and 17 percent, respectively). The college attrition rate for black students has become a major problem on American campuses.[16]

When we move out of school and into the labor market, the situation deteriorates. The black-white wage ratio has begun to widen slightly for all education levels since the 1980s.[17] Labor force participation and unemployment differentials have also increased.[18] For example, in 2007, the unemployment rate for blacks was 8.3 percent, whereas it was only 4.1 percent for whites. The black unemployment rate has only rarely dipped below double digits since the dawn of the civil rights era, and it has reached 15 percent during the current economic downturn (in April 2009). Even when African Americans are able to land a job, it is likely to be a less desirable position. In 2004, 27 percent of employed African Americans held professional or managerial jobs, compared to 38 percent of employed whites. By contrast, black workers were overrepresented in the service sector, with its lower wages: 24 percent of employed African Americans worked in service industries in 2004, while only 14 percent of their white counterparts held jobs in this sector.[19]

Income trends reflect the occupational position of black workers. In 2004, the median income for black families was 61.9 percent that of white families ($30,173 compared to $48,784). In this same year, 26 percent of black families lived under the poverty line, whereas only 9 percent of white families did so. Educational differences do not explain these income gaps. For instance, among individuals who are high school graduates (but have not completed additional education), average earnings are $22,823 and $28,145 for blacks and whites, respectively. When we consider only men, the disparity widens. Black male high school graduates earned an average income of $30,391 in 2005 compared to $40,621 for white males. In other words, in 2005, African American male high school graduates earned 75 cents to the dollar earned by white male high school graduates. For more educated groups, wage ratios are not much better.[20]

The labor market difficulties that African American men continue to face have repercussions further up the age ladder. As mentioned earlier, the black-white wealth gap is even wider than the income difference. Other areas of life are affected as well. For instance, in 1997, only 46 percent of black families consisted of a married couple (with or without children). This figure is 56 percent of that for whites (81 percent).[21] Some argue that this dearth of marriage in the African American community is partly a result of a shortage of marriageable (read: well-employed) black men.[22] There seems to be a causal loop in the logic of the current discourse on race in the United States: if black families have two full-time workers, they can maintain economic equity with whites, but blacks face economic obstacles in getting and staying married (as Chapter Five discusses). Race, family, and life chances seem to be inextricably linked in a vicious circle of inequality over the life course.

Given all these trends, it is understandable why liberals and conservatives are constantly at odds on issues such as the impact and continuing value of affirmative action or the reasons for persistent gaps in socioeconomic attainment between blacks and whites. Both sides can point to statistics to support their arguments, and the debate reaches a stalemate.[23]

The most provocative thesis regarding the state of racial equality today remains that issued by William Julius Wilson back in 1978 in his book *The Declining Significance of Race*, which was championed and attacked by a variety of scholars from both sides of the political debate. Wilson argued that the civil rights victories of the 1960s led to a situation in which overt racial oppression is largely a thing of the past (equality of opportunity), but in which the socioeconomic (read: class) differences between blacks and whites disadvantage African Americans relative to their white counterparts in terms of their chances for success in life. In its most distilled form, his argument is simply that class has eclipsed race as the most important factor determining the life chances of African Americans. As Wilson himself puts it in the first sentence of his classic work: "Race relations in America have undergone fundamental changes in recent years, so much so that now the life chances of individual blacks have more to do with their economic class position than with their day-to-day encounters with whites."[24]

Understandably, Wilson's controversial argument about the declining significance of race has come under careful scrutiny. Many researchers have tested his hypothesis that class is more determinant than race of the life chances of black Americans. Support has been found for his claim in terms of occupational mobility both within and across generations,[25] although race still remains salient in predicting earnings for given education levels[26] and net worth.[27] Furthermore, many scholars have documented the continued importance of race in both the economic and the symbolic realms for many black Americans.[28] There is some disagreement about the exact mechanism by which race affects the life chances of black Americans: some claim that it has a direct impact net of socioeconomic background characteristics; others argue that it does not. Most are in agreement that race influences the way socioeconomic background (class) affects the outcomes of individuals (a sort of compromise in the race-class debate). In other words, a consensus seems to be emerging that blacks who come from middle-class backgrounds are doing better than ever before while poor, predominantly inner-city blacks are being left further and further behind. In other words, there is an "interaction" between race and class background.

The race-class debate is far from settled, however. At the time Wilson penned that provocative statement (1978), it had not even been fifteen years since the end of the era of overt, legally tolerated racial oppression. If class has eclipsed race for any group, it would have done so for those born since the 1960s. In this book, I hope to push the race-class debate further by examining this post-1960s cohort and by revising how we think about class by adding net worth to the measurement of socioeconomic status.

WHAT IS SOCIAL CLASS?

In the jargon of social theory, the concept of "class" implies fundamental economic cleavages in a society, such as those between laborers and capitalists, managers and workers, manual and nonmanual employees, skilled and unskilled workers, or even blue-collar and white-collar workers. In the practice of social research, however, categorical class measures such as these usually prove inferior in their predictive power to a more gradated approach such as measuring socioeconomic status (SES). Researchers generally use indicators of SES to gauge the influence of social background on a variety of outcomes. The three measures that usually constitute socioeconomic status are education, occupation, and income.

There are many theoretical and empirical reasons why these three measures have been used. Put simply, they work—that is, in combination, they explain a significant amount of variation in socioeconomic outcomes across and within generations. They are also fairly easy to measure. Education is usually measured as years of formal schooling or highest degree attained (high school, college, and so forth). Occupation is scored in terms of its social prestige (for instance, being a doctor is more prestigious than being a salesperson, which in turn is more prestigious than being a ditch digger). Income is fairly straightforward: the more one has, the better off one is. (Chapter Two provides a more thorough discussion of these variables.) What these three measures have in common is that they fit nicely with our image of a fair society in which everyone gets a shot to succeed according to his or her own merits. Educational attainment may be at least partly related to innate cognitive ability as measured by IQ; educational success often translates into a prestigious occupation, which may in turn yield a high income.

By contrast, wealth, which has been left out of empirical analysis thus far, has other connotations, such as inheritance. Wealth is much more stable within families and across generations than is income, occupation, or education. In short, we are less likely to have earned it and more likely to have inherited it or received it as a gift. Therefore, wealth does not fit neatly into our vision of the ideal, meritocratic society.[29] Yet, for this very reason, it is critical to consider wealth when addressing issues of intergenerational inequality. At the same time, the social prestige that accompanies the ownership of assets is often the end to which education, occupation, and income all serve as the means. In both these ways, wealth forms an important part of social class.

The University of California sociologists who authored the recent work *Inequality by Design: Cracking the Bell Curve Myth* offer a good summary of the importance of wealth to a sense of economic security and social class. "Being prosperous," they write, "may mean owning a vacation home, purchasing private security services, and having whatever medical care one wants; being squeezed may mean having one modest but heavily mortgaged house, depending on 911 when danger lurks, and delaying medical care because of the expense of copayments." They highlight the important interaction of assets, income, and class by stating that for average, middle-income Americans, "one missed mortgage payment or one chronic injury might be enough to push them into the class that has been left behind."[30]

These authors employ the image of a ladder to illustrate two conceptually separate questions of inequality that are worth investigating. Who ends up on which rung is one question (issues of opportunity); the other is how far apart the rungs are (issues of equity/distribution of rewards). Wealth in its most tangible form represents the rungs to which many aspire; however, its importance in the transmission of inequality reveals that how far apart the rungs are placed is not independent of the factors that determine who ends up on which rung. Thus, we must consider that wealth both represents class and determines class.

Through this dual nature, assets can serve to create or reinforce class identity. One mechanism by which property may help to cement a status group stems from its consumptive and conspicuous nature. For example, a status group might be unified on the basis of its common ownership of summer residences in a "selective" area. Expensive luxury cars might also signal status through what Thorstein Veblen called "conspicuous consumption," in his book *The Theory of the Leisure Class.*[31] Identity through consumption is not limited to elites, however, as Veblen may have implied in 1899, when he wrote; consumption has become (or may have always been) a realm of expression for the middle classes as well. In 1970, sociologist Edward Shils wrote about consumption under the rubric of "lifestyle," claiming that it is a basis for social standing that follows a different conceptual logic than the prestige hierarchy located within the labor market (that is, the doctor/ditch digger differential). He argued that "lifestyle is one of the most important bases of prestige because, like occupational role, it is among the most continuous and observable of the various deference entitlements."[32] In this manner, each investment decision—which house to buy, which securities to own—is a lifestyle judgment that creates a group status affiliation for the owner. This dynamic may be most apparent with visible investments—illiquid assets such as homes, vehicles, and businesses. "In its permanence," writes Charles Abrams of the family home, "the owner sees the stabilization of his own values; in the firmness of its foundation he follows his own roots into the community . . . in its ownership, he sees release from the fears and uncertainties of life."[33]

While wealth can create symbolic affiliations in the realm of lifestyle differentiation, it also has the effect of determining group alliances within the purely economic realm. At various times during the industrial history of the West, it may have made sense to speak of occupational categories as the prime, if not sole, locus of class identity. The union-management dichotomy at one time served as the contested field for group interactions within both the economic and the political spheres, and group identity largely followed this dichotomy. As Richard Sennett and Jonathan Cobb wrote in *The Hidden Injuries of Class,* "The essential character of money power for most manual workers is that it comes to them not individually, but collectively, through union action. . . . The labor negotiator is fighting for categories of work to be rewarded, not for individuals to be singled out."[34] In the case of union contracts, the wages of co-workers (for instance, the two sheet metal workers described earlier) directly affect each other since co-workers often find themselves together in a collective bargaining situation.

Today, however, this is less often the case. Unionization rates have hit a low of 11 percent in the U.S. private sector. One is no longer tied to co-workers in the labor market to the same extent as yesteryear; rather, one is in direct competition with co-workers in an economy that relies increasingly on temporary and nonunionized labor. Skill differentiation has become more finely graduated within the work force even as its variance has increased (as is inevitable with the ceaseless division of labor); each worker is more an individual entrepreneur trying to protect his or her tenuous position through constant cultivation of "human capital." No longer—in a global, postindustrial economy—can workers stand united on the basis of occupational roles that are themselves in flux. Thus, we can speculate that class identity resulting from common economic interests may solidify less frequently in the labor market and increasingly in other areas of life.

The realm where one's own economic interest may remain directly tied to that of one's fellow humans is in the world of property relations. Property values offer a prepackaged measure of social worth. In a sense, asset values serve as a quantification of social structure defined through the law. For example, the price of a rare painting, a misprinted U.S. stamp, gold, or any security is determined collectively through the market and is "artificially" (by human action) propped up in the marketplace. The value of a Renoir, ten thousand shares of IBM stock, or a pork belly futures contract is wholly determined by the fact that these items are socially desired within the society. In this sense, property values are where culture meets economics.

Nowhere can this be seen more clearly than in the realm of housing, the most common form of property accumulation in America. While it matters little what wages one's next-door neighbors earn, it matters dearly how the neighbors want to decorate the outside of their house. The value of the neighbors' property directly affects one's own economic fortunes—manifested in the price of one's own home. If the neighbors choose to decorate their home garishly (as defined by the tastes of the collectivity through the market) or to let it deteriorate, their action will lower not only their own property values but also the property values of other homes in the neighborhood by making the entire block a less "desirable" spot to live. In this manner, housing property merges—in a very visible way—symbolic status interests with direct economic ones. The results of this marriage range from strict zoning laws and school redistricting to "white flight" and the converse phenomenon of "gentrification." In all these ways, inequality is mapped by ownership for this generation and the next.

RESEARCH STRATEGY

One of the guiding motivations of my research is that if class (that is, socioeconomic status) is reconceptualized, uncoupling it from its traditional reliance on labor market measures such as income, occupation, and education, the apparently muddled situation of racial inequality in contemporary America will become clearer. The strategy that I employ to clarify this situation is to analyze data from a survey that has been conducted every year since 1968. The uniqueness of this particular survey (called the Panel Study of Income Dynamics, or PSID) lies in the fact that it follows the same families over time. As long as the researchers can track them down, every family from the original 1968 sample of five thousand American households (and those that have been added since the original set of interviews) is sought out and reinterviewed each year.

An additional strength of this survey is that any time a new family forms out of one of the sample families, the new family is given its own identification code as well as a number that links it back to the original family. In the case of divorce, for instance, two new families are added to the PSID rolls and are tagged with a common identifier specifying how they relate to the original family. The same holds true for the children of sample families who grow up and move out on their own. It is these children, born since 1962, who will form the basis of my analysis.[35]

The PSID is even more appealing for a study of race and wealth because the assets and liabilities of each family are reviewed every five years (beginning in 1984). Thus, one can follow the dynamics of family wealth and fortunes over time. Given the richness of these data, I followed the strategy of investigating the role of the levels of wealth held by specific families in 1984 on the outcomes of children from those households (whether or not the children moved out of the parental home) in the early to mid-1990s.

By relying on an analysis of how parental wealth during an individual's adolescence affects that individual's later outcome, I hope to avoid the major pitfall of this type of research: reverse causality. If I were to measure wealth and its consequences at the same time—in a snapshot fashion—I could never be sure whether wealth was affecting education, for instance, or whether education was affecting wealth levels. I have tried to avoid the lion's share of reverse causation by taking care to temporally order my measurement of indicators, but I must stress from the outset that family economic dynamics are complex, and even the best efforts to carefully avoid such pitfalls as reverse causality are not foolproof.

For example, if parents were reasonably sure that their teenage son would succeed in school and thus would be able to support himself well into his old age, the parents might consequently decide not to save very much money, believing that the child would not need it for his future. This possibility would present a case where causality ran from child's education to parents' wealth level (with a negative relationship), even though the latter had been measured a decade prior to its determinant! Alternatively, parents might spend all their wealth on private, early childhood education for their child and thus have little left by the time the child was a teenager in 1984. While such a dynamic would not constitute reverse causation *per se*, it too would result in an underestimation of the effect of parental net worth, since the wealth would have already had its impact and would have vanished by the time it was measured in 1984.

With such complex psychological and economic decision-making going on within families, I stress that the purpose of this book is not to provide the definitive word on measuring the effects of wealth and its relationship to income or other SES dynamics. If, for example, the PSID measured assets and liabilities every year as opposed to every five years, such a goal might be more feasible. Additionally, if the PSID included questions on the motivations of respondents for their economic plans and documented each investment and consumption decision, such a study might be more tractable. In the end, however, a definitive study is probably not completely feasible within the context of survey research. Rather, it would be better suited to in-depth, anthropological methods that seek to understand the decision-making dynamics within the household unit.

The purpose of the current study is more modest: simply put, it is to show that before we attribute black-white differences in certain life outcomes to race *per se*, we must take a better accounting of the economic resources available to American families, by not limiting ourselves to income measures. Whether the effects I attribute to wealth are actually reflecting unobserved family differences or permanent income levels (lifetime expected earnings), for example, is not my primary concern. My main consideration is what happens to black-white differences when we choose to compare families with the same wealth levels (and who are equal in other characteristics that I can measure). Undoubtedly, there will be many omissions of possible alternative explanations, ranging from the economic to the attitudinal; however, what I hope remains at the end of this story is a demonstration of the reduced significance of race alone in a variety of realms where race has previously been considered to be of great importance.

IS IT ALL BLACK AND WHITE?

Throughout this introduction, I have spoken only of blacks and whites when addressing the issue of race. America is no longer a biracial society, however. So why examine the impact of wealth and property issues with respect to blacks and whites exclusively? One reason for this strategy is technical. It is very difficult to find useful, longitudinal data on assets for the American population; this is particularly true for minorities who make up a small percentage of the population, even when their numbers are growing rapidly. The PSID survey used for this study began collecting information from five thousand American families in 1968, following them each year up through the present (and will follow them into the future). At the time the survey commenced, families of Asian descent and those of Hispanic origin did not make up nearly as large a percentage of the total population as they now do. Therefore, by today's standards, they are greatly underrepresented in the original group that was to be studied and followed over the years. (The survey team has, however, made recent efforts to add other minority groups to the sample population.) Given the underrepresentation of these and other groups who have grown as a percentage of the general population in the three decades since the survey began, it has not been possible to present reliable statistical analysis for these families.

That said, there are other reasons why this shortcoming should not be so troubling. Perhaps the most important is that on almost all measures—including property ownership—blacks and whites demonstrate the greatest disparities of all racial groups in the United States.[36] This holds true for indicators ranging from residential segregation to wages to academic achievement. In other words, what is true for Latinos in terms of hindered life chances appears even more true for African Americans. Further, within the Hispanic population, wide variation exists in wealth and other factors. Certain groups such as Cubans and Spaniards tend to fall close to whites for a variety of indicators, whereas other groups such as Mexicans, Puerto Ricans, and Dominicans more resemble the African American population by socioeconomic and family measures. In short, the Hispanic population demonstrates much variation but largely falls between blacks and whites (closer to African Americans on average). Even more interesting, skin color within the Hispanic population is a good predictor of where on the spectrum between blacks and whites an individual is likely to fall. In other words, the "blacker" a Hispanic person looks, the more likely he or she is to resemble the African American demographic profile; the "whiter" a Hispanic person appears, the more he or she will resemble the demographic profile of European ethnic groups.[37]

What about Asian Americans, the so-called "model minority" (that is, a group that has been socioeconomically successful despite its minority status)? At one time in American history, Jews were considered the "model minority" and were pointed to as an example of how "anyone can make it in America" (the implied question asking why blacks could not do the same thing). Interestingly, Jews today are no longer generally considered a separate race but instead form part of the white community. In fact, sociologist Andrew Hacker claims that there are only two races in America, white and nonwhite; therefore, for instance, Pakistanis with very dark skin can be considered symbolically "white" in his scheme. He argues that today Asian Americans fall under the "white umbrella" as an "in-group"—in other words, they are not systematically excluded from reaping the benefits of American capitalism, as are those under the "black umbrella," the "out-group." Correspondingly, today the role of model minority has been largely taken over by Asian Americans.[38]

The issue of entrepreneurship also comes into play when making comparisons. If many Chinese and Koreans, for example, can come to the United States with nothing and manage to excel in school and start businesses with little formal capital, why cannot African Americans do the same? The answer to this question may lie in a long cultural history of entrepreneurship among these Asian ethnic groups—or perhaps in their very status as immigrants. "Immigrants in the United States, Canada and Australia," write Ivan Light and Carol Rosenstein in *Race,* *Ethnicity, and Entrepreneurship in Urban America,* "continued to manifest higher rates of self-employment than the native born, a proclivity they have displayed for at least a century."[39] By definition, immigrants are the world's overachievers, so they do not form a valid comparison group for the native black or white communities. The act of migrating itself is an important causal factor to be reckoned with before any judgments are made about the relative proclivities of ethnic groups toward entrepreneurial activity.

Research has supported this immigrant exceptionalism argument, finding in one case, for instance, "that successive generations of white ethnics [in Providence] evidence successively lower rates of self-employment."[40] Another study found that when "human capital" (education) is held constant, Asian American and African American entrepreneurship rates are essentially the same.[41] Other work contradicts this finding, however, finding a net lower rate of self-employment among blacks even after factoring out a variety of other variables.[42]

Theories of entrepreneurship may offer some explanation. One theory holds that a group's rate of self-employment will be high when it faces disadvantage in the rest of the labor market.[43] Thus, the fact that Asian Americans get a "low" return on their educational credentials could help to explain their higher rates of entrepreneurship. But what about African Americans? As we have already seen, black Americans receive lower wages than the majority group (whites) at the same education levels. According to the theory, we should then expect African Americans to have a higher than average rate of self-employment; instead, the rate is lower (3.7 percent in 1993, compared to 9.0 percent for whites). These rates may indicate that this theory of "labor market disadvantage" is missing an important component: group resources (that is, levels of human capital). It is one thing to have high levels of education (as Asian Americans do) and not be adequately rewarded for them. It is quite a different situation to have lower than average education levels (as African Americans do) and receive still lower returns on these years of schooling. In other words, the labor market equilibrium will balance itself in favor of self-employment only when the resources are there to begin with.[44]

Consumer racism has also been shown to have a role in depressing the rate of black entrepreneurship.[45] If nonblack consumers—who obviously form the largest part of the market—automatically prefer a white electrician or barber to a black one, for instance, this discourages

African American self-employment. It is also important to realize that the rates of entrepreneurial activity for one group are not independent of the rates for other groups. While there has been no evidence to show that Asian American businesses have "prevented" black ones from forming, we do have evidence that rates of Asian entrepreneurship increase in communities with a high percentage of black residents (net of the size of the Asian population).[46] In other words, Koreans, for example, may not be displacing black businesses, but they are filling a consumer need in black communities that otherwise would have gone untended since African Americans may lack the financial and educational resources to start such enterprises. Entrepreneurship is related to immigration, labor market prospects, and wealth endowments in complex ways. Thus, even if the data were available, comparing Asian immigrants with native-born black Americans is neither simple nor fruitful. The clearer comparison, which I will make in Chapter Two, is between blacks and whites, the vast majority of whom are native-born.

ORGANIZATION OF THE BOOK

Chapter Two presents the first statistical analysis, addressing the question of why blacks own so much less property than whites. Some scholars have argued that whites have merely enjoyed a head start in property accumulation as a result of the overt economic and political advantages they have held for centuries. The other side of the debate has claimed that contemporary issues such as residential segregation and differential credit access are the major culprits in accounting for the racial difference in property holdings. Results from an analysis that links two generations show that among the youngest cohort of blacks and whites, historical (that is, parental) wealth disadvantages are the most salient factors, although contemporary dynamics may become important over the life course.

Chapters Three and Four demonstrate how this wealth difference affects the life chances of young blacks and whites. For instance, Chapter Three shows that when we compare black and white individuals, while factoring out the effect of blacks' lower average parental incomes and wealth levels, we find that African Americans actually complete higher levels of education than their white counterparts. Further, the much-touted employment and earnings gap between blacks and whites is largely explained by class dynamics, not by race *per se*, as Chapter Four demonstrates. Wealth explains much, but it does not explain every racial difference: analysis in Chapter Five suggests that class accounts for some, but not all, of the black-white differential in premarital childbearing. At the same time, however, when net worth is taken into consideration, we find that the risk of being on welfare is the same for blacks and whites.

All of this is not to suggest that culture does not matter. Rather, these findings suggest that the culture (the attitudes, values, and practices of daily life) that leads to welfare dependency, for example, or the culture that begets wealth accumulation or educational success is not something based predominantly in either our racial identity or our genes. Rather, such cultural practices constitute the manifestation of and reaction to the economic class conditions in which blacks and whites tend to find themselves. What this study tells us, in other words, is that, on average, whites and blacks without homes or savings act the same, just as those with many assets, a great deal of education, and so on tend to behave in a similar manner (which does not deny that there remain important—yet socioeconomically benign—differences between blacks and whites, just as there are between any pair of ethnic, national, or religious groups). Many of the behaviors and circumstances that we have come to so closely associate with blackness or whiteness are really more attributable to the class structure of American society. It just happens that this class structure overlays very well onto skin color, which is a lot more visible than someone's investment portfolio. By saying that class "just happens" to map onto skin color, I do not mean to imply that this fact is the result of random chance. The consolidation of race and class is the fundamental problem to which this work and thousands that have preceded it point.

Taken as a whole, these findings should have a significant impact on the conception of racial inequality, the affirmative action debate, and social policy more generally. For example, we may be applying affirmative action policies to certain areas (such as education and occupation) in which African Americans do not truly suffer from a "racial" disadvantage while we neglect the realm in which the real seed of racial inequity lies: class/wealth inequality. To address the race question in the United States today, the question itself must be rephrased—casting it in terms of stocks, bonds, business proprietorship, and real estate ownership rather than in terms of education and earnings. We may find that our public policy discussions on the linkages between race, unemployment, and welfare dependency are misplaced because they lack a key element: the consideration of assets and social class. Throughout the book, I hope to inform this debate over race and class with empirical analysis. Chapter Six concludes by offering a theoretical unification of the evidence that has been marshaled in the previous chapters and speculates on possible implications for issues ranging from the causes of urban riots to affirmative action policy, from welfare policy to the potential privatization of Social Security.