2015

Minorities and the American Wealth Gap

Caitlin Mayer
Grand Valley State University

Caitlin Mayer

Winter 2015

Minorities and the American Wealth Gap

Since its founding, the United States has been known as a country in which hard work has a strong potential to translate to success. No matter who a person is or where they come from, everyone is said to have a chance at succeeding economically. But do they really? Rather than shrinking as one might expect in a country that promotes equality, the wealth gap has actually increased drastically over the past several decades, spurred by changes in political and economic structures argued by some to be designed to keep the top 1% of society in power by drastically limiting social mobility. As these changes continue to worsen the state of the economy for the 99% and the working class struggles to find well-paying jobs, minority groups struggle the most of all to earn a fair living. Over the course of this paper, I will examine the effect of the wealth gap upon these minority groups, with a particular focus on women, including but not limited to women who belong to minority groups outside of gender, particularly race. Through discussing these issues I hope to shed some light on the problems faced by minority groups situated within the economic 99%. In researching why these problems are perpetuated even today, I will discuss the plausibility of potential solutions to the extreme inequality that pervades in today’s society.

Before one can discuss the effect of the wealth gap upon specific groups however, one must first understand what the wealth gap is, why it exists, and how it has grown it its current size. Over the course of the last several decades, the economic system in the United States has distorted into one where social mobility is actually lower than it is in similarly well-off countries in Europe, and even many that are considered economically worse-off (Stiglitz). How is it that the once prevalent social mobility of the United States has fallen to a Gini co-efficient on par with those of Turkey and Thailand, two countries whose per-capita GDPs are less than one-tenth that of the United States (Schaefer)? The answer, as it would seem, turns out to be is just as complex as the problem itself. Many theorize that the wealth gap began with the oft-heralded principles of Reaganomics, a series of supply side economic policies implemented as an attempt to stimulate the economy and help get major corporations back on their feet after the financial crisis of the 1970s. The principle behind supply side economics is that the government can stimulate investment and improve production by lowering corporation taxes, which will help control inflation and lower prices. Although the idea is sound, the lack of evidence to support it leaves the theory with more dissenters than most. Whether due to the theory itself or incorrect implementation, after the deregulation of corporations, "from 1980 to [2011] median wages remained flat when adjusted for inflation," the vast majority of GDP growth in the last 35 years going directly to the very wealthiest participants in our economy (Scahefer 53).

However, this leaves us with a very important question: if the lower 99% hasn't seen any improvements to their situations over the past three and a half decades, then how has the economy been able to thrive? The answer as it would turn out has very little to do with increased wages or benefits for workers, but rather primarily with increased numbers. Between the years of 1975 and 1990 the percentage of adult females in the United States labor force jumped from below 40% to nearly 60%, with many of these women taking on full time jobs or close to it. This in combination with increasing levels of indebtedness and people taking on second jobs are what fueled much of the economic boom and kept the economy's improvements going despite the stagnation of the wages of middle class America.

Unfortunately, this boom came to an end with the financial crisis of 2008 and the subsequent recession. Unsurprisingly, the boom created and sustained through the making of increasingly unreasonable loans was unable to last. The fragile system's collapses led to a 44 percent drop in median wealth between 2007 and 2010, which is nearly twice the fall in housing prices that took place in the same span of time. In a similar vein, net worth inequality sharply increased during this three year window, largely due to the increased indebtedness of the middle class (Wolff 2). Although all groups were harmed in one way or another by the recession, the brunt of the damage was done to the middle class, and the end of the recession didn't put an end to the disparity. In fact, median wealth was virtually unaffected between 2010 and 2013 despite improvements to asset prices. The vast majority of the improvements were seen once again by the top percentages within the economy. Concurrent with stagnating wages and ever decreasing government support to the middle and lower class at the hands of budget shortages, median wealth in 2010, in real terms, was lower than median wealth in 1969. One important factor contributing to the budget shortage was the continuation of tax breaks to the very wealthy, resulting in decreased tax revenue (Wolff 8).

From this information, one important matter to be addressed is how median wealth fell despite the unchanged median income. The answer as it would seem, is a drastic increase in household debt. Indeed, per household mortgage debt, on average and in real terms, grew by 59% from 2001 to 2007 alone, this change stemming largely from the encouragement of big banks to allow increasingly unreasonable and unrepayable loans to be made. Meanwhile other costs continued rising as well, most notably education. Over the last thirty-five years, the real-dollar average cost of college has more than doubled. (Wong). The change has been the steepest since the turn of the century, the last 15 years accounting for well over half of the change. As a result of the rising prices of education educational loans are also up, with the percentage of households reporting educational loans rising from 13.4% to 15.2% between 2004 and 2007, before climbing to 2013's 19.9% (Wolff 12). These changes directly reflect the spending that the government cut from education during the Great Recession and failed to restore in the years following. Between stagnating wages, rising debt, and ever-increasing inequality, one thing has become clear: "put simply and bluntly, the great American middle class has become a non-participant in the American dream" (Collins 2).

While it is true that the majority of the middle class has been harmed in one way or another by the ever-growing inequality in the United States, not all groups within the economic group have fared the same. Though the effects of supply side economics in conjunction with the Great Recession have been felt by most, these effects are amplified for women, who are found in higher percentages in the lower income brackets despite pushes in recent years for wage equality across genders (Allen 33). But what causes this disparity between men and women? Some argue that the difference in earnings has to do with the tendency of women to work less than their male counterparts, choosing instead to focus on their families and the household. While this is true to an extent, the root of these gender roles and their effect are worth discussing. One major factor that makes it more difficult for women to rise through the rankings in the workplace is purely biological: pregnancy. Unfortunately, employer discrimination due to the time that women take off of work for pregnancy and childbirth is still prevalent, jobs often encouraging women who choose the 'mommy track' to give up their careers, or at the very least to stay in lower-paying, less important positions (Ore 701). While the track many women take as a result of this may seem understandable at first glance, the problems with the notion are made clear under further examination. As a necessary part of the life cycle, one might expect that childbearing would be viewed similarly to other time taken off of work due to physical needs, but Ore's study finds that men's time off from work due to sickness or other physical needs is not discriminated against in the same way (Ore 701). Instead the stigma rests solely with women, who are expected to "use efficient contraception to plan their pregnancies and childbirths, just as they are supposed to work out efficient child-care arrangements" (Ore 701). The fact that "their ability to do so is heavily influenced by government policies on access to contraception and abortion, by employers' policies on maternity leave, and by the availability of affordable child care in their community" is of no matter; women are simply expected to either put up with these discriminations or to leave the labor force (Ore 701). Given this option, it is no surprise that women in two parent households continue to be the secondary earners for the family, if they work at all.

The perpetuation of gender roles in the family is not on the surface level always seen as such a bad thing, even despite these workplace differences: after all, specialization of tasks allows for greater efficiency, regardless as to whether the man or woman of the family acts as primary breadwinner or caregiver, respectively. Despite the potential efficiency gains however, there are some inherent problems with discrimination resulting from the expectation that women focus on raising their children instead of focusing on their careers. One of the largest problems with the way gender roles set up society is that once the nuclear family structure is broken apart, so too does the system. Single women are far more likely to be the primary providers for children than their male counterparts, but because of the stigma of mothers in the workplace, they may face reduced abilities to acquire sufficient income to support these children. Another major issue with the traditional structure is that it reduces female agency. Because "the gendering of work and family roles restricts women's ability to build up assets over the life course," women all too often wind up financially dependent on the men of the household (Denton 106). Because of this dependence women are oftentimes left unable to make decisions for themselves, agency limited by their financial dependence. As time goes on these gender roles perpetuate themselves, the tendency of men to be the primary earners in the household becomes expectation, giving way to discrimination against women who attempt to fill this role in their stead. As Tracey E. Ore points out in her article *The Social Construction of Difference and Inequality*, "although the rationale is biological, the differential treatment is political. In bureaucratic organizations, the workers and, more crucially, the people in top positions, are expected to be male" (Ore). This expectation gives way to preferential treatment and while women will oftentimes find it difficult to obtain a promotion or raise they are qualified for, men working in an industry typically dominated by women tend to find themselves in the opposite problem. In the same way that a glass ceiling is used to describe the invisible pressures which present challenges for women in male-dominated industries, Williams (1992) uses a glass escalator that men are faced with in female-dominated industries to describe the pressure that these men experience to move up in their professions. These invisible pressures makes things difficult enough for women in traditional family units who want or need to provide for their family either primarily or secondarily, but it can make matters all but impossible for women who do not conform to these groups. One way that women are able to place a premium on themselves that will make them perhaps more qualified than what would otherwise be their male counterparts is to acquire additional education. However even acquiring higher education does not add to the discrimination women face; if anything it increases it.

While the 'college premium' has increased for both men and women over the years, it has increased far less so for women than men. In fact, the college premium, which was nearly identical for men and women in the 1960s, is now much lower for women than for their male counterparts, only reaching a 65% increase as opposed to 90% (Heathcote 5). While the fact that the college premium was more or less the same across genders in the 1960s seems impressive, this was partially counteracted by the fact that the gender wage gap overall was so much greater at that point in time. Still, the increased college premium gap is just as telling a statistic as the wage gap itself, and even more so when the two are combined. After all, with minimum wage laws in place, low skilled laborers both male and female are more likely to make equal or at least similar amounts to each other in their low-skill positions, greatly reducing the wage gap in that sector of the labor force. As such, it can be inferred that the wage gap in higher-paying industries is in fact even larger than wage gap statistics would lead one to believe, as supported by the significantly lower college premium among the female population. Another factor to take into account is the difference between observed wages and offered wages. The wage gap is a useful statistic to have, but it fails to take into account what the wage gap would be if all women who wanted to be employed were. One category of women in particular that the wage gap fails to accurately represent are women who are married to high-wage spouses. As stated by Jonathan Heathcote, Kjetil Stresletten, and Giovanni Violante in The Macroeconomic Implications of Rising Wage Inequality, “the gender gap for average observed wages is smaller than offered wages, because low-wage women married to high-wage men tend not to work full time” (24). This makes the true extent of wage inequality difficult to trace, as it is difficult to know how many hours these women would have opted to work had they been able to secure higher-paying employment- while it is true that some of them may have continued to only work part time, many of them likely would have opted for more hours than their current choices may reflect.

Another major source of discrimination that leads to wage and wealth inequality in the United States is, unfortunately, race. Despite all the progress that has been made over the course of the past century to eradicate racism, it is still true that on average, a typical African-American family will have somewhere between 8 and 13 cents of accumulated wealth per dollar of wealth of the average white family in the United States (Chiteji 352). While much of this has to do with the reduced ability of African Americans to inherit wealth from family due to previous discriminatory policies, much of it can be connected to policies that pervade even today. One example of this is the difference between the costs of borrowing for black families versus whites. Despite anti-discriminatory laws, the typical African-American family pays higher interest rates when they borrow than the typical White family, by about 1% for home mortgages and 3% for car loans. (Chiteji 356-357). Though these differences may not seem major on first glance, spread across the population of the entire United States, the differences in ability to accumulate wealth resulting from these differences in interest rates have a drastic impact. However, the predisposition to begin life in a low-wealth family and higher borrowing interest rates are not the only monetary issues observed when comparing blacks to whites. While the previous two indicators of a racial wealth gap are more likely to influence poorer families, the discriminatory systems in place are not without their hold on the blacks who are free from those constraints. In fact, the sector of the population that is college-educated is also that which contains the largest racial wealth gap, with black college graduates having on average a net worth much more similar to white high school graduates than white college graduates (Chiteji 358). While part of the wealth gap among college educated blacks versus whites can be explained by the fact that 11% more black undergraduates had to borrow to finance their schooling than whites in similar situations, this does not account for the entire difference, the rest a compounded result of discriminatory policies of the past and behaviors of the present (Chiteji 358).

One problem that prevents many non-whites from attaining similar pay and wealth to whites is unequal education. Because of discriminatory policies in the past that inhibited the ability of non-whites to make as much money, there is a larger proportion of blacks and other non-whites in lower priced housing than in more expensive areas. Because the American public school system is based in part off of the property tax of homes in a given school district, districts whose inhabitants own more expensive property are by extension going to be better funded than their low-income counterparts. Because of this, children who attend schools in lower-income districts are less likely to receive an education good enough to get them into college or even away from low skill labor, perpetuating the cycle. Succinctly put, “children in one set of schools are educated to be governors; children in the other set of schools are trained for being governed” (Kozol 291). Although this type of discrimination is not against people of color in particular, a larger percentage of people of color get caught up in this net than do percentages of whites.

Even setting the matter of race aside however, the issue of unequal schooling leads to a different kind of discrimination, namely economic. Because the people who are brought up in low-income areas are educated in such a way that they are likely to stay there and people brought up in high-income areas tend to be given the educational tools they need to follow in their successful parents’ footsteps, there is little incentive for those in the latter category to assist those in the former. After all, making changes to the system that would allow for more equal opportunities would benefit the children of strangers over their own offspring, or at least put them on closer to equal footing. The further removed those in the top percentage points of the economy become from those in the lower classes, the more extreme these differences become, and the greater the apathy. It is because of this potential for removal of those in economic power from those who aren't that democracy plays such an important role in maintaining equality in the United States, one vote for one person affording those without economic power with the chance to have a say in the goings on in the world around them. In recent decades however, even this power has been greatly reduced for those in lower income brackets. There have always been lower voter turnout rates among the economically disadvantaged than their wealthier counterparts and a much higher proportion of wealthy people elected into political positions, but the amount of say that higher-wealth individuals have in the inner workings of our government have in recent decades expanded far beyond these economically fortunate people being more likely to turn up at the voting booth or on the ballot. The supply side economic policies that began in the late 1970s have since expanded into political policy, with major corporations gaining more and more say in government policies every year, the most notable example of this expansion of power being the 2014 Supreme Court decision to eliminate political campaign donation limits. While it is true that this policy change has the potential to allow a potential candidate to get funding they might not otherwise have been able to acquire, the risk stands that large corporations may use this power to ensure that the names most likely to side with them are those that end up on the ballot. It is through these practices that lawmakers are likely to form a bias towards the very people who helped them into office, resulting in further tax breaks to the very wealthy and subsequent budget cuts. Holding with supply side economic theory, promises are typically made that private investment will serve as an effective replacement for the removed government programs, but no statistically significant evidence has been found to support this claim. As time passes and more and more of these policies are put into motion the power of the average citizen declines, the power of the corporation overtaking it. Although it is a stretch to suggest that “one dollar, one vote has increasingly replaced one person, one vote,” there certainly is the potential for corporations to influence who it is possible to vote for (Schafer 53). As decades upon decades of policies in favor of the corporations compounded themselves, so too has the wealth gap become further entrenched in our nation.

As inequality grows in the United States, another problem becomes more and more prevalent: shrinking opportunity. As demonstrated by the inequality of the education system in the United States, “whenever we diminish equality of opportunity, it means that we are not using some of our most valuable assets- our people- in the most productive way possible” (Stiglitz). As a result of large percentages of the population receiving educations nowhere near equal to the educations provided to the wealthiest members of the country, the United States policies and funding of education not only perpetuate the wealth of those who are already economically fortunate, but also squander the minds of the majority of the United States population. In cutting education budgets across the country, public policy hinders not only the economic success of these people, but also the innovations that their minds could have brought had they attained a better education.

The wealth gap and the problems stemming from it are enormous, but not necessarily insurmountable. As extreme as the wealth gap currently is in the United States between economically well-off white males and people of different economic, gender, and ethnic backgrounds, there is potential for changes to be made that could narrow the gap. Although making the changes necessary to put the economy on track to being the most productive it can be will be difficult, it is not impossible. In order to do so, there are three primary types of discrimination that must be combated against in both public and private spheres: gender, racial, and economic discrimination. In order to shape an economy that reaches the full extent of its potential and produce maximum output for the nation as a whole, these discriminations must be eliminated in order to prevent the squandering of human capital. Though this process will not be immediate, it can be sped up through a combination of new political policies and the restructuring of the way that Americans think of gender, race, and economic status.

Although women are much more empowered currently than they were in the previous century or even earlier in this one, as stated above, there are still overwhelming cultural biases in the United States. One policy that could help to change this would be to further push Affirmative Action until it eventually becomes standard policy in all companies and educational institutions. A major barrier to be overcome is the current perception that many have of Affirmative Action, which is that it is a form of reverse-discrimination which prevents oftentimes more qualified straight white men from getting into their schools of choice or getting a job or promotion that they are seeking. This notion continues despite the lack of evidence to support it, and the fact that it is illegal under Affirmative Action to hire underqualified workers or less-qualified workers on the basis of their sex or race. (Reskin 392). The fact that complaints continue to be received that affirmative action is the reason an individual failed to get a job or a place in a school they wished to attend is not evidence of this supposed reverse-discrimination in action, but rather indicative of the likelihood that these believers in reverse-discrimination are unable to believe that women or minorities could have been selected for a position as a result of actual merit (Reskin 391). While many people who do not belong to minority groups continue to believe that policies such as affirmative action are bad for business, the opposite has proven to be true. In companies that ran tests to see how affirmative action effected their costs versus gains, it was overwhelmingly the case that affirmative action not only reduced race and sex discrimination, but lowered firm costs relative to savings (Reskin 392). The idea that the supposed quotas used in affirmative action have a negative effect also prove false, considering that it is rare for employers to use quotas, and even those who do use quotas do not engage in hiring unqualified workers. To the contrary, Reskin's study found that 94% percent of CEOs surveyed believed that the implementation of Affirmative Action had improved their hiring procedures in addition to saving money (393). These findings strongly suggest that the expansion of Affirmative Action could only serve to benefit firms and universities. Another benefit to the expansion of Affirmative Action is that as more women and other minorities begin entering previously white male-dominated areas, men may gradually become more and more accustomed to their presence. By having more women and other minorities in the workplace, men who otherwise would have had little need to interact with these people outside their traditional roles will be forced to see women, blacks, and other minorities in an environment that exhibits their skills and competence. As time goes on this increased exposure could make way for reduced discrimination.

Another way to reduce discrimination against women and other minorities would be to alter the public education program in the United States to include mandatory humanities classes. Though humanities courses are often perceived as soft options due to the lack of mathematics or hard sciences necessary in the field, they have the potential to significantly reduce gender, racial, and other biases in the younger generations. This is especially true in parts of the country where interaction with people belonging to minority races is limited and stereotypes associated with other minorities continue to be perpetuated without challenge. However, one major pitfall for this proposal is that as it stands, the schools that would be most in need of these programs are likely to be the same ones that lack the funding to incorporate them effectively into the curriculum. Still, with the intensive educational reform that would be required to put people of all economic backgrounds on an at least somewhat more level playing field, the implementation of courses designed to increase understanding of those labelled as some type of other from the norm could potentially become plausible. The main obstacle to be overcome in this case would be to acquire adequate funding for underprivileged public schools.

Another area in which government policy could to be changed in order to promote the advancement of equal opportunities and thus the reduction of the wealth gap is changes in maternity policy. Although change is taking place in the percentage of women in the labor force and their wages in comparison to men, there are still barriers in place that prevent many women from advancing to the same heights as their male counterparts. As mentioned earlier, one such barrier is pregnancy and maternity leave. A potential solution to the discrimination women currently face if they choose to start families would be for corporations to eliminate maternity benefits, replacing them instead with parental provisions allowing fathers, mothers, or both together to take periods of leave to care for an infant (Hacker 193). This change would not only allow women to remain as primary or equal earners if they chose to do so, but would also eliminate or at least reduce challenges faced by single parents or same-sex couples. Since such a policy is unlikely to be voluntarily enacted on a widespread basis however, government involvement in the form of incentives or a gradual change in regulations would enable this change to take place within a much shorter span of time. Although many opponents of such changes cite unprofitability, many European countries have had similar parental provisions in place for years without serious negative consequence, suggesting that such policies have the potential to do well in the United States also.

All of the proposed changes to be implemented in attempt to reduce the wealth gap would be rather costly however, which is often cited as the primary reason why many of these changes have not already been made. The United States has been in trillions of dollars of debt for years now, and budget cuts are cited as necessary. While this is true to an extent, there are viable solutions available that would not only increase government spending on public education and health-care, but also reduce and eventually eliminate the federal government's debt. One example of this is the People's Budget, a budget proposal made in 2011 which would have increased Social Security funding, extended health-care reform, made cuts to military spending, and put in place tax reforms. The policy would have preserved Medicare, Medicaid, and Social Security benefits. Additionally, the changes outlined in the proposal would have resulted in sufficient savings and revenues to both increase spending on education and eliminate the budget deficit (Miller 36). Despite the benefits it presented, the People's Budget was rejected. The main basis of this rejection was that it would have raised the taxes on corporations the top percent of United States citizens by too much. However, the levels of taxation outlined in the budget proposal were actually rather similar to those of only 30 years ago. Despite this, one reason cited for the failure of the People's Budget was concerns that by raising corporate taxes, the policy would lead to corporations laying off workers and raising prices in order to compensate for these changes. While it is true that such a reaction would likely come to pass if taxation increased too drastically too quickly, the rate of change proposed by the People's Budget would have been unlikely to do so, increased funding in the way of taxation upon the very wealthy being supplemented by shifts in spending from military to civilian. Despite the relatively low risks and high chance for reward for the middle and lower classes, such a solution as the People's Budget is unlikely be implemented so long as politicians continue to receive unlimited funding from the corporations and the general public continues to be poorly informed on the matter.

Though the current sociopolitical and economic climate presents unequal opportunities to those born into less privileged groups on a basis of financial standing, race, and gender, there is one route that remains available to enact change, and the eventual reduction of the ever-increasing wealth gap- informing the public. One of the reasons why such the wealth gap has flourished over the decades is that although people are aware of the disparity, many remain uninformed about the true extent of it, how it came to be, or even that things have changed as much as they have over the last few decades. As long as the greater majority continue to be uninformed on the matter, politicians will continue to be able to implement policies that perpetuate the gap. The shrinking opportunity associated with the current economic climate for the majority leads to reduced opportunities for innovation, not to mention economic stagnation powerful enough to harm even the most economically fortunate if left untended for too long. The path that the United States appears to be on now makes this future a strong possibility, but a major factor in that is the majority of the population remaining uninformed. Although the information is available for those who seek it, not enough is being done to make it common knowledge. In order to make calls for the necessary changes, the first step to reducing the wealth gap would be for people to be made aware of just how unequal things have truly become, why, and what could (with sufficient political backing) be done to stop it.

Sources

Chiteji, N. (n.d.). The Racial Wealth Gap and the Borrower's Dilemma. *Journal of Black Studies,* 351-366. Retrieved January 22, 2015.

Collins, C., Leondar-Wright, B., & Sklar, H. (1999). *Shifting fortunes: The perils of the growing American wealth gap. United for a Fair Economy*.

Denton, M., & Boos, L. (n.d.). The Gender Wealth Gap: Structural and Material Constraints and Implications for Later Life. *Journal of women & aging*, 105-120.

Hacker, A. (1997). *Money: Who has how much and why*. New York: Scribner.

Heathcote, J., Storesletten, K., & Violante, G. (2008, June 1). The macroeconomic implications of rising wage inequality in the United States. Retrieved January 1, 2015.

Johnson, S. (2009). The Quiet Coup. *The Atlantic* 23 Mar. 2009.

Kelleher, M. (2011). Racial wealth gap; 'diverging pathways: how wealth shapes opportunity for children'. *Education Week*

Miller, J. (2011). The people's budget: A plan to get deficit reduction off our backs. *Dollars & Sense, 36-36. Retrieved January 1, 2015, from ProQuest Business Collection.*

Minniti, M. (Ed.). (2011). *The dynamics of entreprenuership: Evidence from the global entreprenuership monitor data*. New York: Oxford University Press.

Ore, T. (2006). *The social construction of difference and inequality: Race, class, gender, and sexuality* (3rd ed.). Boston, Mass.: McGraw-Hill.

Piketty, T., & Saez, E. (n.d.). Top Incomes and the Great Recession: Recent Evolutions and Policy Implications. *IMF Economic Review,* 456-478.

Schaefer, C. (2012). Mind the Gap: Wealth Disparities, the Deficit and our Economic Future. LILIPOH.

Stiglitz, J. (2011). Of The 1%, By The 1%, For The 1%. *Vanity Fair,* 126.

Taibbi, M. (2014) *The Divide: American Injustice in the Age of the Wealth Gap*. New York City, New York: Spiegel & Grau.

Wolff, E. (2014, December 1). Household wealth trends in the United States, 1962-2013: What happened over the great recession? Retrieved January 1, 2015.