“’Twice as Hard for Half as Much’: Wealth Privilege and the Racial Wealth Gap”

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Abstract

Those who study the racial wealth gap are in a bind. Although the Life Cycle Hypothesis (LCH) serves as an effective framework to understand the wealth gap, it is itself incapable of explaining a key question: why the racial wealth gap is so much larger than the racial income gap. This paper introduces the Wealth Privilege (WP) model as an alternative vehicle to ground future analysis. Unlike the LCH, the WP model can incorporate both the effects of contemporary sources of racial discrimination as well as systemic sources that are the legacy of several centuries of racialized policies. Using evidence from the 2013 Survey of Consumer Finances, this paper examines each of the two models as they each attempt to explain wealth accumulation among White as well as Black and Latino households.

Introduction

When examining racial progress in the United States, most researchers have examined educational attainment, income levels, occupational advancement, or other socio-economic variables. In most cases, these comparisons offer some optimism, although all show substantial racial gaps stubbornly persist. An appraisal of the racial wealth divide generates a very different conclusion. While White households continue to hold substantial advantages in educational attainment, income, and occupational status, these leads pale in comparison to the wealth gap. Whereas White households typically earn about 60 percent higher than Black or Latino households do, White household wealth surpasses Black and Latino wealth by tenfold. Even worse, as one considers the many benefits of wealth, this yawning gap can undermine whatever gains Black and Latino households have earned "in the classrooms, workplaces, and paychecks" (Shapiro, 2004, p. 183). Without a thorough examination of the racial wealth gap, one cannot fully understand the underlying forces that are influencing any movement toward racial justice.

In comparison to occupational status, education, and even income, wealth provides a more enduring and multi faceted source of well being. Household net worth includes assets, both financial and real, as well as different forms of debt. Unlike sources of income that are vulnerable to unpredicted disruptions, most household assets hold their

value. Even as my rental property lies vacant and yields no rent, it keeps its value as long as it retains its capacity to earn future rent. My business may not make its quarterly profit, but its value remains unaffected if it maintains its potential for future earnings. Of course, wealth can suffer sudden and immediate loss. Homes can burn down and banks can close without warning. However, different forms of insurances are readily available to limit these risks. Thanks to its increased durability, wealth has distinct advantages over income as a source of well being. It provides financial security as it insulates households from exogenous income shocks, expected declines in earning during retirement, and unpredicted life expectancy.

Wealth provides more than simple financial security. Owning a car can expand one's employment opportunities. Buying a home can offer families both comfort and stability even as it serves as a family's most important investment. Wealth can finance needed education or training that can open career and occupational doors or it can serve as start-up capital to a new business venture. Wealth can advance one's political or social interests either in the form of political donations or charitable giving. Quite simply, wealth expands the choices, opportunities, and agency of its holder, causing it to be a concrete source of power. As Raymond Franklin (1991) provocatively argues: "Ownership carries with it domination; its absence leads to subordination" (p.xviii).

Further, wealth's durability offers its holder some measure of immortality. Though I cannot directly bequeath my income, my education, or my occupational status to my children, I can transfer my wealth largely unimpeded. The options are many. As they are growing up, I can finance numerous activities and experiences that will nurture their talents and develop their skills. By purchasing a house in neighborhoods that offer the strongest public schools, I can give them a head start. Alternatively, I can send them to the best private schools. Either way, they will gain substantial advantages as they look toward college. I can help them here as well. By underwriting their college education, I can expand their choice of schools and offer them the legacy of a college degree without debt. Further, I can pass my wealth along to the third generation as I help my kids buy their home in pricier neighborhoods with good schools. Labeled "transformative assets" by Thomas Shapiro (2004, p.2), these gifts have the capacity to expand the opportunities

of their recipients. Finally, I can transfer my remaining wealth directly through in vivo gifts or wait until my death. Either way, my wealth can long outlive me as it potentially touches generation after generation. In this way, "wealth has the particular attribute of tending to reproduce itself in a multiplicative fashion from generation to generation" (Conley, 1999, p. 25).

Wealth's capacity to holds its value over time produces two additional consequences worth noting. Its distribution across society resists dramatic shifts. The dismantling of Jim Crow and the resultant changes in public policies, employment practices, and social norms have expanded opportunities for persons of color in education and employment. Yet, these changes have affected the wealth gap only minimally. Indeed, the nominal wealth gap between White and Black households has quadrupled between 1984 and 2007 (Shapiro et al., 2010). Wealth's durability makes it resistant to changing fashions, causing it to echo past racial policies rather than current fashions. Looking forward, wealth's durability across generations suggests our current disparities will shape future opportunities. Affluent parents have the means to offer their children dramatic head starts, thereby influencing the distribution of wealth into the future.

Literature Review

As noted by Krivo and Kaufman (2004), the literature on the racial wealth gap has relied exclusively on the Life Cycle Hypothesis (LCH) as its conceptual framework. Most of the cited studies make explicit reference to using a life-cycle model (Altonji & Dorazelski, 2005; Blau & Graham, 1990; Hurst et al.,1998; Juster, Smith, & Stafford, 1999; Menchick & Jianakoplos, 1997) while another to using Friedman's permanent income hypothesis (Smith, 2001). Though not referencing either model specifically, other researchers have implicitly used it as the basis of their theoretical framework (Barsky et al., 2001; Gittleman & Wolff, 2000; Keister & Moller, 2000). While this literature has generated important insights, it is hampered by the fact that the LCH is poorly equipped to explain a central question: why the racial wealth gap is so much greater than the racial income gap.

Initially articulated by Modigliani and Brumberg (1954), the LCH has demonstrated exceptional robustness as it has spawned countless adaptations over multiple topics in both the microeconomic and macroeconomic literatures. According to the theory, households save out of their current income to levelize their consumption over their lifetime. Household wealth follows a predictable life cycle in which young householders dissave as they invest in human capital, engage in substantial saving during their peak earning years, and disperse their assets during their retirement years. Indeed, to achieve the goal of maximum constant spending, households ideally would exhaust their wealth just as death occurs. Differences in family inheritance, asset appreciation, and earnings spikes will all affect the distribution of wealth, but expected income and savings behaviors are the key drivers. Households will respond to unexpected bonanzas by revising their consumption expenditures upward, thereby causing the racial wealth gap to follow the racial income gap.

Despite its elegance, the LCH has resisted clear vindication when explaining the distribution of household wealth. One primary prediction of the model is that differences in household wealth should reflect disparities in normal income, if one controls for age and other demographic variables. Yet the vast differences in wealth and income inequality evidenced in the U.S. economy offer stark refutation to the theory. Wolff (1981) found the evidence selectively corroborating the model as it confirmed the experiences of urban, educated, and White households, but not those of rural, less educated, and households of color. Other researchers have found the model unable to explain the concentration of wealth among the upper tail. Atkinson (1971) argued that neither life expectancy risk nor earnings growth could account for the concentration of wealth among the rich while Wolfson (1977) ruled out differences in earnings, asset returns, or family formation rates as reasonable explanations. Even when adding a bequest motive to help one's children, this modification is insufficient to explain the wealth of the rich, regardless of whether the bequest motive is accidental (Huggett 1996) or intentional (De Nardi, 2004). Other research (Bernheim & Scholz, 1993) indicates that the LCH may overestimate actual saving among the wealth-poor. Hubbard, Skinner, and Zeldes (1994a) argue that the asset limits among means tested programs could account for this discrepancy.

As a savings based model of wealth accumulation, the LCH has difficulty explaining the vast differences between income and wealth inequality. Unexpected inheritances or income windfalls can generate severe wealth inequality. However, once wealth buffers are exceeded, the fortunate households will simply increase their consumption causing the wealth inequalities to erode over time. Many have amended the basic LCH model to overcome this challenge. Some authors have relaxed the life expectancy constraint and generated dynastic models to determine whether certain factors can replicate the wealth disparities, if given sufficient time to work (Carroll, 2000; Krusell & Smith, 1998; Quadrini, 2000). Noting that such dynastic models cannot account for intergenerational transfers, others have included bequests to children (De Nardi, 2004; Huggett, 1996) as a possible explanation while others argue that the rich and poor hold different attitudes toward leaving bequests (Heer, 2001; Hendricks, 2007; Laitner, 2001; Nishiyama, 2002). Although these bequest models predict a greater amount of wealth inequality, they fail to match the actual levels. Other refinements to the traditional LCH add sources of risk in the face of incomplete markets. Several researchers argue that the affluent, either as high earners (Castenada et al., 2003; Huggett, 1996) or as entrepreneurs (Cagnetti & De Nardi 2006; Quadrini 2000), face greater risks and therefore respond by building larger buffer stocks. Lastly, other modifications to the LCH include the assumption that the affluent have greater patience and less risk aversion (Krusell & Smith, 1998) as well as the presumption that the wealthy (as stockholders) have decreased risk aversion and greater opportunities for higher rates of returns (Guvenen, 2006). Although most of these modifications explain more effectively the yawning wealth gap, few are capable of doing so completely.

Turning specifically to the racial wealth gap, the LCH and its many refinements face equal challenges in explaining why the discrepancy between household income and wealth distribution. Nonetheless, a robust literature has emerged largely to explain the gap in wealth among Black and White households. Contrary to the specific predictions of the LCH, a number of studies argue that differences in earnings and household demographics (e.g. education, marriage, kids) could account for the wealth gap as they affect household saving (Altonji & Doraszelski, 2005; Avery & Rendall, 1997; Barsky et al., 2002; Gittleman & Wolff, 2000; Menchik & Jianakoplos, 1997). Unfortunately, these

studies generate wide-ranging estimates, normally between 20 and 90 percent, for what portion of the wealth gap they can account for. Worse, when these studies apply regression decomposition techniques, they find very different results depending on whether the White or Black estimates are used. This discrepant pattern suggests that White and Black households largely function under very different circumstances. Focusing solely on savings, Gittleman and Wolff (2000) conclude that 11 percent of the wealth gap could be explained if Black households saved at the same rate as White households. However, they note that virtually all of this savings difference is the result of lowered incomes. Others wonder whether different cultural values cause Black households to save less for retirement either because they hold greater expectations of relying upon family networks for support (Shin, 2010) or whether they exhibit less patience or greater risk aversion than comparable White households (Scholz & Levine, 2004). Smith (1995) finds evidence that poorer health and higher expenditures along with lower life expectancy and reduced earnings could account for some of the racial wealth gap. Lastly, the literature offers mixed messages regarding the importance of bequest motive for wealth accumulation as Smith (2001) finds a significant motive while Menchik and Jianakoplos (1997) do not.

As Blau and Graham (1990) concluded that earnings and other demographic variables played a relatively small contribution to the racial wealth gap, they speculated that family gifts and inheritances must be important. Two studies (Avery & Rendall, 1997; Menchik & Jianakoplos, 1997) examined the role of family gifts and inheritances and found similar results, indicating that intergenerational transfers explained between 10 and 20 percent of the wealth gap. Gittleman and Wolff (2000) examined inheritance patterns among White and Black households over a ten-year period; they concluded that differences in family transfers could account for roughly 10 percent of the wealth gap. Conley (1999) argued that parental wealth is the most important contributor to the racial wealth gap among young householders. Similarly, Chiteji and Hamilton (2002) find that 27 percent of the racial wealth gap among middle-income households is explained by family background, particularly as one considers both parental and sibling need. Narrowing the lens, another study (Charles & Hurst, 2002) found that 42 percent of White homebuyers received help from their families in collecting a down payment as

compared to 10 percent of black homebuyers. Lastly, Chiteji and Stafford (2000) demonstrated that parental wealth affects the transfer of financial knowledge across generations and thereby influence asset ownership. Though they argued this effect does not contribute mightily to the racial wealth gap, they noted that it could accumulate over several generations.

There exists overwhelming evidence that Black and Latino households experience lower rates of asset ownership from banking accounts to homeownership to business ventures. Several studies have examined how portfolio choices might influence the racial wealth gap. Two studies (Gittleman & Wolff, 2000; Hurst et al., 1998) suggest that around 10 percent of the racial wealth gap could be closed if Black asset portfolios resembled those of White households. Both studies attributed the primary role to differences in stock ownership rates. A third study examines the lower rate of self-employment within the Black community and concludes that it could also explain another 10 percent of the racial wealth gap (Menchik & Jianakoplos, 1997). Regarding the possibility of different rates on return on similar asset classes, Gittleman and Wolff (2000) found that Black households actually earned higher rates of return than did White households over a ten-year period. These differences could *increase* the racial wealth gap by 3 percent.

Though the racial wealth gap literature just discussed offers a nuanced and substantive understanding of the racial wealth gap, it relies upon a conceptual framework that limits its capacity to answer the question posed earlier: How does a income gap of less than two become a wealth gap of close to ten. According to the LCH, the vast advantage that White households hold regarding inheritances should lead to increased consumption and not a widening wealth gap. True, the need of newly prosperous Black and Latino families to help impoverished family members could explain some of this income / wealth puzzle. Similarly, the LCH would predict that most financial advantages experienced by White households due to their portfolio choices would soon lead to enhanced lifestyles. One exception to this point is the need of entrepreneurs to expand their wealth as a buffer against their uncertain income. Absent these possible arguments and controlling for income and demographic variables, the LCH is left examining a

number of cultural variables, including attitudes toward risk, credit, bequest motives, and time preference. Any of these might explain differences in savings behavior that could explain why incomes yield so little wealth in communities of color. Put bluntly, the LCH is naturally inclined to argue that the racial wealth gap is largely the result of reduced savings among households of color due to their shorter time horizons, increased risk aversion, and reduced interest in leaving a legacy.

The Wealth Privilege Model

For those scholars who study the racial wealth gap, the Wealth Privilege model can serve as a workable alternative. Unlike the LCH, the Wealth Privilege model encompasses different motives for wealth accumulation. While all households likely seek wealth to buffer themselves from life's instabilities, not all households may save in anticipation of retirement and an uncertain life expectancy. Blank and Barr (2009) believe that low-income households save more to meet short-run needs than for long-term retirement. As households earn more, they will likely save to meet any additional precautionary or life expectancy risks. Additional affluence offers households the opportunity to exercise a bequest motive, even in the absence of children. Even childless households care what earthly conditions are like a month after their own death. Being able to a legacy to selected charities may drive some households as much as helping their own kids. Throughout one's lifetime, the accumulation of wealth brings new opportunities and sources of power. Wealth can leverage human capital investment that opens new career choices. With substantial wealth, households gain social status as well as influence in their community. Organizations are eager to include wealthy individuals on their boards, which provide an opportunity to influence their mission and direction. Lastly, wealth offers a measure of immortality. Not only can my "name" and genes live on through the success of my children, but philanthropic opportunities enables my name to live on long past my death.

Like the Capitalist Spirit model, the Wealth Privilege model expands the role of wealth as it considers the shifting circumstances that households experience as they gain

affluence. Like all life-cycle models, the Wealth Privilege model includes the primary pathways of wealth accumulation – household saving, family gifts and inheritances, and asset appreciation. Yet, the WP model examines how the conditions along each of these pathway changes, particularly in their support of wealth accumulation. Doing so allows one to discern how race and wealth status intersect in the wealth accumulation process.

Each of these avenues of wealth accumulation, what I call the Household Saving, Asset Appreciation, and Family Support pathways, shares a common trait; each functions as a self-reinforcing feedback loop. Household saving can fund income-generating assets, from savings accounts to rental properties, that simply increase income and permit ever greater saving. This virtuous cycle not only permits households to experience increased saving as their income rises, but a higher savings rate as well. This is an insight that only economists might find surprising (Dynan, Skinner, & Zeldes, 2004). The Asset Appreciation pathway functions in a similar fashion. As households accumulate assets, they can assume greater investment risk since they have greater opportunities to diversify their portfolio. Their investment in higher return assets can yield ever-larger portfolios enabling them to assume additional risk. Increased wealth offers greater access to credit, enabling them the opportunity to leverage further returns. Consequently, larger portfolios generate disproportionately higher rates of return and fuel faster appreciation.

The Family Support pathway functions in a comparable way across generations. Affluent parents have multiple ways they can boost their children's prospects. With the gifts of superior education, cultural experiences, and social contacts, their kids can parlay this support into higher salaries and increased saving. Wealthy parents can offer in vivo gifts at such milestone events like college admission, weddings, starter homes, and their grandchildren's schooling. They can transmit their financial knowledge to their children, giving them greater exposure and comfort with different investments. The most visible form of family transfers is the gift of wealth at one's death. Less obviously, affluent parents place no financial demands on their children. As most parents simply ask their children to pay this help forward to the next generation, this pathway operates like the others for the affluent.

Of course, these three pathways complement and reinforce each other. Graduating from college debt-free not only offers the possibility of a lucrative salary, but also the opportunity for immediate investment. Without the burden of student debt, households can save immediately for the down payment on a "starter home". Receiving additional family help with the down payment only sweetens the experience. Households fortunate enough to access the Asset Appreciation pathway at an earlier age simply gain more years to profit from its fecundity. Rising asset values swell household income boosting household saving further. Each of these advantages contributes to greater wealth accumulation, offering families greater opportunities to assist their children.

In contrast, asset-poor households experience these wealth-building pathways quite differently as these self-reinforcing cycles generate different conditions. Low-income households often must liquidate saved assets to meet current expenses even as they acknowledge the bleaker prospects ahead. Unless their circumstances improve, they will continue to liquidate assets to meet present obligations. Alternatively, they can draw upon credit to meet their current needs. As their credit balances mount and their interest charges escalate, escape from this debt spiral becomes increasingly difficult. The same forces that favor the affluent show disfavor to those without adequate income.

The Family Support pathway operates in a similar fashion. While we usually view family gifts as simply going from older to younger generations, the reality is more complex. In many families, parents or siblings may suffer extensive health problems that generate unpaid medical bills. Alternatively, parents and grandparents may simply outlive whatever savings they were able to accumulate. Under these circumstances, younger households from less affluent backgrounds must often respond to requests for help from older family members. Providing such assistance diverts critical savings required to build their own retirement fund, causing them to make a similar request on their children later on. Households from less affluent families not only start out with less, but they experience a greater likelihood of diverting precious savings from their own needs to help their kin. Not only does the wealth of one generation reach into the next, but also its dearth in one generation can retard the next.

In a similar, though less dramatic fashion, the Asset Appreciation pathway functions poorly for households of modest means. Largely due to inconvenient locations and high fees, nearly a quarter of low-income households are unbanked thereby depriving of them of key services and income on their savings (Bucks et al., 2006). For most households, the purchase of a car or truck serves as their first major investment. While frequently essential in generating family income, such vehicles along with furniture and household appliances are depreciating assets. As modest households have the bulk of their wealth invested in these three categories, they experience little benefit from asset appreciation. Further, asset thresholds limit their entry to asset appreciation. Substantial down payments limit the opportunity of homeownership, as families need to save for years to overcome this barrier. Even then, they encounter fewer choices regarding which neighborhoods they might purchase a home, leading to smaller rates of appreciation. Among those who purchase mobile homes, fully two thirds do not purchase the land their home sits on, thereby causing them to miss the financial yield of homeownership (Collins & Dylla, 2001).

The mechanisms and circumstances just described provide the infrastructure that gives rise to the model's name. The concept of wealth privilege results from the confluence of institutions, policies, and behaviors that favor the affluent as all households work to better their circumstances. Many of the systemic circumstances and institutional forces that encourage wealth privilege appear inevitable. It seems inescapable that higher-income households will find it easier to save a larger portion of their income. With larger and more diverse portfolios, would we not expect wealthier households to take greater risks and earn higher returns? Regardless of their resources, parents will support their children as best they can in assuring them a head start in their lives; wealthier parents simply have greater means to do so. In each case, these sources of wealth privilege stem from predictable behaviors.

Other sources of wealth privilege stem from institutions and policies that favor the affluent. While banks compete vigorously to cultivate wealthy depositors, their high minimum balances and substantial fees discourage modest savers, causing many to remain "unbanked". Being paid electronically, affluent households can direct portions of

their paycheck into a savings account, making saving easy and automatic. Low-income households are more likely to be paid by check. Without a bank, they depend on check-cashing services that charge substantial fees. As cash, their potential savings are vulnerable to theft, impulse buying, and pilferage by family members. Online banking services provide their customers with bill payment reminders and automatic billing, thereby protecting them for late fees and interest charges. As Mullainathan and Shafir (2009) argue, differential access to banking services is not haphazard, but reflects

> "a built-in asymmetry in banks' incentives between credit and savings for the poor and the rich. Regarding poor clients, banks have a greater incentive to promote debt (which can be lucrative, delayed, and compounded) rather than savings (which are bound to be modest), as opposed to the treatment of the wealthy, whose debt is likely to be repaid with little penalty and whose savings promise to be large and valuable" (p. 134).

Other public policies follow suit in favoring the wealthy over the wealth-poor. The home mortgage deduction selectively rewards homeowners who pay down their mortgage balance even though this represents largely non-discretionary saving. Generous tax exemptions are directed at IRA and 401K type savings accounts to encourage additional saving. These savings accounts are tailored to meet the particular savings needs of the wealthy rather than the savings preferences of low-income households who are better served by "rainy day funds". Other tax deductions like the home exclusion and the capital gains exclusion increase the rewards to risky investments that are largely the province of the affluent. Lastly, repeated reductions in the estate and gift taxes permit the wealthy to transfer increased amounts of wealth from one generation to the next.

Explaining the Racial Wealth Gap

The Wealth Privilege model can explain the widening racial gap from two perspectives not readily available to the LCH. First, there exists extensive evidence that Black and Latino households continue to suffer from racial discrimination, particularly in labor, credit, and housing markets. African Americans and Latinos continue to earn

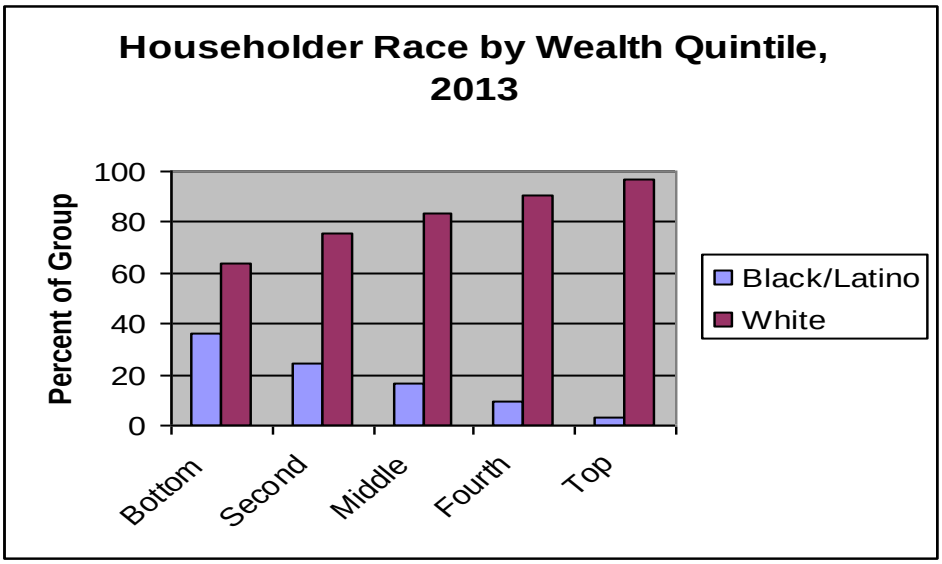
substantially lower salaries and experience higher unemployment, even accounting for similar education levels. Various studies (Bertrand & Mullainathan, 2003; Pager 2003) show that White applicants are more likely to get callbacks for potential jobs than are Black applicants. Adding to these challenges, Black and Latinos experience much lower rates of educational attainment, the result of various historical and contemporary causes.

In their efforts to get ahead, Black and Latinos find additional challenges in gaining access to credit. Two different studies concluded that Black and Latino mortgage applicants were rejected far more frequently than comparable White applicants were (Charles & Hurst, 2002; Munnell et al., 1996). Even worse, many more potential Black applicants simply did not apply believing they would be rejected (Charles & Hurst, 2002). Among those getting loans, Black borrowers pay higher interest rates on car loans, student loan debt, and home mortgages (Chiteji, 2010). Black and Latino homebuyers are more likely to use FHA, VA, and FMHA loans that require smaller down payments and charge higher rates; on both counts, they restrict home equity (Krivo & Kaufman, 2004). Several studies have shown that limited access to credit markets has also affected the survival rates of Black-owned businesses (Bates, 1989; Blanchflower et al., 2001; Fairlie, 1999). Another study has concluded that discrimination among White customers can explain some of the observed differences in self-employment rates across race (Borjas & Bronars, 1988). According to Fairlie and Meyer (2000), Black self-employment rates have remained at one third of the levels among Whites for over 90 years.

When looking for housing, Black and Latino households continue to face obstacles. In a recent paired-testing study, applicants of color received unfavorable treatment from real estate or rental offices over 20 percent of the time (Turner et al, 2002). Prospective Black and Latino homebuyers were given less information and fewer opportunities to inspect advertised homes. Given the persistence of residential segregation (Iceland et al., 2002), this permits the possibility that White homeowners realize greater returns from their homes than do Black or Latino homeowners. The empirical evidence is mixed as some have found home appreciation rates favoring Black homeowners (Gittleman & Wolff, 2000), neither racial group (Coate & Vanderhoff,

1993; Long & Caudill, 1992), or White homeowners (Flippen, 2004; Oliver & Shapiro, 2006).

Not only can the Wealth Privilege model incorporate these contemporary sources of racial discrimination, but the model clearly includes broader systemic forms of privilege as well. Given the capacity of wealth to retain value over time, even across generations, it is no surprise that there is a strong link between past, racialized policies and the current wealth gap. Many have shown how our nation's history of enslavement of Africans, genocide of Native Americans, and expropriation of property from Latinos and Japanese Americans (Conley, 1999; Oliver & Shapiro, 2006; Lui, 2006) have contributed to the current racial wealth gap. According to the most recent Survey of Consumer Finances, White median household wealth is more than $100,000 than either Black or Latino median wealth. Even more telling, Black and Latino households are concentrated in the bottom wealth quintiles while White families predominate among the top wealth quintiles (see the graph below). Given the many advantages of wealth that are predicted by the Wealth Privilege model, this demographic pattern suggests that the racial wealth gap will widen, even in absence of persistent racial discrimination.



Methodology and Data

To test some of the arguments raised previously, I conduct some empirical analysis using the 2013 Survey of Consumer Finances (SCF). The SCF is a single-wave,

cross-sectional survey that queries households every three years. Although this design limits its capacity to examine how households accumulate wealth over time as it simply offers a one-time snapshot, the SCF does offer two important benefits. It combines a random sample of 4,568 households with a selected oversample of 1,458 households to ensure adequate representation of the very wealthy, a group often reluctant to disclose their family wealth. Given the wealthiest 3 percent of households own nearly half of the household wealth, this represents an important advantage. Unlike other household surveys, the SCF queries household wealth as its primary focus. The range and depth of its questions about household wealth offer researchers a unique and nuanced understanding of contemporary household wealth, what McKernan et al. (2014) have called the "gold standard of wealth data" (p. 5).

The breadth of questions included in the SCF permits an opportunity to examine both the LCH and WP models with a broad range of variables. As a measure of household net worth, I use an expansive that includes financial and real assets (including vehicles) minus any household debt. I use standard variables like householder age, marital status, educational attainment, and health status. Regarding children, I assess whether households have children 17 or younger living in the home to determine what impact young kids have on household saving. As a measure of permanent income, I use the response given to what one's normal income is. Of course, this does not fully capture what is meant by permanent income, but it may represent the best perception of income that drives current savings behavior. Fortunately, the SCF queries households regarding their attitudes toward the use of credit, assumption of risk, planning horizons, importance of leaving a legacy, and remaining life expectancy. Each of these offers insights into key factors that may influence savings behavior and wealth accumulation. While the survey does not ask how much households save, it does question whether they save some portion of their income on a regular basis. To complete the variables used in the LCH model, I also add variables on whether households are self-employed or not as well as the current value of any past gifts or inheritances. Comparable with other studies, I use a 6 percent discount rate to adjust past gifts to current values.

Beyond those above, I include the following variables as I estimate the WP model. To better capture the Asset Appreciation pathway, I add several dummy variables that measure whether households own their home, other real estate, and a stock portfolio as well as whether they hold a mortgage. I include a variable that reflects whether the household has ever suffered bankruptcy to discern some measure of their credit worthiness and capacity to access credit. To complete the Family Support pathway, I add three variables to the inheritance variable already mentioned. The SCF questions households on whether as well as how much of an inheritance they expect at some future date. For younger respondents, this may provide a more accurate picture of family support. I include whether the household is carrying student loan debt as a further measure; certainly, one form of family support that often goes unreported as a "gift" is help with college tuition. Lastly, I include whether the household has provided financial support to their siblings, parents, or grandparents. This offers an additional perspective on the Family Support pathway as it includes family need.

Empirical Results

To illustrate the different circumstances of White households from Black and Latino households, I offer the descriptive statistics of the entire group of variables for both household groups. I present the results in Table 1 below. Frankly, most of the results are unsurprising. On average, White households hold nearly seven times the wealth and earn nearly double the income of Black and Latino households. In addition, White households are older, better educated, in better health, more likely to be married, and less likely to have dependent-aged children. Where these differences are statistically significant (.05 error), I have noted it with an asterisk. Among the key attitudinal variables, White households report longer planning horizons and a greater willingness to take risks. Somewhat surprisingly, Black and Latino households admit to a longer life expectancy and attach a greater importance toward leaving a legacy. [1] Both groups

[1] The years remaining variable is simply calculated as life expectancy minus current age. On average black and Latino households expect to live to 85, two years longer than white households.

declare similar rates of regular saving and comparable attitudes toward the use of credit. To round out the first group of variables, White households acknowledge higher rates of self-employment and more generous levels of family inheritance.

Table 1 Descriptive Statistics of Key Variables

Variable	White Households	Black / Latino Households
Net Worth	$677,542 *	$101,880
Normal Income	$98,463 *	$47,058
Householder Age	53 *	47
Married (%)	60 *	48
Raising Children (%)	30 *	47
Has College Diploma (%)	43 *	24
Good Health (%)	74	70
Saves Regularly (%)	56	56
Credit – Vacation Ok (%)	14	14
LR Plan Horizon (%)	35 *	20
Risk Taker (%)	18 *	14
Legacy Important (%)	49 *	63
Years Remaining	30 *	38
Self Employed (%)	10 *	8
Amount Inherited	$139,715 *	$12,051
Homeowner (%)	73 *	44
Holds Mortgage (%)	45 *	29
Owns Stock (%)	17 *	3
Owns Other Real Estate (%)	21 *	8
Suffered Bankruptcy (%)	14	13
Expecting to Inherit ($)	$80,811 *	$10,288
Has Education Debt (%)	18 *	25
Distress Giver (%)	5 *	11
* Statistically Significant at .05		

Among the second group of variables, few surprises lurk. White households report higher homeownership rates, stock ownership rates, and ownership of other real estate. Although White households are more likely to hold a mortgage, they are less likely to carry educational related debt. Not only do White households expect to inherit about eight times what Black and Latino households expect, they are half as likely to report offering financial help to siblings, parents, or grandparents in need. While

intergenerational giving in White families tends to be forward looking, it is more lateral and backward looking in both Black and Latino families.

Next, I run a regression analysis for White as well as Black and Latino households to estimate which factors explain household wealth for each group. In this first run, I simply use the variables needed to model the LCH. I provide the results in Table 2 below.

When estimating White households, the simple LCH model appears quite robust. Of the sixteen variables (including the intercept), thirteen offer some level of statistical significance using the .10 threshold. Not only are the income, age-squared, and inheritance variables significant, but also five out of the six attitudinal variables are significant as well. All but Years Remaining variable have coefficients that make sense. Turning to the Black and Latino households, the results are mixed. Although 12 of the

Table 2	The LCH Model				
Households	White			Black & Latino	
Sample Size	4422			1306	
Variable	Coefficient	Sign.		Coefficient	Sign.
Normal Income	7.49	.000		9.61	.000
Householder Age	-11,908	.120		-21,762	.000
Age-Squared	251	.000		217	.000
Married	14,104	.804		-175,914	.000
Raising Children	-178,221	.000		-2,364	.914
Has College Diploma	124,920	.089		-180,192	.002
Good Health	65,644	.087		-43,738	.135
Saves Regularly	67,826	.082		-61,640	.013
Credit – Vacation Ok	-68,378	.085		-42,256	.059
LR Plan Horizon	198,130	.000		-76,670	.042
Risk Taker	117,043	.059		-2,986	.933
Legacy Important	166,907	.000		15,231	.500
Years Remaining	-367	.777		-1,273	.122
Self Employed	891,046	.000		317,856	.002
Amount Inherited	.337	.008		.460	.099
Intercept	-594,994	.011		365,467	.017
F-Test	69.7	.000		7.27	.000

sixteen variables are still statistically significant, four of these variables have coefficients that raise questions. Curiously, married households experience much lower levels of net

worth than do other households. Even more puzzling, Black and Latino households that regularly save, take a prudent attitude toward credit, or take the long view financially experience substantial reductions in household wealth as compared to households that exhibit contrary attitudes. Self-employment status remains important to Black and Latino household wealth while family inheritance plays a marginal role at best.

Next, I run an empirical test of the WP model. As explained earlier, I include all of the variables used above and add eight variables to flesh out the Asset Appreciation and the Family Support pathways. I present the results in Table 3 below.

Table 3	The Wealth Privilege Model				
	White Households			Black and Latino	
Variable	Coefficient	Sign.		Coefficient	Sign.
Demographic					
Householder Age	-8,371	.248		-16,036	.001
Age-Squared	169	.013		162	.000
Married	-26,342	.610		-165,673	.000
Raising Children	-115,855	.016		8,584	.708
Has College Diploma	47,287	.451		-143,613	.006
Good Health	25,422	.461		-31,775	.256
Household Saving					
Normal Income	7.39	.000		9.85	.000
Saves Regularly	40,981	.281		-60,644	.016
Credit – Vacation OK	-40,407	.301		-46,906	.099
LR Plan Horizon	124,545	.007		-81,331	.030
Risk Taker	39,476	.509		-127	.997
Legacy Important	120,150	.002		13,934	.537
Years Remaining	31.3	.981		-1,087	.182
Asset Appreciation					
Homeowner	220,392	.000		118,393	.006
Holds Mortgage	-405,661	.000		-269,540	.000
Owns Stocks	372,331	.000		51,124	.777
Owns Other Real Estate	390,587	.000		19,274	.784
Self Employed	771,904	.000		215,693	.002
Suffered Bankruptcy	-108,325	.002		-48,739	.093
Family Support					
Amount Inherited	.305	.008		.389	.145
Expecting to Inherit	.293	.025		.054	.755
Has Education Debt	-134,792	.000		-43,078	.079
Distress Giver	59,699	.704		-3,365	.946
Intercept	-479,683	.021		231,811	.073
F-Test	53.3	.000		6.04	.000

Among White households, all but one of the eight added variables exhibit statistical significance; the lone exception is the Distressed Giving variable that measures whether households have given help to distressed members of their families. Turning to the other seven variables, it's no surprise that different forms of asset ownership are linked to increased wealth. What is surprising is the link between the expectation of future inheritances and current net worth. According to the LCH, households should factor in such future gifts and elevate their current consumption. Additionally, this link could reflect substantial past support, the kind help that goes unreported as a "gift", thereby boosting their net worth. Even as these new variables are added, the key variables like household income, age, self-employment, and past inheritances are scarcely affected. Yet, other variables like having good health and a college diploma, modestly significant in the first model, have lost their importance. The same goes for three of the behavioral variables: attitudes toward credit, regularly saving, and risk-taking. Of the six attitudinal variables, only planning horizon and one's views on leaving a legacy retain importance among White households.

Turning to black and Latino households, the results are mixed once again. Of the eight added variables, only four achieve statistical significance. Homeownership, the holding of mortgage or student loan debt, and the experience of bankruptcy each affect household wealth. Neither the ownership of stocks or other real estate attain significance for these households The inclusion of the additional eight variables produce even smaller effects on the previously included variables. Only the value of past inheritances lost its significance (and barely so) in the broader model. None of the three attitudinal variables toward saving regularly, credit, or planning horizons shifted either their significance or their surprising results.

Conclusion

While the LCH has a long and fruitful history, the previous arguments indicate that it is not a particularly hospitable vehicle to examine the racial wealth gap. Under

both the conventional model and its many extensions, the LCH has difficulty explaining the yawning distance between the racial income and wealth gaps. The LCH does not flexibly adjust to accommodate the realities of contemporary racism still prevalent in various sectors of society. Nor can it easily accommodate the realities of systemic racism that results from our nation's history of racial expropriation and differential access to wealth-building opportunities. On both scores, the Wealth Privilege model is better suited to accommodate these realities.

To be sure, the empirical results given above fall far short of "proving" this point. Yet, these results do suggest two important points. Both models, though especially the LCH, are better at explaining the causes of household wealth among White households than Black and Latino households. In both models, the White household equations generate more significant variables as well as coefficients that make sense. In particular, key attitudinal variables that many argue affect wealth accumulation are clearly important in the White household equations. In contrast, the Black and Latino household equations generate results that are less reliable and raise more eyebrows.

While both models generate these findings, they are less problematic for the WP model. According to the WP, household circumstances change as they gain affluence. As such, the model predicts that less wealthy households will realize less perceptible rewards for their efforts. The relatively small numbers of Black and Latino households that hold stock or own rental properties no doubt make these thresholds less important to wealth accumulation in these communities. Simply having the discipline to engage in regular saving means little if your income is inadequate to meet the unpredictable expenditures that torment each of us. The much larger coefficients and the very different y-intercepts for each pair of equations suggest that the rewards are much greater for White households than for Black and Latino households.

In essence, the empirical results illustrate the role of agency in explaining the racial wealth gap. Despite the vast differences net worth, normal income, and asset ownership rates, the two groups are remarkably similar in their attitudes toward financial decision-making. True, White households report a longer time horizon and tolerate increased risk; both of these differences could explain the discrepancy between the racial

income and wealth gaps. Yet, White households hold similar attitudes toward regular saving and the use of credit, eliminating these as potential explanations of the discrepancy. Even worse, Black and Latino households attach a greater importance to leaving a legacy as well as hold slightly longer life expectancy; both of these differences would suggest a reduction of the income to wealth ratios. Taken collectively, the findings do not argue persuasively that simply differences in attitudes explain the racial wealth gap.

Nonetheless, the vast differences in economic circumstances are important. While Black and Latino households report similar savings behavior to Whites, they disagree when reporting actual saving. White households translate regular saving behavior into higher rates of actual saving over the course of the year. Despite their best intentions, Black and Latino households encounter more obstacles and unexpected challenges that upset their saving plans. Similarly, Black and Latino households attach a greater importance to leaving a legacy, yet their giving rates to their children are much lower. Wealth accumulation is not simply the case of "if there is a will, there is a way". For many households, the lack of wealth clearly limits their intentions and wishes. While the importance of agency, actual capacity to carry out one's intentions, has little importance in the LCH model, it plays a central role in the WP model.

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