THE IMPORTANCE OF WEALTH TO

Family Well-Being

Seeding innovation to address the structural roots of inequality

Executive Summary

John T. Gorman Foundation

in partnership with

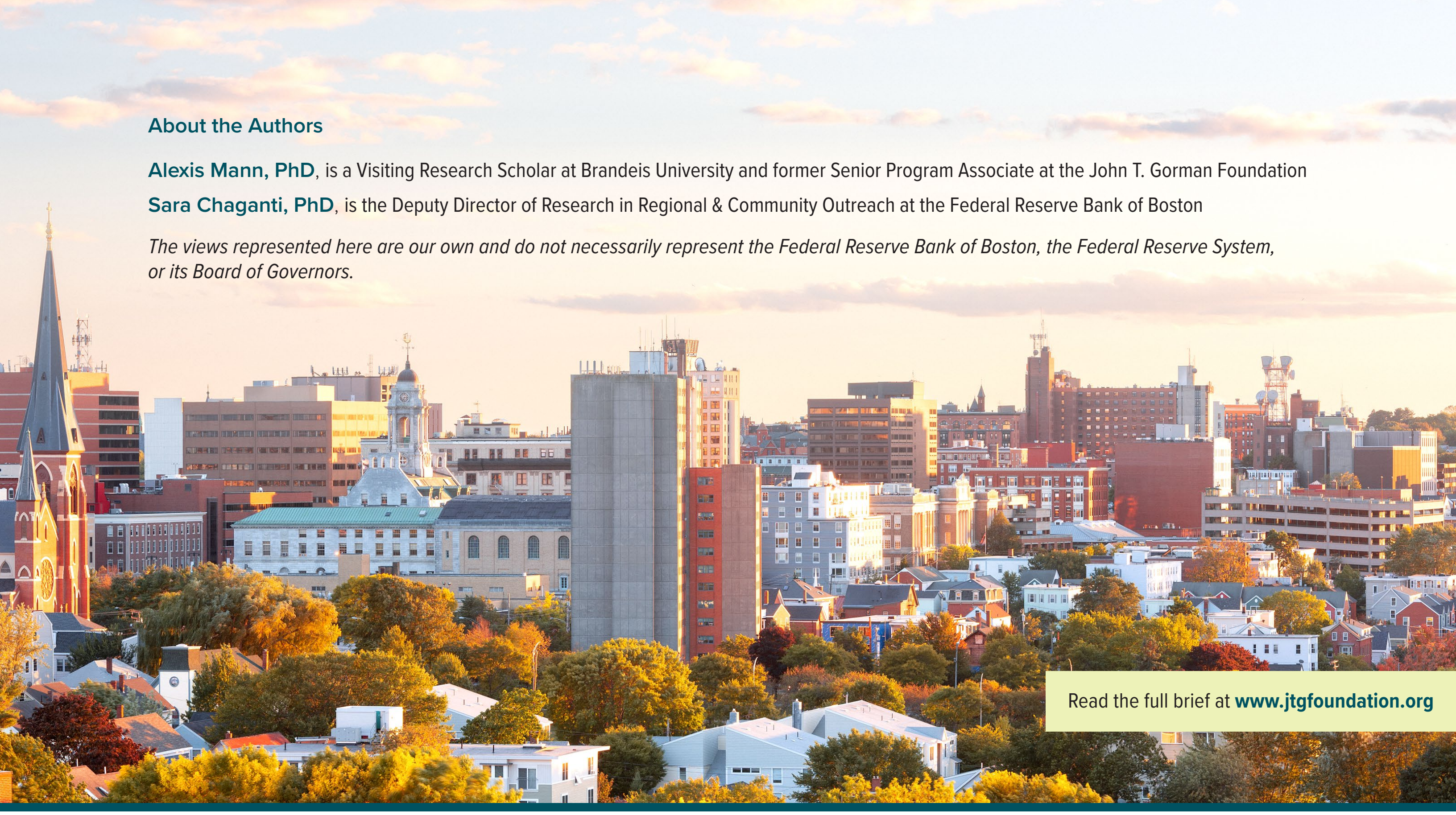
Federal Reserve Bank of Boston®

About the Authors

Alexis Mann, PhD, is a Visiting Research Scholar at Brandeis University and former Senior Program Associate at the John T. Gorman Foundation

Sara Chaganti, PhD, is the Deputy Director of Research in Regional & Community Outreach at the Federal Reserve Bank of Boston

The views represented here are our own and do not necessarily represent the Federal Reserve Bank of Boston, the Federal Reserve System, or its Board of Governors.



Read the full brief at **www.jtgfoundation.org**

PURPOSE

The John T. Gorman Foundation is committed to helping foster a strong tapestry of knowledge, policy, and practice that strengthens existing networks and supports institutional efforts to address wealth inequality. **The Boston Fed's** mission is to advance economic growth; wealth inequality and the mechanisms of financial exclusion that underlie it constrain our full economic potential. We have collaborated on this publication in order to develop a deep understanding of the structural roots of wealth disparities, which can inform regional and state stakeholder action to expand economic prosperity and financial security for families across New England.

This joint brief explains the significance of wealth for family economic resilience and mobility (Hamilton & Darity Jr., 2017a; McKernan et al., 2013; Shapiro, 2005) and outlines the structures that drive wealth inequality (Baradaran, 2017; Fletcher, 2021; Perry et al., 2018; Shanks, 2005; Shapiro, 2005; Taylor, 2019). Finally, it highlights models that respond to the systems that are limiting families' potential for economic well-being and our society's collective potential for a fully productive economy. Taken together, these models can help inform strategies that address the root causes of inequality and have the potential to create lasting change.

> The importance of wealth to family well-being makes the stark disparities in wealth ownership across the United States an issue of pressing concern.

Systemic Drivers of Wealth Inequality

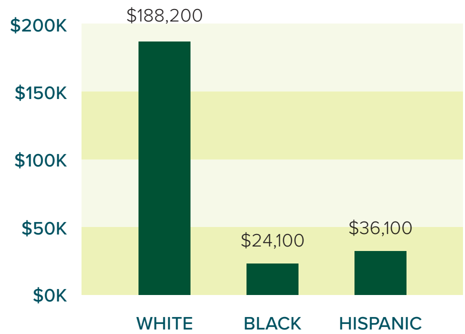
Understanding how families create wealth is critical to understanding why some families thrive while others struggle even as they work hard and play by the rules. Wealth is defined as the value of what you own minus the value of what you owe. Unlike income—which families rely on to meet more immediate living expenses—wealth can provide a buffer against economic shocks (see, for instance, Hill et al., 2017) and allows for investments to be made for future returns (Hamilton & Darity Jr., 2017; Shapiro, 2005).

Fundamentally, wealth is an unseen force that can operate independent of individual effort—unlike income earned through employment and retained through active savings, expense reduction, and financial education, which are individual activities. Of course, building wealth can involve these kinds of individual activities, but many of the most transformative modes of wealth building operate behind the scenes, derived from sources that appreciate passively—such as inheritances, home equity, and investments—and accrue value independent of income (Pfeffer & Killewald, 2019; Shapiro, 2005).

The importance of wealth to family economic well-being makes the stark disparities in wealth ownership across the United States an issue of pressing concern. Decades of research have identified large and persistent Black-white wealth disparities in the U.S. even as income and education gaps have narrowed. For example, the median net wealth among white families in 2019 was an estimated $188,200, compared to $24,100 for Black families (Bhutta et al., 2020). We know relatively little about wealth inequality between other groups, in part because we lack sufficient data. However, past and present inequalities in other domains (e.g., gender and ethnic inequality, geographic difference; see, for instance, Chang, 2010; Duncan, 2015; Fletcher, 2021; Kent & Ricketts, 2021; Kirby, 2014) suggest that we might see patterns of inequality here too. We also have scant information about wealth inequality at the state or regional levels.

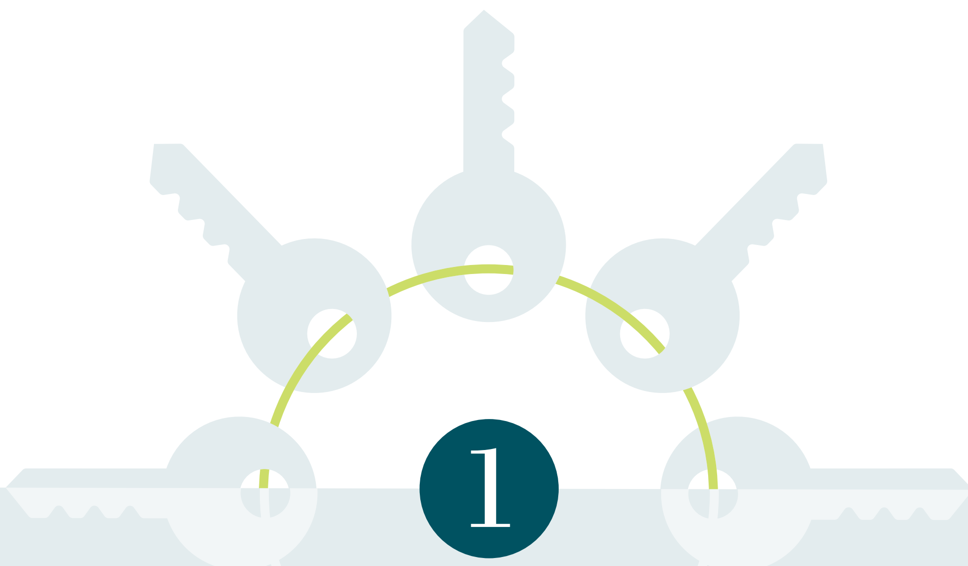
To date, many strategies aimed at reducing wealth inequality have focused on helping individual low-income families build wealth through changes in their financial actions, such as opening matched savings accounts (Darity Jr. et al., 2018; Hamilton & Darity Jr., 2017a; Price, 2020). While these interventions may have improved things in the short term for those families they touched, such efforts have not been able to close existing wealth divides at the national level. Instead, strategies to close these divides must be attentive to the systemic drivers of wealth inequality embedded across the three domains of wealth creation: the structure of wealth ownership, access to appreciable assets, and wealth protection.

MEDIAN NET WEALTH BY RACE



Bhutta, N., A. C., Dettling, L. J., & Hsu, J. W. (2020, September). Disparities in wealth by race and ethnicity in the 2019 Survey of Consumer Finances. FEDS Notes.

Shaping REGIONAL STRATEGIES



STRATEGIC IMPERATIVE 1:
EXPAND THE PARAMETERS OF OWNERSHIP

Individual ownership of property is a cornerstone of the U.S. economy, and the systems that construct and protect family wealth have often excluded many groups from the tools and pathways necessary for building family wealth (Midgely, 2005; Shanks, 2005). Collectively owned investment vehicles—**shared-equity housing, employee ownership, and collective investment models**, to name a few—can reduce individual risk for those with less to invest, thus lowering barriers to accessing passive wealth-building opportunities.

SHARED EQUITY HOUSING PROGRAMS, administered through land trusts, housing cooperatives, and resident-owned community programs, leverage public ownership to create pathways for wealth building through equity.

EMPLOYEE OWNERSHIP MODELS, like worker cooperatives and employee stock ownership plans (or ESOPs), offer opportunities for broad-based wealth creation for all employees, while creating more stable work environments.

COLLECTIVE INVESTMENT MODELS allow community members with little capital to grow their wealth without shouldering as much individual risk.

2

STRATEGIC IMPERATIVE 2:
IMPROVE ACCESS TO APPRECIABLE ASSETS

Facilitating entry into home and business ownership is not enough to guarantee wealth creation (see Axel-Lute, 2022, for a more detailed explanation); such assets must be appreciable to provide financial security. Programs that focus on **down-payment assistance, mortgage lending for subprime borrowers, and support for entrepreneurs** of color create pathways for home and business assets to appreciate.

DOWN PAYMENT ASSISTANCE PROGRAMS such as those that assist first-generation, first-time home buyers, counter embedded systemic disparities, and allow those buyers to access higher value homes in better neighborhoods, while keeping monthly payments and financing costs in check.

MORTGAGE LENDING FOR SUBPRIME BORROWERS, which target low- and moderate-income first-time buyers, use alternative methods of calculating a household's credit risk, to offer these buyers more favorable lending terms.

CAPITAL AND TECHNICAL SUPPORT FOR ENTREPRENEURS OF COLOR, who have historically been cut off from such support, helps sustain business enterprises, creates a network of locally owned, strong businesses, and lays a foundation for accelerated home appreciation.

3

STRATEGIC IMPERATIVE 3:
PROTECT FAMILY WEALTH

Access to funds that help families maintain ownership and protect the value of their investments can have a profound impact on wealth trajectories and long-term well-being. Programs that focus on **foreclosure prevention, home value protection, and financial navigation** help create that access.

FORECLOSURE PREVENTION PROGRAMS that provide services like pre- and post-purchase counseling, as well as interventions with delinquent borrowers, address systemic disparities in families' abilities to protect this essential asset.

HOME VALUE PROTECTION PROGRAMS give low-income homeowners the capacity to invest in the maintenance of a home to protect its value. This allows families to build wealth and helps protect communities' housing stock and tax base.

FINANCIAL NAVIGATION PROGRAMS, which match families with grant and lending opportunities that advance their specific investment goals, not only target historical disparities, but also reduce the likelihood that those families will engage with predatory products and services.

Conclusion

Wealth is important to family resiliency and mobility. However, disparities in family wealth mean that some have a head start while others have to put in work just to reach the starting line. This brief is focused on seeding a way to think holistically about the levers of wealth creation (and inequality). We present concrete examples from stakeholders at the local, state, and regional levels that, if considered and woven together, have the potential to construct something far stronger and more enduring than a single strategy alone can accomplish. Learning from the examples presented in this brief is one part of the nexus of work that needs to be done in order to start narrowing wealth divides.

The goal of this brief is to lay a strong foundation for future conversation and collaboration.

READ THE FULL BRIEF AT

www.jtgfoundation.org

REFERENCES

Axel-Lute, M. (2022b, February 11). Rethinking the racial wealth gap with Anne Price. Shelterforce. https://shelterforce.org/2022/02/11/rethinking-the-racial-wealth-gap-with-anne-price/

Baradaran, M. (2017). The color of money: Black banks and the racial wealth gap. Harvard University Press.

Bhutta, N., Chang, A. C., Dettling, L. J., & Hsu, J. W. (2020, September 28). Disparities in wealth by race and ethnicity in the 2019 Survey of Consumer Finances. Board of Governors of the Federal Reserve System. https://www.federalreserve.gov/econres/notes/feds-notes/disparities-in-wealth-by-race-and-ethnicity-in-the-2019-survey-of-consumer-finances-20200928.htm

Chang, M. (2010). Shortchanged: Why women have less wealth and what can be done about it. Oxford University Press.

Darity Jr., W., Hamilton, D., Paul, M., Aja, A., Price, A., Moore, A., & Chiopris, C. (2018). What we get wrong about closing the racial wealth gap. Samuel DuBois Cook Center on Social Equity and Insight Center for Community Economic Development. https://socialequity.duke.edu/portfolio-item/what-we-get-wrong-about-closing-the-racial-wealth-gap/

Duncan, C. M. (2015). Worlds apart: Poverty and politics in rural America (Second). Yale University Press.

Fletcher, M. L. M. (2021, October 20). Systemic racism and the dispossession of indigenous wealth in the United States [Keynote paper]. Racism and the Economy: Focus on Wealth Divides, virtual video event. https://www.minneapolisfed.org/~/media/assets/events/2021/racism-and-the-economy-focus-on-the-wealth-divide/fletcher-proposal.pdf?la=en

Hamilton, D., & Darity Jr., W. (2017). The political economy of education, financial literacy, and the racial wealth gap. Federal Reserve Bank of St. Louis Review, 99(1), 59–76. http://dx.doi.org/10.20955/r.2017.59-76

Hill, H. D., Romich, J., Mattingly, M. J., Shamsuddin, S., & Wething, H. (2017). An introduction to household economic instability and social policy. Social Service Review, 91(3), 371–389. https://doi.org/10.1086/694110

Kent, A. H., & Ricketts, L. (2021). Gender wealth gap: Families headed by women have lower wealth (In the Balance). Federal Reserve Bank of St. Louis. https://www.stlouisfed.org/publications/in-the-balance/2021/gender-wealth-gap-families-women-lower-wealth

Kirby, S. (2014). Taking stock: Rural people, poverty, and housing in the 21st century. Housing and Society, 41(2), 345–348. https://doi.org/10.1080/08882746.2014.11430636

McKernan, S.-M., Ratcliffe, C., Steuerle, E., & Zhang, S. (2013, April). Less than equal: Racial disparities in wealth accumulation. Urban Institute. https://www.urban.org/research/publication/less-equal-racial-disparities-wealth-accumulation

Midgely, J. (2005). Asset-based policy in history and international perspective. In M. Sherraden (Ed.), Inclusion in the American dream: Assets, poverty, and public policy (pp. 42–58). Oxford University Press.

Perry, A. M., Rothwell, J., & Harshbarger, D. (2018). The devaluation of assets in black neighborhoods. The Brookings Institute.

Pfeffer, F. T., & Killewald, A. (2019). Intergenerational wealth mobility and racial inequality. Socius, 5, 1–2. https://doi.org/10.1177/2378023119831799

Price, A. (2020). Don't fixate on the racial wealth gap: Focus on undoing its root causes. The Roosevelt Institute. https://rooseveltinstitute.org/publications/dont-fixate-on-the-racial-wealth-gap-focus-on-undoing-its-root-causes/

Shanks, T. W. (2005). The Homestead Act: A major asset-building policy in American history. In M. Sherraden (Ed.), Inclusion in the American dream: Assets, poverty, and public policy (pp. 20–41). Oxford University Press.

Shapiro, T. M. (2005). The hidden cost of being African-American: How wealth perpetuates inequality. Oxford University Press.

Taylor, K.-Y. (2019). Race for profit: How banks and the real estate industry undermined Black homeownership. University of North Carolina Press.

John T. Gorman
Foundation

in partnership with

Federal Reserve
Bank of Boston®

www.jtgfoundation.org | www.bostonfed.org