African Americans and other minorities hold far less wealth than whites. But why should the wealth gap be so large, greater even than the racial income gap? It turns out that government has played a central role. Throughout U.S. history, countless specific laws, policies, rules, and court decisions have made it more difficult for nonwhites to build wealth, and transferred wealth they did own to whites. Activist Meizhu Lui spells out the story.

Doubly Divided

The Racial Wealth Gap

BY MEIZHU LUI

Race—constructed from a European vantage point—has always been a basis on which U.S. society metes out access to wealth and power. Both in times when the overall wealth gap has grown and in times when a rising tide has managed to lift both rich and poor boats, a pernicious wealth gap between whites and nonwhite minorities has persisted.

Let's cut the cake by race. If you lined up all African-American families by the amount of assets they owned minus their debts and then looked at the family in the middle, that median family in 2001 had a net worth of $10,700 (excluding the value of automobiles). Line up all whites, and *that* median family had a net worth of $106,400, almost 10 times more. Less than half of African-American families own their own homes, while three out of four white families do. Latinos are even less wealthy: the median Latino family in 2001 had only $3,000 in assets, and less than half own their own homes.

We do not know how much Native Americans have in assets because so little data has been collected, but their poverty rate is 26% compared to 8% for whites, even though more than half own their own homes. Nor is much information collected about Asian Americans. What we do know is that their poverty rate is 13%, and that 60% of Asian Americans own their own homes, compared to 77% of whites.

Almost 40 years after the passage of the 20th century's major civil rights legislation, huge wealth disparities persist. However, the myth that the playing field was leveled by those laws is widespread. For anyone who accepts the myth, it follows that if families of color are not on an economic par with whites today, the problem must lie with *them*.

But the racial wealth gap has nothing to do with individual behaviors or cultural deficits. Throughout U.S. history, deliberate government policies transferred wealth from nonwhites to whites—essentially, affirmative action for whites. The specific mechanisms of the transfer have varied, as have the processes by which people have been put into racial categories in the first place. But a brief review of American history, viewed through the lens of wealth, reveals a consistent pattern of race-based obstacles that have prevented Native Americans, African Americans, Latinos, and Asians from building wealth at all comparable to whites.

NATIVE AMERICANS: IN THE U.S. GOVERNMENT WE "TRUST"?

When European settlers came to what would become the United States, Indian tribes in general did not consider land to be a source of individual wealth. It was a resource to be worshipped, treasured, and used to preserve all forms of life. Unfortunately for them, that concept of common ownership and the way of life they had built around it would clash mightily with the idea that parcels of land should be owned by individuals and used to generate private profit.

After the American Revolution, the official position of the new U.S. government was that Indian tribes had the same status as foreign nations and that good relations with them should be maintained. However, as European immigration increased and westward expansion continued, the settlers increasingly coveted Indian land. The federal government pressured Native Americans to sign one treaty after another giving over land: In the United States' first century, over 400 Indian treaties were signed. Indians were forcibly removed, first from the south and then from the west, sometimes into reservations.

Eventually, the Indians' last large territory, the Great Plains, was essentially handed over to whites. In one of the clearest instances of land expropriation, the 1862 Homestead Act transferred a vast amount of land from Indian tribes to white homesteaders by giving any white family 160 acres of land for free if they would farm it for five years. Of course, this massive land transfer was not accomplished without violence. General William Tecumseh Sherman, of Civil War fame, wrote: "The more [Indians] we can kill this year, the less will have to be killed the next year, for the more I see of these Indians, the more convinced I am that they all have to be killed or be maintained as a species of paupers." (Ironically, the Homestead Act is often cited as a model government program that supported asset-building.)

Out of the many treaties came the legal concept of the U.S. government's "trust responsibility" for the Native nations, similar to the relationship of a legal guardian to a child. In exchange for land, the government was to provide for the needs of the Native peoples. Money from the sale of land or natural resources was to be placed in a trust fund and managed in the best interests of the Indian tribes. The government's mismanagement of Indian assets was pervasive; yet, by law, Indian tribes could not fire the designated manager and hire a better or more honest one.

The Dawes Act of 1887 was designed to pressure Indians to assimilate into white culture: to adopt a sedentary life style and end their tradition of collective land ownership. The law broke up reservation land into individual plots and forced Indians to attempt to farm "western" style; "surplus" land was sold to whites. Under this scheme, millions more acres were transferred from Native Americans to whites.

After 1953, the U.S. government terminated the trust status of the tribes. While the stated purpose was to free Indians from government control, the new policy exacted a price: the loss of tribally held land that was still the basis of some tribes' existence. This blow reduced the remaining self-sufficient tribes to poverty and broke up tribal governments.

Thus, over a 200-year period, U.S. government policies transferred Native Americans' wealth—primarily land and natural resources—into the pockets of white individuals. This expropriation of vast tracts played a foundational role in the creation of the U.S. economy. Only in recent years, through the effective use of lawsuits to resurrect tribal rights assigned under the old treaties, have some tribes succeeded in building substantial pools of wealth, primarily from gaming businesses. This newfound casino wealth, though, cannot make up for the decimation of Native peoples or the destruction of traditional Native economies. Native Americans on average continue to suffer disproportionate poverty.

AFRICAN AMERICANS: SLAVES DON'T OWN, THEY ARE OWNED

From the earliest years of European settlement until the 1860s, African Americans were assets to be tallied in the financial records of their owners. They could be bought and sold, they created more wealth for their owners in the form of children, they had no rights even over their own bodies, and they worked without receiving any wages. Slaves and their labor became the basis of wealth creation for plantation owners, people who owned and operated slave ships, and companies that insured them. This was the most fundamental of wealth divides in American history.

At the end of the Civil War, there was an opportunity to create a new starting line. In the first few years, the Freedmen's Bureau and the occupying Union army actually began to distribute land to newly freed slaves: the famous "40 acres and a mule," a modest enough way to begin. But the Freedmen's Bureau was disbanded after only seven years, and the overwhelming majority of land that freed slaves had been allotted was returned to its former white owners. Unable to get a foothold as self-employed farmers, African Americans were forced to accept sharecropping arrangements. While sharecroppers kept some part of the fruits of their labor as in-kind income, the system kept them perpetually in debt and unable to accumulate any assets.

In 1883, the Supreme Court overturned the Civil Rights Act of 1875, which had given blacks the right to protect themselves and their property. By 1900, the Southern states had passed laws that kept African Americans separate and unequal, at the bottom of the economy. They began migrating to the North and West in search of opportunity.

Amazingly, some African-American families did prosper as farmers and businesspeople in the early 20th century. Some African-American communities thrived, even establishing their own banks to build savings and investment within the community. However, there was particular resentment against successful African Americans, and they were often targets of the vigilante violence common in this period. State and local governments helped vigilantes destroy their homes, run them out of town, and lynch those "uppity" enough to resist, and the federal government turned a blind eye. Sometimes entire black communities were targeted. For example, the African-American business district in north Tulsa, known as the "Black Wall Street" for its size and success, was torched on the night of June 21, 1921 by white rioters, who destroyed as many as 600 black-owned businesses.

The Depression wiped out black progress, which did not resume at all until the New Deal period. Even then, African Americans were often barred from the new asset-building programs that benefited whites. Under Social Security, workers paid into the system and were guaranteed money in retirement. However, domestic and agricultural work—two of the most significant black occupations—were excluded from the program. Unemployment insurance and the minimum wage didn't apply to domestic workers or farm workers either. Other programs were also tilted toward white people. The Home Owners' Loan Corporation was created in 1933 to help homeowners avoid foreclosure, but not a single loan went to a black homeowner.

Following World War II, a number of new programs provided a ladder into the middle class—for whites. The GI Bill of Rights and low-interest

Thirty-five blocks in Greenwood, a prosperous African-American business district in Tulsa, were destroyed by white rioters on June 1, 1921.

home mortgages provided tax-funded support for higher education and for homeownership, two keys to family wealth building. The GI Bill provided little benefit to black veterans, however, because a recipient had to be accepted into a college—and many colleges did not accept African-American students. Likewise, housing discrimination meant that homeownership opportunities were greater for white families; subsidized mortgages were often simply denied for home purchases in black neighborhoods.

In *The Cost of Being African American*, sociologist Thomas Shapiro shows how, because of this history, even black families whose incomes are equal to whites' generally have unequal economic standing. Whites are more likely to have parents who benefited from the land grants of the Homestead Act, who have Social Security or retirement benefits, or who own their own homes. With their far greater average assets, whites can transfer advantage from parents to children in the form of college tuition payments, down payments on homes, or simply self-sufficient parents who do not need their children to support them in old age.

These are the invisible underpinnings of the black-white wealth gap: wealth legally but inhumanely created from the unpaid labor of blacks, the use of violence—often backed up by government power—to stop black wealth-creating activities, tax-funded asset building programs closed to blacks even as they, too, paid taxes. The playing field is not level today. For example, recent studies demonstrate that blatant race discrimination in hiring persists. But even if the playing field were level, the black/white wealth gap would still be with us.

LATINOS: IN THE UNITED STATES' BACK YARD

At the time of the American Revolution, Spain, not England, was the largest colonial landowner on the American continents. Unlike the English, the Spanish intermarried widely with the indigenous populations. In the 20th century, their descendents came to be identified as a distinct, nonwhite group. (In the 1800's, Mexicans were generally considered white.) Today, Latinos come from many countries with varied histories, but the relationship of Mexicans to the United States is the longest, and people of Mexican descent are still the largest Latino group in the United States (67% in 2002).

Mexico won its independence from Spain in 1821. Three years later, the Monroe Doctrine promised the newly independent nations of Latin America "protection" from interference by European powers. However, this doctrine allowed the United States itself to intervene in the affairs of the entire hemisphere. Ever since, this paternalistic relationship (reminiscent of the "trust" relationship with Native tribes) has meant U.S. political and economic dominance in Mexico and Central and South America, causing the "push and pull" of the people of those countries into and out of the United States.

Mexicans and Anglos fought together to free Texas from Mexican rule, creating the Lone Star Republic of Texas, which was then annexed to the United States in 1845. Three years later, the United States went to war against Mexico to gain more territory and continue fulfilling its "manifest destiny"—its God-given right—to expand "from sea to shining sea." Mexico lost the war and was forced to accept the 1848 Treaty of Guadalupe Hidalgo, which gave the United States half of Mexico's land. While individual Mexican landowners were at first assured that they would maintain ownership, the United States did not keep that promise, and the treaty ushered in a huge transfer of land from Mexicans to Anglos. For the first time in these areas, racial categories were used to determine who could obtain land. The English language was also used to establish Anglo dominance; legal papers in English proving land ownership were required, and many Spanish speakers suffered as a result.

In the twentieth century, government policy continued to reinforce a wealth gap between Mexicans and whites. The first U.S.-Mexico border patrol was set up in 1924, and deportations of Mexicans became commonplace. Like African Americans, Latino workers were disproportionately represented in the occupations not covered by the Social Security Act. During World

War II, when U.S. farms needed more agricultural workers, the federal government established the Bracero program, under which Mexican workers were brought into the United States to work for subminimum wages and few benefits, then kicked out when their labor was no longer needed. Even today, Mexicans continue to be used as "guest"—or really, reserve—workers to create profits for U.S. agribusiness.

The North American Free Trade Agreement, along with the proposed Central American Free Trade Agreement and Free Trade Agreement of the Americas, is the newest incarnation of the Monroe Doctrine. Trade and immigration policies are still being used to maintain U.S. control over the resources in its "back yard," and at the same time to deny those it is "protecting" the enjoyment of the benefits to be found in papa's "front yard."

ASIAN AMERICANS: PERPETUAL FOREIGNERS

The first Asian immigrants, the Chinese, came to the United States at the same time and for the same reason as the Irish: to escape economic distress at home and take advantage of economic opportunity in America. Like European immigrants, the Chinese came voluntarily, paying their own passage, ready and willing to seize the opportunity to build economic success in a new land. Chinese and Irish immigrants arrived in large numbers in the same decade, but their economic trajectories later diverged.

The major reason is race. While the Irish, caricatured as apes in early cartoons, were soon able to become citizens, the Naturalization Act of 1790 limited eligibility for citizenship to "whites." Asians did not know if they were white or not—but they wanted to be! The rights and benefits of "whiteness" were obvious. Other Americans didn't know whether or not they were white, either. Lawsuits filed first by Chinese, then by Japanese, Indian (South Asian), and Filipino immigrants all claimed that they should be granted "white" status. The outcomes were confusing; for example, South Asians, classified as Caucasian, were at first deemed white. Then, in later cases, courts decided that while they were Caucasian, they were not white.

A series of laws limited the right of Asians to create wealth. Chinese immigrants were drawn into the Gold Rush; the Foreign Miners Tax, however, was designed to push them out of the mining industry. The tax provided 25% of California's annual state budget in the 1860s, but the government jobs and services the tax underwrote went exclusively to whites—one of the first tax-based racial transfers of wealth. And with the passage of the Chinese Exclusion Acts in 1882, the Chinese became the first nationality to be denied the right to join this immigrant nation; the numbers of Chinese-American citizens thus remained small until the 1960s.

The next wave of Asians came from Japan. Excellent farmers, the Japanese bought land and created successful businesses. Resentment led to the passage of the 1924 Alien Land Act, which prohibited noncitizens from owning land. Japanese Americans then found other ways to create wealth, including nurseries and the cut flower business. In 1941, they had $140 million of business wealth.

World War II would change all that. In 1942, the Roosevelt administration forced Japanese Americans, foreign-born and citizen alike, to relocate to internment camps in the inland Western states. They had a week to dispose of their assets. Most had to sell their homes and businesses to whites at fire sale prices—an enormous transfer of wealth. In 1988, a successful suit for reparations gave the survivors of the camps $20,000 each, a mere fraction of the wealth that was lost.

Today, Asians are the group that as a whole has moved closest to economic parity with whites. (There are major variations in status between different Asian nationalities, however, and grouping them masks serious problems facing some groups.) While Asian immigrants have high poverty rates, American-born Asians have moved into professional positions, and the median income of Asians is now higher than that of whites. However, glass ceilings still persist, and as Wen Ho Lee, the Chinese-American nuclear scientist who was falsely accused of espionage in 2002, found out, Asians are still defined by race and branded as perpetual foreigners.

The divergent histories of the Irish and the Chinese in the United States illustrate the powerful role of race in the long-term accumulation of wealth. Irish-Americans faced plenty of discrimination in the labor market: consider the "No Irish Need Apply" signs that were once common in Boston storefronts. But they never faced legal prohibitions on asset ownership and citizenship as Chinese immigrants did, or the expropriation of property as the Japanese did. Today, people of Irish ancestry have attained widespread material prosperity and access to political power, and some of the wealthiest and most powerful men in business and politics are of Irish descent. Meantime, the wealth and power of the Chinese are still marginal.

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Throughout history, federal policies—from constructing racial categories, to erecting barriers to asset building by nonwhites, to overseeing transfers of wealth from nonwhites to whites—have created the basis for the current racial wealth divide. If the gap is to be closed, government policies will have to play an important role.

It's long past time to close the gap.