

The Collapse of African-American and Latino Wealth over the Great Recession and Possible Recovery

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The paper looks at racial and ethnic differences in wealth over years 1983 to 2013 in the U.S. on the basis of the Federal Reserve Board's Survey of Consumer Finances (SCF). Using a standard net worth measure, I find that racial wealth gap between African-Americans and (non-Hispanic) whites was the same in 2007 as in 1983 (a ratio of 0.19) but then widened considerably between 2007 and 2010, falling to a ratio of 0.14. In contrast, the wealth gap between Latinos and non-Hispanic whites narrowed considerably between 1983 and 2007, with the wealth ratio rising from 0.16 to 0.26. However, Latinos, in particular, got hammered by the Great Recession in terms of net worth and net equity in their homes and by 2010 the ratio had collapsed to 0.15. There was relatively little change in the racial or ethnic wealth gap between 2010 and 2013.

Examining the portfolio composition by race and ethnicity, I find that one of the most striking results is the very high leverage (debt to net worth ratio) of both African-American and Latino households on the eve of the Great Recession. The debt-wealth ratio of the former was 55 percent and that of the latter was 51 percent, compared to 18 percent for whites. Moreover, both minority groups had a higher share of their assets in homes than whites (54 and 53 percent, compared to 31 percent). Another notable development was the rise in the homeownership rate among African-American families, from 44.2 percent in 1983 to 50.1 percent in 2004 and its rapid fall after that – down to 44.0 percent in 2013. Even more dramatic is the trend in the homeownership rate for Latino families, from 32.6 percent in 1983 to 49.2 percent in 2007 and its subsequent decline to 43.9 percent in 2013. The paper tracks the evolution of household portfolios by race and ethnicity from 1983 to 2013. Particular attention is placed on trends in the homeownership rate and mortgage debt. It also tracks changes in the rate of return on the household portfolio of each group over this time period. Decomposition analysis indicates that about three quarters of the widening of the racial and ethnic wealth gap between 2007 and 2010 was due to the lower rate of return on wealth held by African-Americans and Latinos relative to whites. On the basis of data from the SCF, it was also the case that on the eve of the Great Recession that a higher percentage of both African-American and Latino households had sub-standard mortgages and paid a higher average mortgage interest rate than white households. This made them more vulnerable to the sharp downturn in house prices from 2007 to 2010 in terms of both home equity and net worth. On a positive note, perhaps not surprisingly adding both pension and Social Security wealth to the household portfolio substantially lowers the racial and ethnic wealth gap. However, what is notable is that the equalizing effect of both pension and Social Security wealth generally wore off between 2007 and 2013. Indeed, the ratio of mean augmented wealth (the sum of net worth, pension, and Social Security wealth) between black and white households rose from 0.27 in 1989 to 0.30 in 2007 but then declined to 0.26 in 2013. Likewise, the ratio of mean augmented wealth between Hispanics and (non-Hispanic) whites increased from 0.25 in 1989 to 0.33 in 2007 but then fell off to 0.24 in 2013. The ratio of median

augmented wealth between blacks and whites, after growing from 0.24 in 1989 to 0.31 in 2007 diminished slightly to 0.33 in 2013, while that between Hispanics and whites increased from 0.24 in 1989 to 0.32 in 2007 and then grew more slowly to 0.34 in 2013. The data will be updated to 2016 with the expected release of the 2016 SCF.