

## LESSON PLAN

# RACIAL WEALTH DIVIDE

## SUMMARY

Today we know, through the study of genetics, that scientifically there are not different “races” of humans as once believed. Race is a social construct, meaning we, as a society, give meaning to the color of skin, differences in hair color and texture, and all other identifying markers. Scientifically, we are all the same.

But that doesn’t mean that race is a non-issue in the United States. In fact, it is quite the opposite and that can be seen clearly in the wealth divide between whites and non-whites, especially African-Americans.

To put it in perspective, African-Americans, while making up just under 13% of the nation’s population, collectively own less than 3% of the nation’s total wealth.

Racial wealth inequality in this country is no accident. It is the result of public policy designed that has historically and still continues to prevent people of color from making financial gains at the same rate as white Americans.

Going back to the very roots of this country, systemic racism was institutionalized when Thomas Jefferson called on science to prove his theory that Blacks were inferior to whites. This belief became codified in 1857 when the Supreme Court ruled, in the Dred Scott case, that Blacks were not citizens and thus had no rights under the law. Even after the Civil War and gaining citizenship, many African Americans, especially those in the South, were still unable to vote due to state or local laws that demanded they pass literacy tests and/or pay a poll-tax. It wasn’t until the Voting Rights Act of 1965 that African Americans were able to legally vote in all states. They were denied higher paying jobs and homeownership. It is no wonder, then, why there is still such a divide in the United States.

But no policy had as great an impact on the racial wealth divide as the housing and redlining policies that began shortly after the Great Depression. These public policies compounded and exacerbated the wealth divide by denying African Americans and other minority groups the ability to build generational wealth through homeownership.

In the 1930s, FDR created the Federal Housing Administration (FHA) to provide mortgage insurance to lenders as part of his New Deal plan. Prior to FHA, someone looking to purchase a home had to pay 50% of the purchase price up-front. Under FHA loans, the buyer puts 20% down and the bank finances the remaining 80% over 30 years. This allowed homeownership to become possible for many who couldn’t previously afford it before. As long as they were white.

Those who were not white were locked out of homeownership due to limitations based on where they were permitted to live. The FHA underwriters warned, without any basis other than bias, that even one to two non-white families could undermine the property value of an entire neighborhood.

As a result, many real estate developers wouldn’t sell homes to African Americans. Underwriters would use maps to determine which pieces of property and neighborhoods were most desirable: green meant best, blue meant still desirable, yellow meant definitely declining (meaning one or two African-American families lived there), and red meant hazardous. Not only could African-Americans not buy homes in white neighborhoods, they also could not get even get FHA secured mortgages in or near African-American neighborhoods, which were in the red areas; this hugely detrimental policy is known as redlining.

Thus, African-Americans had very little opportunities in housing. They were either restricted to public housing that was being built in city centers or pushed into “land contracts.” These “land contracts” were wealth-stripping, predatory and costly arrangements in which buyers paid an exorbitant price to purchase a home and in which a missed payment would lead to eviction from the home and the loss of all equity.

In cities like Chicago, where redlining was rampant, the practice of “land contracts” led African American families to pay an average of \$20,000 more for their homes than the prices paid by White families, ultimately stripping more than \$500 million in wealth (about \$3 billion in 2017 dollars) from families of color over a 30-year period.

Another prominent public policy that increased the wealth gap was the GI Bill of 1944. Millions of returning WWII veterans were afforded the opportunity to access wealth-building opportunities, including low-cost home mortgages, low-interest business loans, and tuition assistance. However, because the administration of this program was relegated to the states, with no federal oversight, African-Americans were disproportionately denied these benefits due to racial discrimination.

In fact, in 1947, a survey of 13 Mississippi cities found that out of the 3,229 VA loans issued to support homeownership, business and farming, African-American Service members received only two.

The culmination of all these events, the historical discrimination put in place through federal policies of employment, homeownership, and service member benefits, result in the Racial Wealth Divide we see today.

If current economic trends continue, the average black household will need 228 years to accumulate as much wealth as their white counterparts hold today; for the average Latino family, it will take 84 years.

The wealth gap between white families and their Black and Latino counterparts has more than tripled in the last 50 years, according to Federal Reserve data. The median wealth for a White family is (\$177K): 10 times the median wealth of a Black family (\$17k), and 8.5 times the median wealth of a Latino family (\$21K). Despite some fluctuations over the past five decades, this disparity is as high as or higher than it was in 1963.

Through understanding this history and how it continues to impact each of us to this day, we can begin to take action to fight back against systemic inequality and shrink the racial wealth gap.

## OBJECTIVES

- Understand the historical context of the racial wealth divide in the U.S.
- Reflect on individual money stories and how they compare to those of their peers
- Identify what areas of personal finance and net worth are affected by the racial wealth gap
- Identify self-advocacy strategies
- Identify resources on campus to fill in the gaps

## CORRESPONDING POWERPOINT

[Racial Wealth Divide Powerpoint](#)

## RESOURCES

### Books, Podcasts and Websites

- [Toxic Inequality: How America's Wealth Gap Destroys Mobility, Deepens the Racial Divide, and Threatens Our Future](#) by Thomas Shapiro
- [Race: The Power of an Illusion](#) (Includes many video clips that can be shared)
- [Race: The Power of an Illusion, The Online Companion](#)
- [Race: The Power of an Illusion Lesson Plans for Teachers](#)
- [Prosperity Now](#)
- [Ten Things Everyone Should Know About Race](#)
- [A Forgotten History of How the U.S. Government Segregated America](#)
- [The Race and Wealth Podcast](#)
- [White Americans Should Care About Wealth Inequality, Too](#)

### Videos

- [Redlined, A Legacy of Housing Discrimination](#)
- [Housing Segregation and Redlining in America: A Short History | NPR](#) (Use this link to avoid strong language during first 9 seconds)
- [Adam Ruins Everything-The Disturbing History of the Suburbs](#) (used in the PowerPoint)
- Inceptia webinar [“Same Campus, Miles Apart: Addressing the Racial Wealth Divide”](#)

### Activities

- [Net Worth Calculator](#)
- [Interactive Redlining Map Zooms in on America's History of Discrimination](#)