



Diverging Pathways: How Wealth Shapes Opportunity for Children



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The Closing the Racial Wealth Gap Initiative

The Closing the Racial Wealth Gap Initiative is a national effort to build awareness and support for efforts to address the racial and ethnic wealth inequalities. To achieve this goal, we have brought together scholars, advocates, and other experts of color to inform the national economic debate with diverse perspectives to develop universal and targeted policy solutions to assure economic inclusion.

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Key Findings

Racial disparities in households with young children are dramatic

- In 2007, 32% of white households with young children were income-poor and 14.2% had no assets. In sharp contrast, 69% of Latino and 71% of blacks were income-poor, and 40% had no assets.

Racial disparities in child outcomes start early and grow over time

- At nine months, all children start out with fairly similar scores on a standard child development test, but by two years of age, racial disparities emerge.

The wealth gap widened for households with children

- Between 1994 and 2007, the wealth gap between white and black households with children increased by \$22,000 -almost doubling from \$25,000 to \$47,000.
- In 2007, black households with children held only 4% of the wealth of white households.
- From 2005 to 2007, black households living with zero or negative net worth (debt) grew from 35% to 39% while it stayed constant at 15% for white households.

Maternal education matters, but alone cannot eliminate racial wealth disparities

- For every dollar of wealth owned by a white mother with a bachelor's degree or higher in 1994 a black mother owned 64 cents. By 2007, it had fallen to 13 cents.
- The wealth gap between white and black mothers with a bachelor's degree or higher grew five times larger between 1994 and 2007 to an astonishing \$128,000.

Diverging Pathways: How Wealth Shapes Opportunity for Children

Children of color are four times more likely than white children to be born into the most economically fragile households. A poor start affects long-term well-being, making it difficult for children of color to catch up to their white counterparts and do as well in adulthood.

Latino, black and American Indian children under the age of five are three times as likely as whites and some Asian ethnicities to live in households with little income and few or no assets, such as cash savings, stocks and bonds or retirement savings. Even when children of color live in households that do have these assets, they are worth less. This means that the chances for these households to draw upon financial resources for high quality early education, for college tuition or to pass along an inheritance are slim. For them, the door to economic mobility opened by wealth is closed at birth, and it will take more than individual effort to open that door. Conversely, for white households with children a minimum level of prosperity is not only attainable, but expected. These children are free to dream big, take chances and not worry too much about the cost of things. Children of color on the other hand, whose families are facing downward mobility, may harbor doubts about the future.

We are in the midst of the most transformative demographic shift in our country's history. In forty years the United States will no longer have a white majority.¹ Because children born today represent our country's future, the task of narrowing racial wealth gaps takes on greater meaning and urgency because it is communities of color—with their younger median age amidst a white community that will reach retirement age in considerably large numbers—that will bear the burden of supporting the nation's infrastructure. When children of color inhabit distinctly disadvantaged and segregated economic landscapes and face diminished opportunities, it consigns our nation to even greater disparities and lost human potential. Enduring racial wealth gaps pose a serious threat to the nation's long term economic viability.

Our economy will rely on the talent, labor and consumer dollars of all children for sustainability and prosperity. Our future is dependent on the leadership steps taken today to enact long-term policies that radically bolster the wealth of children at birth and create sustained wealth over their life course.

To contribute to greater understanding of the importance of wealth and its effects on the children of the current generation, this paper summarizes household wealth data for a nationally representative sample of children representing all major racial and ethnic groups. It illustrates how disparities in wealth relate to indicators of child well-being. Data are calculated from two sources: the Panel Study of Income Dynamics (PSID) and the Early Childhood Longitudinal Study-Birth Cohort (ECLS-B).¹

Data from these sources indicate that the majority of white households with children have incomes above 185% of poverty and own multiple forms of assets, including money in a savings or checking account as well as owning stocks and investments, while most households of color with children are disproportionately both income and asset poor. Over the time period studied—the run-up to the official recession—the gap in wealth between white and black households increased. This report suggests that widening wealth gaps run parallel to diverging outcomes for children of different races, which negatively affects their adult lives.

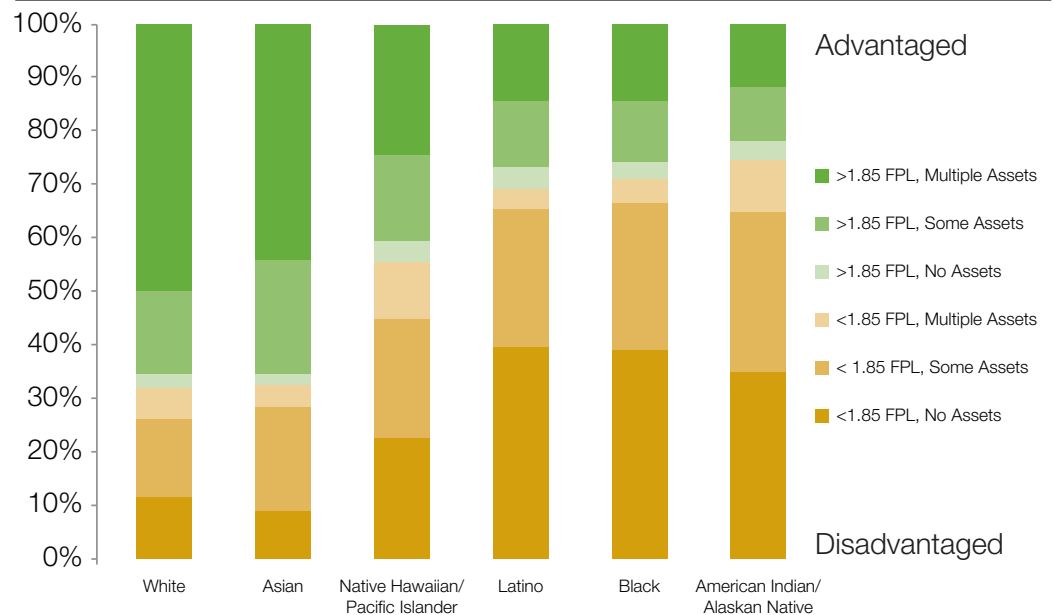
¹ The first (PSID) is a longitudinal dataset that has examined United States households since 1968. It collects detailed information on overall household resources, including wealth. In 1997, the PSID launched a Child Development Supplement (CDS) to assess the cognitive, behavioral and health status of sample children between the ages of 0 and 12. The ECLS-B is a nationally representative sample of 14,000 children born in the year 2001 and followed through 2006 at nine months, age 2, pre-school and kindergarten. Diverse subpopulations were oversampled which allows for comparisons across racial groups, but the data on income and wealth are not as comprehensive as in the PSID.

Racial wealth disparities in households with young children are stark

While income is necessary to survive, wealth is needed to thrive. Wealth allows families to weather financial shocks, to make investments that will produce income over a lifetime, to enjoy tax advantages, and to give a boost to the next generation. When low-income people acquire assets, they can move into the middle class, and spark intergenerational mobility and security. Having the income and wealth that allows for mobility and security is more typical for white households with children, while economic insecurity is typical for households of color with children. In this report, low-income means below 185% of the Federal Poverty Line (FPL) and these families are contrasted with those above 185% FPL.

- Half of white households with young children have incomes over 185% of the federal poverty level and multiple assets, compared to only 14% of black and Latino households.
- In sharp contrast, 40% of black and Latino households are economically vulnerable, both low income and without assets, compared to about 12% of white households.

Figure 1
Percentages of Children Born in 2001 who Live in Advantaged and Disadvantaged Households by Race



Source: ECLS-B, when children were 9-months of age

The income and wealth profiles of various racial and ethnic populations differ; however, white households do better than any other group. Highlighted below is a summary of household wealth and economic status disaggregated by race and ethnicity:

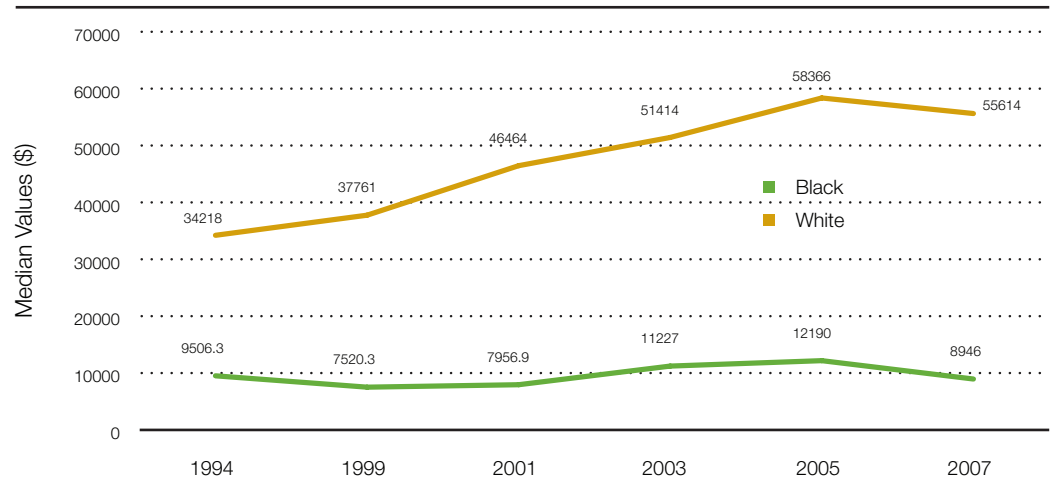
- About 32% of white children live in low-income households and only 14.2% live in households with no financial assets. On average, many Asian children (particularly Asian Indian and Chinese) live in similar circumstances. However, Southeast Asian children are more likely to live in low-income households.
- Native Hawaiian/Pacific Islander children are closely split between households above and below 185% FPL, and a majority has assets such as savings and investments. In contrast, American Indian and Alaskan Native children live in households that are overwhelmingly low-income, and yet many do own assets.
- Sixty-nine percent of Latino and 71% of black children live in low-income households and more than 40% live in households with neither savings nor investments.
- While vulnerable white households with children that have no money in savings or investments have a median wealth of \$785, similar black households have a median debt of \$55.
- Black households that are economically advantaged (not poor and with multiple assets) have assets of less value than their white counterparts. The median wealth for these white households with children is more than \$57,000. However, the few (8%) advantaged black households have a median wealth of only \$38,000.
- Having little or no wealth makes it more difficult to make ends meet and save for the future. Nearly 21% of black households with children report having no money left over at the end of the month compared to only 9% for white households.

The wealth gap widened for households with children prior to the “Great Recession”

Many children of color were at economic risk before the start of the Great Recession. The recession hit families of color particularly hard, with double the unemployment and foreclosure rates, meaning that the gap has widened even more. Further research will be needed to understand the magnitude of the effect of the recession on the racial wealth gap.

Figure 2

Racial Differences in Household Wealth with Children 1994 - 2007
(not including home equity)



In 13 years, the wealth gap between white and black households with children increased by \$22,000 -nearly doubling from \$25,000 to \$47,000.

- In the years leading up to the recession, the financial stability of black households was declining. Between 2005 to 2007, black households with zero or negative net worth (debt) grew from 35% to 39%, while the percentage of similar white households stayed the same at 15%.
- In 2007, black households with children held only 4% of the wealth of white households (this is all households, not just those with positive net worth as in Figure 2). Put another way, the black median net worth of \$1,495 is barely enough to cushion the average family who experiences a job loss or financial crisis at the poverty level for one month, while the white median net worth of \$33,232 can support that same family at the poverty level for two years.

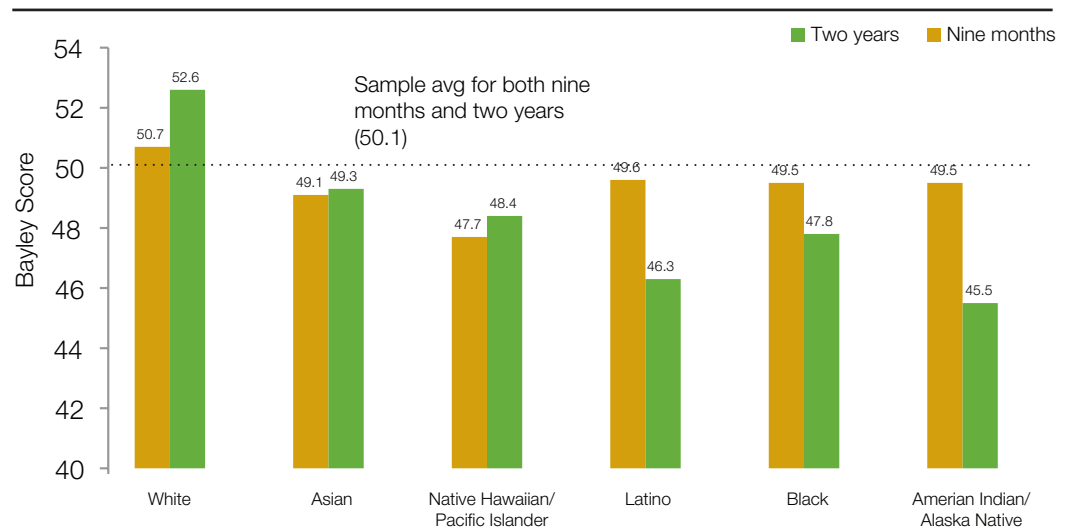
If these patterns hold true for other households of color where the number of vulnerable families outstrips those that are advantaged, the opportunities for many of our nation’s children to succeed will fade.

Racial disparities in child outcomes start early and persist over time

Many children of color fall behind white children as early as 1-2 years of age and arrive at school with lower scores on various measures. Even early achievement gaps can significantly impact children's future life options, particularly on educational attainment and future earnings.

- At nine months of age, all children start out with fairly similar scores on a standard child development test, but by two years of age, racial disparities emerge—with children of color lagging behind their white and Asian peers.

Figure 3
Child Development Skills at Nine months and Two years By Race and Ethnicity



Child development skills include acquisition of object constancy; memory learning and problem solving; vocalization and beginning of verbal communication; basis of abstract thinking; mental mapping; complex language; and mathematical concept formation.

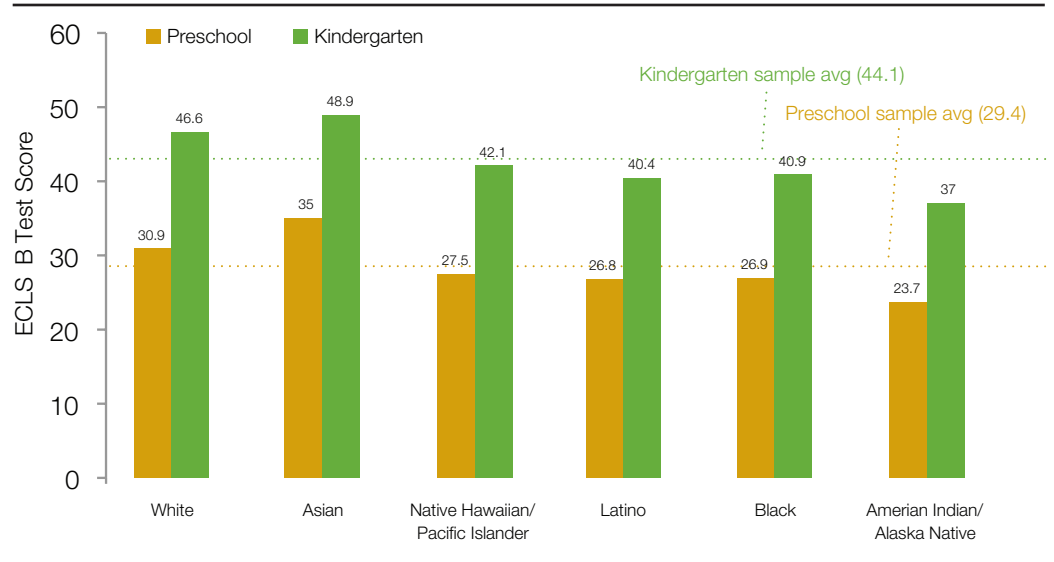
Source: Bayley Short Form- Research Edition (BSF-R) Mental as used in the ECLS-B

- These early differences in outcomes become more pronounced as children enter school. By kindergarten entry, white and Asian children² are scoring much higher on average than black, Latino, Native Hawaiian/ PI, and American Indian/AN children on math skills tests.

² Although not included in the figure, it is important to note the in-group differences within the Asian population. When the kindergarten entry data are disaggregated, Chinese and Asian Indian children score nearly 10 points higher than Vietnamese children and 5 points higher than Filipino children on a reading skills test. On the math skills test, Chinese children score much higher than Asian Indian, Filipino and Vietnamese children.

Figure 4

Math Skill Scores at Preschool and Kindergarten By Race and Ethnicity



Source: ECLS-B

Disparities in early test scores make it less likely that many young people of color will be as ready as whites and Asians to be successful in school or to have the math skills necessary to be prepared for the STEM jobs of the future, i.e. Science, Technology, Engineering, and Math.

Child health outcomes also reveal racial disparities. White children are most likely to be rated in excellent or very good health at every time point (between nine months and kindergarten entry) and it is the only group that maintains consistently high health ratings. On the other hand, black and Native Hawaiian/PI children tend to have much higher rates of asthma starting as early as age two. And although Asian children as a whole have relatively low asthma rates, the Filipino rate is high and more similar to that of Native Hawaiians. Higher incidence of asthma leads to higher health costs, hospitalization, and lost school days, which can continue to have enduring consequences, especially if the condition is not well managed.ⁱⁱ A recent study documents how living in segregated communities with concentrated poverty is a key factor leading to an increasing prevalence of asthma among Black and Latino children. The stressful conditions and poor air quality exacerbate asthma symptoms and demand a community response.ⁱⁱⁱ

These results are important to help connect the dots between household wealth and early disparities, especially since these indicators are known to influence later educational and economic outcomes.

Maternal education contributes to child well-being and building wealth, but alone does not reduce racial wealth disparities

As a mother's educational attainment increases, child outcomes improve and economic vulnerability decreases. Yet, patterns of racial disparity remain.

At each level of maternal educational attainment, neighborhood safety ratings improve, but black and Latino children are still more likely to live in unsafe environments than white and Asian children.

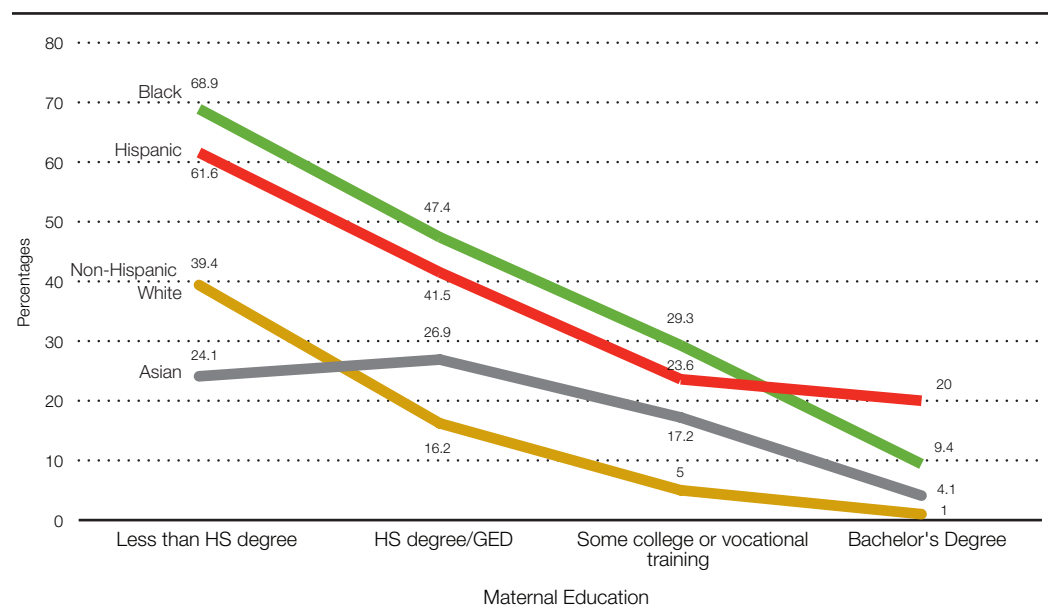
- Black and Latino mothers with less than a high school degree, rate their neighborhoods as unsafe by a rate of 24% and 16% respectively. It drops to 12% for blacks and 7% percent for Latinos when the mother has some college or vocational training.
- Regardless of educational attainment there is racial disparity in how safe parents feel their neighborhoods are. Four percent of white and Asian parents rate their neighborhoods as unsafe to raise children, while ethnic groups are two to four times more likely to report unsafe settings.

Although education has increasingly been the route to social mobility and economic stability, maternal educational attainment may not be enough to reduce racial disparities in household wealth.

- As seen in Figure 5, by kindergarten the percentage of households with no assets falls as maternal education improves, but racially distinct patterns still exist. Even when the mother has a bachelor's degree, black and Latino children are more than twice as likely to be asset poor than white and Asian children.

Figure 5

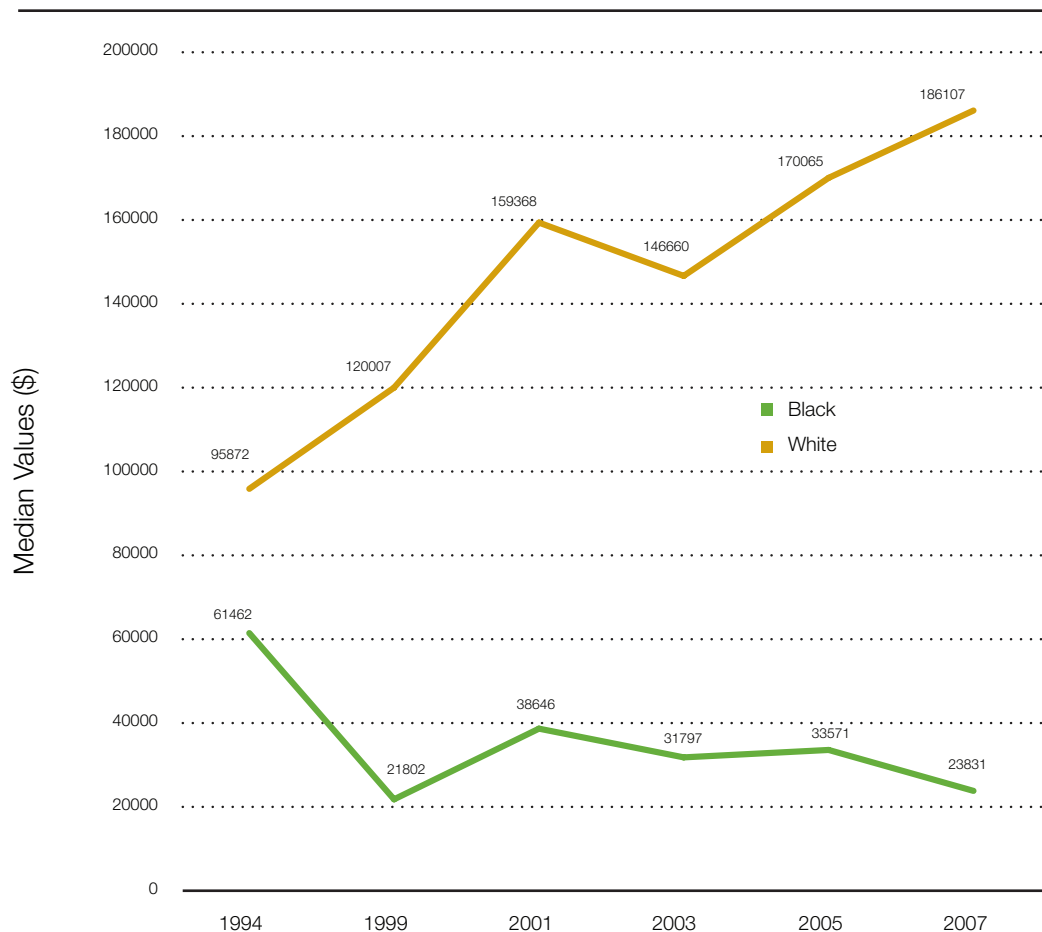
Percentage of households with no money in savings/checking or stock/ investments by race/ethnicity and maternal education at Kindergarten



Source: ECLS-B

The racial wealth gap of white and black mothers with a bachelor's degree or higher skyrocketed to nearly \$128,000 between 1994 and 2007.

Figure 6
Racial Differences in Median Wealth of Children by Maternal Education
(bachelor degree or higher)



- For every dollar of wealth owned by a white mother with a bachelor's degree or higher in 1994, a black mother owned 64 cents. By 2007, it had fallen to 13 cents.
- The wealth gap for households of white and black mothers with a bachelor's degree or higher, increased fivefold between 1994 and 2007. The wealth of these black households drops by nearly 61% while the wealth of white households steadily rises.
- Although the incidence of single motherhood has been increasing for the population as a whole, and while the largest number of single mothers are white, the trend toward female headed households with young children particularly affects black households. While the percentage of nine month olds living with a single mother drops from 75% among black mothers with less than a high school degree to 22% among black mothers with a Bachelor's degree, they and their children are still more likely to be economically vulnerable, without much wealth. The median wealth for single black mothers with school age children is zero,^{iv} meaning that half have debt rather than assets.

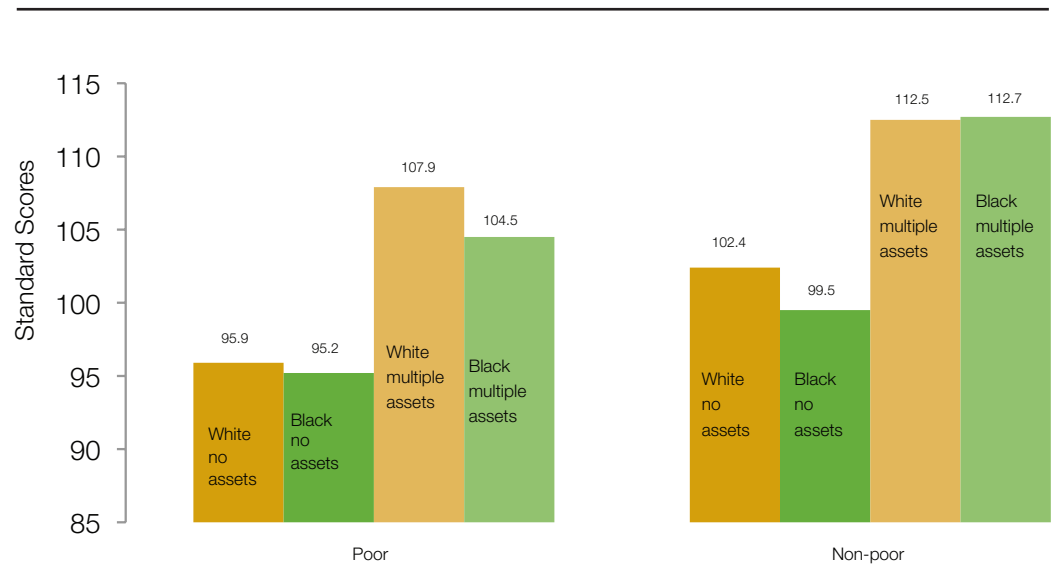
Wealth matters in reducing disparities in child outcomes

There are some outcomes for which, if wealth is held constant, racial disparities decline dramatically or disappear. According to earlier studies,³ such as one by Dalton Conley, racial disparities in educational attainment disappeared when wealth, not income, was held constant.

Similarly in the Woodcock-Johnson standardized Letter-Word test, average scores are higher for children in households with a greater level of assets, whether from lower or higher income families. In fact, among higher income households with multiple assets racial disparities disappear—both black and white children perform at a high level.

Figure 7

Racial Differences in Scores on Standardized Letter Word Test (Children aged 3-12, 1997) By Race



Poor = less than 185% of the federal poverty level non-poor= above 185% of the federal poverty level
Multiple Assets = adults have money in savings/checking and owns investments/ stocks

Source: PSID, Woodcock Johnson Revised Tests of Achievement (WJ-R) Letter-Word score

Wealth reduces racial disparities in home ownership rates for higher income households, but not for low-income households.

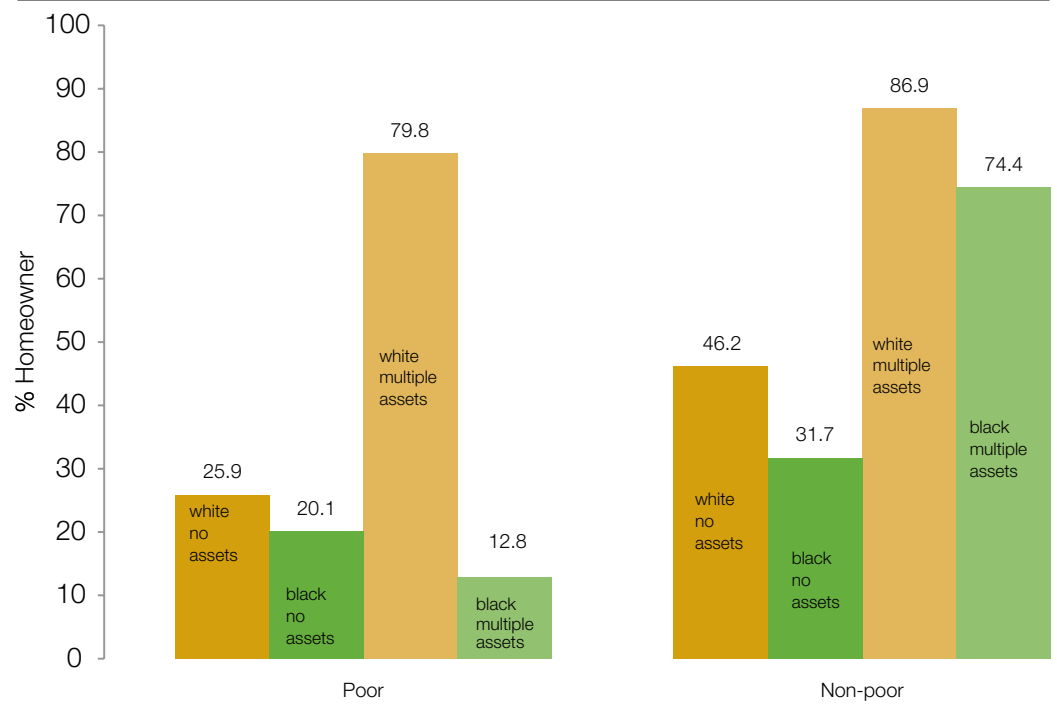
- White households with children that hold multiple assets have extremely high rates of homeownership whether low-income or not. For black households, however, homeownership is low when households are low-income whether they hold multiple assets or not. The rate doubles among black households if they are not low-income and hold multiple assets.

³ A 2010 article by Shanks and colleagues summarizes recent studies on links between household assets and educational, socio-behavioral and economic outcomes for children. A well-known study by Dalton Conley on children born since 1962 that become young adults in the 1980s, analyzes differences in net worth, high school graduation, college graduation, repeating a grade, labor force participation, wages, welfare receipt, and pre-marital childbearing (for daughters) between whites and blacks. It finds that racial differences are either no longer significant or dramatically lessened once parental wealth is taken into account; however, the differences remain if income is held constant. Conley concludes that to understand the life chances of children, it is necessary to pay attention to racial gaps in wealth even more than those in income (Conley 1999).

Racial disparities in test scores disappear among higher income households that own multiple assets.

Figure 8

Racial Differences in Home Ownership 1994 By race



Multiple Assets = adults have money in savings/checking and owns investments/ stocks

Poor = less than 185% of the federal poverty level non-poor= above 185% of the federal poverty level

Source: PSID. Households with Young Children

Household wealth alone is not enough to reduce racial disparities in homeownership between black and white low-income households.

- Low-income white households not only have higher levels of wealth than comparable black households, but they are also more likely to have parents, friends, and relatives that are economically secure.^v As a consequence, low-income white households are unlikely to live in neighborhoods with high concentrations of poverty. This contrasts dramatically with black and Latino households and is likely why these parents are more likely to report living in communities that are unsafe.

Although a complex statistical model is beyond the scope of this report, documenting such patterns can highlight the possible processes through which household wealth influences child outcomes. For example, if household wealth is high when neighborhood quality is high, then residential segregation and community influences might be important factors in how household wealth influences child outcomes. Future research will test the relative strength of household wealth in a range of child outcomes to examine when it is most likely to be a significant independent factor.

Conclusion

The vastly changing demography, where the majority of children will no longer be white, can bring new energy and creativity to our nation. Yet, right now, many racial and ethnic groups find themselves living in the same country but inhabiting completely different landscapes, both literally and figuratively. Children of color are more likely to live in the most economically fragile households. Concentrated pockets of racialized poverty are unfortunately still the norm for low-income and/or low-asset families of color: neighborhoods which do not provide good schools, violence free streets, mainstream financial institutions, sound housing stock, environmental safety, good jobs, transportation access, or stores with healthy foods, all exacerbate the lack of opportunity that comes with few financial resources. Related disparities in academic achievement and health typically emerge early, before the child is even in a position to understand and respond. During times of crisis or economic downturn, the situation of economically vulnerable households can fall further behind quickly and dramatically. What might be simply a temporary setback for a family with wealth can turn into an economic catastrophe for a family with no wealth—further dimming prospects for the next generation. Even education and a higher income cannot compensate for significantly different levels of wealth.

Our quality of life and ability to secure a strong, common economic and social future depends upon our ability to invest wisely in our children now. We are a land of rich diversity and opportunity, but if current trends continue, a growing number of children of color will be locked out of the economic mainstream as they reach adulthood.

Although there are no quick and easy solutions to the racial wealth gap and its long-term implications for children, a few clear implications emerge from this research.

Helping economically vulnerable households of color to build wealth and accumulate assets is a clear way to positively impact child well-being. In addition, the data show that households have better chances if they own more than one kind of assets. While a savings account is an important first step or owning a house provides some stability, having only one kind of asset is not enough to remain secure. By providing various asset building opportunities throughout a child's lifetime, they can grow up to contribute to our nation's economic growth, and to help their own children realize their potential. Rather than reproducing cycles of disadvantage, we as a nation can decide to act aggressively early in a child's life before disparities become entrenched. We need every child to dream big, live fully, and build family, community, and national well-being.

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ⁱ Based on 2008 National Population Projections released by the United States Census Bureau.

ⁱⁱ CDC 2011

ⁱⁱⁱ JCPES & PolicyLink, 2004

^{iv} Chiang, 2010 (see References)

^v Chiteji and Hamilton, 2005, (see References)



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