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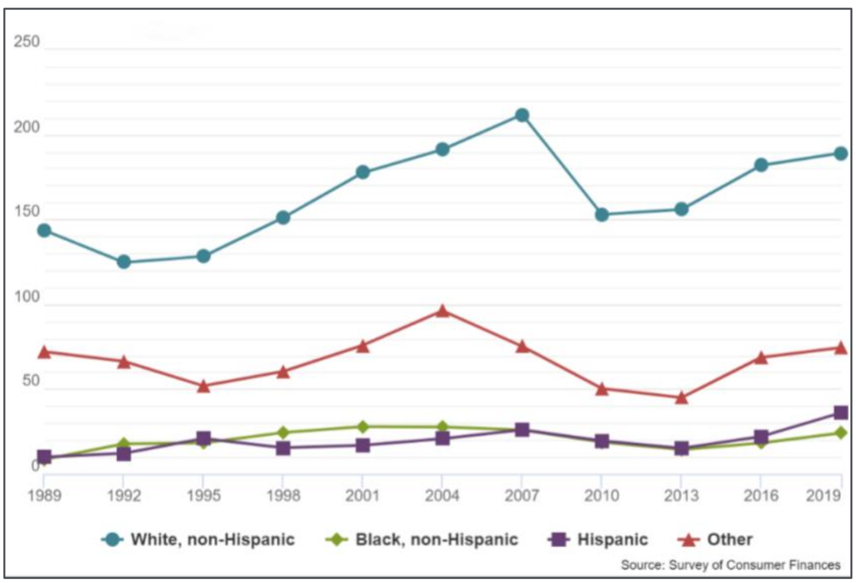
Why the Latino Wealth Gap Persists, and What We Can Do to Fix It

Wealth inequality is one of the most prevalent and far-reaching issues today that disproportionately affects Latinos and other communities of color. Data shows that the median wealth for White families is five times higher than that of Latinos.[1] Moreover, data from the last Census showed that there are approximately 62.1 million Latinos that altogether account for slightly more than half (51.1%) of the total U.S. population growth between 2010 and 2020.[2] In contrast, the White population decreased by 8.6% since 2010.[3] This large discrepancy in population growth and wealth accumulation shows that the road to equality is a long and hard one, but trends show that Latinos are gaining ground. The net worth of Whites used to be 10 times that of Latinos back in 2013.[4] However, the pandemic posts new challenges and pervasive structural barriers are impeding efforts to close the wealth gap.

Net worth by race or ethnicity from 1989–2019 in the U.S., in thousands of 2019 dollars



Structural Barriers to Latino Wealth

Contrary to the notion that individuals make poor financial decisions due to lack of financial literacy and that this in turn explains wealth disparities,[5] the racial wealth gap is more likely rooted in socioeconomic and political structural barriers. It is more likely that economic circumstances--not poor decision-making or deficient knowledge--constrains choice itself and leaves Latino and other communities of color at a disadvantage. Common structural barriers are deeply rooted in racism and exclusion,[6] some of these include:

- **Discriminatory practices like red lining and the effects of white flight.** These practices, while now illegal, still carry a compounding effect on communities of color that have been denied access to financial products based on their race and ethnicity. These practices have been correlated with high levels of poverty,[7] poorer health,[8] and can directly explain aspects of the racial gap in homeownership.[9]

- **Unequal access to banking and credit.** 30% of Latino adults are unbanked or underbanked, compared to 12% of White adults.[10] Latinos are also more likely to live in communities with limited access to credit unions and bank branches.[11] Also, Latinos are twice as likely to be credit invisible than Whites[12] and have a harder time getting approved in a credit application than whites.[13]
- **Closed networks and resources.** Wealth is iterative and it provides people with the necessary initial capital to purchase assets and generate more wealth. Despite Latinos outpacing the general population in entrepreneurship and creation of small business, access to established networks and resources continues to slow down growth.[14]
- **Overtly complicated administrative burdens.** Government interventions with a goal of addressing poverty and incentivize economic upward mobility have complicated eligibility rules, lack appropriate outreach strategies, enforce contradictive regulations and lack the appropriate funding to scale their impact. These administrative burdens are common in our tax, welfare and economic development systems that are satiated with bureaucratic procedures.[15, 16]

Intergenerational wealth presents another challenge. Wealth accumulation generally follows a predictable life-cycle arc, wherein families generally accumulate wealth during their working years in preparation for retirement.[17] Latinos have a median age that this younger than other demographic groups and have yet to enter the wealth accumulation age. Moreover, Latinos are less likely than the general population to report having received an inheritance: only 4.2% do.[18] By some estimates, inheritance and transfers account for at least half of aggregate wealth[19] and account for more of the racial wealth gap than any other demographic or socioeconomic indicator.[20]

Moreover, the gap in asset value between Latinos and Whites is larger than the wealth gap, indicating that the gap is driven more by asset value disparities than by debt.[21] Lastly, although Latinos have a higher-than-average labor force participation,[22] structural barriers in the labor market have forced Latinos to be overrepresented in jobs that offer few benefits and Latinos own retirement accounts at a lower rate than all other demographics.[23]

Areas of work to combat structural barriers

The burden to close the Latino wealth gap requires systemic change. Ongoing efforts to address this policy problem include:

- **An equitable tax system:** Improving the design of tax credits like the Child Tax Credit and the Earned Income Tax Credit to ensure that the most vulnerable families have access to the highest available credit.
- **Fair Banking System:** Promoting use of special purpose credit programs (SPCP) that target communities historically shut out of the banking system.
- **Inclusive Homeownership Policies:** Implementing a national, targeted down payment assistance program for first-generation, first-time homebuyers to address a common barrier to homeownership for Latinos.
- **Accountability and Regulation:** Using regulations, like the Community Reinvestment Act, to encourage financial institutions to invest in low-income communities and communities of color, and to hold financial institutions accountable for gaps.

These policies are just a first step in addressing the Latino wealth gap but could help create an economy that works for all families, including those that have been systemically excluded from opportunities for upward mobility.

Key Links and Resources:

- https://www.unidosus.org/publications/2150-closing-the-latina-wealth-gap-building-an-inclusive-economic-recovery-after-covid/

[1] Board of Governors of the Federal Reserve System. Survey of Consumer Finances. New York, New York, November 2021. Retrieved from: The Fed - Chart: Survey of Consumer Finances, 1989 - 2019 (federalreserve.gov)

[2] Ibid

[3] Ibid

[4] Ibid

[5] Employment and Income." *The African American Almanac*, edited by Christopher A. Brooks, 11th ed., Gale, 2011, pp. 681-695. *Gale eBooks*, link.gale.com/apps/doc/CX1911700022/GVRL?u=columbiau&sid=bookmark-AONE&xid=7f8eca6b. Accessed 1 July 2022.

[6] For a more detailed discussion of discrimination and institutional barriers in housing markets, see, for example, *The Color of Law* (2017) by Richard Rothstein or *Race for Profit* (2019) by Keeanga-Yamahtta Taylor. For more on inequities in educational opportunities, see, for example, Ivy Morgan and Ary Amerikaner (2018) "Funding Gaps: An Analysis of School Funding Equity Across the U.S. and within Each State" or *Children of the Dream* (2019) by Rucker C. Johnson. For more on labor market outcomes, see, for example, Devah Pager (2007) "The Use of Field Experiments for Studies of Employment Discrimination: Contributions, Critiques, and Directions for the Future" *Annals of the American Academy of Political and Social Sciences* 609 (January): 104-133, or Raj Chetty, Nathaniel Hendren, Maggie R. Jones, and Sonya R. Porter (2020) "Race and Economic Opportunity in the United States: an Intergenerational Perspective" *The Quarterly Journal of Economics* 135(2); 711–783.

[7] McClure E, Feinstein L, Cordoba E, Douglas C, Emch M, Robinson W, Galea S, Aiello AE. The legacy of redlining in the effect of foreclosures on Detroit residents' self-rated health. Health Place. 2019 Jan;55:9-19. doi: 10.1016/j.healthplace.2018.10.004. Epub 2018 Nov 15. PMID: 30448354; PMCID: PMC6345551.

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[9] Jung Hyun Choi (2020) Breaking Down the Black-White Homeownership Gap. Urban Institute. https://www.urban.org/urban-wire/breaking-down-black-white-homeownership-gap

[10] https://www.federalreserve.gov/publications/2021-economic-well-being-of-us-households-in-2020-banking-and-credit.htm

[11] https://libertystreeteconomics.newyorkfed.org/2016/03/banking-deserts-branch-closings-and-soft-information/#.Vt5LhtBYG53

[12] https://www.unidosus.org/blog/2019/03/19/credit-scoring/

[13] https://www.federalreserve.gov/publications/2021-economic-well-being-of-us-households-in-2020-banking-and-credit.htm

[14] 2019-SHWR-Annual-Report.pdf (hispanicwealthproject.org)

[15] Martin Baekgaard, Tara Tankink, Administrative Burden: Untangling a Bowl of Conceptual Spaghetti, *Perspectives on Public Management and Governance*, Volume 5, Issue 1, March 2022, Pages 16–21, https://doi.org/10.1093/ppmgov/gvab027

[16] Acevedo-Garcia D, Joshi PK, Ruskin E, Walters AN, Sofer N, Guevara CA. Including Children in Immigrant Families in Policy Approaches to Reduce Child Poverty. Acad Pediatr. 2021 Nov-Dec;21(8S):S117-S125. doi: 10.1016/j.acap.2021.06.016. PMID: 34740418.

[17] Bhutta, Neil, Andrew C. Chang, Lisa J. Dettling, and Joanne W. Hsu (2020). "Disparities in Wealth by Race and Ethnicity in the 2019 Survey of Consumer Finances," FEDS Notes. Washington: Board of Governors of the Federal Reserve System, September 28, 2020, https://doi.org/10.17016/2380-7172.2797.

[18] Federal Reserve Bank (2019) Consumer finance survey. The Fed - Chart: Survey of Consumer Finances, 1989 - 2019 (federalreserve.gov)

[19] Gale, William G., and John Karl Scholz. 1994. "Intergenerational Transfers and the Accumulation of Wealth." *Journal of Economic Perspectives*, 8 (4): 145-160.DOI: 10.1257/jep.8.4.145

[20] Hamilton, Darrick, and William A. Darity, Jr. "The political economy of education, financial literacy, and the racial wealth gap." Federal Reserve Bank of St. Louis Review, vol. 99, no. 1, spring 2017, pp. 59+. Gale Academic OneFile, link.gale.com/apps/doc/A491202034/AONE?u=columbiau&sid=bookmark-AONE&xid=2af3d614. Accessed 1 July 2022.

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[22] https://blog.dol.gov/2021/09/15/hispanics-in-the-labor-force-5-facts

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