Return to *Being Black, Living in the Red*:

A Race Gap in Wealth that Goes beyond Social Origins

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Abstract. In the United States, racial disparities in wealth are vast and widening, yet their causes are only partially understood. Conley (1999) argues that the socio-demographic traits of young African Americans and their parents, particularly parental wealth, wholly explain their wealth disadvantage. I document that this result is dependent on an analytic sample that was limited in three ways by the data available at the time: 1) the exclusion of young adults not living independently; 2) an exclusive focus on young adults between the ages of 20 and 30; 3) a small sample with low statistical power. I extend Conley's analysis by analyzing his sample when they are ages 20 to 45 and by utilizing wealth data from the 1984-2009 waves of the Panel Study of Income Dynamics. I find a large and statistically significant wealth disadvantage for African Americans that remains after controlling for parental wealth and other socio-demographic traits. The results suggest that race as well as class determine asset-building and that race-blind asset policies aimed at low-income households are insufficient to close the race gap in wealth.

In 2009, the median wealth of White households was twenty times that of Black households, the greatest disparity in at least twenty-five years (Kochhar, Fry, and Taylor 2011). Although vast racial disparities in wealth are well-documented (Conley 1999; Gittleman and Wolff 2004; Oliver and Shapiro 1995), the recent widening of this gap renews questions of the source of racial inequality in financial assets.

Wealth is typically defined as net worth: the sum of individuals' or households' assets, less their debts (Spilerman 2000; Yamokoski and Keister 2006). In addition to being an outcome of the social stratification processes, wealth may be considered a mediator of the intergenerational transmission of inequality. Parental wealth has been shown to be associated with children's educational attainment and performance (Conley 1999, 2001a; Orr 2003), labor supply (Conley 1999), and mate selection (Charles, Hurst, and Killewald 2011), net of other measures of social origins.

In *Being Black, Living in the Red* (*BBLR* hereafter), Conley (1999) concludes that race differences in the wealth of young adults can be entirely explained by race differences in other traits, such as the education and income of the young adults and their parents. The *BBLR* analysis exploits the genealogical nature of the Panel Study of Income Dynamics (PSID) and uses a sample of young adults who were ages 10 to 20 in 1984 and living with their parents, but living as heads of their own households in 1994 when they were ages 20 to 30. Conley finds that, while race differences in young adults' wealth in 1994 remain after controlling for their own characteristics, these differences disappear when parents' attributes, and especially parental wealth in 1984, are included as control variables.

These results have significance for both a sociological understanding of the interaction between race and class and for public policy, as they suggest that race matters for the

accumulation of assets only to the extent that it is correlated with class. Conley writes: "In the end it may be the economically disadvantaged family backgrounds of young African Americans more than the color of their skin that hurts their efforts to accumulate wealth" (1999: 49). If true, this suggests that racial inequality in wealth results from the "sedimentation of inequality" (Oliver and Shapiro 1995) from previous generations. Thus, race differences in assets may be reduced through race-neutral policies that benefit those with less advantaged parents. If, however, race differences in wealth accumulation remain after adjusting for parental wealth and other measures of social origins and individual achievement, greater attention is needed to the processes that prevent young adult African Americans from accumulating wealth at the same rate as otherwise similar Whites.

The widely-cited *BBLR* results thus merit careful scrutiny. In this paper, I document that three features of the *BBLR* sample biased the results against finding a significant race gap in wealth after adjusting for socio-demographic traits. First, the analytical sample was selectively drawn from all cohort members. Among men, only about 2/3 of Whites and 1/2 of African Americans who would otherwise have been included were heads of their own households in 1994, excluding a large share of young adults. Representativeness is even worse for women, as all married women were excluded from the analysis. Second, the parent-child wealth correlation may be especially strong for young adults: any additional disadvantages in wealth accumulation experienced by young African Americans may not appear until they are into their 30s when the second generation is more likely to have begun to accumulate their own assets. Lastly, the *BBLR* sample size was small, limiting the power of the analysis to detect significant wealth differences by race. These limitations are primarily due to a lack of sufficient data available at the time that

BBLR was written and can be remedied now that an additional 15 years of PSID data are available. In fact, this re-analysis was anticipated by Conley (1999: 50).

In the next section, I review *BBLR's* results and their relationship to the literature on the relationship between race and wealth. I then discuss the limitations of the *BBLR* sample and document how these factors contributed to the *BBLR* finding of no residual race gap in wealth. Next, I introduce the updated and expanded data and methods, replicate the *BBLR* analysis and present new results that document a large, unexplained racial gap in net worth at ages 20 to 45. I then discuss the implications of the new findings for public policy.

Race and Wealth

The race gap in wealth is well-documented (Conley 1999; Gittleman and Wolff 2004; Oliver and Shapiro 1995; Kochhar et al. 2011). Race differences in wealth-relevant traits such as income (Barsky et al. 2002; Gittleman and Wolff 2004), sibship size (Keister 2004), and asset portfolios and entrepreneurial activity (Conley 2001b; Gittleman and Wolff 2004) typically explain some, but not all, of the Black-White wealth gap. Home equity is the largest asset for both Blacks and Whites (Gittleman and Wolff 2004), and the role of housing markets in perpetuating race differences in wealth has therefore received particular attention, including residential segregation and housing market discrimination (Charles and Hurst 2002; Massey and Denton 1993; Oliver and Shapiro 1995).

It is reasonable to assume that the intergenerational transmission of resources may also play a role in race disparities in wealth. Whites may be advantaged in wealth accumulation by a legacy of racial inequality that endows them with greater access to parental resources, including inheritances (Conley 1999, 2001b; Gittleman and Wolff 2004; Oliver and Shapiro 1995). Charles

and Hurst (2003) find that, prior to bequests, the age-adjusted intergenerational elasticity of wealth is 0.37.

Unlike income or occupational prestige, much of this intergenerational correlation may be due to *direct* transfers between parents and children (Spilerman 2000). For example, race differences in the transition to home ownership can be partially explained by race differences in access to family financial resources, such as assistance for the down-payment (Charles and Hurst 2002; Hall and Crowder 2011). Parents' and children's wealth may also be indirectly associated. For young adults, parental wealth can finance higher education (Conley 2001a), directly reducing the young adult's debt, but also indirectly increasing wealth through increased long-term earnings. Children may also imitate their parents' savings and investments strategies, leading to correlated wealth (Charles and Hurst 2003).

The primary goal of this paper is not to determine fully the mechanisms that advantage Whites in the asset-building process, but to directly test the provocative finding of *BBLR* – that race differences in young adults' wealth are entirely explained by other demographic traits. Yamokoski and Keister (2006) find a significant wealth disadvantage for African Americans after controlling for individuals' education, income, family structure, and age, and the education, income, and family structure of their parents. However, they do not directly address the *BBLR* finding, as they do not include parental wealth as a covariate. Other measures of parental resources may be weaker predictors of children's wealth than is parents' own wealth. Thus, it is possible that the residual race gap in wealth found by Yamokoski and Keister (2006) would disappear if parental wealth were added as an additional covariate.

Likewise, in later work using PSID household-level data and including household heads of all ages (provided their parents were living), Conley (2001b) finds that individuals' own

income and education, and the income and wealth of their parents, are insufficient to explain race differences in the rate of asset accumulation. This discrepancy may be explained by the fact that, unlike in the *BBLR* analysis, parental wealth is not measured during childhood, but in the year before the wealth of the adult child is measured. Because childhood is a time of high parental investments in children, parents' financial resources during this period may be particularly important for children's future outcomes. Furthermore, measuring parental wealth when children have grown will not capture previous transfers from parents to children. For example, if wealthy parents make significant transfers to their child in order to facilitate the child's purchase of a house, measurements of the parents' wealth after the transfers will not capture the fact that the child's wealth is due in part to the prior wealth of the parents.

Thus, the *BBLR* findings cannot be discounted simply because others have not explained the race gap in wealth using different models: it remains a possibility that childhood differences in parental wealth explain the entirety of the residual race gap in wealth after controlling for other attributes of parents and children. On the other hand, the *BBLR* results could be an artifact of the sample's limitations. In the following analysis, I resolve this uncertainty by replicating and extending the *BBLR* models to additional analytic samples and years of data.

Potential Sources of Bias from the *BBLR* Sample

The unique structure of the Panel Study of Income Dynamics (PSID) is crucial to the *BBLR* study and my replication and extension. The PSID is a household survey that began in 1968 and has subsequently surveyed original sample members and their descendants annually or biannually. Individuals within a PSID household are classified by their relationship to the household head. The male partner is considered the head of the household in married and long-

term cohabiting opposite-sex couples. Women married to household heads are designated as the wife in the household, while female partners in long-term cohabiting unions are designated as "wives" (or "quote wives) by the PSID, and the data collection process is analogous to that for married couples. Hereafter, all references to wives in the PSID refer to both wives and "wives."

The PSID first collected data on household wealth in 1984 and then collected it every five years through 1999 (1989, 1994, and 1999). Subsequently, wealth information has been collected biannually (2001-2009). The *BBLR* analysis examines the wealth in 1994 of young adults who are the heads of their own households and were aged 10-20 in 1984 and living with a parent who was a PSID household head.

Sample Selection: Household Heads

Because the *BBLR* sample includes only young adults who are heads of their own households in 1994, it may not be representative of the birth cohort as a whole. Restricting the analytic sample to household heads excludes young people who are still living with their parents and, therefore, whose household wealth does not reflect their own assets. While sensible, this restriction is not without costs. In 1994, when the members of the *BBLR* cohort are ages 20-30, a substantial share of the cohort is not yet a household head. Using PSID data (Panel Study of Income Dynamics 2011), Figure 1 tracks the fraction of the *BBLR* cohort that is the household head in each wave in which wealth is collected, by race and sex. In 1994, only 65% of White men and 51% of Black men in the cohort are household heads. Because married women are not considered household heads by the PSID, underrepresentation of women in the sample is even worse, particularly for White women. Only 29% of otherwise-eligible White women are household heads in 1994, as are 54% of Black women.

[Figure 1 about here]

When I include later survey waves in the analysis, a larger share of cohort members have established their own households. By 1999, when wealth data were next collected, 86% of White men and 79% of Black men in the *BBLR* cohort were household heads. This share rises to over 90% for both White men and Black men in 2009. Although White men are more likely than Black men to be household heads in each survey wave, by 2009 the gap has narrowed considerably.

For women, the story is somewhat different. With age, more women move out of their parents' households, but more women also marry. In 2009, 66% of Black women are household heads, but only 26% of White women are. Allowing cohort members who are either heads of household or the wives of household heads to remain in the sample eliminates this difficulty: more than 96% of both Black and White women are household heads or wives in 2009.

Under what circumstances would the selectivity of household heads in 1994 bias the *BBLR* results? Wealthier young adults are more likely to have the resources necessary to establish their own households. Because fewer Black men are household heads in 1994, the observed sample of Black men in 1994 may be particularly upwardly biased in terms of their personal wealth: the observed group of Black male household heads may be a more select group than the observed White male household heads, since a greater share of White males are observed. In this case, we might observe no wealth difference by race (conditioning on covariates) for the sample observed in 1994, but only because we observed differentially-selected cohort members.

It is not possible to test directly whether the *BBLR* sample of household heads is selective in a way that biases the results in favor of no race difference in wealth, since we lack information on personal wealth in 1994 for those who were not household heads or their wives. To provide some suggestive evidence on this point, however, we can look at wealth in later years, when almost all cohort members *are* household heads, for those who either were or were not household heads in 1994. By comparing the race gap in wealth in later years among those who were or were not households heads in 1994, we can make tentative inferences about the selectivity of the sample and the direction of bias in the *BBLR* results.

In Panel A of Table 1, the median wealth values of male cohort members are shown by race for the years 2001-2009, when more than 80% of both Black and White males are household heads. As was expected, for men of both races, median wealth is always higher for those who were already household heads in 1994 than for the cohort as a whole. What is noteworthy is that the ratio of median wealth for African Americans to that for Whites is *always* higher in the subsample of household heads from 1994 than in the full cohort sample. The magnitude of the difference varies across years. In 2009, the Black/White ratio is 0.17 in the full sample, but 0.27 among those who were household heads in 1994. The results suggest that the race gap in wealth for young adults who were household heads in 1994 may have been smaller than for the cohort as a whole. Therefore, the *BBLR* finding of no residual race gap in wealth may result from the inclusion of only young adult household heads.

[Table 1 about here]

Like men, it is likely that women who had established their own household in 1994 are positively selected on the basis of wealth. However, the *BBLR* analysis includes only women who are household heads in 1994, not those who are wives. Because marriage advantages women in terms of household wealth (Yamokoski and Keister 2006), women in the *BBLR* sample may be negatively selected on the basis of wealth. Because young White women are more likely to be married (Kreider and Ellis 2011), the White women in the sample may be particularly negatively selected. Thus, we again expect that the sample selection favored a finding of no race difference in wealth.

The median household wealth values in 2001-2009 of women in the *BBLR* cohort are shown in Panel B of Table 1. As expected, the direction of selectivity is largely reversed for women: the median household wealth of 1994 household heads is generally lower in 2001-2009 than for the cohort as a whole. However, race differences in selectivity are less clear. In some years, the Black-White median wealth ratio is larger in the *BBLR* sample, while in other years it is similar or smaller. It remains possible that sample selection biased the 1994 results for women, but the suggestive evidence is weaker than for men.

Sample Selection: Young Adults

Another concern is that the race gap in wealth grows with age in absolute terms (Conley and Glauber 2008; Oliver and Shapiro 1995). Furthermore, the power of parental wealth to explain differences in children's wealth, including differences by race, may wane as children age and begin to accumulate their own assets. As acknowledged by Conley (1999: 50), by examining the wealth of young adults ages 20-30 as an outcome, the *BBLR* analysis cannot address the racial wealth gap after young adults complete their transition to adulthood.

Figure 2 presents median household wealth, by race and sex, for the *BBLR* cohort. In 1994, they were ages 20-30, whereas by 2009 they are ages 35-45 – approaching middle age. Over the period, the sample ages and also includes new cohort members who form their own households. The divergence in wealth by race over the life course is dramatic. In 1994, median household wealth for White men and women is around $15,000, whereas for Black men and women it is about $3,500. By 2007, median wealth is around $90,000 - $100,000 for Whites, but less than $20,000 for African Americans. Median wealth falls for all groups between 2007 and 2009, to around $75,000 for Whites and less than $15,000 for African Americans.

[Figure 2 about here]

The divergence in wealth across the life course occurs in relative terms as well as absolute terms, as shown in Figure 3. In 1994, the Black-White median wealth ratio is about 1/4, whereas by 2007 it has fallen to 1/5. For women, the Black-White ratio falls from 1/5 to 1/10. The fall in median wealth between 2007 and 2009 only exacerbates this pattern: in 2009, the Black-White ratio is 0.17 for men and 0.07 for women, the largest gaps of the series.

[Figure 3 about here]

While these patterns are only suggestive and the trend is somewhat noisy, it is plausible that the widening race gap in wealth across the life course may lead to residual race differences in wealth in later years, even after controlling for parental wealth, that were not apparent in 1994. Thus, the *BBLR* finding of no residual race gap in wealth may not hold at later ages.

Statistical Power

Lastly, the power of the *BBLR* analysis – the probability of detecting a statistically significant association between race and wealth if such a relationship exists – is limited. To assess the statistical power of the analysis, I consider the size of the minimum detectable effect (MDE): the smallest true effect that would have a given likelihood of producing a statistically significant effect (Bloom 1995). A conventional standard for sufficient power is an 80% chance of the result being statistically significant at the 5% level (Bloom 2006). In this context, the question is what the true residual Black-White gap in wealth would have to be for there to be an 80% chance of detecting a significant race difference in wealth in the *BBLR* analysis.

The statistical power of the analysis is high, and therefore the MDE low, when the sample size is larger, when the covariates in the model are highly predictive of the outcome variable (wealth), but not highly correlated with the independent variable of interest (race), and when the distribution of the outcome variable is relatively compressed. Unfortunately, the *BBLR* analysis is not conducive to statistical power. Using the results of my own, unweighted, replication of the *BBLR* analysis, there are only 209 Blacks and 386 Whites in the 1994 sample. Furthermore, the covariates explain a relatively small fraction of the variation in young adults' wealth (0.23), but a larger fraction of the variation in race (0.45). Finally, wealth is relatively unequally distributed (the standard deviation of the natural log is 1.69).

I find that, compared to otherwise identical Whites, young Blacks would have to have a wealth disadvantage of 0.48 on the log scale – or a disadvantage of about 38% (1-exp(-0.48)) (see Appendix for details) in order for the *BBLR* analysis to have an 80% chance of detecting a significant association at the 5% significance level in a two-tailed test. After accounting for race

differences in young adults' wealth that are due to race differences in individuals' own income and education, as well as the education, occupation, and wealth of their parents, among other factors, a 38% residual race gap in wealth is quite large. However, even if young Blacks experience a smaller wealth disadvantage compared to otherwise-similar Whites – say, 25% – this is still a disadvantage that is substantively large and likely to have meaningful effects on the well-being of young African Americans. The *BBLR* analysis may have found no significant association between race and wealth not because none exists, but because the analysis lacked sufficient statistical power to detect relatively large differences.

Using additional years of data allows me to correct each of the three limitations in the *BBLR* sample. By adding married women to the sample and following the *BBLR* cohort as they age, I achieve a more representative sample of cohort members and analyze experiences over a greater portion of the life course. Furthermore, by pooling results from multiple observations of individuals and several cohorts of young adults, I significantly increase the power of the analysis.

Data and Methods

My analysis makes use of the 1980-2009 waves of the PSID. I use OLS models, clustering standard errors when multiple observations are included from a given individual. In multivariate models, I attempt to replicate Model D of Table A2.5 in *BBLR* (Conley 1999), which estimates the residual relationship between race and wealth that remains after accounting for children's own traits and those of their parents, including parental wealth.

I repeat the same model on four analytic samples. The first replicates the *BBLR* sample as closely as possible; the second uses only the data available at the time of the writing of *BBLR*, but adds married women. The third and fourth samples make use of 15 years of additional data.

These samples pool together three cohorts of young people observed as children ages 10-20, living in their parents' home in one of the first three waves in which the PSID collected data on wealth: 1984 (the *BBLR* cohort), 1989, or 1994. I refer to these years as the "base year" for each cohort. In all models, parental attributes, including parental wealth, are drawn from the base year. For the second and third cohorts, I exclude any sample members who were included in an earlier cohort.

The wealth of each cohort of young adults is measured for the first time about ten years later: in 1994, 1999, and 2005.[1] In the third analytic sample, I pool together observations from all three cohorts, examining their wealth at ages 20-30, as *BBLR* did. In the fourth analysis, I follow the sample across the life course, including any observed wealth reports for individuals in the three cohorts through 2009, in any year in which the individual is a head or wife in a household. For the earliest cohort, a total of seven observations are possible for each young adult: 1994, 1999, 2001, 2003, 2005, 2007, and 2009. For the second and third cohorts, six and three observations are possible, respectively.

I replicate the multivariate model and operationalization of variables used in the *BBLR* analysis to the greatest extent possible. Flags for missing values and mean imputation are used for all covariates with missing data. No covariate has a missing rate of more than 7% in any analytic sample. All analyses are weighted using year-specific individual weights, re-normalized to average one in each year. All financial variables are top-coded at the 99th percentile to guard against unduly influential outliers and because the data quality of the PSID wealth measures, while generally quite good, is lower for the top 1% of wealth holders (Juster, Smith, and Stafford 1999).

[1] Because the PSID became biannual beginning in 1997, no data are available for 2004.

Child Characteristics.

Wealth. Total household wealth, as constructed by the PSID, sums together respondents' reports of their net worth from checking and savings accounts, vehicles, equity in the main home, real estate other than the main home, farms or businesses, stocks, private annuities or IRAs, and other assets (such as a valuable collection, or rights in a trust or estate), less other debts (such as credit card debt or student loans). Reported household wealth in each year is adjusted to 2010 dollars. In the main analyses, the log of wealth is the dependent variable, consistent with the *BBLR* analysis.[2]

Race. Individuals are identified as belonging to one of four mutually exclusive racial categories: White, Black, Hispanic, and other racial groups. Individuals who identify as Hispanic are considered to be Hispanic, while other racial groups include only non-Hispanic members.

Female. A dummy variable is set equal to one for women, reflecting the fact that gender differences in wealth may arise for individuals not living with opposite-sex partners, particularly for those with children (Yamokoski and Keister 2006). There may be race differences in the fraction of the sample that is female, especially in the sample that excludes married women, which may bias the results if gender is not included as a control variable.

Age. Wealth is positively associated with age, at least through middle age, as households accumulate assets and prepare for retirement (Conley 2001b; Oliver and Shapiro 1995;

[2] In general, household wealth and income values are imputed by the PSID for all households. In 1994, 30 households who would otherwise have been eligible for the sample did not have household wealth imputed (either for the parent or for the young adult) and are dropped from the sample.

Yamokoski and Keister 2006). Age may be correlated with race in the sample of young adults if there are race differences in the timing of independent household formation, as suggested in the previous section. In order to avoid biasing the results, the models control for age. The respondent's age is constructed as the sum of his age in the base year and the difference between the present calendar year and the base year.[3]

Number of siblings. The number of siblings an individual has may affect his wealth by diluting the parental resources to which he has access, including both wealth and time (Keister 2003). Thus, race differences in average sibship size may contribute to race differences in wealth (Keister 2004). The PSID has collected the number of brothers and sisters for household heads and their wives since 1985. I sum together the individual's first reported total number of brothers and sisters.

Income. Income is strongly positively associated with wealth (Barsky et al. 2002; Conley 1999; Yamokoski and Keister 2006), and African Americans are disadvantaged in household income compared to Whites (DeNavas, Proctor, and Smith 2009). Thus, controlling for household income is necessary in order to estimate the residual race gap in wealth that cannot be explained by race differences in other wealth-relevant traits. I use the natural log of total household income in the prior calendar year, as constructed by the PSID, adjusted to 2010 dollars.[4]

[3] The *BBLR* analysis uses the respondent's age in 1992, rather than the current age in 1994, but this linear transformation does not affect the results.

[4] In *BBLR*, children's wealth in 1994 is the outcome, but household income is drawn from survey year 1993, reflecting household income in 1992. I find an even larger residual race gap in wealth when 1992 household income is used.

Education. There is a positive association between education and wealth, net of the mediating role of income (Conley 2001b; Yamokoski and Keister 2006) that may be due to higher education promoting greater financial knowledge or a higher propensity for savings. Thus, all models control for whether the individual has at least a high school degree and whether he has at least a bachelor's degree.

Parental Characteristics

Parental class is expected to be associated with both race and children's wealth. Black children are expected to have less advantaged parents, on average, and higher parental class is expected to be positively associated with children's wealth. In order to control for these differences, parental class is measured using several conventional measures: educational attainment, occupational prestige, household income, and wealth. Family structure and receipt of welfare by parents are additional indicators of parents' resources.

Education. Consistent with *BBLR*, parental education is measured as the number of years of education of the head of the parental household in the base year. For years in which only categorical information is available, the midpoint of each category is used.

Occupational prestige. Following *BBLR*, parental occupational prestige is constructed as the average prestige of the head of the parental household's occupation in the five years leading up to and including the base year. Hodge-Siegel-Rossi Prestige Scores are used to code occupations into prestige scores (Smith et al. 2011).[5]

[5] Three-digit occupational codes are available beginning in 1981. For the first cohort, only four years are used.

Income. Household income can show considerable year-to-year variation, and the intergenerational correlation in income is higher when measures of "permanent" income are used, rather than income from a single year (Solon 1999). Thus, following the *BBLR* approach, parental income is measured as the log of the average income in the child's household in the five years leading up to and including the base year, adjusted to 2010 dollars.

Wealth. Parental wealth in the base year is measured in the same way as child wealth: as the natural log of total household net worth, including home equity, adjusted to 2010 dollars. In order to avoid excluding children from families with negative wealth, an indicator variable is included for whether the parental household had positive wealth.

Family structure. The child's family structure while growing up is measured as the number of years in the five leading up to and including the base year in which the respondent lived in a female-headed household.[6]

Welfare receipt. As in *BBLR*, an indicator is constructed for whether the head or wife in the parental household received income from Aid to Families with Dependent Children (AFDC) in the prior calendar year.[7]

Age of parental household head. Parental age is expected to be associated with parental wealth for the same life-cycle reason that child age is associated with child wealth. Parental age may also be associated with children's wealth, if older parents are more likely to be deceased at the time of the follow-up survey, potentially having left bequests to their children. Parental age is

[6] If information is not available for all 5 years, information from the available years is used and rescaled to be comparable to observations with full information.

[7] The *BBLR* analysis reports welfare receipt in the base year (1984). I assume that this is welfare receipt as reported in the 1994 survey wave, which pertains to receipt in calendar year 1993.

measured as the age of the head of the child's household – which is always the child's mother or father – in the base year.

Cohort. In my own models that include sample members from multiple cohorts, I include dummy variables for the cohort to which the individual belongs. This adjusts for any cohort-specific factors that may have affected young adults' wealth accumulation.

Year. In my models that include observations from multiple years, I include dummy variables for each year, in order to account for yearly factors, such as business cycles, that may have affected wealth.

Results

Table 2 shows descriptive statistics for the four analytic samples. The first column presents the characteristics of my replication of the *BBLR* sample, the second column is the sample that adds married women, the third column adds later cohorts, and the last column adds observations from all cohorts at older ages. For the first three samples, median household wealth for young adults is between $20,000 and $30,000, among households with positive wealth, and median household income is between $40,000 and about $50,000, among households with positive income. When later ages are included, median wealth rises to a little more than $50,000 and median income to around $70,000.

[Table 2 about here]

As expected, the percent of the sample that is female increases sharply when married women are included. Only 26.5% of the *BBLR* sample is female, compared to about half in the

samples that include married women. For other covariates, there is little difference across samples. Slightly more than 80% of the sample is White, around 12% is Black, about 4% is Hispanic, and about 2% is another race. Given the small total sample size, there are too few Hispanics and members of other races to interpret the multivariate results for these groups.[8]

Parental attributes are measured in the base year for each cohort and are also consistent across analytic samples. Between 90% and 95% of parents in each sample have positive wealth, and median parental wealth within this group ranges between about $110,000 and $140,000, while parental income among those with positive income is around $70,000.

The main multivariate results are shown in Table 3. The original *BBLR* results are presented in the first column. Conley (1999) finds that, after adjusting for other traits of young adults and their parents, African Americans are not disadvantaged in wealth compared to Whites. Young adults' own income and the wealth of their parents are the only statistically significant covariates, although women's wealth disadvantage is marginally statistically significant.

My replication is presented in the second column. The sample size is quite close to the *BBLR* analysis (640 versus 625), and the main picture is the same: own income is significantly related to wealth, as is parental class. I find, however, that it is parental income that is (marginally) significantly associated with the child's wealth, rather than parental wealth.[9] I also

[8] For a discussion of wealth patterns for Hispanics and Asians, see Campbell and Kaufman (2006). Results are similar when only African American and White sample members are included in the models.

[9] The instability may be explained by the high correlation between the log of parental income and the log of parental wealth, which is 0.56 in my sample. A similar issue arises and is discussed in Conley and Glauber (2000: 16).

find a positive and significant association between the young adult's attainment of a bachelor's degree and his wealth that was not found in the *BBLR* analysis.

Consistent with the *BBLR* results, I find no significant association between race and wealth, although my point estimate for the Black wealth disadvantage is large: -0.29. In other words, African Americans between the ages of 20 and 30 are predicted to have about 25% (1-exp(-0.29)) lower wealth than Whites with similar traits, including similar parental resources. Given the small sample size, it is difficult to tell whether a non-significant result indicates a true lack of relationship between race and wealth or limited statistical power.

[Table 3 about here]

The third column uses no additional information beyond the 1994 survey wave, but adds married women to the sample, increasing the sample size to 914. The race gap in wealth is reduced by about one quarter and the relationship between the young adult's receipt of a bachelor's degree and wealth is no longer statistically significant, but otherwise the general pattern of results is the same. The fourth column adds data not available at the time that *BBLR* was written. I retain the focus on young adults ages 20-30, but add observations from the two later cohorts, further increasing the sample size to 1,598. In this sample, parental wealth emerges as significant, rather than parental income, and the young adult's income remains strongly significant. The negative point estimate for African Americans is somewhat larger than in the previous model (26% = 1-exp(-0.30)) and is marginally statistically significant.

In the final column, I include observations from all cohorts, from all years in which they are observed. The sample size increases considerably, to 3,071 individuals and 11,538

observations. Although the estimated magnitude of the Black-White residual wealth gap is only slightly larger than in the previous model, the increased sample size yields a significant coefficient: African Americans are estimated to have wealth that is approximately 27% (1-exp(-0.31)) lower than otherwise similar Whites. These new results suggest that a considerable wealth gap remains after taking into account a rich array of socio-demographic characteristics of both individuals aged 20 to 45 and their parents.[10]

In this expanded sample, several other covariates are also statistically significant. Those with at least a high school degree have significantly higher wealth than those without, and those with bachelor's degrees receive an additional wealth premium beyond that of high school graduates. Age is positively and significantly associated with wealth. Parental wealth and own income both remain significantly associated with wealth.

Expanded Model

The preceding analyses replicated the *BBLR* analytic model as closely as possible. However, it is possible that alternative model specifications would more accurately capture the residual association between race and wealth. In Table 4, I use the full sample of all years and cohorts and present the results of multivariate models that alter somewhat the model specification. Because my sample covers a larger age range than the original *BBLR* analysis, a more flexible specification of the age-wealth relationship may be warranted. I add a quadratic term for age to the previous model. I also add controls for the region of the child's current residence and the

[10] The race gap in non-housing wealth estimated using analogous models is somewhat smaller: about 16%. I found no evidence that African Americans are less likely to have positive wealth, net of socio-demographic characteristics.

region in which the child lived in the base year (Northeast, North Central, South, West, other, or missing). If African Americans are disproportionately found in regions with lower wealth, the negative association between race and wealth may be spurious.[11]

Lastly, there is evidence that the association between income and wealth is steeper at higher income levels (Barsky et al. 2002). Because African Americans' incomes are, on average, lower, their predicted wealth conditional on their income may be over-estimated in models that include only a linear association between income and wealth. The wealth deficit observed in Table 3 for African Americans compared with Whites with equivalent income and parental attributes may therefore be overstated. I include a series of four linear splines that divide the income distribution into quartiles, allowing a more flexible association between income and wealth. I also include four linear splines that divide the parental wealth distribution into quartiles, to allow for the possibility that parental wealth is more sharply associated with children's wealth among those at the top of the parental wealth distribution.

The first column of Table 4 repeats the results from the final column of Table 3. In the second column, I add the additional variables and more flexible specifications. As predicted, I find that income and parental wealth are more steeply associated with wealth for those at the top of the distribution. Nonetheless, the more flexible model specifications do not diminish the

[11] Region is not recorded in 1994. In the main results, region is set to missing for all 1994 observations. When the model is repeated excluding 1994 observations, the results are very similar.

estimated wealth gap between Whites and African Americans, which remains 27% (1-exp(-0.32)).[12]

Marital status

The preceding model revisions merely seek to refine the estimate of the association between race and wealth by testing the robustness of the results to alternative specifications of the variables and the inclusion of potential omitted variables. I also consider a potential mediator of the association between race and wealth: marriage. Given that African Americans are less likely to be married (Kreider and Ellis 2011) and that marriage is associated with more rapid wealth growth (Zagorsky 2005), a portion of African Americans' wealth disadvantage may be due to race differences in marital status.

The third column of Table 4 adds to the previous model an indicator for marital status. Rather than controlling for gender, individuals are classified as unmarried men (the omitted group), unmarried women, or individuals living in married couples. As expected, the wealth of married couples is significantly greater than that of unmarried men or women, even after controlling for the higher household income of married couples. Compared to unmarried men, married couples have household wealth that is about 28% (exp(0.25)-1) greater. Unmarried

[12] After accounting for these non-linear relationships, there is no evidence of race differences in the association between parental wealth and young adult wealth or the association between young adult income and young adult wealth. When the splines for parental wealth are replaced by analogous splines for parental income, the results are similar.

women have the lowest average wealth levels, although the difference between unmarried men and unmarried women is only marginally significant.[13]

The race gap in wealth remains statistically significant after controlling for marital status, although its magnitude is reduced by about one quarter. After adjusting for marital status, Black adults have household wealth that is approximately 21% (1-exp(-0.24)) lower than otherwise similar Whites. Thus, marital status is an important mediator of the race gap in wealth, but a statistically significant and large residual race gap in wealth remains after controlling for marital status.

Discussion

Being Black, Living in the Red (Conley 1999) addressed an important question: how much of the race gap in wealth can be explained by social origins and by race differences in individual traits such as education and income? Conley (1999) concluded that contemporary young African American adults are disadvantaged in asset accumulation primarily because of their social class, rather than because of any direct effect of race. However, my replication documents that, due to the limitations of data available at the time, his conclusions are not robust. I find that a large and statistically significant race difference in wealth remains, net of a host of young adult and parental socio-demographic factors, including parental wealth. While not determining the cause of this residual disadvantage, I show that the race gap in wealth cannot be attributed to the

[13] The results do not change substantially when the number of children in the household is added as a control variable. Consistent with Yamokoski and Keister (2006), children are significantly *positively* associated with household wealth, perhaps because children prompt parents to save at a higher rate, or because those with greater household wealth are more likely to become parents.

"sedimentation of inequality" (Oliver and Shapiro 1995), but is due at least in part to contemporary processes that disadvantage the asset accumulation of African Americans. The residual race gap in wealth is quite consistent across different analytic samples, around 25%. As the sample size increases, the gap becomes statistically significant due to increased statistical power.

I further show that marital status explains approximately one quarter of the race gap in wealth that remains after adjusting for other socio-demographic traits of individuals and their parents. Even after adjusting for marital status, however, the net worth of African Americans is predicted to be approximately 20% less than Whites with the same socio-demographic traits and social origins.

Race-blind policies designed to promote asset-building among the economically disadvantaged may help to close the race gap in wealth. However, the large residual race gap in wealth that remains after controlling for young adults' own resources – as measured by, among other things, their income, education, marital status – and those of their parents suggest that class-based policies alone are insufficient to eliminate the racial gap in wealth.

Existing research on the social processes that inhibit African Americans' accumulation of assets suggest several avenues for policies to reduce the wealth gap. Residential segregation and housing market discrimination are well-documented sources of asset inequality by race (Conley 1999; Massey and Denton 1993; Oliver and Shapiro 1995). Policies that provide incentives for integrated communities may offer one mechanism to equalize the home equity of Blacks and Whites with similar incomes (Conley 1999: 145-146). Other avenues include more stringent enforcement of anti-discrimination laws in the housing market (Massey and Denton 1993: 229-

233) and support for public services in Black neighborhoods that discourage the deterioration of housing prices and encourage employment (Oliver and Shapiro 1995: 252-254).

The current economic context renders questions of the sources of wealth inequality by race particularly relevant. While median household wealth for all races fell between 2005 and 2009, losses for Blacks and Hispanics were larger in relative terms, widening wealth inequality by race (Kochhar et al. 2011): groups with the poorest starting point have seen the greatest deterioration of their assets. So long as race differences in financial resources can be attributed to class differences, it is possible to dismiss the widening race gap in wealth as purely the artifact of a legacy of racial discrimination, rather than to any effect of race itself on the lives of contemporary adults. The results presented here demonstrate, however, that such a vision is not accurate, forcing the question of what contemporary social processes continue to disadvantage African Americans' asset accumulation. Without answering this question and enacting policies that seek to remedy these disadvantages, even if race gaps in education, income, and social origins narrow, African Americans are likely to continue to experience significant wealth shortfalls compared to their White counterparts.

Appendix: MDE Formulas

In the *BBLR* analysis, the outcome equation can be written as:

$$\ln(wealth_i) = \gamma_0 + \gamma_1 black_i + \gamma' X_i + \varepsilon_i \,, \qquad \text{(A1)}$$

where *i* is the individual, *wealth* is the current wealth of the young adult, *black* is a dummy variable for whether the individual is Black (as opposed to White), *X* is a vector of covariates, including parental wealth, and ε is an error term.

In general, the minimum detectable effect (MDE)[14] can be expressed as:

$$MDE = Factor(\alpha, \beta, df)\sqrt{Var(impact)} \quad \text{(A2)}$$

Var(impact) is the variance of the impact estimate. In the *BBLR* context, the impact estimate is the estimated coefficient on the dummy variable for whether an individual is African American, $\hat{\gamma}_1$. *Factor* depends on the selected significance level (α) and level of statistical power (β), as well as the number of degrees of freedom (*df*) (Schochet 2008). It is conventional to choose $\alpha = 0.05$ and $\beta = 0.80$ (Bloom 2006).

The variance of $\widehat{\gamma_1}$ can be expressed as:

$$Var(\widehat{\gamma_1}) = \frac{Var(\widetilde{\gamma_1})}{1 - R^2_{black|X}}, \qquad \text{(A3)}$$

where $Var(\widetilde{\gamma_1})$ is the variance of the impact estimate if the variable of interest – *black* – were uncorrelated with the other covariates, and $R^2_{black|X}$ is the R^2 from a linear probability model for which the outcome is *black* and *X* is the same set of covariates identified in (A1).

[14] In contrast to Bloom (1995), Schochet (2008) refers to this measure as the minimum detectable impact (MDI), and defines MDE = MDI/σ, where σ is the standard deviation of the outcome. I follow the naming convention of Bloom (1995).

Random assignment provides a context in which a single covariate (treatment status) is uncorrelated with all other covariates. Borrowing from this context and following Bloom (1995), applied to the *BBLR* context:

$$Var(\check{\gamma}_1) = \sigma^2_{wealth}(1 - R^2_{wealth|X})(\frac{1}{N_{black}} + \frac{1}{N_{white}}) \qquad \text{(A4)}$$

$R^2_{wealth|X}$ is the R^2 from (A1) above, except that the sample includes only individuals of a single race (and the race variable is therefore excluded). N_{black} is the number of Blacks in the sample and N_{white} is the number of Whites in the sample. σ^2_{wealth} is the variance of the natural log of same-race young adults' wealth, among either Blacks or Whites.

In other words, we can re-write (A2) as:

$$MDE = Factor(\alpha, \beta, df)\sqrt{\sigma^2_{wealth}\frac{1-R^2_{wealth|X}}{1-R^2_{race|X}}(\frac{1}{N_{black}} + \frac{1}{N_{white}})} \qquad \text{(A5)}$$

For *df* sufficiently large, $\alpha = 0.05$, and $\beta = 0.80, Factor(\alpha, \beta, df) = 2.80$ (Bloom 1995).

Using values from the replicated *BBLR* sample,

$$MDE = 2.8\sqrt{1.69^2\frac{1-0.227}{1-0.447}\left(\frac{1}{209} + \frac{1}{386}\right)} = 0.48 \qquad \text{(A7)}$$

To have an 80% chance of detecting a significant difference between Black and White young adults' wealth, the true magnitude of γ_1, the coefficient on *black* in (A1), would have to be at least 0.48.[15]

[15] This calculation uses the R^2 of the outcome equation among Whites, as well as the standard deviation of ln(wealth) among Whites. When the values for Blacks are used, the MDE is even larger.

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Table 1: Later Median Household Wealth for 1994 Household Heads and all Cohort Members, by Race

	2001	2003	2005	2007	2009
Panel A: Men					
White					
1994 Household Heads	$46,433	$65,450	$93,968	$100,275	$80,070
All Cohort Members Presently Observed	$40,283	$54,740	$67,200	$89,250	$72,420
Black					
1994 Household Heads	$11,685	$24,654	$23,912	$33,600	$21,420
All Cohort Members Presently Observed	$7,565	$16,660	$15,120	$17,855	$12,240
Black/White Ratio					
1994 Household Heads	0.25	0.38	0.25	0.34	0.27
All Cohort Members Presently Observed	0.19	0.30	0.23	0.20	0.17
Panel B: Women					
White					
1994 Household Heads	$13,653	$38,604	$78,400	$79,013	$38,760
All Cohort Members Presently Observed	$34,895	$54,740	$78,400	$97,650	$75,735
Black					
1994 Household Heads	$4,428	$5,950	$7,000	$5,250	$2,040
All Cohort Members Presently Observed	$7,226	$7,348	$11,200	$9,765	$5,100
Black/White Ratio					
1994 Household Heads	0.32	0.15	0.09	0.07	0.05
All Cohort Members Presently Observed	0.21	0.13	0.14	0.10	0.07

Table 2: Means and Standard Deviations for Analytic Samples

	BBLR Replication	+ Married Women	+ Later Cohorts	+ Later Ages
Respondent Characteristics				
Wealth (median)	$20,727 ($179,518)	$29,253 ($197,734)	$21,952 ($183,131)	$52,241 ($311,215)
White	80.5%	81.9%	82.5%	82.7%
Black	13.1%	11.1%	11.3%	11.6%
Hispanic	4.5%	5.5%	4.5%	3.9%
Other race	1.9%	1.5%	1.7%	1.8%
Female	26.5%	49.4%	50.4%	48.4%
Age	25.8 (2.9)	26.0 (2.9)	25.2 (2.9)	32.4 (5.6)
Number of siblings	2.8 (2.4)	2.7 (2.2)	2.4 (2.1)	2.2 (1.8)
High school graduate (or more)	85.1%	86.7%	86.2%	90.3%
College graduate (or more)	23.7%	23.4%	22.1%	31.6%
Income (median)	$43,358 ($42,216)	$50,229 ($49,206)	$45,901 (43,855)	$69,575 ($67,871)
Parental Characteristics				
Age of household head	44.1 (7.7)	44.5 (7.9)	43.2 (7.6)	42.9 (7.5)
Number of years female-headed household	0.7 (1.6)	0.6 (1.5)	0.8 (1.7)	0.7 (1.6)
Welfare receipt	5.5%	4.7%	4.7%	4.2%
Years of education of head of household	12.3 (2.9)	12.3 (2.9)	12.5 (2.7)	12.9 (2.7)
Occupational prestige of head of household	41.8 (12.5)	42.0 (12.4)	41.5 (12.5)	43.0 (13.0)
Income (median)	$69,226 ($57,201)	$71,580 ($58,359)	$68,379 ($54,153)	$73,680 ($55,222)
Has wealth	94.0%	94.8%	93.0%	93.8%
Wealth (median), if >0	$115,989 ($605,099)	$135,870 ($646,141)	$113,400 ($574,456)	$136,500 ($611,506)
Sample size	640	914	1,598	1,1538

Table 3: Multivariate Associations between Wealth and Race, *BBLR* Model

	BBLR Results	*BBLR* Replication	+ Married Women	+ Later Cohorts	+ Later Ages
Respondent Characteristics					
Black	0.32 (0.61)	-0.29 (0.26)	-0.21 (0.21)	-0.30 (0.16)†	-0.31 (0.11)**
Hispanic	-1.79 (1.14)	-0.32 (0.40)	-0.30 (0.30)	-0.20 (0.25)	-0.03 (0.14)
Other race	2.15 (3.31)	0.50 (0.31)	0.46 (0.24)†	-0.12 (0.35)	0.26 (0.23)
Female	-0.74 (0.40)†	0.01 (0.17)	0.13 (0.12)	0.02 (0.09)	-0.07 (0.06)
Age	0.05 (0.07)	0.04 (0.03)	0.02 (0.03)	0.02 (0.02)	0.06 (0.01)***
Number of siblings	0.02 (0.09)	-0.01 (0.04)	-0.02 (0.03)	0.00 (0.03)	0.01 (0.02)
High school graduate (or more)	-0.36 (0.58)	-0.02 (0.27)	-0.02 (0.22)	0.13 (0.16)	0.43 (0.10)***
College graduate (or more)	-0.32 (0.44)	0.60 (0.21)**	0.19 (0.17)	0.28 (0.13)*	0.24 (0.09)**
Ln(Income)	0.61 (0.15)***	0.68 (0.13)***	0.80 (0.11)***	0.77 (0.08)***	0.95 (0.11)***
Parental Characteristics (base year)					
Age of household head	-0.04 (0.03)	-0.01 (0.01)	0.00 (0.01)	0.00 (0.01)	0.01 (0.00)
Number of years female-headed household	-0.99 (0.61)	0.07 (0.06)	0.04 (0.05)	0.07 (0.04)*	0.01 (0.02)
Welfare receipt	0.01 (1.16)	-0.29 (0.41)	-0.06 (0.34)	-0.16 (0.26)	0.33 (0.19)†
Education of head of household	-0.10 (0.08)	-0.05 (0.04)	-0.02 (0.03)	-0.02 (0.02)	0.03 (0.02)†
Occupational prestige of head of household	0.03 (0.02)	-0.00 (0.01)	-0.01 (0.01)	-0.00 (0.01)	-0.00 (0.00)
Ln(Income)	0.62 (0.38)	0.37 (0.19)†	0.36 (0.15)*	0.19 (0.12)	0.08 (0.07)
Has wealth	-2.89 (1.54)†	0.33 (0.59)	-0.17 (0.51)	-0.65 (0.39)†	-1.01 (0.24)***
Ln(Wealth)	0.42 (0.14)**	0.02 (0.06)	0.06 (0.05)	0.10 (0.03)**	0.13 (0.02)***
R^2	0.15	0.23	0.26	0.26	0.39
N	625	640	914	1,598	11,538

†*p<0.10;* * *p*<0.05; ** *p*<0.01; *** *p*<0.001.

Note: Models include missing flags for the child's race, number of siblings, and educational attainment, and for the parents' occupational prestige and education. For income variables, a flag is set to one if the value is non-positive. Dummy variables are included for year and cohort, when appropriate.

Table 4: Multivariate Associations between Wealth and Race, Extended Models

	BBLR Model	+ Expanded	+ Marriage
Respondent Characteristics			
Black	-0.31 (0.11)**	-0.32 (0.10)**	-0.24 (0.10)*
Hispanic	-0.03 (0.14)	-0.08 (0.13)	-0.10 (0.13)
Other race	0.26 (0.23)	0.24 (0.21)	0.28 (0.23)
Female	-0.07 (0.06)	-0.05 (0.05)	n.a.
Single male (reference)	n.a.	n.a.	---
Single female	n.a.	n.a.	-0.15 (0.09)†
Married	n.a.	n.a.	0.25 (0.07)**
Age	0.06 (0.01)***	0.01 (0.04)	-0.00 (0.04)
Age^2	n.a.	0.00 (0.00)	0.00 (0.00)
Number of siblings	0.01 (0.02)	0.00 (0.02)	0.00 (0.02)
High school graduate (or more)	0.43 (0.10)***	0.47 (0.10)***	0.47 (0.10)***
College graduate (or more)	0.24 (0.09)**	0.13 (0.07)†	0.14 (0.07)*
Ln(Income)	0.95 (0.11)***	n.a.	n.a.
Quartile 1	n.a.	0.21 (0.19)	0.20 (0.19)
Quartile 2	n.a.	1.80 (0.23)***	1.59 (0.23)***
Quartile 3	n.a.	1.25 (0.17)***	1.12 (0.17)***
Quartile 4	n.a.	1.31 (0.08)***	1.29 (0.09)***
Parental Characteristics (base year)			
Age of household head	0.01 (0.00)	0.01 (0.00)	0.01 (0.00)
Number of years female-headed household	0.01 (0.02)	-0.00 (0.02)	0.00 (0.02)
Welfare receipt	0.33 (0.19)†	0.07 (0.20)	0.08 (0.21)
Education of head of household	0.03 (0.02)†	0.02 (0.01)	0.02 (0.01)
Occupational prestige of head of household	-0.00 (0.00)	-0.00 (0.00)	-0.00 (0.00)†
Ln(Income)	0.08 (0.07)	-0.02 (0.07)	0.00 (0.07)
Has wealth	-1.01 (0.24)***	-0.06 (0.42)	-0.07 (0.42)
Ln(Wealth)	0.13 (0.02)***	n.a.	n.a.
Quartile 1	n.a.	0.02 (0.05)	0.02 (0.05)
Quartile 2	n.a.	0.14 (0.09)	0.13 (0.09)
Quartile 3	n.a.	0.18 (0.10)†	0.19 (0.10)†
Quartile 4	n.a.	0.28 (0.06)***	0.28 (0.06)***
Region controls?	No	Yes	Yes
R^2	0.39	0.42	0.42
N	11,538	11,538	11,538

†$p<0.10$; * $p<0.05$; ** $p<0.01$; *** $p<0.001$.

Note: Models include missing flags for the child's race, number of siblings, educational attainment, and region (where appropriate), and for the parents' occupational prestige, education, and region (where appropriate). For income variables, a flag is set to one if the value is non-positive. Dummy variables are included for year and cohort.

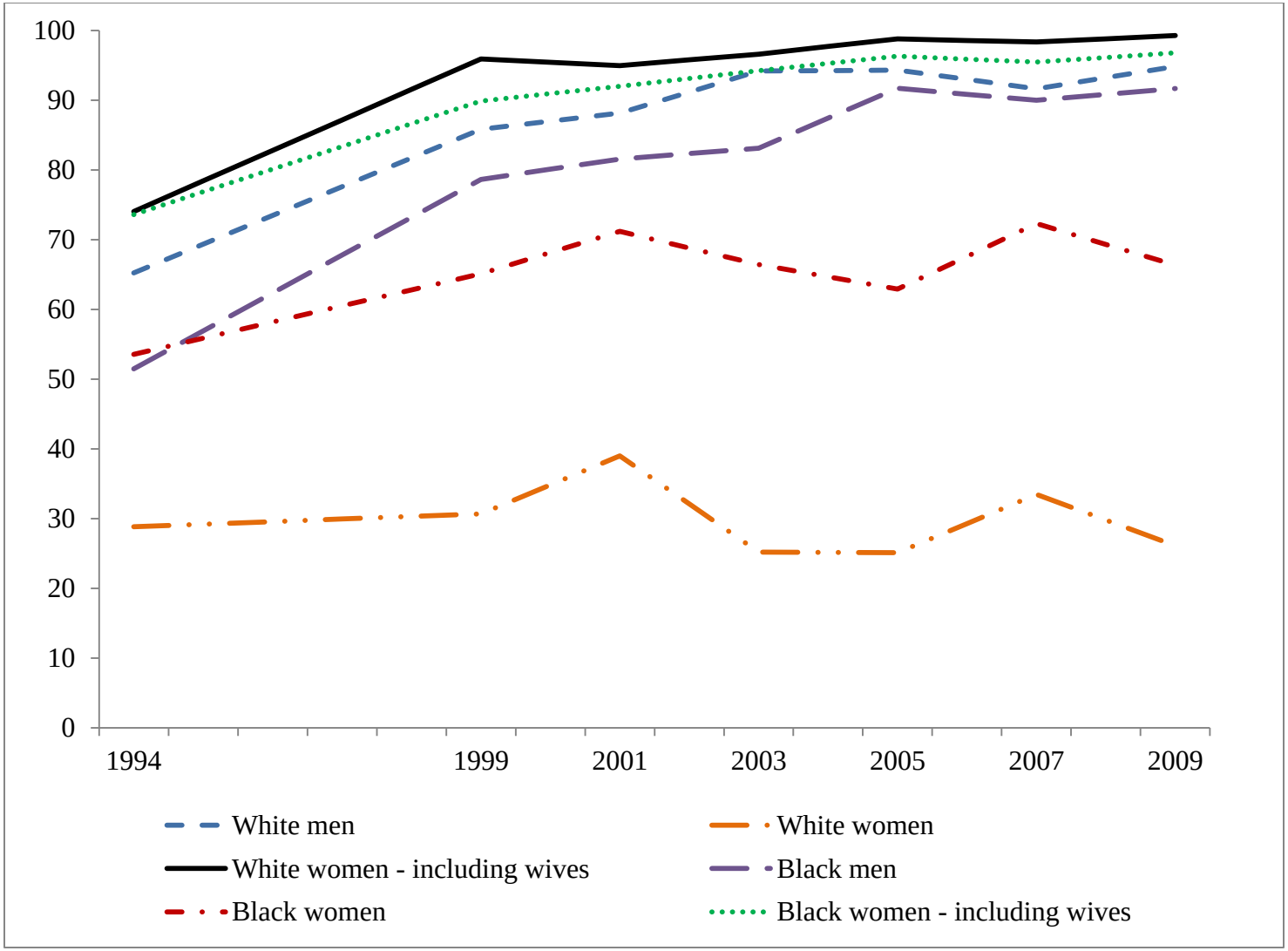

Figure 1: Percent of Age-Eligible Sample Members Who Are Household Heads, 1994-2009

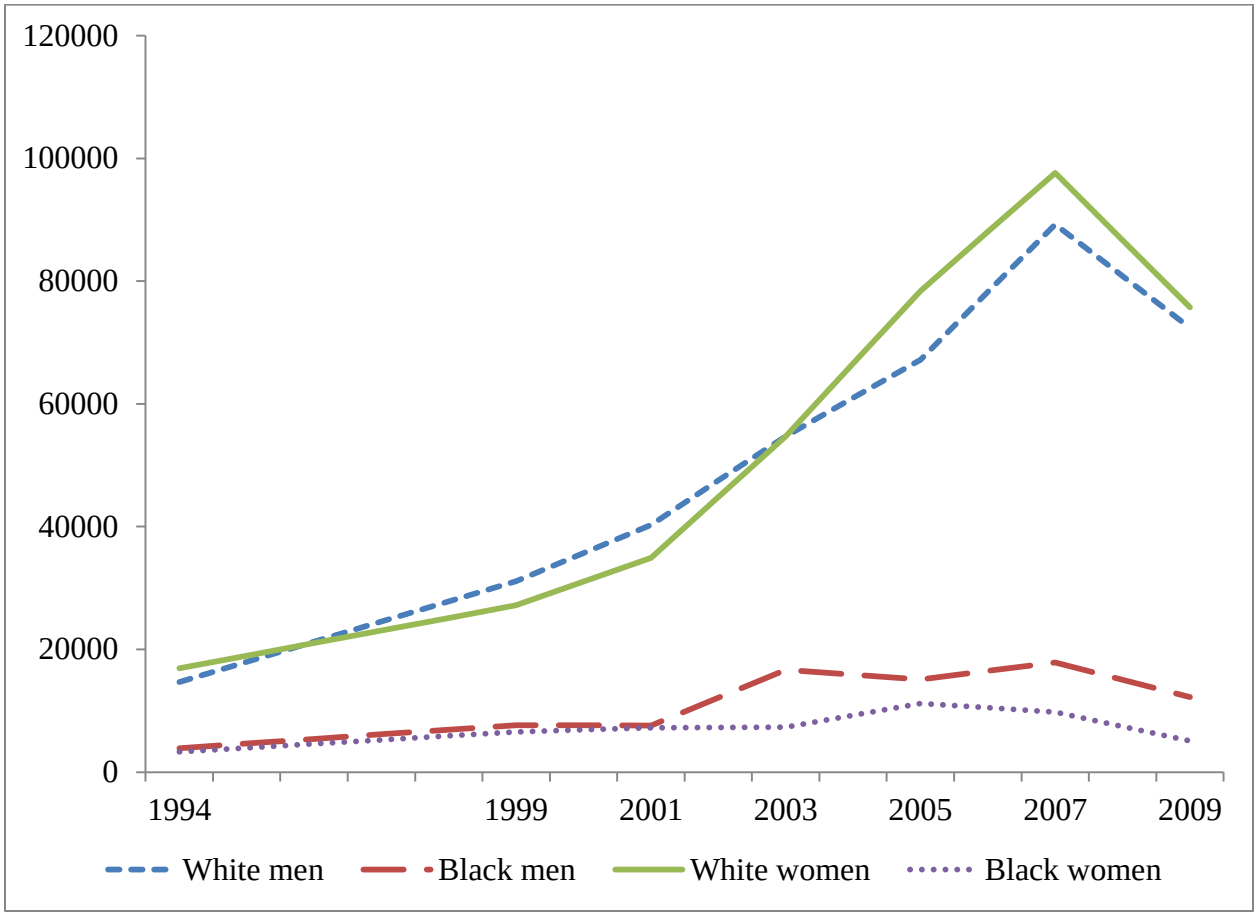

Figure 2: Median Household Wealth for *BBLR* Cohort, 1994-2009

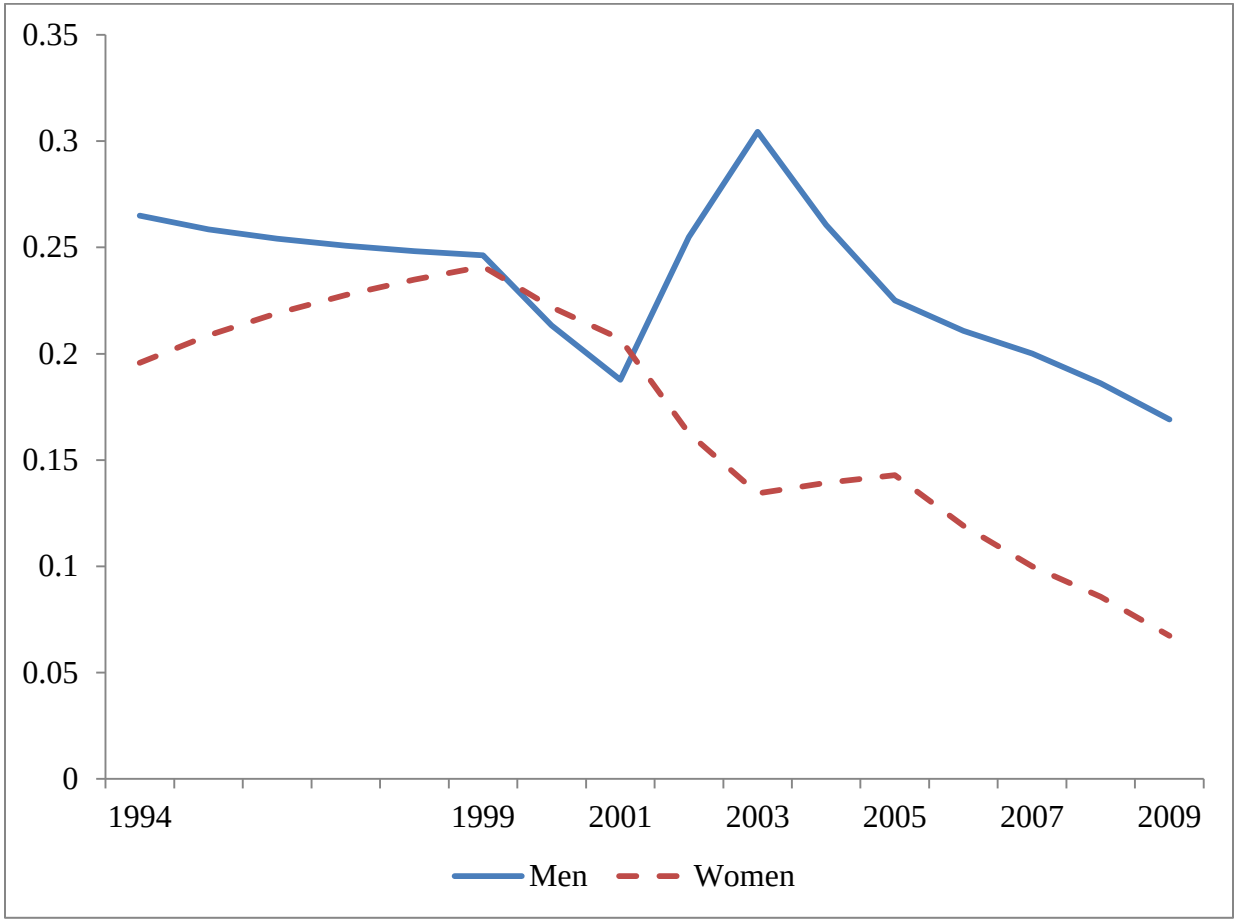

Figure 3: Black-White Median Wealth Ratio for *BBLR* Cohort, 1994-2009