Latinos and the Racial Wealth Divide

Since the Great Recession, the United States has enjoyed an extended period of recovery and growth. However, the benefits of this economic resurgence have not been distributed equally among society. America’s inequality growth, slowed slightly by the Recession, now continues its upwards trajectory to historic levels.

While much of the focus on racial disparity has rightly focused on disparities between White and Black families, Latino families also face a distinct set of socioeconomic challenges that should not be overlooked. Latinos make up a little over 18% of the population and account for half of the nation’s population growth since the turn of the century. As one of the youngest and fastest growing populations in the country, Latino financial well-being has a significant impact on the economy overall.

**FACT:** Latinos Have Not Shared in the Economic Growth of the Past 25 Years—Especially When It Comes to Wealth.

Wealth is a more accurate measure of financial well-being than income. Wealth allows families to save money—for education, for retirement, for emergencies, etc.—and helps them achieve economic security, not just survive. When only considering income, Latinos already face difficult conditions: according to the Prosperity Now Scorecard they are twice as likely to live in poverty as their White peers.²

When we consider wealth, Latino families are facing an even more dire picture of inequality. Scorecard data shows that 61% do not have enough savings—a key component of wealth—set aside to survive at the federal poverty level for three months in the case of an unexpected financial crisis such as a job loss or medical emergency. Only 28% of Whites face that same level of instability. Overall, the Federal Reserve estimates that median White households own eight times the wealth of median Latino households.³ However, when you remove durable goods, such as vehicles, electronics and furniture, from the wealth holdings of these households, median White households end up owning 22 times more wealth than median Latino households.⁴

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Source: 2016 Survey of Consumer Finances, Board of Governors of the Federal Reserve System (wealth with durable goods); Running In Place: Why the Racial Wealth Divide Keeps Black and Latino Families From Achieving Economic Security (wealth without durable goods), Prosperity Now
Furthermore, growing wealth inequality has locked most Latinos out of the middle class. If entry into the middle class were defined by wealth, roughly two out of every three Latino families would not reach the middle class.

In contrast, two out of every three White families would reach the middle class, which is almost double the rate for Latinos.\(^5\)

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<thead>
<tr>
<th>Middle-Class (Income)</th>
<th>White Households</th>
<th>Latino Households</th>
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<tbody>
<tr>
<td></td>
<td>72%</td>
<td>58%</td>
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<table>
<thead>
<tr>
<th>Middle-Class (Wealth)</th>
<th>White Households</th>
<th>Latino Households</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>66%</td>
<td>35%</td>
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Source: Author Analysis of the 2016 Survey of Consumer Finance.

**FACT:** The Effects of Decades of Racial Discrimination Manifest in Everyday Life for Latinos.

Built over centuries, racial discrimination has created a system in which it is difficult for Latinos to thrive. These problems—ranging from disparities in hiring to unequal lending practices to selective criminal justice enforcement—has systematically created barriers to wealth for families of color, including Latinos.\(^6\)

One of the most well-known examples of racial discrimination that has decades of detrimental legacy is discriminatory housing policy. For example, a 2017 study by the Federal Reserve Bank of Chicago found that discriminatory policies such as redlining—the practice of systematically denying home loans to minority communities that begin in the early 1930s and was not prohibited by law until 1968—had negative effects on wealth and homeownership that persist even today.\(^7\) These discriminatory policies hinged on denying or severely restricting credit, which created a legacy of insufficient credit for minorities including Latinos. The Consumer Financial Protection Bureau (CFPB) has estimated that Latinos have the highest rate of credit invisibility, defined as having thin or no credit history, among all minority groups.\(^8\)

As the Scorecard shows, even once Latinos are able to buy or rent, their challenges continue. Homeownership is a key driver of wealth accumulation but less than half of Latino families (46 percent) own their own homes, compared to 71 percent of White families.\(^9\) For those Latino households that do own, two out of every five are cost-burdened, meaning they spend more than 30 percent or more of their income to pay for monthly costs associated with homeownership.\(^10\) Among all racial groups, Latino homeowners are the most likely group to be in this unfortunate situation.\(^11\)

At the same time, almost three in five Latino renters are cost-burdened, bringing the total percentage of Latinos who are cost-burdened by housing to a staggering 48 percent.\(^12\) All of this comes on top of the fact that Latinos continue to face high levels of discrimination in the housing market. In fact, a poll commissioned by National Public Radio (NPR), the Robert Wood Johnson Foundation and the Harvard T.H. Chan School of Public Health found that as recently as 2017, 31 percent of Latinos have faced discrimination when seeking to rent a room or apartment or buy a house.\(^13\)

Latinos also experience negative health outcomes because of financial instability. According to Scorecard data, one out of every five Latino households forgoes a visit to the doctor due to cost. Additionally, Latino households are three times more likely than White households to be uninsured.\(^14\)

**FACT:** The Racial Wealth Divide Is Not Driven by Lifestyle Choices.

A popular (but incorrect) narrative holds that the reason or such persistent inequality along racial lines is due to lifestyle choices made by minorities. First, it must be noted that many of the outcomes presented as the result of choices are heavily influenced by larger socioeconomic problems over which financially vulnerable families have
essentially no control. Many of these issues are the result of exclusionary policy; Prosperity Now’s Road to Zero Wealth report outlines the many ways in which policy has perpetuated the racial wealth divide. However, leaving this important caveat aside, traditional choice-based explanations for minority underachievement simply do not hold up to scrutiny.

**One of the biggest misperceptions is that family structure explains the racial wealth divide.** According to this narrative, if minority family structures were stronger (i.e. two-parents, married, etc.) the divide would not be as wide as it is today, or even exist. However, several recent studies have shown this to not be the case. For example, a study published by Demos in 2017 found that single-parent White households have a higher median wealth than Latino two-parent households. Clearly, family structure does not explain the persistent and gaping wealth divide.

**Another widespread misconception about the racial wealth divide is that it simply reflects differing levels of education.** According to this narrative, if Latinos obtained a higher education or continued to build on their education beyond a four-year degree, the challenges of racial economic inequality could be solved.

However, education is only part of the road to financial stability. As shown below, White and Latino students have vastly different wealth prospects at every level of education; the wealth returns to education are much higher for White students, and the inequality only grows with increased education. Furthermore, a Federal Reserve of St. Louis 2017 report found that accounting for age, family structure and education did not remove racial wealth disparity.

![Wealth Returns to Education](image)

*Source: Author Analysis of the 2016 Survey of Consumer Finance. Data includes all White and Latino households headed by someone under 65 years old*

Ultimately, the indicators highlighted throughout paint a worrying picture of the racial wealth divide’s harm to Latino families. Without positive interventions to address the racial wealth divide, inequality will persist, and Latino families will continue to be locked out of our economy.

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2 "Liquid Asset Poverty Rate," 2018 Prosperity Now Scorecard, February 2018
5 Middle class threshold defined here as two-thirds to double the median household net worth. See “The American Middle Class Is Losing Ground” Pew Research Center, December 9, 2015, http://www.pewsocialtrends.org/2015/12/09/the-american-middle-class-is-losing-ground/.
6 *Running in Place*, 14-16.
9 “Homeownership by Race,” 2018 Prosperity Now Scorecard, February 2018
10 “Housing Cost Burden - Homeowners,” 2018 Prosperity Now Scorecard, February 2018
11 Ibid.
12 “Housing Cost Burden - Renters,” 2018 Prosperity Now Scorecard, February 2018
14 “Uninsured by Race,” 2018 Prosperity Now Scorecard, February 2018