

Economics and the Great Migration

Lesson 3:

The Origins of Wealth Inequality in America

Lesson Author

Brett Burkey, Florida Council on Economic Education

Standards and Benchmarks (see page 3.15)

Lesson Description

The economic collapse of the 1930s caused the U.S. government to develop new policies to put Americans back on their feet again. Many of these programs centered on growing the housing stock and providing tools for households to begin generating wealth. Discrimination did not allow for Black Americans to have an equal opportunity at building a middle-class lifestyle—the bedrock of the American Dream. These inequities began an ever-widening wealth gap that has impacted generations far removed from the original policies.

Grade Level

10-12

Concepts

Discrimination
Equity
Net worth/wealth
Redlining

Objectives

Students will be able to

- recognize that a multitude of federal, state, and local government and private housing policies were initiated in the early twentieth century to keep Black Americans from homeownership,
 - describe the use of redlining maps and the implications for Black American financial opportunities, and
-

- connect the government policies of the past to the significant wealth disparity that exists between White and Black households today.
-

Compelling Question

How did housing policies lead to the wealth gap between White and Black households?

Time Required

90 minutes

Materials

- PowerPoint slide deck for “Economics and the Great Migration Lesson 3: The Origins of Wealth Inequality in America”
 - Handouts 3-1, 3-2, and 3-3, one copy of each for each student
-

Preparation

This lesson includes activities that you can distribute digitally or as hard copies. A redlining activity requires accessing the redlining map site (see Procedure step 7), so students can use in-class devices, or the teacher can project the maps in the classroom. You can preview the maps at <https://lojic.maps.arcgis.com/apps/MapSeries/index.html?appid=e4d29907953c4094a17c-b9ea8f8f89de>.

Procedure

1. Tell the students they will explore historical reasons for the wealth gap that exists today between White and Black American households. To aid in their understanding, the class will work through a set of slides that provide the background. Distribute one copy of *Handout 3-1: The Origins of Wealth Inequality in America Graphic Organizer* to each student and indicate that the slides and notes pages are set up to work in unison. The organizer will help the students collate all the important terms, policies, and data.
 2. Display Slide 2 of the PowerPoint slide deck for “Economics and the Great Migration Lesson 3: The Origins of Wealth Inequality in America.” Explain that a major housing shortage existed during the depths of the Depression and that much of the housing stock lacked many of the basic conveniences, such as plumbing and electricity.
 3. Display Slide 3. Explain that the Roosevelt Administration signed the National Housing Act on June 27, 1934. This established the U.S. Department of Housing and Urban Development (HUD)
-

and the Federal Housing Administration (FHA). The FHA was created to facilitate home financing, improve housing standards, and increase employment in the home-construction industry. Policies such as “redlining” prevented these opportunities from being shared with Black American households. Explain that the FHA’s primary function was to insure home mortgage loans made by banks and other private lenders, thereby encouraging them to make more loans to prospective home buyers. But the FHA systematically excluded the mortgages of Black American home buyers.

4. Display Slide 4. Explain that the FHA feared property values would fall if people of different races resided in the same neighborhood. This would make the mortgage loans riskier and make it more difficult for the lenders. The image on the slide is the actual language from the FHA Underwriting Manual.
5. Display Slide 5. Explain that Homer Hoyt was influential in standardizing the mortgage lending process. One of his innovations was to rank home buyers’ “desirability” based on criteria including national origin, religion, and race. This became the model upon which the Home Owners’ Loan Corporation (HOLC) created a series of maps. Initially, the HOLC was established under the Federal Home Loan Bank Board (FHLBB). In 1939 it was transferred to the FHA. The HOLC made loans. The FHA did not make loans; it insured them.
6. Display Slide 6. Explain that these maps were called “Residential Security” maps, which document how loan officers, appraisers, and real estate professionals evaluated mortgage lending risk. The most-desirable areas are shown as green, and the least-desirable areas are shown as red. They came to be known as **redlining** maps because the “unworthy” neighborhoods were circled and highlighted in red.
7. Display Slide 7. Tell the students they will now explore a redlining map and the observations that appraisers used to color-code the city of Louisville, KY. Distribute a copy of *Handout 3-2: Redlining Louisville, KY: Compounding Poverty* to each student (either digitally or hard copy). Instruct students to access the map online at <https://lojic.maps.arcgis.com/apps/MapSeries/index.html?appid=e4d29907953c4094a17cb9ea8f8f89de> to complete the assignment (link also embedded in the slide). Read the instructions with the students to help them understand how to manipulate the maps. Show them how to access and enlarge the thumbnail pictures of the assessments. Click on the tabs at the top to access the overlay maps, and slide the vertical bar to illustrate the comparisons. Once students are comfortable navigating the page, tell them to write down their observations on Handout 3-2. Discuss the following:
 - Questions 1-3: *Answers will vary, as each student is asked to choose features they believe were integral to the policy decisions.*
 - Question 4: *The eastern region of the community seems to have the highest concentration of wealth. Most of those communities were designated blue and green risk levels.*

- Question 5: *In each case it's the western region of the map that has the highest concentration of Black households.*
 - Question 6: *It appears the western region of the map was the area deemed most risky in the 1930s, based on the number of redlined neighborhoods. In those areas, it was unlikely a household could take advantage of the generous mortgage conditions the FHA was offering. Today, the highest concentration of low-income and Black households is in the western region of Greater Louisville. Black families' inability to purchase homes and begin building wealth in past eras has led to huge obstacles for many families in building generational wealth and equity through real estate.*
 - How did the deliberate denial of financing in the early and mid-twentieth century affect the finances of many Black Americans? *(Answers may include the following: Black citizens were unable to purchase homes; they were unable to build the wealth that comes from homeownership; they were often forced to pay inflated housing prices because housing options were limited for Black families; or they were unable to build a credit portfolio, which led to higher costs for Black American households in all their financial pursuits.)*
 - What similarities did you notice between the 1937 redlining map and the maps generated from the most-recent U.S. Census on race, income, and poverty? *(The areas that were redlined are also areas that are communities of color with pockets of low-income households today.)*
8. Display Slide 8. Point out that **discrimination** is defined as the unjust or prejudicial treatment of different categories of people, especially on the grounds of race, age, or sex. Explain that residential developers received the mortgage insurance they desired by including and enforcing racial barriers in the language of their property deeds. Many White families migrating to new suburban developments wanted assurances that their communities would bar integration. Three examples are shown in the slide.
 9. Display Slide 9. Explain that the validity of these restrictions was upheld by the U.S. Supreme Court in 1926. According to the decision, the equal protections provided under the 14th Amendment did not apply in what was perceived to be private circumstances. Developers used the decision as a marketing enticement shortly after it was released. *Shelley v. Kraemer* in 1948 made these covenants unenforceable by courts.
 10. Display Slide 10. Explain that Baltimore was one of the first cities to embrace these barriers and that the mayor at the time expressed his commitment to erecting these barriers citywide.
 11. Display Slide 11. Explain that the extent to which communities would go to fight integration was displayed in this case against the Bradens. In addition to the violence community members directed toward the Wades, the courts took the unusual path of charging Carl Braden with a Communist plot.

12. Display Slide 12. Explain that in Detroit, not only was it necessary for the developer to include racial covenants in the property deeds, but the FHA demanded that this wall be erected so that Black residents could not walk through the all-White neighborhood. This wall remains standing in its original spot today as a marker of uncivil times.

13. Display Slide 13. Explain that Levittown is considered one of the first modern suburbs that has shaped so much of American life today. The developer embedded strong barriers to maintain the homogeneity of the community. Though racial covenants were finally outlawed by the Fair Housing Act of 1968, America's suburbs remain predominantly White today: According to the Pew Research Center, 90% of suburban counties have a majority-White population.¹ Show the students a video of a CBS News segment at <https://www.youtube.com/watch?v=YXYA0tSe-bOA&t=22s> (link also embedded in the slide). The video reports on the restrictive history of the community in New Jersey where the news journalist grew up. It expresses the surprise so many people face when they realize their hometowns have a history of such bias. After students watch the video, tell them to answer the assessment questions included in the graphic organizer. Discuss the following:
 - Can you suggest a way in which the financial injustices of the past can be rectified today to narrow the wealth gap? (*Answers will vary, but the suggestion in the clip is that some form of financial compensation or reparation be offered to Black Americans to make up for the wealth they couldn't accumulate because of discriminatory policies.*)

14. Display Slide 14. Explain that the chart indicates the significant disparity in homeownership rates that exists today between races. The inability to establish a wealth stream in the twentieth century has created challenges for contemporary Black American households to purchase homes at today's prices.

15. Display Slide 15. Explain that generational wealth has accelerated the gap between White and Black households. A current income gap exists, but it pales in comparison to the differences in net worth or wealth. **Net worth** or **wealth** is the value of a person's or family's assets minus their liabilities. For many people or families, net worth comes mainly from their home value, so appreciating housing prices increase wealth.² **Equity** is the sum of the home buyer's initial down payment and the difference between the debt owed and the current appraised value of that home. Give the following example: If you buy a \$300,000 home and put 20% down, you immediately have \$60,000 in equity. Ten years later, you'll still owe \$150,000 on the loan, but the market appraises your home to be worth \$400,000, so that's \$250,000 of additional equity. That equity represents a major portion of most people's wealth.

¹ See <https://www.pewresearch.org/social-trends/2018/05/22/demographic-and-economic-trends-in-urban-suburban-and-rural-communities/#:~:text=Whites%20have%20become%20a%20minority,and%2089%25%20of%20rural%20ones.>

² Board of Governors of the Federal Reserve System; <https://www.federalreserve.gov/releases/z1/dataviz/dfa/compare/chart/#quarter:129;series:Assets;demographic:networth;population:all;units:shares.>

16. Display Slide 16 and explain that due to this lingering disparity, many Black American families have been unable to find for themselves or provide their children with opportunities that would lead to greater achievements or wealth creation. The costs of college, elder care, and a satisfying retirement have been placed beyond the reach of so many because of the discriminatory policies in the past.
-

Closure

17. Review the main points of the lesson by discussing the following:
- On what belief were so many housing policies based? *(Answers will vary but may include the belief that the presence of Black Americans as homeowners in a neighborhood would cause property values to fall and make mortgages riskier.)*
 - What is redlining? *(It's a term used to describe the way in which loan officers, appraisers, and real estate professionals evaluated mortgage lending risk. It was a process that resulted in color-coded neighborhoods; the most-desirable areas were colored green on a map, and the least-desirable areas were colored red.)*
 - What were three features that frequently led to appraisers coloring sections of the HOLC maps red? *(Answers will vary but may include a high percentage of Black families, a high percentage of working-class people, a large number of rental properties, or undesirable land conditions like the tendency to flood, proximity to industrial areas, and great distance from transportation hubs.)*
 - Why did developers use the Corrigan v. Buckley decision as a feature in their advertising? *(It sent the message that no non-Caucasians would be moving in next door.)*
 - What is the single largest facet of household wealth for the majority of Americans? *(Answers will vary but may include the equity in one's home, which is equal to the assessed value of the home minus any debt associated with the purchase of the home, or the skyrocketing values of real estate, which has generated great wealth for some.)*
 - How did government policies lead to the wealth gap between White and Black households? *(Government policies made it extremely difficult for Black citizens to purchase homes. For most families, building wealth hinges on the ability to profit in the real estate market. The denial to Black families in the mid-twentieth century of this key financial tool has compromised the financial foundation for generations of Black Americans.)*

Assessment

18. Provide a copy of *Handout 3-3: Assessment* to each student. Allow time for students to work and then review the answers as follows:

1. How did this map guide the lending practices of banks and developers when considering access to mortgages?

The maps made it simple for lenders to know where borrowers who fit within FHA criteria of creditworthiness were located, as well as borrowers that the FHA deemed unfit for credit. For developers, the maps made it clear where the FHA would support the development of communities and where it would not. For all, the red areas especially were off limits because no underwriting support would be offered, and the lender would need to shoulder all the risk.

2. What were the typical features of a green section of the map? Red section?

Green sections of the map were generally areas where affluent households resided, comprising professionals and white-collar workers. There was a high level of homeownership, and the properties would enjoy many amenities. The communities would be exclusively White families and generally of the Protestant faith. The appraisers would award the highest level of optimism to continued appreciation of home values in the green sections.

3. This map was published and released in 1937, so why would families be concerned about its implications today?

The 1937 maps provide a startling foretelling of the status these communities would hold in contemporary times. The green areas from 1937 are typically still the most affluent parts of communities where an overwhelmingly White population resides. The red areas of 1937 are the places today where you would still find the highest levels of poverty and distressed properties. Black and immigrant families would not have had the opportunity to build wealth, so their descendants likely still reside there. Early investment in the green areas allowed them to thrive today. Meanwhile, the lack of capital investment in the red areas relegated them to perpetual erosion.

4. What are three things that wealth allows people to do for their families that were often out of reach for Black families?

When one's ancestors have the opportunity to generate net worth or wealth for their families, it often provides the basis for current and continued development of wealth. It allows new generations to stand on the shoulders of past generations and provides the means to further grow the wealth generated. Having that wealth allows families to bequeath it to future generations for continued progression. Wealth allows families to send their children to college, care for their elderly, and save for a comfortable retirement. It gives people the means to purchase property, start businesses, and purchase equities. Wealth gives people freedom to pursue their passions and live a fuller life. It gives people the means to look after each other when ill health strikes. So, while no guarantee, wealth can contribute to greater longevity. The lack of wealth can place these benefits out of reach.

Handout 3-1: The Origins of Wealth Inequality in America Graphic Organizer (page 1 of 3)

The Origins of Wealth Inequality in America	
Name:	
Class/Period:	
Date:	
Compelling Question: How did housing policies lead to the wealth gap between White and Black households?	
Questions	Notes
	The FHA was willing to insure lenders from loan default, taking the risk out of mortgages for the bank or developer. This made them very willing to lend to home buyers.
What did the FHA manual say was the reason for not insuring Black people?	
Why was this policy known as redlining?	
What were the features of a green-colored community?	

Handout 3-1: The Origins of Wealth Inequality in America Graphic Organizer (page 2 of 3)	
Questions	Notes
	Homer Hoyt believed his desirability scales were merely a response to the market and not subjectively racist on his part. He believed that racism inherent in the housing market would never allow Black and Mexican families to achieve acceptability.
What is a racial covenant?	
What did the court case <i>Corrigan v. Buckley</i> declare?	
Why do you think developers used this decision in their advertising?	
What does the case of the Wades and Bradens say about the feelings around this issue?	

Handout 3-1: The Origins of Wealth Inequality in America Graphic Organizer (page 3 of 3)	
Questions	Notes
	In the 1950s, there was a lot of paranoia in America over Communism. If you wanted to get someone in trouble, you'd just accuse them of being Communist and disloyal to the U.S.
Watch the video linked on Slide 13. What do you think about the current reaction to the community's legacy? What can be done to compensate people?	
What do the graphs on Slides 14 and 15 say?	
What is an opportunity gap?	
Summary: What impact do past housing policies have on the current state of wealth equality in the U.S.?	

Handout 3-2: Redlining Louisville, KY: Compounding Poverty (page 1 of 3)

Directions: Interpret a map the Home Owners' Loan Corporation (HOLC) developed in the 1930s that housing developers used to guide residential investment in the city of Louisville. This map assigned grades "A" through "D" to neighborhoods to indicate their desirability for investment. Black, immigrant, and low-income neighborhoods were often given grades of "C" or "D," eliminating residents' access to mortgage insurance or credit for decades. Compare the HOLC map with maps that show current demographic features of the same neighborhoods in Louisville to see how little has changed. Make the connection between policies of the past and financial status of households today. Access the maps at <https://lojic.maps.arcgis.com/apps/MapSeries/index.html?appid=e4d29907953c4094a17cb9ea8f8f89de>.

On the home page is a redlining map of Louisville, KY. The four colors and the letter grades indicate the assessment given for each section of the city. Hover and click on any section to view a pop up of a document providing details of the assessment. Click on the thumbnail to enlarge the document. Each document provides the favorable and detrimental features, the types of people and their occupations, a description of the properties, and some clarifying remarks.

1. Click on the sections of the map listed in the table below and pick out three details from each report that you believe led to the grade given.

Section	Details
C-15	<ol style="list-style-type: none"> 1. 2. 3.
A-1	<ol style="list-style-type: none"> 1. 2. 3.
B-16	<ol style="list-style-type: none"> 1. 2. 3.
D-2	<ol style="list-style-type: none"> 1. 2. 3.

Handout 3-2: Redlining Louisville, KY: Compounding Poverty (page 2 of 3)

2. What occupation category tends to live in “A” graded communities? (Circle your answer.)
 - Domestic and laborers
 - Clerical and unskilled laborers
 - Businessmen and professionals
 - Factory workers and mechanics

3. Compare sections A-1 and D-11. In the table below, note your observations from the assessment statements as they relate to each category.

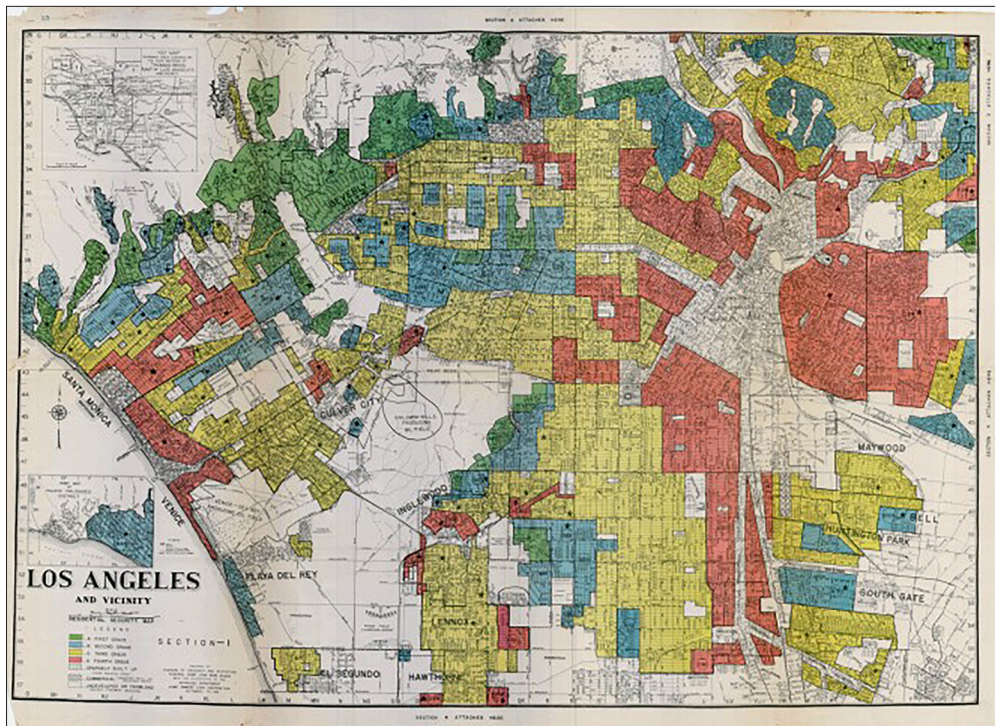
Section	Details
Trend of desirability	
Occupation	
Estimated income	
Presence of “Negroes”	
Average age of properties	
Availability of mortgage funds	

Handout 3-2: Redlining Louisville, KY: Compounding Poverty (page 3 of 3)

At the top of the home page map there is a series of tabs. Click on “Compare Income.” Slide the vertical bar in the center of the screen to the left and right to reveal the redlining map and a map illustrating the varying household incomes in Louisville. Using these maps, answer the questions below.

4. Looking at the map of household incomes, what region of the metropolitan area seems to have the highest concentration of wealth? Now slide the bar to reveal the redlining map. What color(s) were most of those communities designated for risk level?
5. Click on the “Compare Race” tab. What region of the metropolitan area seems to have the highest concentration of Black households? Now slide the bar to reveal the redlining map. Based on what you know about the criteria used to zone neighborhoods for risk, what region of the metropolitan area had the highest concentration of Black households at that time?
6. You have compared the HOLC redlining map with the current U.S. Census maps for race, income, and poverty in Louisville. Now propose a correlation between the FHA risk assessments and decisions to deny mortgages to Black families during the 1930s-50s and the level of wealth and prosperity Black families (in general) have today in Louisville.

Handout 3-3: Assessment



SOURCE: <https://www.kcet.org/shows/lost-la/segregation-in-the-city-of-angels-a-1939-map-of-housing-inequality-in-la>.

Explore the Risk Assessment (redlining) map of Los Angeles above and respond to the following questions:

1. How did this map guide the lending practices of banks and developers when considering access to mortgages?
2. What were the typical features of a green section of the map? Red section?
3. This map was published and released in 1937, so why would families be concerned about its implications today?
4. What are three things that wealth allows people to do for their families that were often out of reach for Black families?

Standards and Benchmarks

National Standards for History Basic Edition, 1996

From: <https://phi.history.ucla.edu/nchs/united-states-history-content-standards/united-states-era-7/>

Standard 1. The economic boom and social transformation of postwar United States.

Standard 1A. The student understands the extent and impact of economic changes in the postwar period.

- **Grade Level 9-12.** Analyze the continued gap between poverty and the rising affluence of the middle class. [Consider multiple perspectives]

Standard 1B. The student understands how the social changes of the postwar period affected various Americans.

- **Grade Level 5-12.** Evaluate the effects of the GI Bill on American society. [Hypothesize the influence of the past on the present]
- **Grade Level 9-12.** Explain the expansion of suburbanization and analyze how the “crabgrass frontier” affected American society. [Explain historical continuity and change]

Standard 4. The struggle for racial and gender equality and for the extension of civil liberties.

Standard 4A. The student understands the “Second Reconstruction” and its advancement of civil rights.

Voluntary National Content Standards in Economics

Standard 17: Government Failure

Students will be able to use this knowledge to: Identify some public policies that may cost more than the benefits they generate, and assess who enjoys the benefits and who bears the costs. Explain why the policies exist.

