Pew: Latinos Shoulder Steepest Wealth Decline

by NPR Staff

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The median wealth of white households is now 18 times that of Hispanic households, reports new Pew research. Finance expert Louis Barajas explains what might have contributed to this gap, how the community can reduce it, and why it matters for non-Latinos.

ALLISON KEYES, host: I'm Allison Keyes and this is TELL ME MORE from NPR News. Michel Martin is away.

Coming up, many Latino and African-American young men struggle to find equal opportunities for success. Now New York City has a new plan to tackle some of the obstacles those men faced in school, at work and at home. It's called the Young Men's Initiative. We'll have more in just a few minutes.

But first, we take a closer look at the financial disparities between people of color and whites. The Pew Research Center recently released a study called "Wealth Gaps Rise to Record Highs Between Whites, Blacks and Hispanics." It found that the most dramatic change between 2005 and 2009 was among Hispanics, whose median household wealth, net worth, dropped 66 percent.

To help us understand this gap and what it means, particularly to Latinos, is financial expert Louis Barajas. He's the author of "My Street Money: A Street-Level View of Managing Your Money from the Heart to the Bank." Louis, welcome back.

LOUIS BARAJAS: Hi, Allison.

KEYES: Before we get to the study, I have to ask you about another big economic story. Many people are concerned right now about the recent downgrade of the U.S. credit rating by the S&P index. How is this going to affect people, especially the poor and people of color who are already hurt by this wealth gap?

BARAJAS: Well, you know, it's not really going to affect them. It may affect them longer term when interest rates start to rise, for example, on car loans, or if they've got variable rates on their mortgages. And we'll see interest rates go up a little bit. So there's not really a big deal. Let me tell you where there are going to be problems, is that if they get caught up with the investment noise that's going on right now and with the behavioral thing of fear, and if they get scared and if they do have some money in their 401K, they pull their money out and leave it in cash.

Right now they just need to take a deep breath. I would just literally turn the TV off and I would just leave my money where it's at, if it's been properly diversified.

KEYES: So as we start to talk a bit about this study, let me first ask you: Why should people who aren't Hispanic worry about the financial health of this community?

BARAJAS: Well, you know, Latinos are the largest growing demographic in America. And right now they represent over 50.5 million people, over 15 percent. And as we go towards the future, that number is going to grow dramatically. And everything that Hispanics do will eventually affect everyone in the country. So it's really important to pay attention to this group.

Specifically, this group is not only one of the largest minority in America and the fastest growing minority, but they're also the poorest and they lack a lot of education. And we need to step up and help them get that education.

KEYES: The Pew study says that says that in 2009 the typical white household had about $113,000 in wealth, while the typical Hispanic household had just over 6,000. How did that happen and why is that?

BARAJAS: Well, it's dropped because most Hispanics, if they have any type of wealth, they have it in their home or they have it in real estate. You know, it's very cultural to own real estate. I mean, most Latinos come to the United States and they come from poverty. And where they were coming from, usually most of the time there was corrupt governments, they didn't trust the banks. (Unintelligible) banked here.

And so the only type of people that they admired from their countries were landowners. So they come to the United States and think that real estate is the only asset class that they should invest in. And look what happens with the economy and with the real estate asset. I mean, it went down, you know, 40, 50 percent. And so that's where most Hispanics have lost all their wealth.

KEYES: What does that disparity mean in terms of people's ability to buy and borrow things? Or does it affect that at all?

BARAJAS: Well, absolutely. Sometimes when people have lost their jobs, they've looked towards their homes and equity lines of credit to pull money out to survive. And in this situation, their values of their homes are down. They have less access to capital or equity through their homes, and it affects them greatly. So it's really important that we understand that we need to somehow get education out there to this community, that they need to diversify and they need to build their wealth and they need to do it not just all in real estate.

Nobody says that real estate is bad. I'm just saying is that they need to diversify it into other types of things like their, you know, mutual funds and their 401Ks.

KEYES: If you're just joining us, you're listening to TELL ME MORE from NPR News. I'm Allison Keyes.

And we're talking about the Hispanic wealth gap with Louis Barajas, author and personal finance planner.

There is analysis of U.S. census data from 2010 by John Logan. He's a sociology professor at Brown University. And says that African-American and Hispanic-Americans are more likely to live in poor neighborhoods even if they make a fair amount of money. Why is that?

BARAJAS: A lot of it is just comfort and complacency. They just get used to living in that community. They know people in their community. If they move to another community, it's usually people that are not of their race.

For example, my parents are in their 70s, they earn six figures, and they've been in East Los Angeles all their life because my dad can go to the McDonald's and order in Spanish. Or he can go to - instead of a bakery it's a panaderia. And so my dad's, you know, very comfortable in his community. So one is that.

The other thing is just not even earning enough at the next level to make the jump to a better neighborhood or better community.

KEYES: If wealthier people of color are staying in less well-off neighborhoods, shouldn't that mean a financial influx into the communities?

BARAJAS: The people who are making a tremendous amount of money not in the $75,000 household range, but in the 200, 250 thousand, are living in more diverse type of communities where you'll see African-Americans, Asians, you know, whites. And the problem is, again, that you don't see that. I mean, the people that are staying there are earning a certain amount of income, but they're also spending that certain amount of income.

I mean, their priorities are when you go to these poorer communities, you'll see people spending a lot of money in electronics and they're not really sacrificing for the long term. Again, a lot of it is cultural, you know. Most, for example, on the Hispanic side is very Catholic and has a very fatalistic attitude towards money.

And so there's also a lot of instant gratification versus delayed gratification. Thus you don't see a lot of kids encouraged to wait four or five years to finish and get a Bachelor's degree. They start working right away. So the way we're going to change these communities is to focus on how we can change the mindset to give them an abundance mindset.

KEYES: If the mindset of these communities doesn't change, what's the worst case scenario here?

BARAJAS: Well, you know, the problem is that we're going to have a tremendous blue collar workforce or workforce in the service industry that doesn't make a lot of money, that is not putting away any money and who typically, what I call the patron (unintelligible) system, meaning that they're always relying on somebody else. You know, they're relying on the government to take care of their retirement needs, which is Social Security.

They're relying on a large employer to take care of their work needs. And the economy is changing dramatically and very quickly. And so there's going to be a lot of poverty and they're not going to be able to support the baby boomer generation when it comes to the jobs and Social Security. So there's tremendous repercussions down the road. It may not be, you know, five years from now, but it's definitely going to be 10, 15, 20 years from now.

KEYES: If relying on the government is what people and communities of color are doing now, what should they be doing? Social advocacy groups better? What other things might help turn this around?

BARAJAS: Well, my experience of working with a lot of poor people who have made - who've been very successful is that they've actually taken this exceptional personal responsibility. They basically said, you know, I'm not going to rely on anyone else and I'm going to do what I have to do. I'm going to knuckle down and start a business and work really hard.

I'm going to sacrifice and send my kids to better schools. And it's just a form of taking a look at how they can sacrifice to get better things and look at that delayed gratification. Sending their kids to colleges, paying attention to what their kids are doing in school.

You know, I come from - I was born and raised in East Los Angeles and I worked back in that community and we have two high schools there that have close to, you know, 50 percent drop-out rates. And we see very little parent participation. So I mean, parents are going to have to get excited and participate and be there for their children.

Because education is what's going to take these, you know, these groups of people, you know, like, the Latinos and the African-Americans to the next level. And it's just that focus on education.

KEYES: Louis Barajas is a financial expert. He's also author of "My Street Money: A Street-Level View of Managing Your Money from the Heart to the Bank." He joined us from Costa Mesa, California. Thanks so much.

BARAJAS: Always a pleasure, Allison.