



The Black-White Wealth Gap

Austin University Area Rotary Club
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National Economic Education Delegation

Wealth Concentration Widens the Racial Wealth Divide.

Significantly raising taxes on the ultra-wealthy would generate the necessary revenues for more fair and equitable wealth building programs.

INEQUALITY Institute for Policy Studies

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National Economic Education Delegation

• Vision

- One day, the public discussion of policy issues will be grounded in an accurate perception of the underlying economic principles and data.

• Mission

- NEED unites the skills and knowledge of a vast network of professional economists to promote understanding of the economics of policy issues in the United States.

• NEED Presentations

- Are **nonpartisan** and intended to reflect the consensus of the economics profession.

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Who Are We?

• Honorary Board: 52 members

- 2 Fed Chairs: Janet Yellen, Ben Bernanke
- 6 Chairs Council of Economic Advisers
 - o Furman (D), Rosen (R), Bernanke (R), Yellen (D), Tyson (D), Goolsbee (D)
- 3 Nobel Prize Winners
 - o Akerlof, Smith, Maskin

• Delegates: 525+ members

- At all levels of academia and some in government service
- All have a Ph.D. in economics
- Crowdsource slide decks
- Give presentations

• Global Partners: 45 Ph.D. Economists

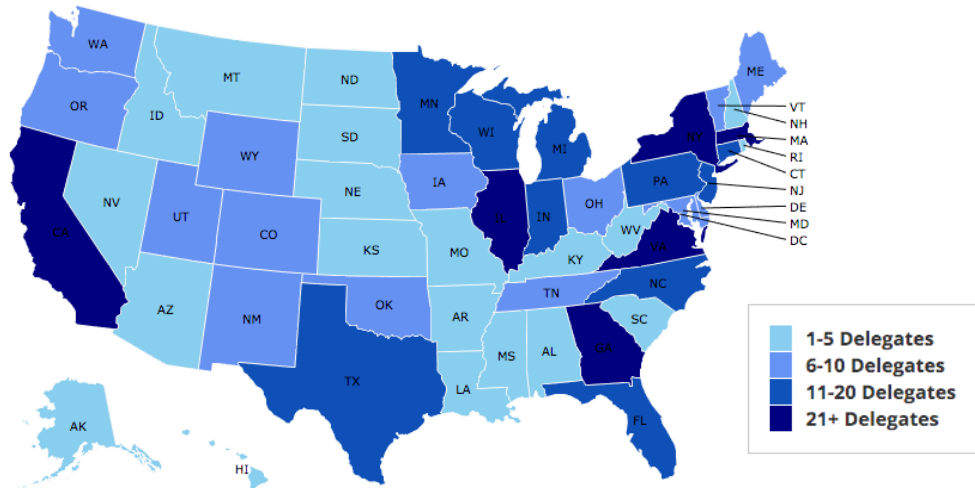
- Aid in slide deck development



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Where Are We?



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Available NEED Topics Include:

- Coronavirus Economics
- Climate Change
- Economic Inequality
- Economic Mobility
- US Social Policy
- Trade and Globalization
- Trade Wars
- The U.S. Economy
- Immigration Economics
- Housing Policy
- Federal Budgets
- Federal Debt
- 2017 Tax Law
- Autonomous Vehicles



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Credits and Disclaimer

- **This slide deck was authored by:**
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Outline

- Evidence of disparities
- Why wealth is important
- Sources of disparities
- Implications of disparities
- Policy solutions



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Evidence



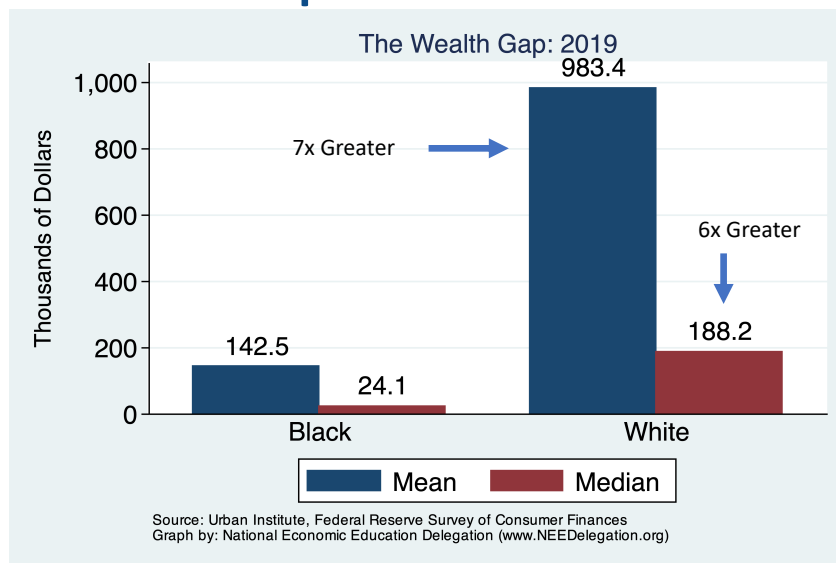
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Wealth Disparities, 2019

Race/Ethnicity	Mean Wealth	Share of Families	Share of Wealth	Ratio of Shares
White, non-Hispanic	983.4	64.9	94.6	1.5
Black, non-Hispanic	142.5	14.2	3.0	0.2
Hispanic or Latino	165.5	9.6	2.4	0.2
Other or Multiple Race	657.2	11.3	11.0	1.0

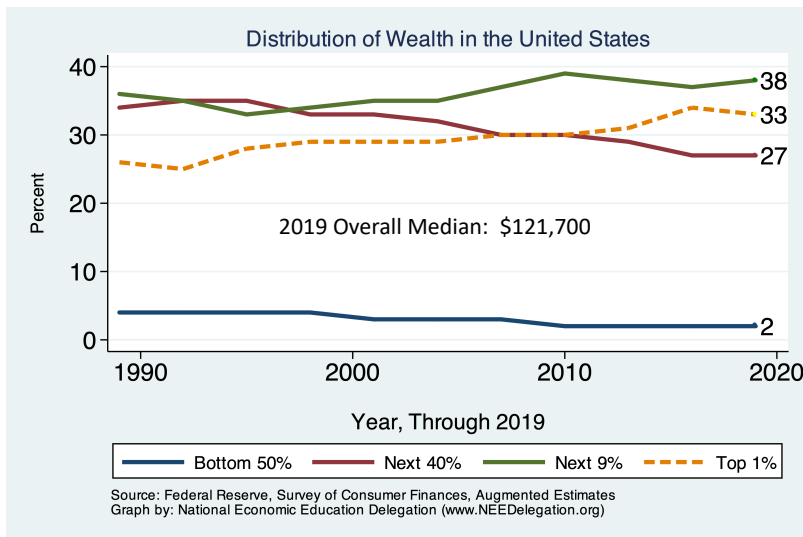
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Evidence of the Gap



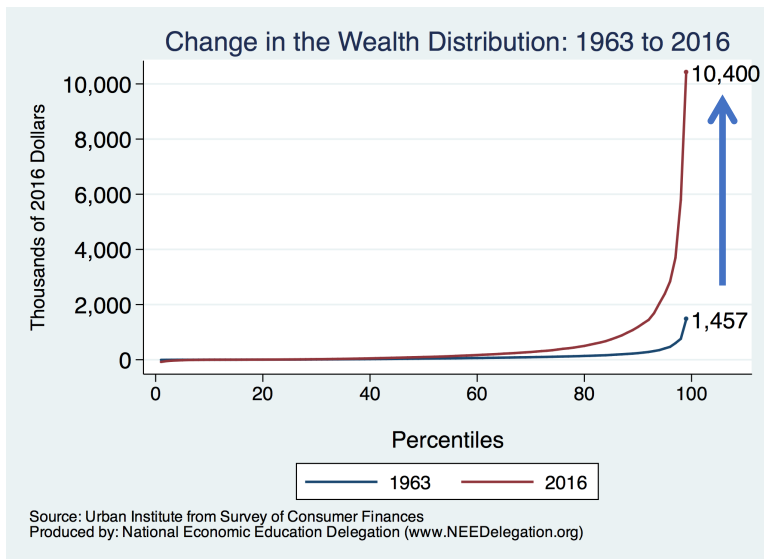
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Overall Wealth Distribution



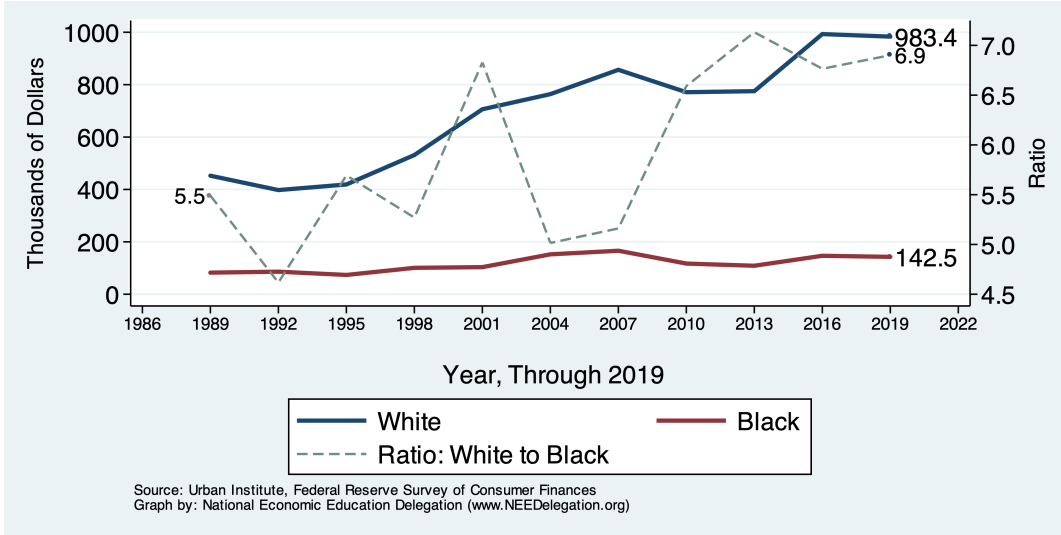
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Wealth is More and More Concentrated



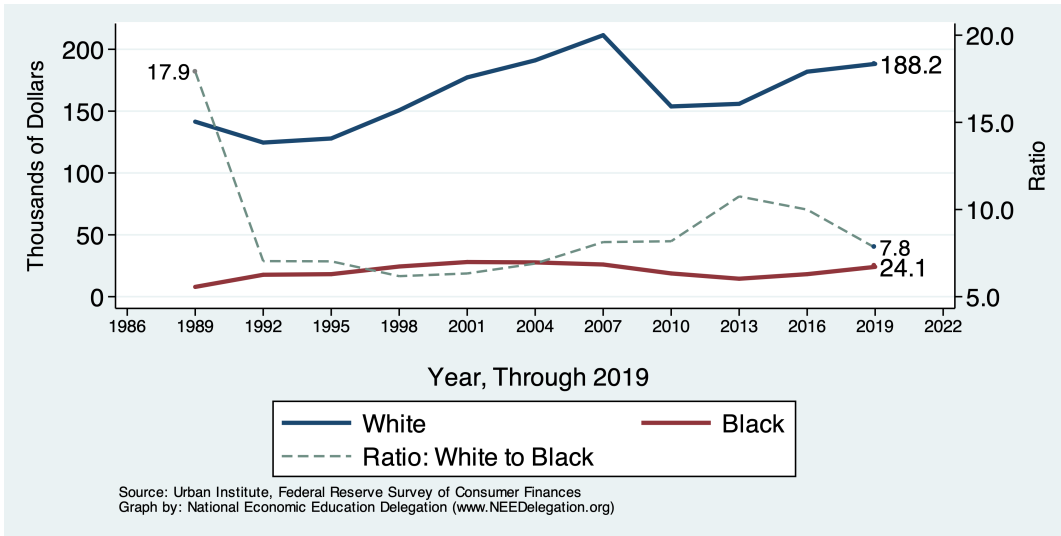
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Wealth Gap Over Time: Mean



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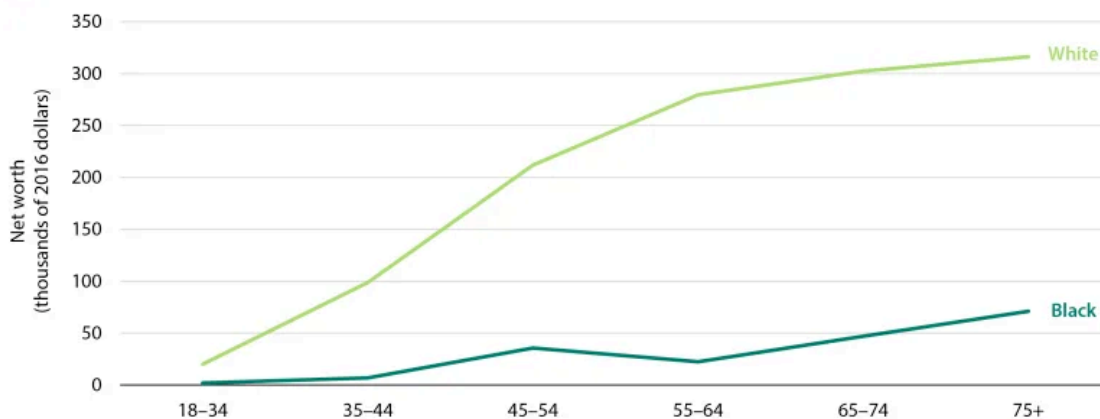
Wealth Gap Over Time: Median



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Net Worth by Age and Race

FIGURE 2.
Median Net Worth, by age of Household Head



Source: Survey of Consumer Finances 2016; authors' calculations.
Note: Data are from 2016. Net worth refers to the difference between assets and debt for a household head. Race and ethnicity are those of the survey respondent.



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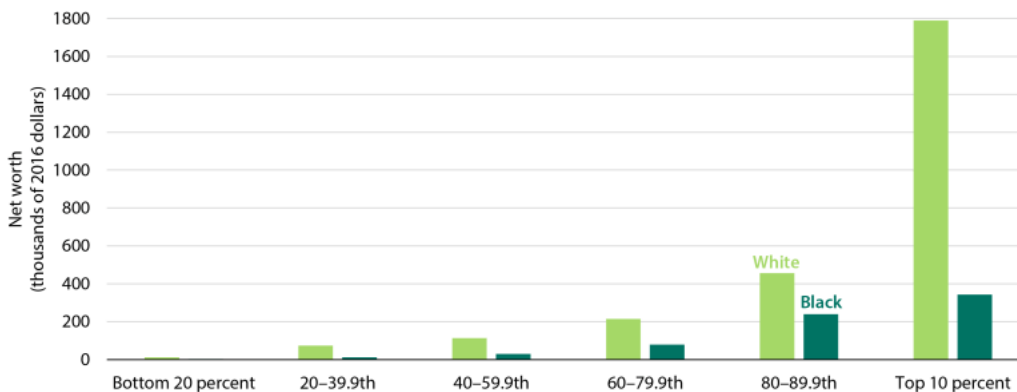
Source: <https://www.brookings.edu/blog/up-front/2020/02/27/examining-the-black-white-wealth-gap/>

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By Household Income

FIGURE 3.
Median Net Worth, by Household Income Percentile



Source: Survey of Consumer Finances 2016; authors' calculations.
Note: Data are from 2016. Net worth refers to the difference between assets and debt for a household head. Race and ethnicity are those of the survey respondent.



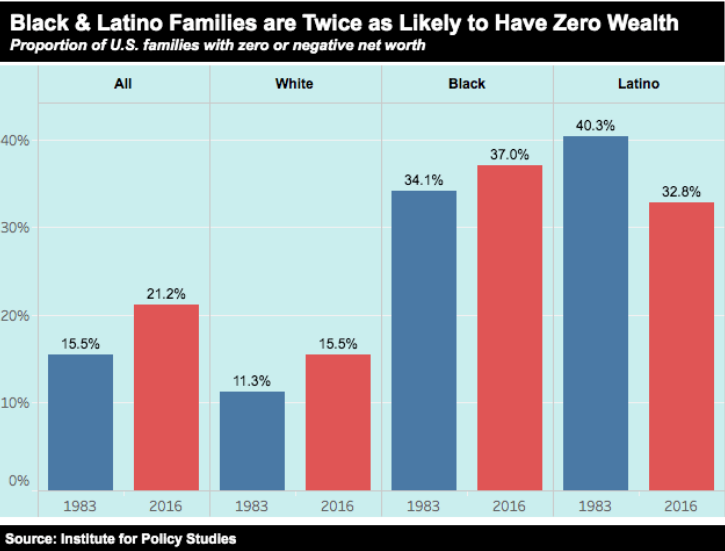
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Evidence of Disparities: Zero Wealth



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Why Wealth is Important

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Widespread Household Wealth Pays Dividends

- **To individuals in the household**
 - Choices/Agency
 - Wealth is iterative
- **And to broader society**
 - Human capital development
 - Entrepreneurship and innovation



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Household Level Benefits

- **Choices/Life Agency**
 - Finance elite education
 - Living in good neighborhoods
 - Saving for retirement
 - Capital to start a business
 - w/stand financial hardship
 - Better legal counsel
 - Exert political influence
 - Finance costly medical procedure
 - Bequests
- **Wealth is iterative**
 - Wealth begets more wealth.
 - Access to higher return investments.
 - Wealth transfers across generations.
 - Wealth is sticky.



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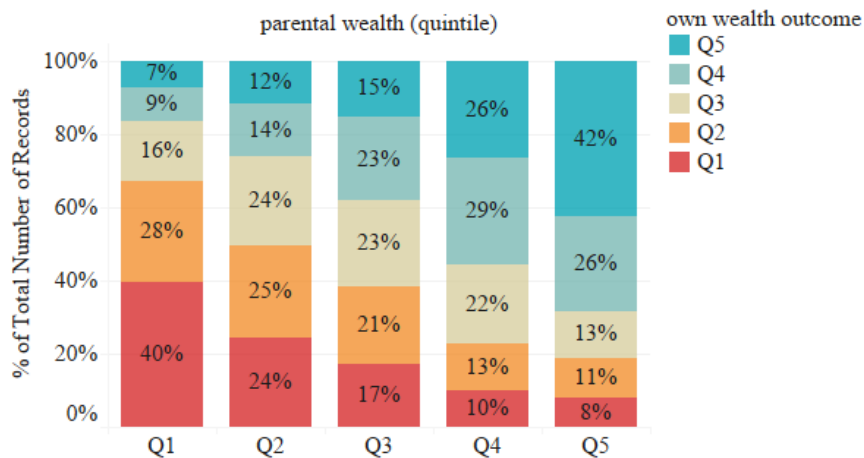
Tangible Benefits for the Broader Economy

- More human capital development
- Increased entrepreneurship
- Greater labor force participation
- Healthier labor force
- Less social unrest
- Less reliance on social programs
- Smaller stock of student loans

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Wealth Mobility

Outcome quintile by parental quintile (wealth)



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Parental Wealth is Important

- **Important pre-estate transfer effects on kids:**
 - Influences human capital accumulation
 - Influences the returns to education
 - Adult incomes of offspring
- **There are clearly enormous differences in wealth held by parents of Black and White children.**
- **And it's mostly nurture, not nature.**



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Sources of Disparities



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Events/Policies with Direct Wealth Implications

- **Slave trade**
 - The first deprivation
- **Slavery**
- **40 acres (and a mule)**
 - The second deprivation
 - Discriminatory distribution of land.
- **Freedmen's Bank**
 - Lax oversight and dissolution.
- **Homestead Act**
 - Discriminatory distribution of land.
- **Land theft and destruction**
 - E.g., Black Wall Street – Tulsa, 1921
- **GI Bill**
 - Discriminatory access – Levittown
- **Federal Housing Authority**
 - Redlining



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Results for Black Families

- **Much lower accumulation of wealth than among White families.**
- **Implications:**
 - Less financial contribution from parents to children.
 - More difficult access to higher education.
 - Less access to capital for business formation.
 - More likely to live in disadvantaged neighborhoods
 - Fewer role models.
 - Less access to quality education.
 - ***Disparities in the capacity – availability of resources - to build wealth.***



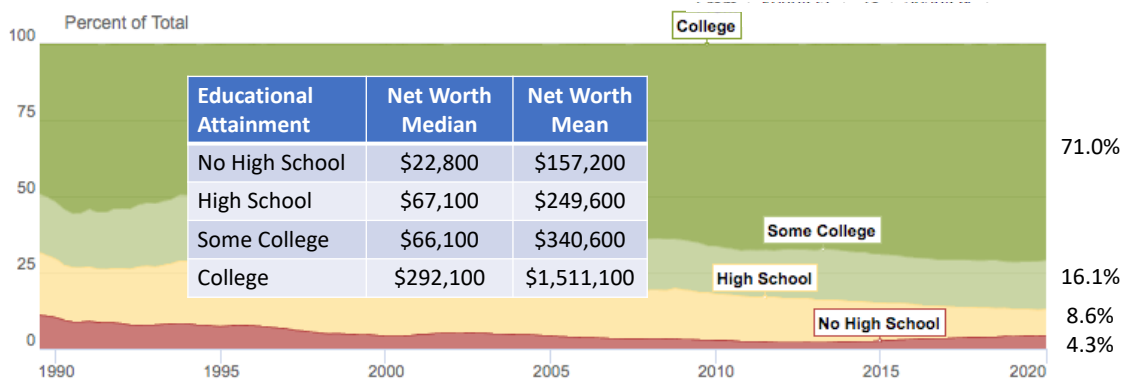
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Potential Explanations: Differences in...

- Educational attainment
- Home ownership
- Increased savings
- Financial literacy
- Entrepreneurship
- Soft skills and personal responsibility
- Wages
- Labor force participation
- Family disorganization
- Initial endowment

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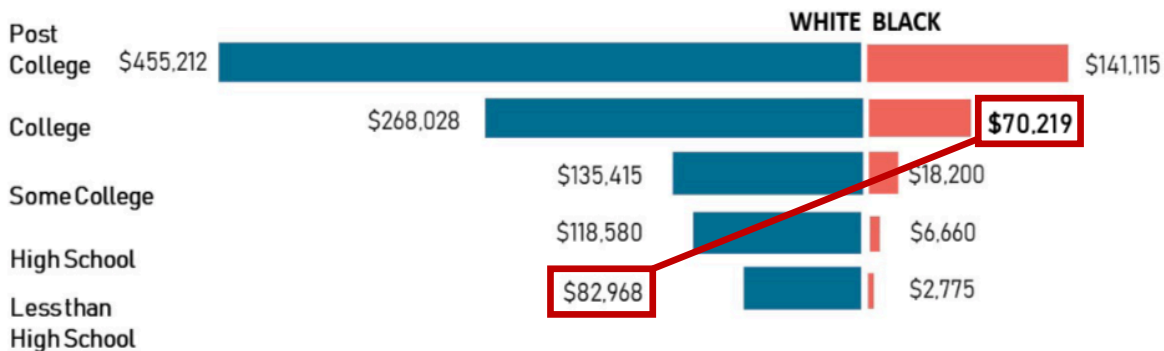
Wealth by Educational Attainment



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Educational Attainment

Median Household Net Worth by Race and Education

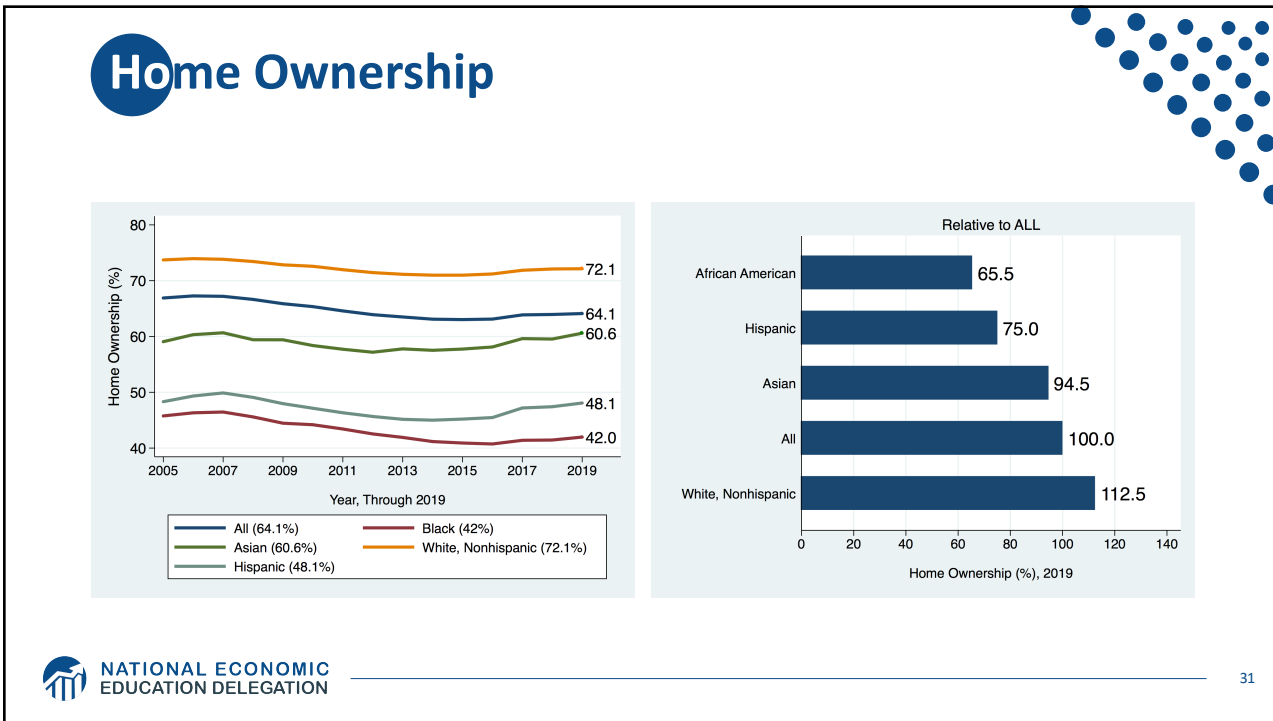


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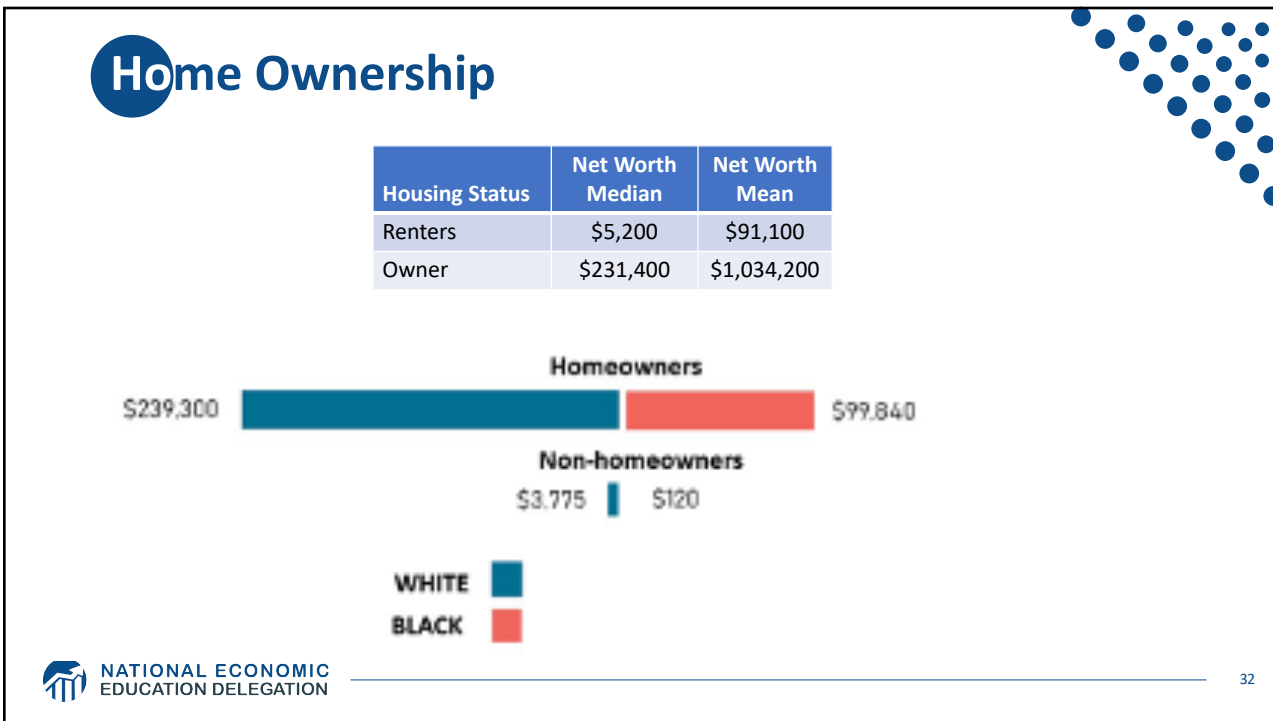
Educational Attainment: Policy

- **How do we increase educational attainment?**
 - Increase universal quality of public schools.
 - Increased/improved counseling in high schools.
 - Reduce costs (including living) of attending college.
 - Increased access to funds for education

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Wealth Equality Through Home Ownership?

- **Well-documented evidence of historical and ongoing housing and lending discrimination.**
- **What about home prices in minority neighborhoods? Even if they buy, they won't get the appreciation of White neighborhoods.**
 - Home values are 50% lower in majority Black neighborhoods.
 - 23% after adjusting for quality and amenities.



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Source: Brookings, Home ownership while black

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What Determines Differences in Home Ownership?

- **Wealth of parents**
- **Ability to borrow – lending discrimination**
 - At all
 - On equivalent terms to white borrowers
- **Local ordinances – housing discrimination**
- **Lower appreciation rates of homes in majority Black communities**



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Increased Savings

- **Historical evidence generated by economists ranging from Milton Friedman (1957) to Marjorie Galenson (1972) to Marcus Alexis (1971) to Gittelman and Wolff (2004).....**
 - All find that after accounting for household income, Blacks have a slightly higher savings rate than Whites.
- **Risk and reward are higher for White investors**
 - Controlling for income, this is not clear.
 - Access to and tolerance for higher risk investments is clearly correlated with income.



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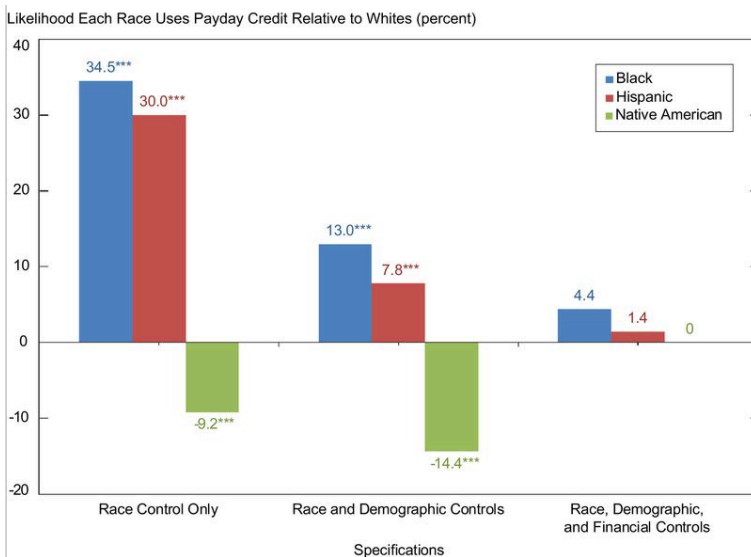
Financial Literacy

- **Financial literacy doesn't matter that much when you don't have any finances to manage.**
- **Controlling for household income, there is no difference in rates of asset appreciation between Black and White households.**



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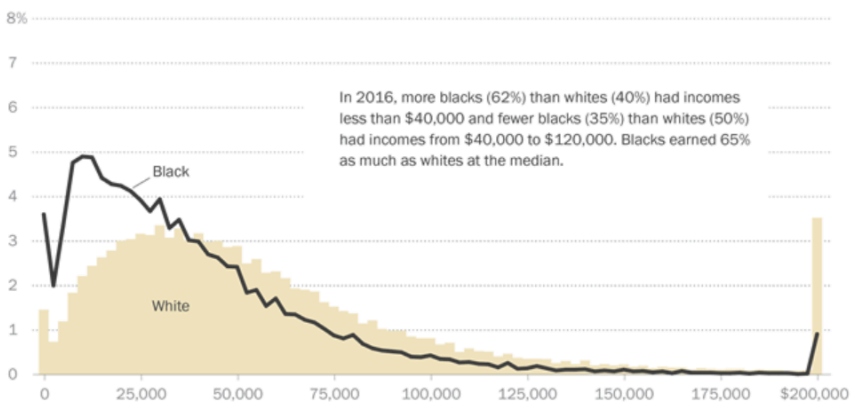
Use of Payday Lenders



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Black Household Incomes Relative to White

Shares of whites and blacks with a given level of income, 2016



Note: Whites and blacks include only single-race non-Hispanics. Income is adjusted for household size and expressed in 2016 dollars. See Methodology for details.

Source: Pew Research Center analysis of 2016 American Community Survey (IPUMS).
 "Income Inequality in the U.S. Is Rising Most Rapidly Among Asians"

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Entrepreneurship

- **Disparities in access to capital**

- Wealth disparities
 - o Specifically differences in home equity.
 - o Differences in wealth levels of friends and family.
- Less likely to rely on banks and more likely to rely on credit cards.
- Loans have higher int rates and more likely to be declined.
- Less access to venture funds.

- **Education levels**

- **Previous business ownership by family**

- **Social capital**



Soft Skills and Personal Responsibility

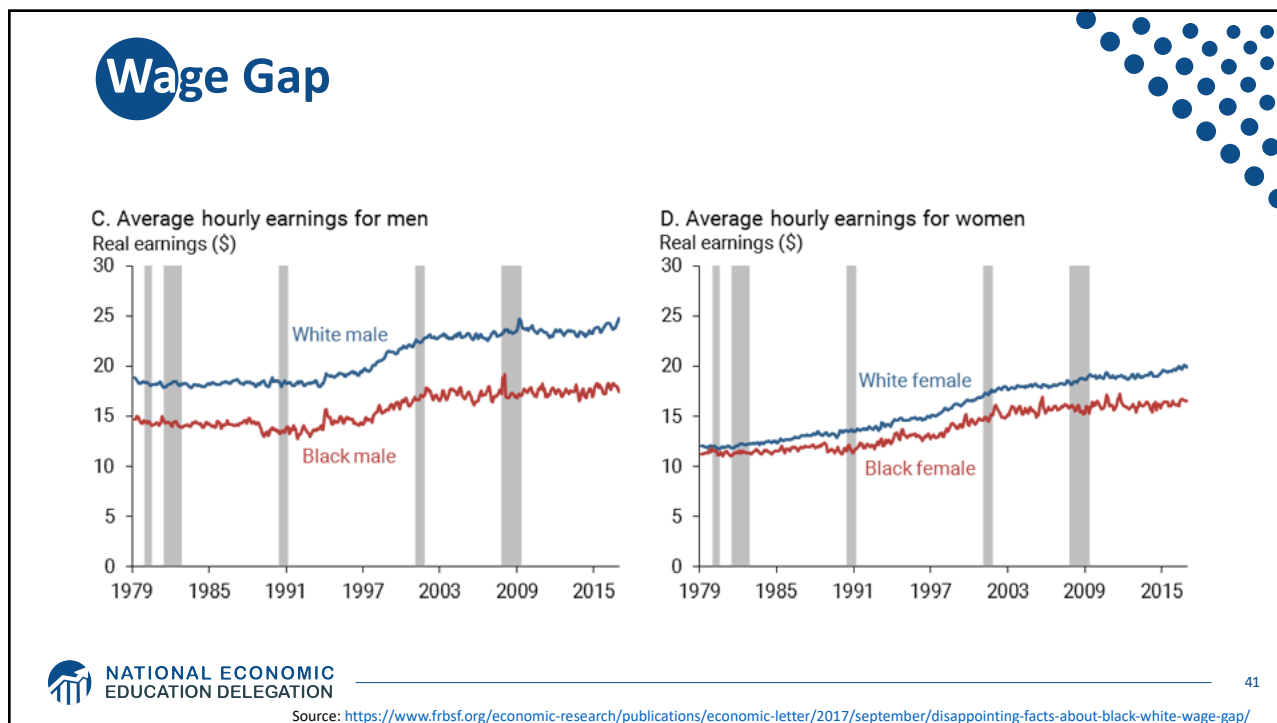
- **Employability**

- Show up on time
- Eye contact with customers
- Dress well
- Collaborative skills

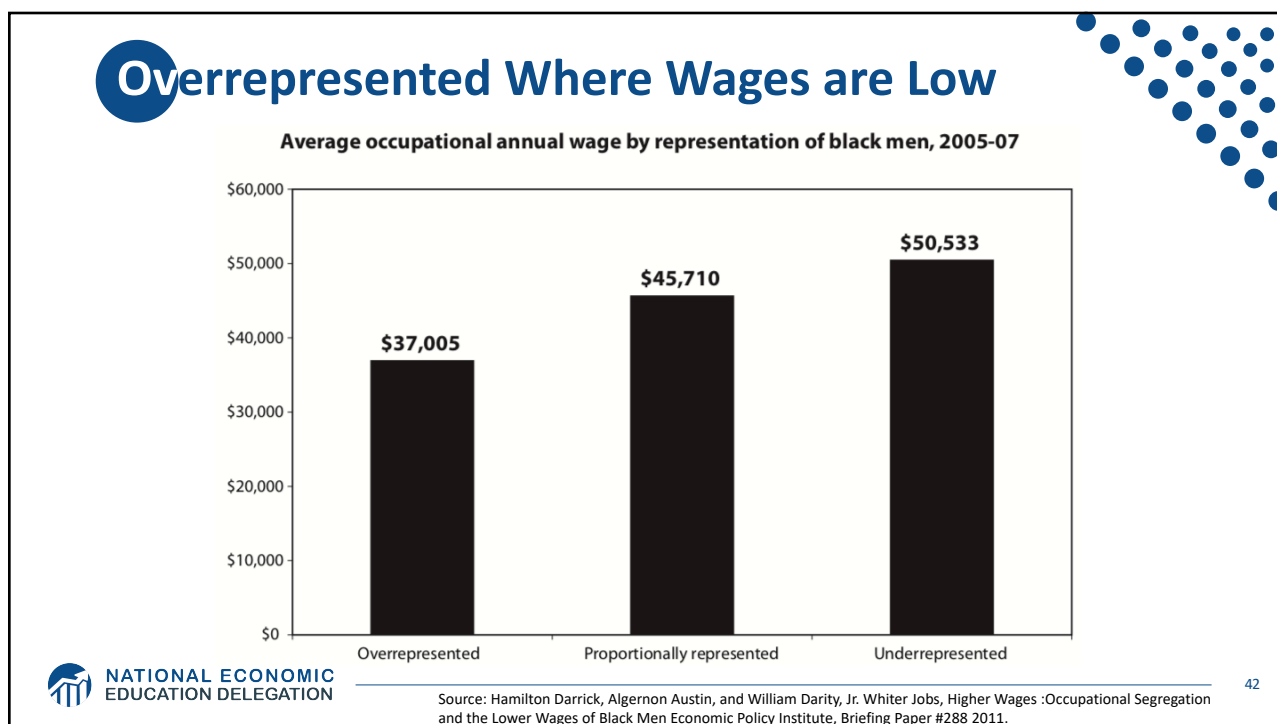
- **Reality**

- Black workers are crowded into service sector jobs.
- Well represented in service, sales and office, and production, transportation, and material moving
- Relatively less well represented in construction, extraction, and maintenance.

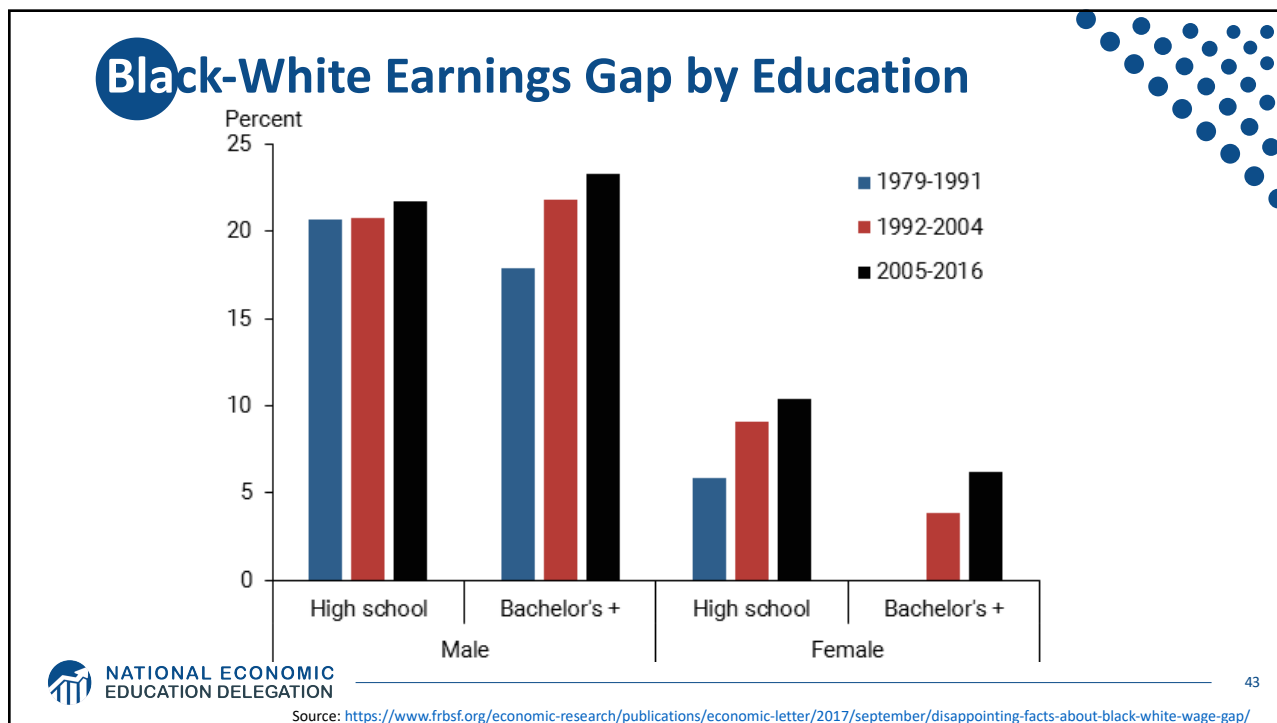




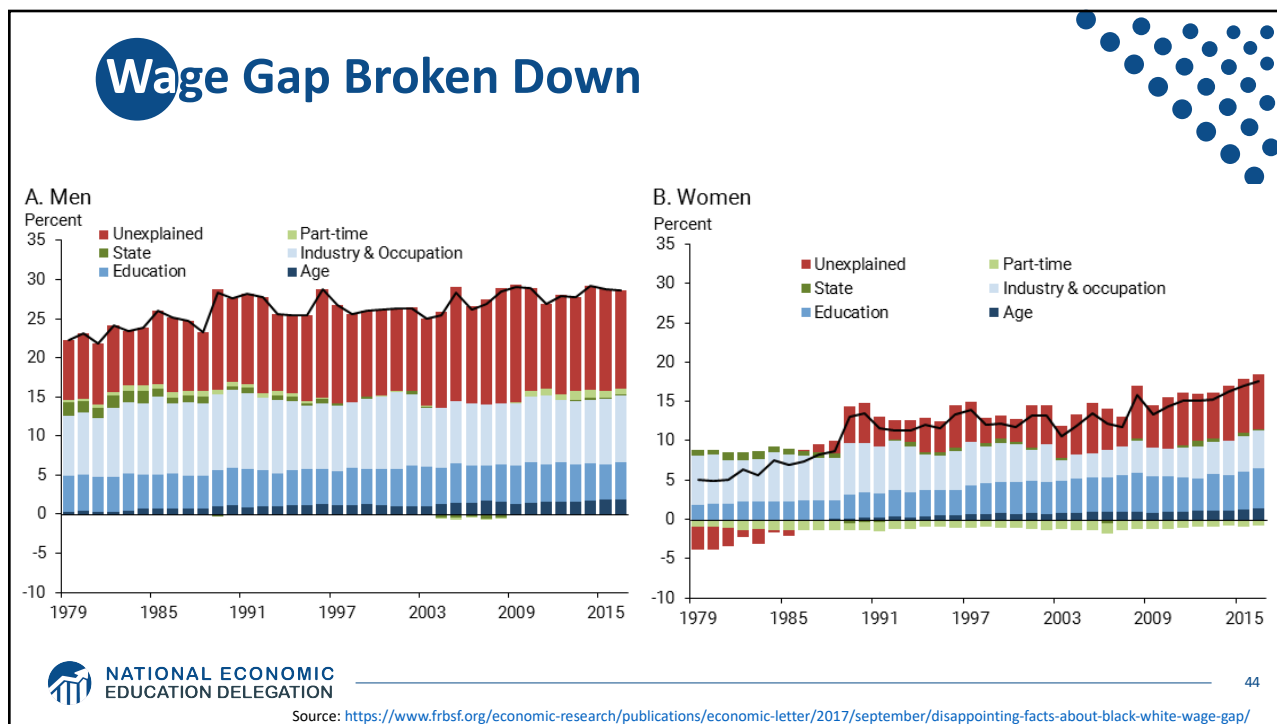
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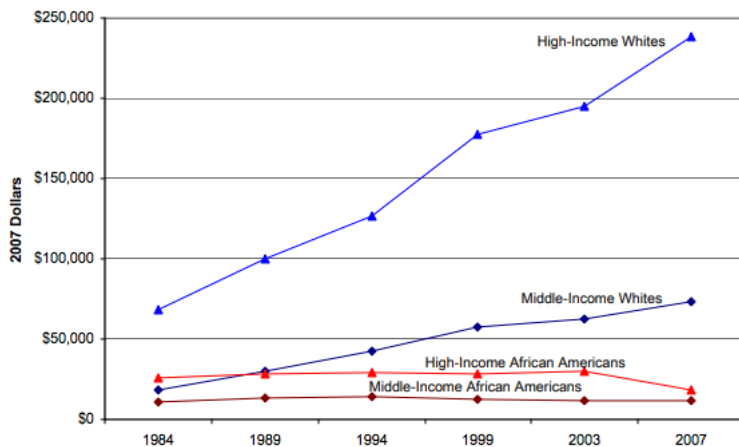
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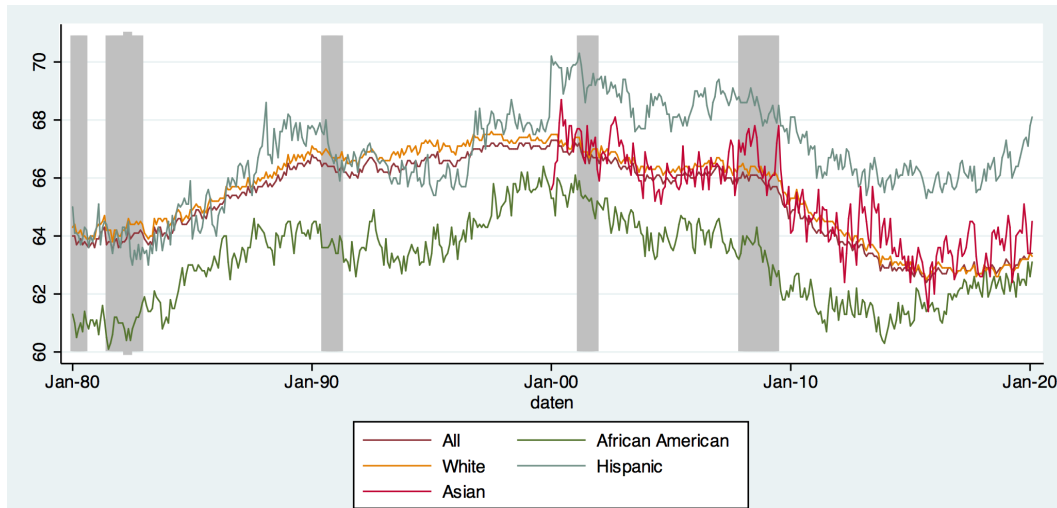
Equality of Income \neq Equality of Wealth

Figure 2: 1984-2007 Median Wealth Holdings by Income in 1984
(Not including home equity)



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Labor Force Participation



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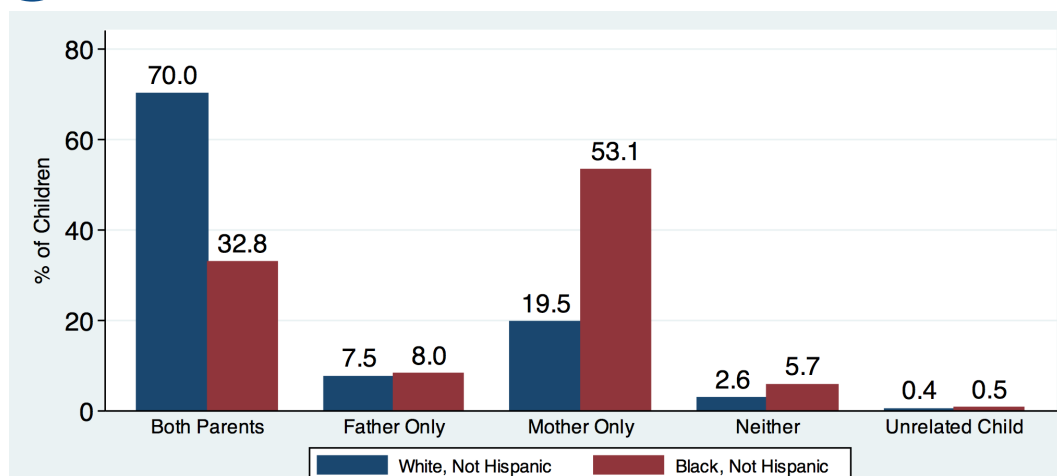
Family Disorganization

AGE	No Bachelor's Degree				With Bachelor's Degree			
	MARRIED		SINGLE		MARRIED		SINGLE	
	BLACK	WHITE	BLACK	WHITE	BLACK	WHITE	BLACK	WHITE
20-29	\$4,000	\$13,000	\$0	\$2,000	\$7,700	\$18,700	-\$11,000	\$3,400
30-39	\$12,000	\$33,450	\$0	\$0	-\$20,500	\$97,000	\$0	\$7,500
40-49	\$22,501	\$60,000	\$1,000	\$3,006	\$12,000	\$195,000	\$6,000	\$25,000
50-59	\$38,000	\$155,000	\$2,000	\$8,200	\$198,000	\$430,000	\$9,500	\$117,500
60+	\$89,500	\$344,700	\$12,000	\$60,000	\$424,000	\$778,000	\$11,000	\$384,400

Source: Zaw, Khaing, Jhumpa Bhattachayra, Anne Price, Darrick Hamilton and William Darity, Jr. *Women, Race and Wealth* Samuel DuBois Cook Center for Social Equity and the Insight Center for Community Economic Development 2017.

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Kids – Household Types

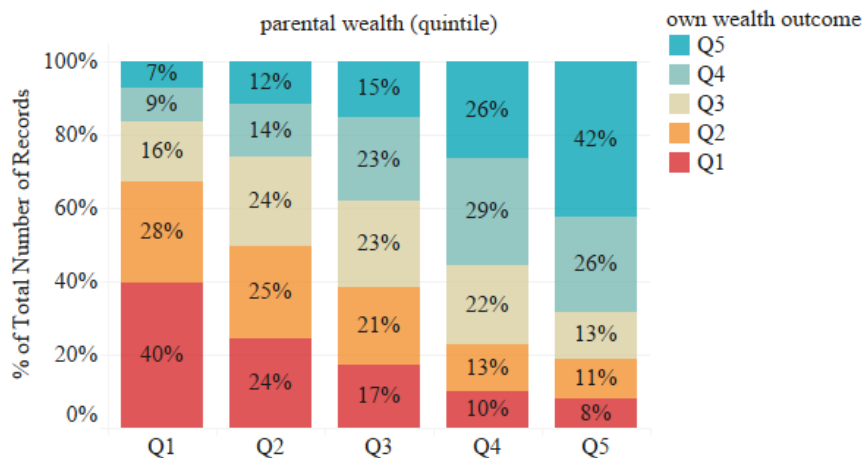


Source: Census Bureau, 2018 American Community Survey PUMS
Graph by: National Economic Education Delegation (www.NEEDelegation.org)

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Initial Endowment

Outcome quintile by parental quintile (wealth)

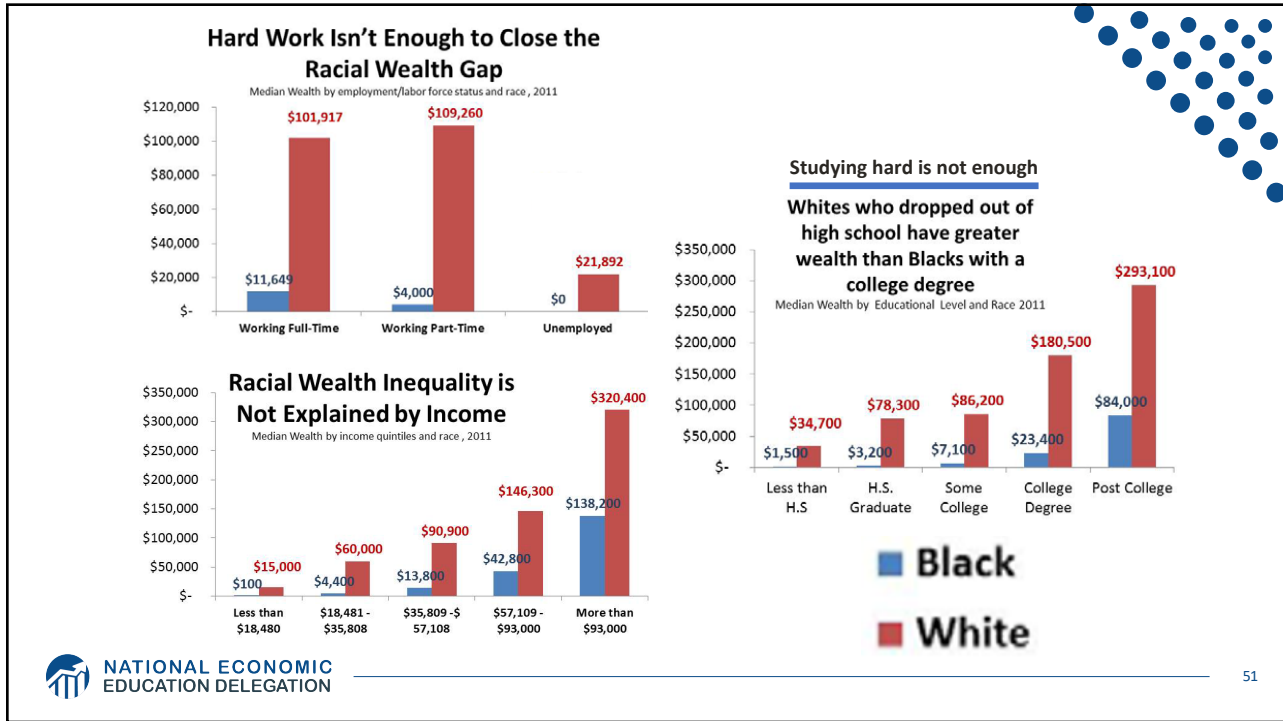


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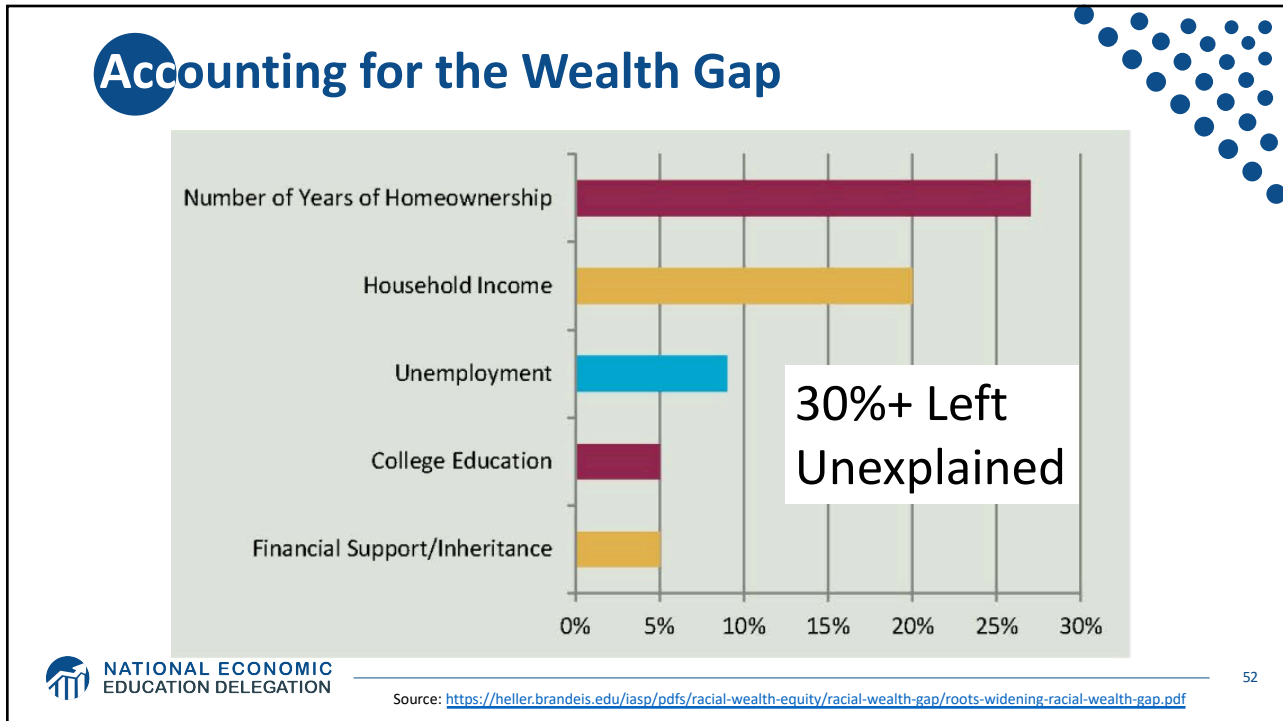
What is Fundamentally Responsible?

- Individual behaviors?
- Structural characteristics of the economy?
- History – policy and otherwise?

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Policy Options



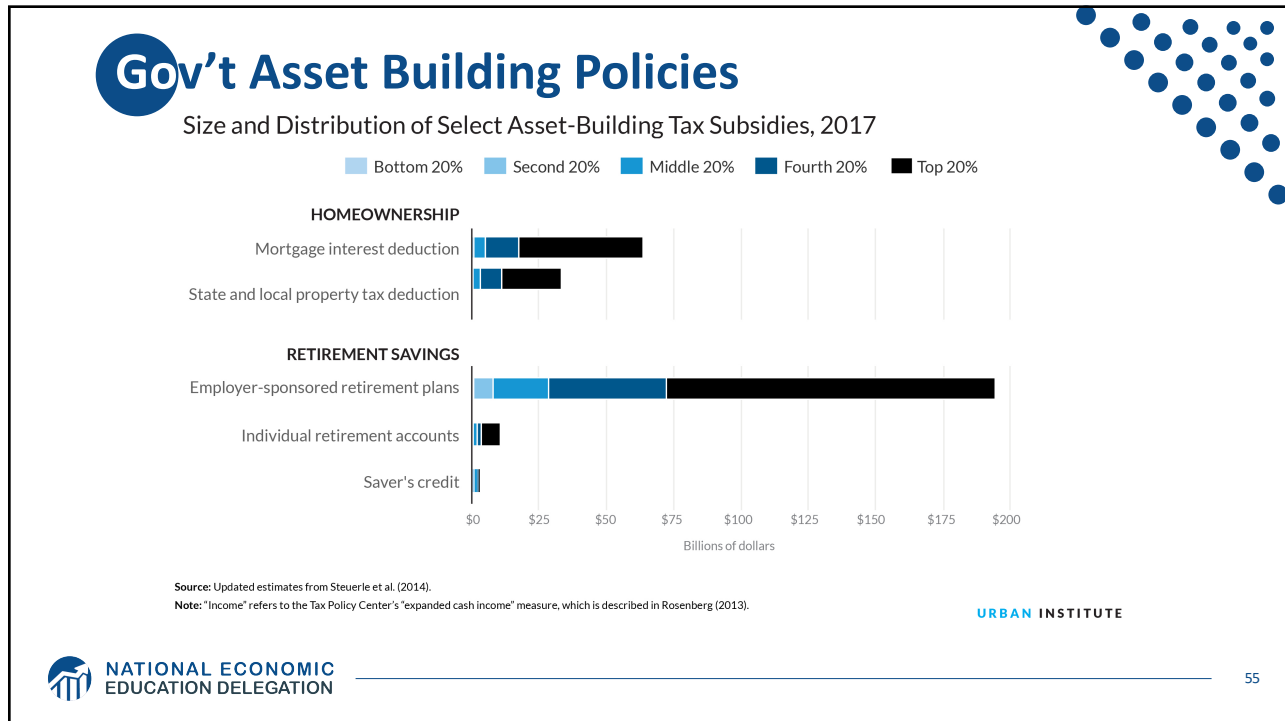
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Categories of Policy Areas

- **Housing**
 - FHA and redlining
- **Health Care**
- **Incarceration**
 - Evidence on rates of incarceration
- **Transportation**
 - Interstate system
- **Broadband**
 - Access is inversely related to regional income
- **Education**
- **Workforce**
- **Income support and stability**
- **Asset accumulation**



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- ## Specific Policy Options
- **Global solutions that affect all source areas**
 - Child Trust Accounts - "Baby Bonds"
 - Guaranteed minimum income
 - **Addressing racial disparities directly**
 - Reparations
 - o Aggressive affirmative action.
 - o A new Homestead Act.
 - o Heavily investing in Black communities.
 - Labor and other laws that address discrimination
 - o Enforce more aggressively and make adjustments where necessary to increase efficacy.
 - Fundamental reorientation of asset building agenda.
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Other Concrete Policy Options

- Limit the mortgage interest tax deduction and use the revenues to provide a credit for first-time homebuyers.
- Establish automatic savings and retirement plans.
- Reduce reliance on student loans while supporting success in postsecondary education.
- Offer universal children's savings accounts.
- Reform safety net program asset tests, which can act as barriers to saving among low-income families.
- Provide subsidies to promote emergency savings, such as those linked to tax time.



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Source: Urban Institute

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Buying and Banking Black

- **Assertion: Marshalling the enormous purchasing power of the Black community will drive progress.**
 - More than \$1.3 trillion in buying power.*
- **Assertion: Banking is a source of wealth creation.**
 - Combining the wealth of Black Americans in Black banks could be a source of wealth creation.



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* Source: <https://www.newswise.com/articles/minority-markets-have-3-9-trillion-buying-power>

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Intro to Fractional Reserve Banking

- **Money is deposited in an account in a bank.**
- **Most of that money is lent out.**
 - The rest is the “reserve”.
- **Suppose lent to purchase a house.**
 - That money is then deposited into an account in a bank.
 - Most of that money is lent out.
 - The rest is the “reserve”.
 - Suppose lent to purchase a house.
 - That money is then deposited....
- **This is how wealth is created in the banking system.**



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Why This Doesn't Work for Black Banks

- **Money is deposited in an account in a Black bank.**
- **Most is lent for the purchase of a house by a Black buyer.**
- **If the seller is white, those funds then get deposited in a White bank.**
 - All of the remaining fractional reserve benefits go now to White banks.
- **Because the money is not allowed to circulate ONLY within the Black community, Black banking will likely have limited capacity to generate wealth.**



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The Multiplier Economy – Spanner in the Works

- **Banking – money goes where money is.**
- **Buying – money goes to buy intermediate inputs, into the White community.**
 - There is a similar multiplier for consumer spending.
 - Money is spent – goes to a Black business
 - That Black business then keeps some of the money, but some leaves the Black community through the purchases of intermediate inputs.
 - The Black economy may simply not be big enough to prevent this leakage.
- **Both approaches to closing the wealth gap are severely limited unless the Black banking sector and economies are walled off from the rest of the country.**



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Summary

- **The Black White wealth gap is enormous (2019)**
 - Mean: White wealth is 6.9x Black wealth
 - Median: White wealth is 7.8x Black wealth
- **There are many explanations in the common narrative.**
 - Many do not stand up to scrutiny.
- **Government policies have contributed enormously this gap.**
- **Wealth endowments (parental wealth) are enormously important for determining own wealth in adulthood.**
 - Policies that address this relationship are most likely to be effective.



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Thank you!

Any Questions?

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