

Osher Lifelong Learning Institute, Winter 2024 **Contemporary Economic Policy**

University of Cincinnati
January-February 2024

Jon Haveman, Ph.D.
National Economic Education Delegation



1

Available NEED Topics Include:

- US Economy
- Healthcare Economics
- Climate Change
- Economic Inequality
- Economic Mobility
- Trade and Globalization
- Minimum Wages
- Immigration Economics
- Housing Policy
- Federal Budgets
- Federal Debt
- Black-White Wealth Gap
- Autonomous Vehicles
- US Social Policy



2

Course Outline

- **Contemporary Economic Policy**

- Week 1 (1/24): Economic Update (Geoffrey Woglom, Amherst College)
- Week 2 (1/31): Economic Inequality (Geoffrey Woglom)
- Week 3 (2/7): Economic Mobility (Kathryn Wilson, Kent State Univ.)
- Week 4 (2/14): Discrimination in U.S. Policy History (Jon Haveman, NEED)
- **Week 5 (2/21): The Black-White Wealth Gap (Jon Haveman)**

3



The Black-White Wealth Gap

Jon Haveman, Ph.D.

February 21, 2024



4

Outline

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

5

What is Wealth?

- **Income vs Wealth**
 - Income is the flow of funds into a households each year.
 - **Wealth is a household's NET asset holdings.**
 - o The value of all assets minus the value of all debts.
- **Assets include:**
 - Owned homes, cars, stocks, businesses, savings and checking accounts, pensions, life insurance...
- **Debts include:**
 - Home mortgages, car loans, credit cards, and any other significant financial obligations (excl regular bills)...

6

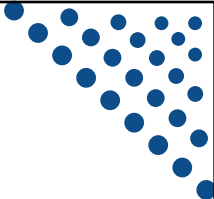


Evidence

 NATIONAL ECONOMIC EDUCATION DELEGATION


7

7



Wealth inequality in America


IF U.S. LAND WERE DIVIDED
LIKE U.S. WEALTH



1% WOULD OWN THIS

9% WOULD OWN THIS

THE REMAINING 90% WOULD OWN THIS

 NATIONAL ECONOMIC EDUCATION DELEGATION

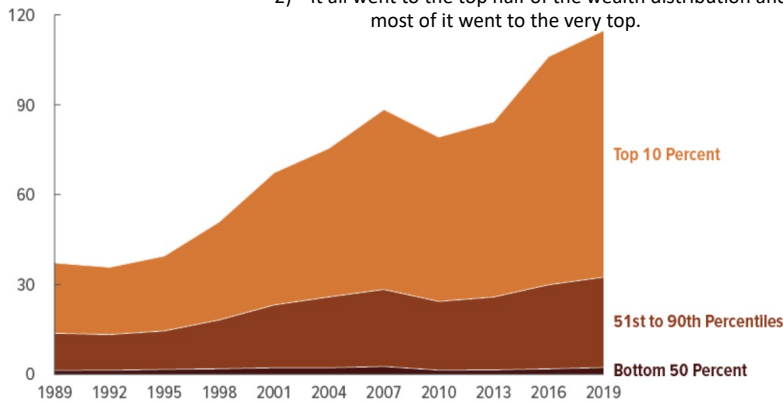
8

Total Family Wealth, by Wealth Group

Trillions of 2019 Dollars

Notes:

- 1) Tremendous growth in wealth between 1989 and 2019.
- 2) It all went to the top half of the wealth distribution and most of it went to the very top.

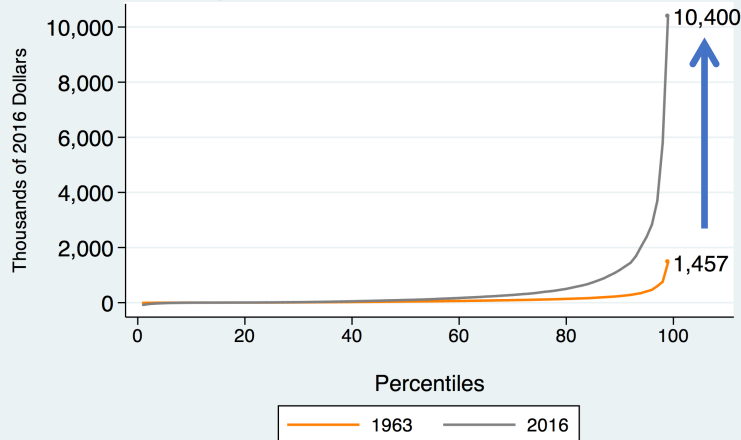


From 1989 to 2019, the total wealth held by families in the top 10 percent of the wealth distribution increased from \$24.3 trillion to \$82.4 trillion (or by 240 percent), the wealth held by families in the 51st to 90th percentiles increased from \$12.7 trillion to \$30.2 trillion (or by 137 percent), and the wealth held by families in the bottom half of the distribution increased from \$1.4 trillion to \$2.3 trillion (or by 65 percent).



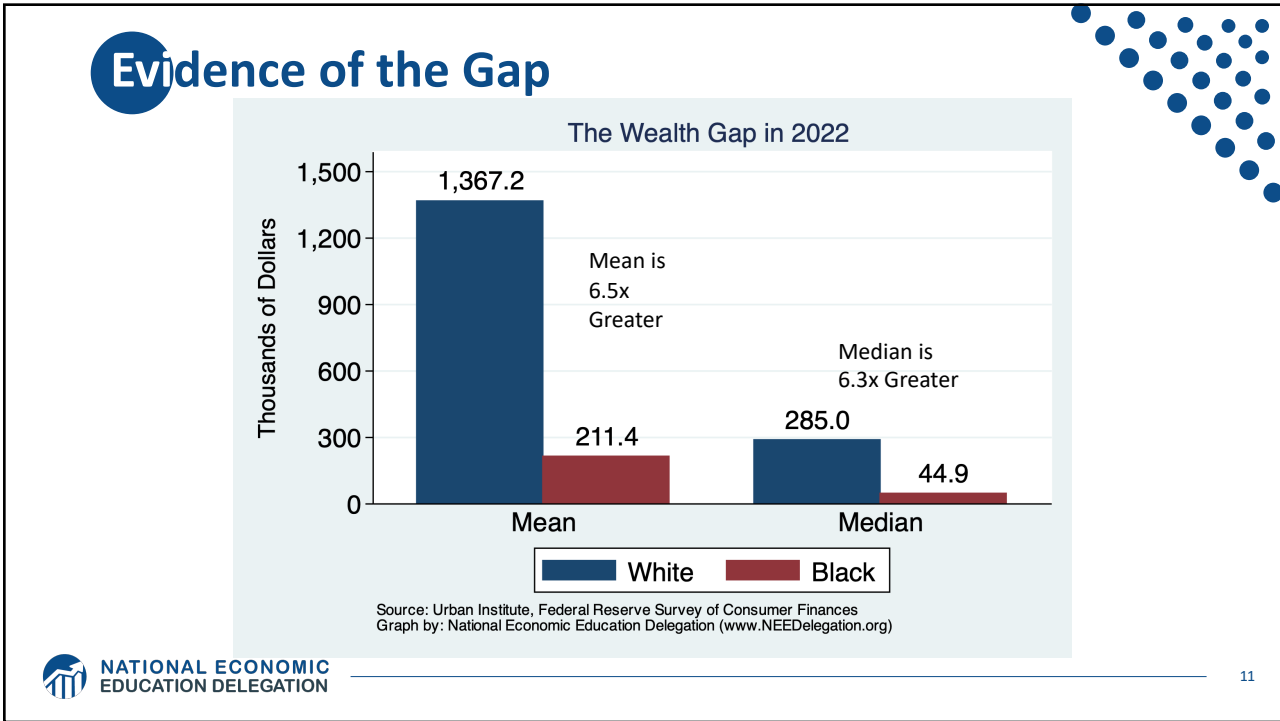
Wealth is More and More Concentrated

Change in the Wealth Distribution: 1963 to 2016

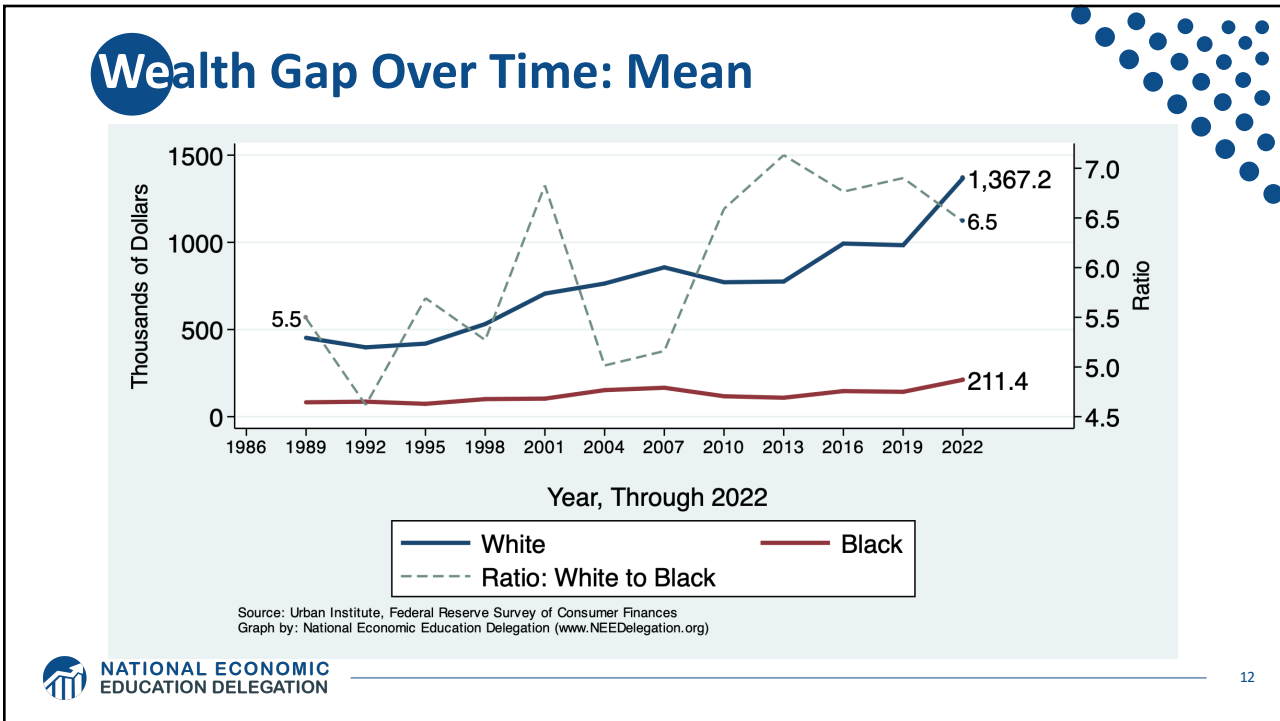


Source: Urban Institute from Survey of Consumer Finances
 Produced by: National Economic Education Delegation (www.NEEDelegation.org)



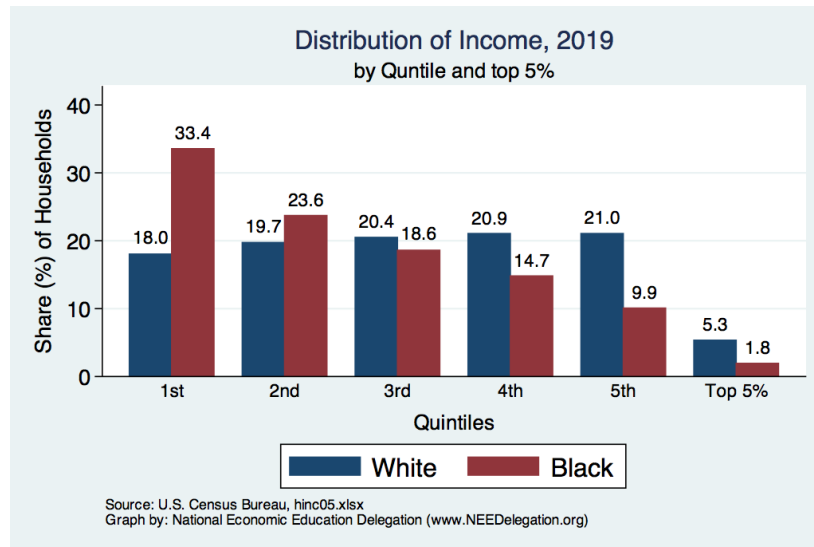


11



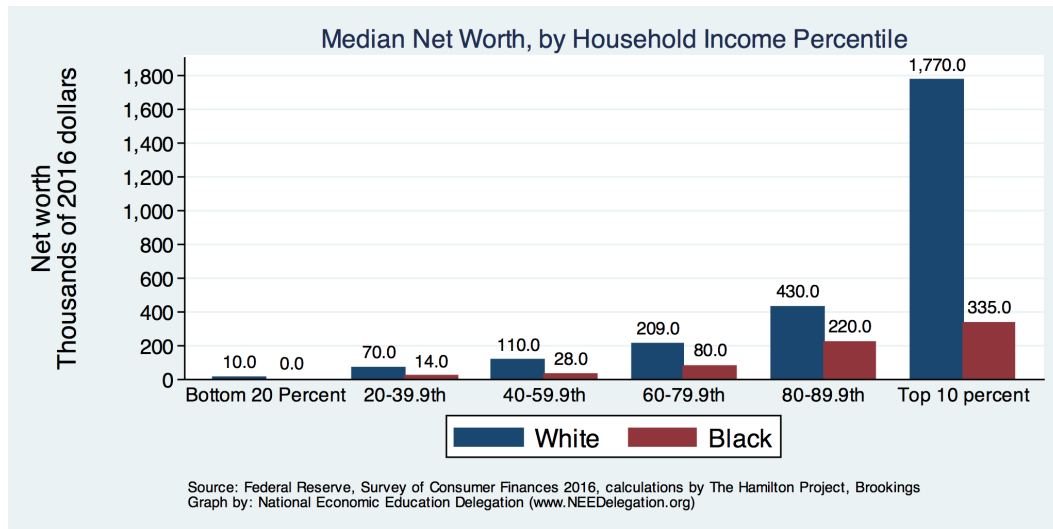
12

Black Household Incomes Relative to White



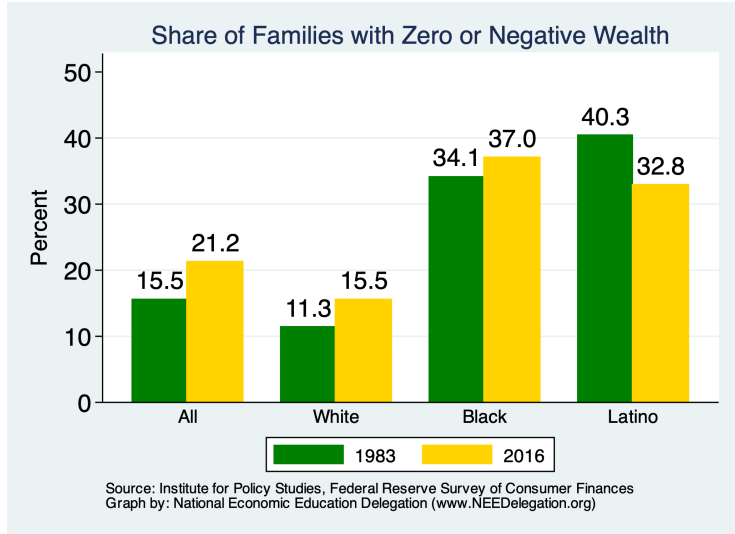
13

By Household Income



14

Evidence of Disparities: Zero Wealth



Why Wealth is Important

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



17

Household Level Benefits

- **Choices/Life Agency**
 - Finance higher 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.

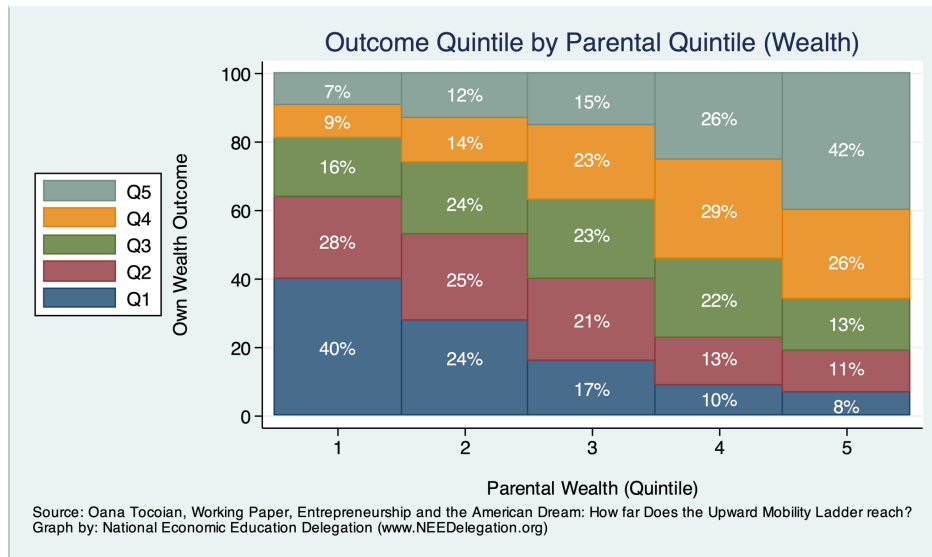


18

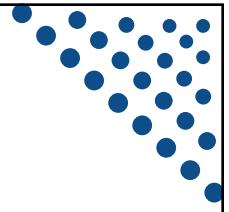
Parental Wealth is Important

- **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.**

Wealth Mobility



Tangible Benefits for the Broader Economy

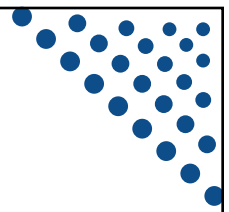


- More human capital development
- Increased entrepreneurship
- Healthier labor force
- Less social unrest
- Less reliance on social programs
- Smaller stock of student loans



21

Sources of Disparities



22

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.
- **Jim Crow Laws & Economic Policy**
 - Convict leasing, debt peonage, chain-gang, sharecropping, and lynching.
- **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
- **And many more.**



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.***



Potential Explanations: Differences in...

- Educational attainment
- Home ownership
- Increased savings
- Financial literacy
- Entrepreneurship
- Soft skills and personal responsibility
- Wages
- Family structure
- Initial endowment

NATIONAL ECONOMIC EDUCATION DELEGATION

25

25

Wealth by Educational Attainment

Educational Attainment	Net Worth Median	Net Worth Mean
No High School	\$22,800	\$157,200
High School	\$67,100	\$249,600
Some College	\$66,100	\$340,600
College	\$292,100	\$1,511,100

Percent of Total

100
75
50
25
0

1990 1995 2000 2005 2010 2015 2020

College
Some College
High School
No High School

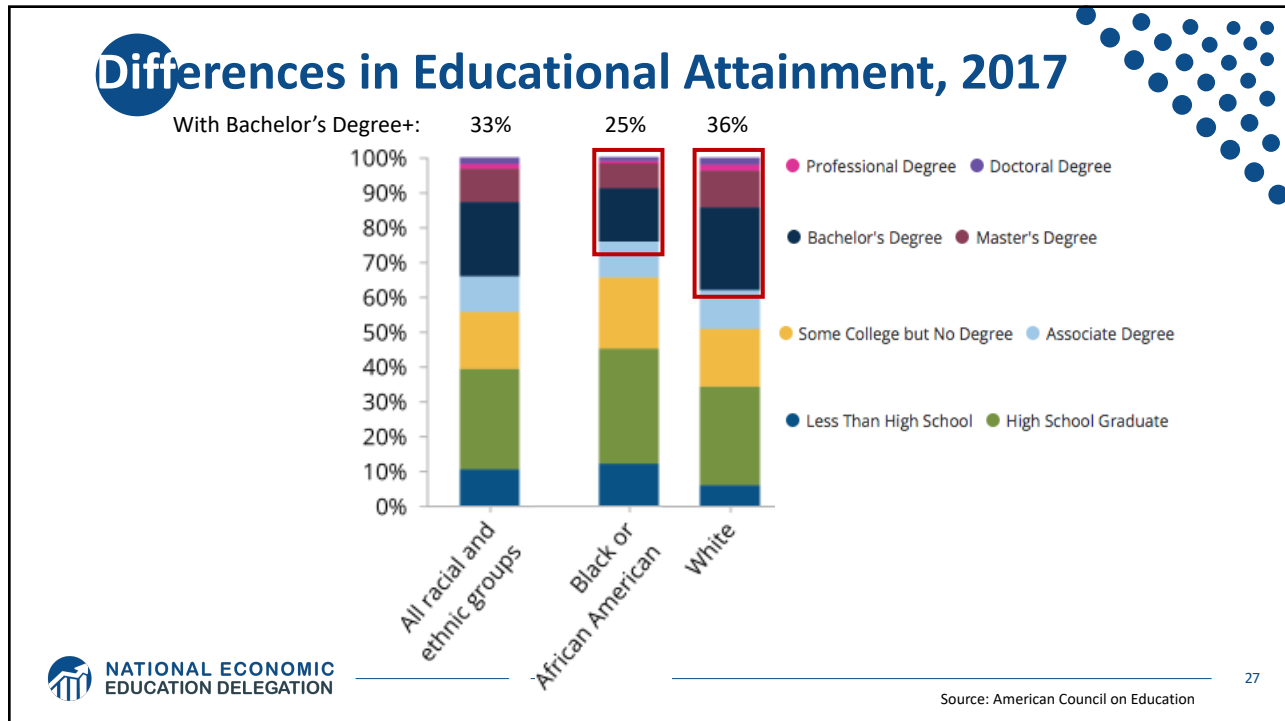
71.0%
16.1%
8.6%
4.3%

NATIONAL ECONOMIC EDUCATION DELEGATION

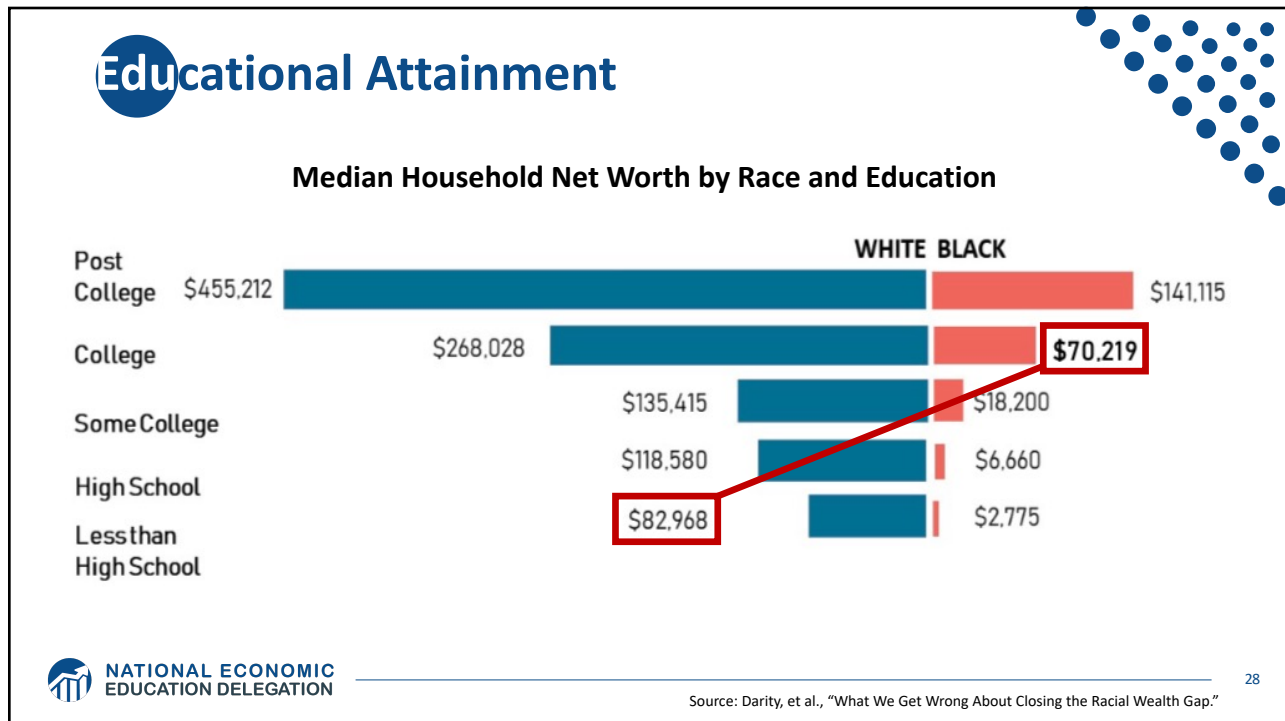
26

Source: Federal Reserve Board, Table data are 2016.

26

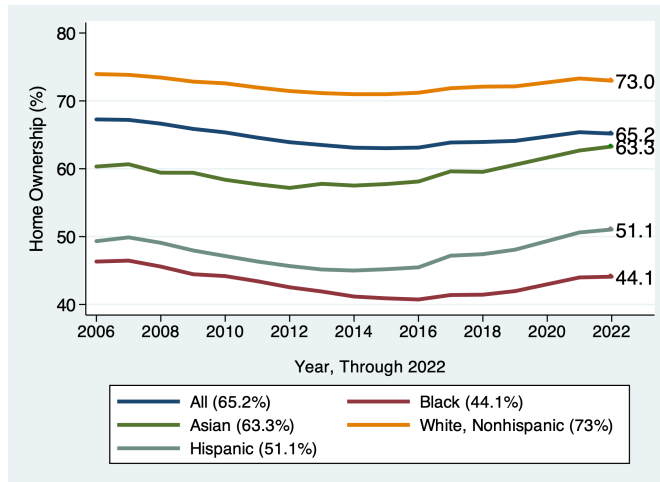


27



28

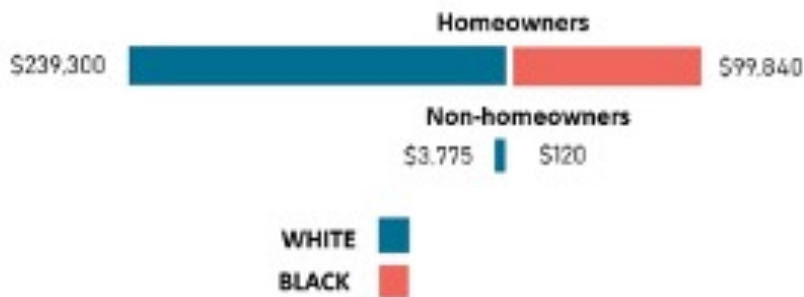
Home Ownership: Households



29

Home Ownership: 2016

Housing Status	Net Worth Median	Net Worth Mean
Renters	\$5,200	\$91,100
Owner	\$231,400	\$1,034,200



30

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**
 - This makes it a less attractive investment.



31

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.



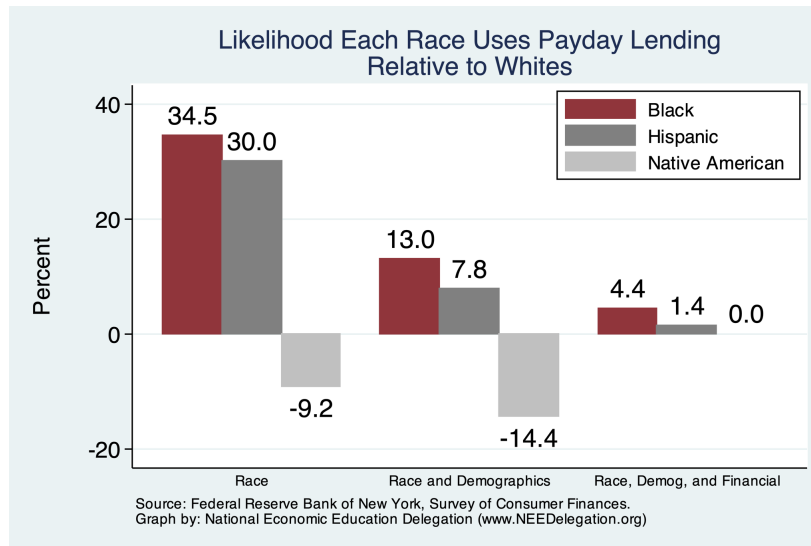
32

Financial Literacy

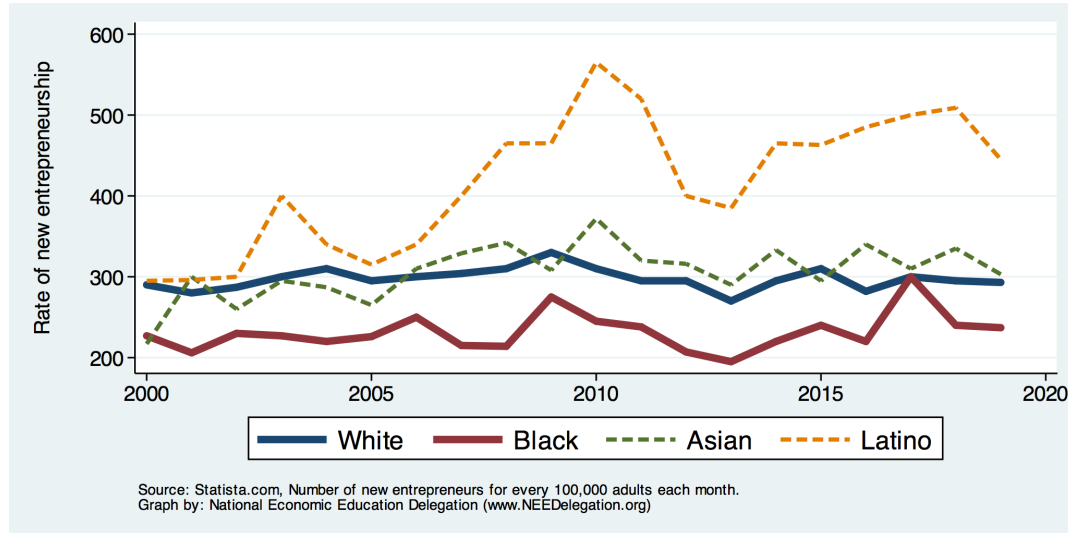
- **Financial literacy helps explain individual wealth differences within racial groups, but none of the wealth differences between racial groups.**
 - The insufficient financial literacy argument is often leveled specifically at Black households.
 - The argument holds equally with regard to all households of comparable incomes.

- **Controlling for household income, there is no difference in rates of asset appreciation between Black and White households.**

Use of Payday Lenders



Entrepreneurship: Rate of New Entrepreneurs



NATIONAL ECONOMIC
EDUCATION DELEGATION

35

Source: Statistica

35

Explaining Differences in 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.
- **Generally lower levels of education.**
- **Previous business ownership by family.**
- **Different stocks of relevant social capital.**



NATIONAL ECONOMIC
EDUCATION DELEGATION

36

36

Soft Skills and Personal Responsibility

- **Employability**

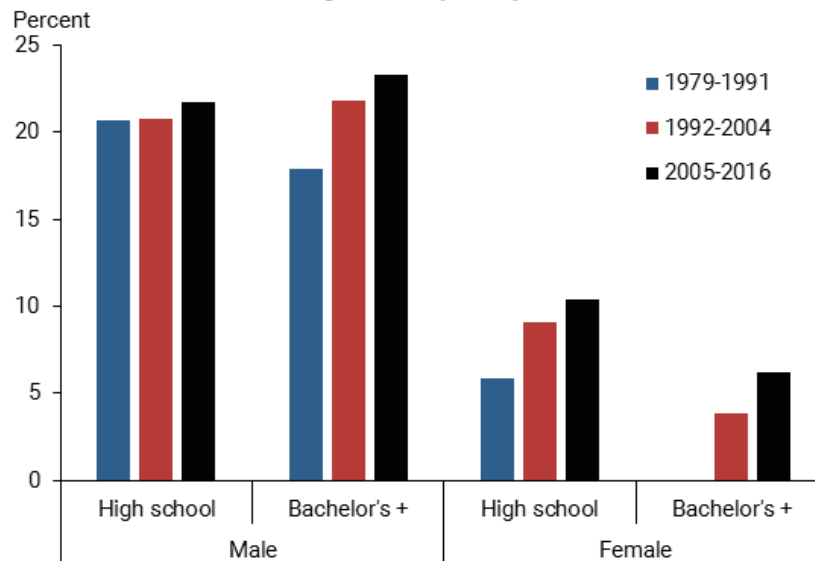
- Show up on time
- Eye contact with customers
- Dress well
- Collaborative skills

- **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.

37

Black-White Earnings Gap by Education

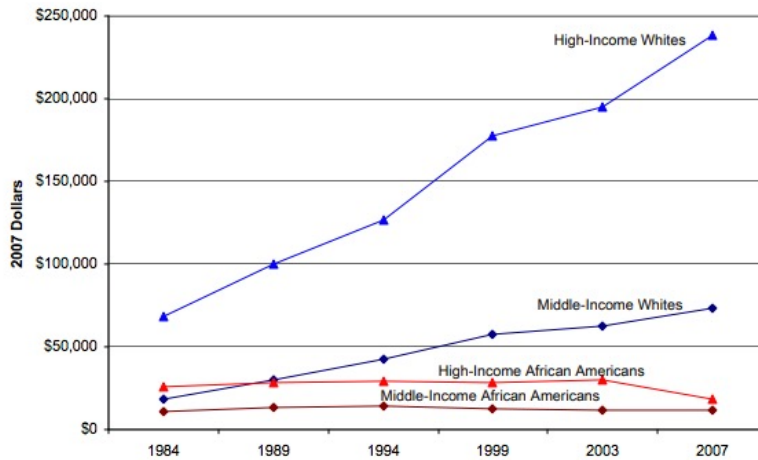


Source: <https://www.frbsf.org/economic-research/publications/economic-letter/2017/september/disappointing-facts-about-black-white-wage-gap/>

38

Equality of Income ≠ Equality of Wealth

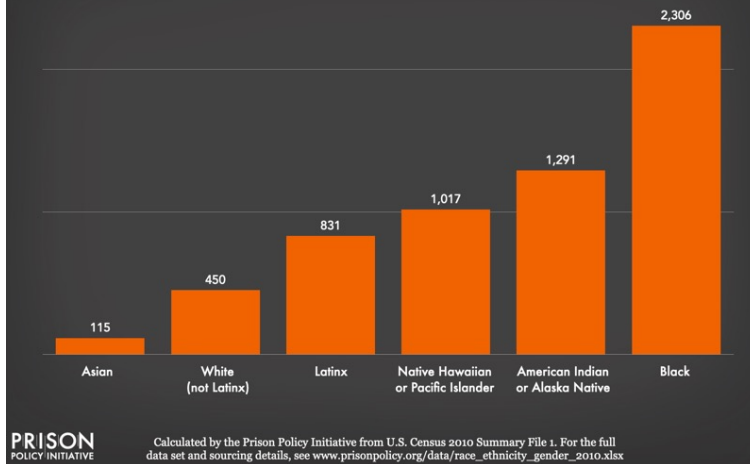
Figure 2: 1984-2007 Median Wealth Holdings by Income in 1984 (Not including home equity)

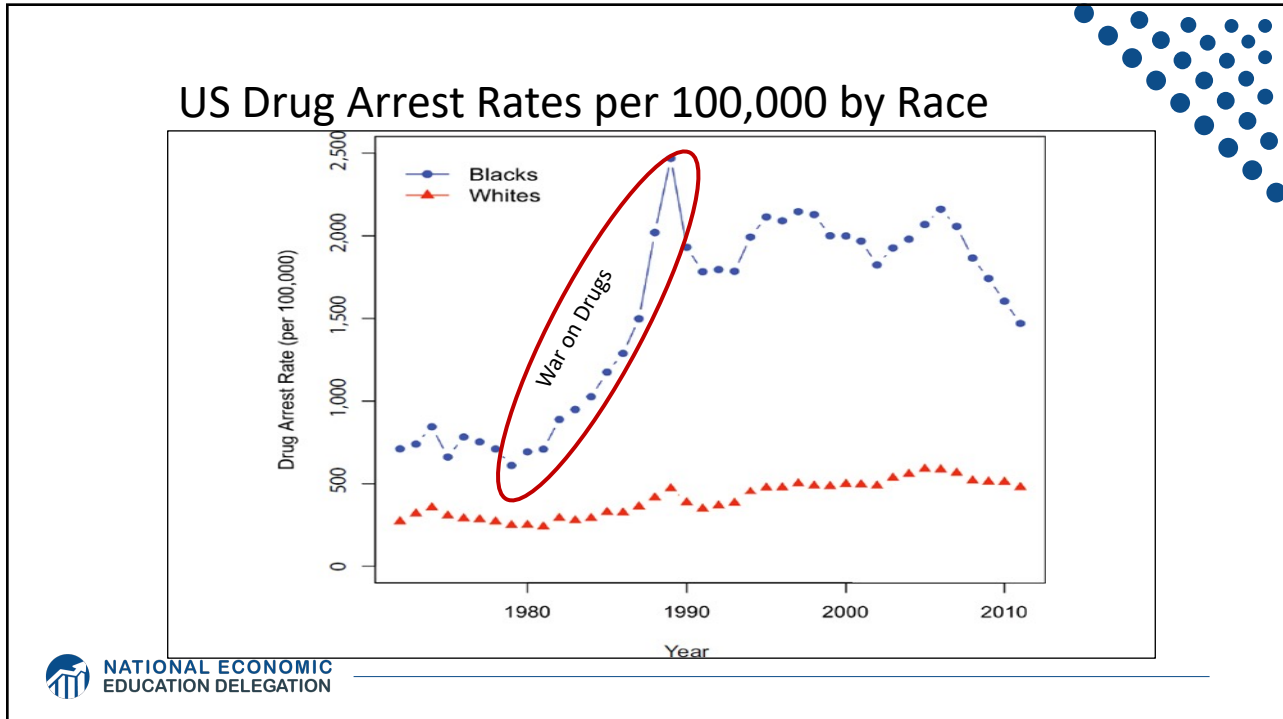


Incarceration Likely Plays A Role

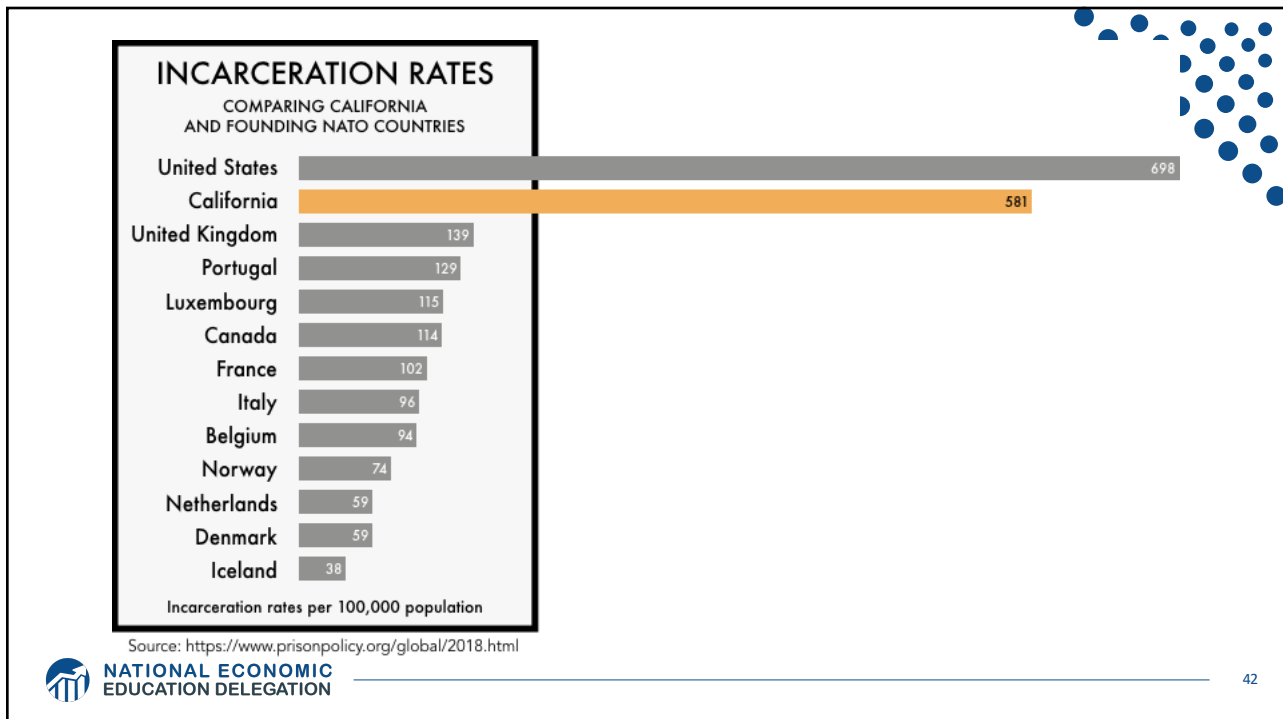
U.S. incarceration rates by race and ethnicity, 2010

Number of people incarcerated per 100,000 people in each racial or ethnic category





41



42

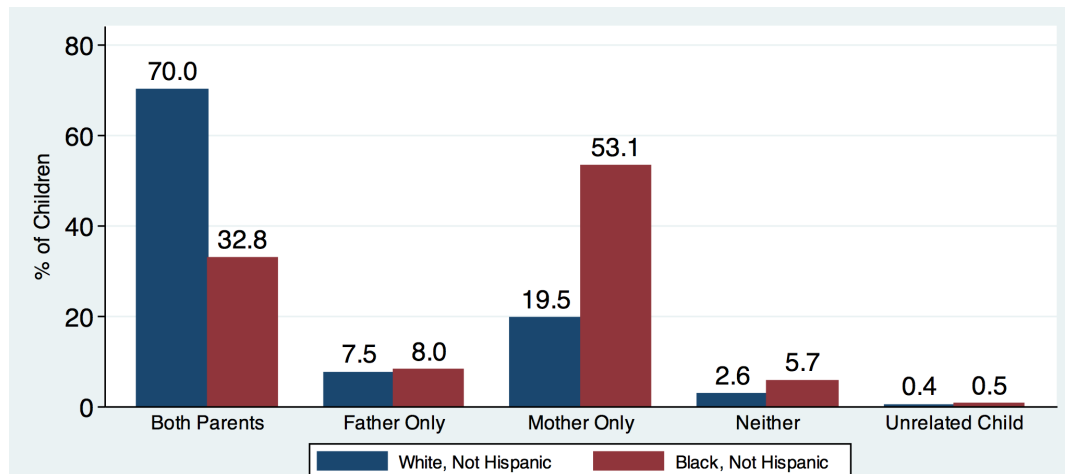
Family Structure

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.

43

Kids – Household Types



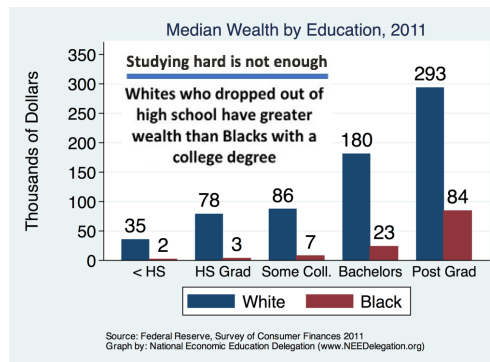
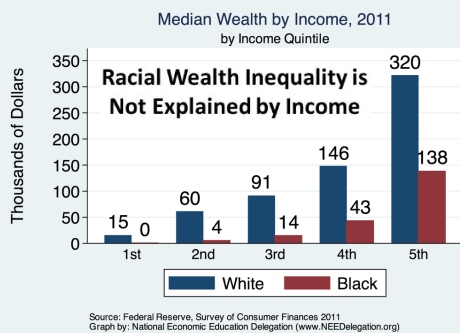
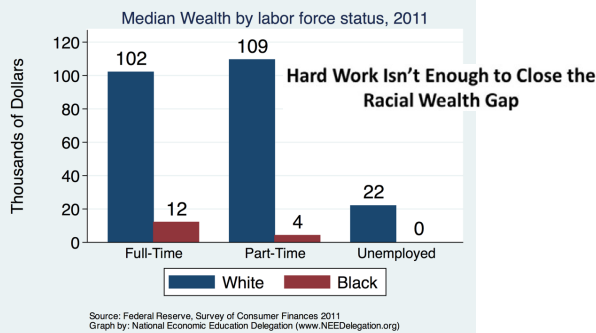
Source: Census Bureau, 2018 American Community Survey PUMS
Graph by: National Economic Education Delegation (www.NEEDelegation.org)

44

What is Fundamentally Responsible?

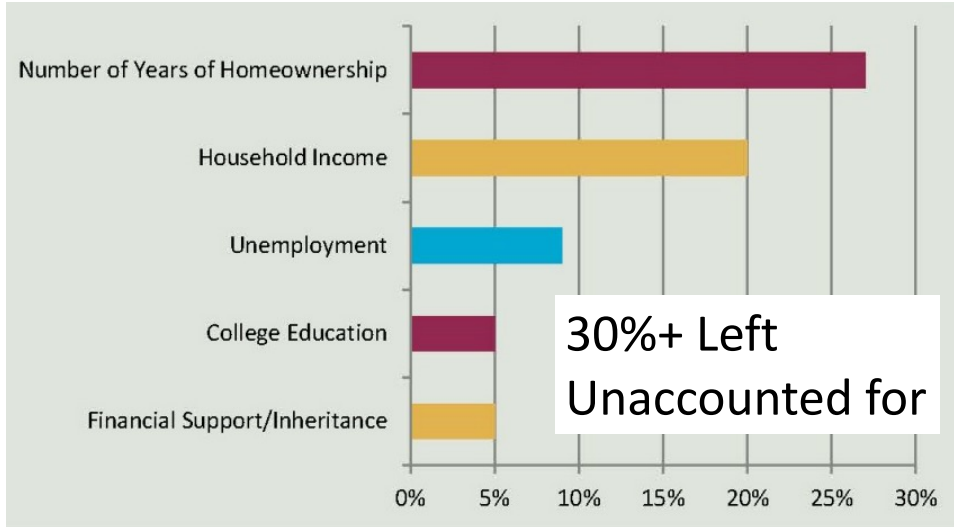
- Individual behaviors?
- Structural characteristics of the economy?
- History – policy and otherwise?

45



46

Accounting for the Wealth Gap



Policy Options

Categories of Policy Areas

- **Housing**
 - FHA and redlining
- **Health Care**
- **Incarceration**
 - Black incarceration rates are very high.
- **Education**
- **Workforce**
- **Income support and stability**
- **Asset accumulation**



Reform Criminal Justice System

- **Legal restrictions on the rights of people who have had contact with the criminal justice system, particularly contact resulting in conviction.**
- **Usually placed in civil and regulatory codes, collateral consequences may limit a person's:**
 - ability to vote
 - live in public housing
 - qualify for an occupational license
 - serve in the military
 - receive public benefits (Food Stamps, housing vouchers)
 - sit on a jury
 - borrow money for college



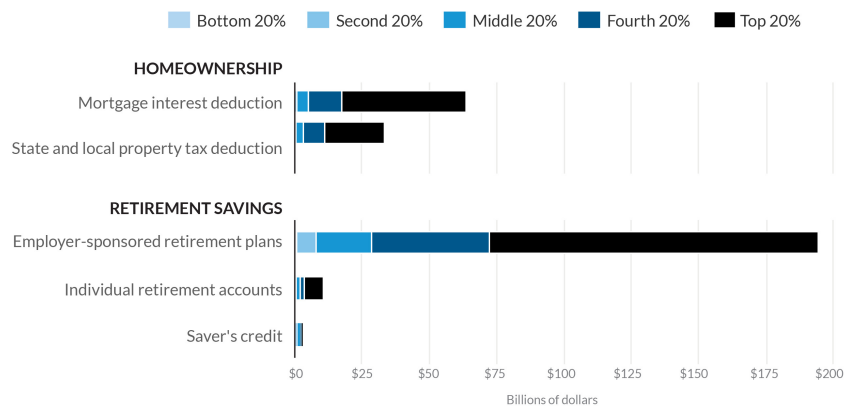
Specific Policy Options

- **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.
 - o Differential tax treatment.
 - 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.

51

Gov't Asset Building Policies

Size and Distribution of Select Asset-Building Tax Subsidies, 2017



Source: Updated estimates from Steuerle et al. (2014).
 Note: "Income" refers to the Tax Policy Center's "expanded cash income" measure, which is described in Rosenberg (2013).

52

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.



53

Summary

- **The Black White wealth gap is enormous (2022)**
 - Mean: White wealth is 6.5x Black wealth.
 - Median: White wealth is 6.3x Black wealth.
- **There are many explanations in the common narrative.**
 - Most do not stand up to scrutiny.
- **Government policies have contributed enormously this gap.**
 - Racial dehumanizing permitted these policies.
- **Wealth endowments (parental wealth) are enormously important for determining own wealth in adulthood.**
 - Policies that address this relationship are most likely to be effective.
- **Some form of policy intervention is likely necessary if the gap is to be closed.**



54

Thank you!

Any Questions?

www.NEEDEcon.org

Jon Haveman, Ph.D.

Jon@NEEDEcon.org

Contact NEED: info@NEEDEcon.org

Submit a testimonial: www.NEEDEcon.org/testimonials.php

Become a Friend of NEED: www.NEEDEcon.org/friend.php



NATIONAL ECONOMIC
EDUCATION DELEGATION

55