

Osher Lifelong Learning Institute, Spring 2022 **Contemporary Economic Policy**

Bradley University
March-April, 2022

Host: Jon Haveman, Ph.D.
National Economic Education Delegation



1

Available NEED Topics Include:

- Coronavirus Economics
- US Economy
- 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 (3/7): US Economic Update (Geoffrey Woglom, Amherst College)
- Week 2 (3/14): Climate Change Economics (Sarah Jacobson, Williams College)
- Week 3 (3/21): Federal Debt (Geoffrey Woglom, Amherst College)
- Week 4 (3/28): Trade and Globalization (Alan Deardorff, University of Michigan)
- **Week 5 (4/4): The Black-White Wealth Gap (Jon Haveman, NEED)**
- Week 6 (4/11): Autonomous Vehicles (Jon Haveman, NEED)

3



The Black-White Wealth Gap

Jon Haveman, Ph.D.

National Economic Education Delegation



4

Credits and Disclaimer

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

- Darrick Hamilton, Ph.D., The New School
- Jon Haveman, Ph.D., NEED

- **This slide deck was reviewed by:**

- Patrick Mason, Florida State University
- Steven Craig, University of Houston

- **Disclaimer**

- NEED presentations are designed to be nonpartisan.
- It is, however, inevitable that the presenter will be asked for and will provide their own views.
- Such views are those of the presenter and not necessarily those of the National Economic Education Delegation (NEED).



5

Outline

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

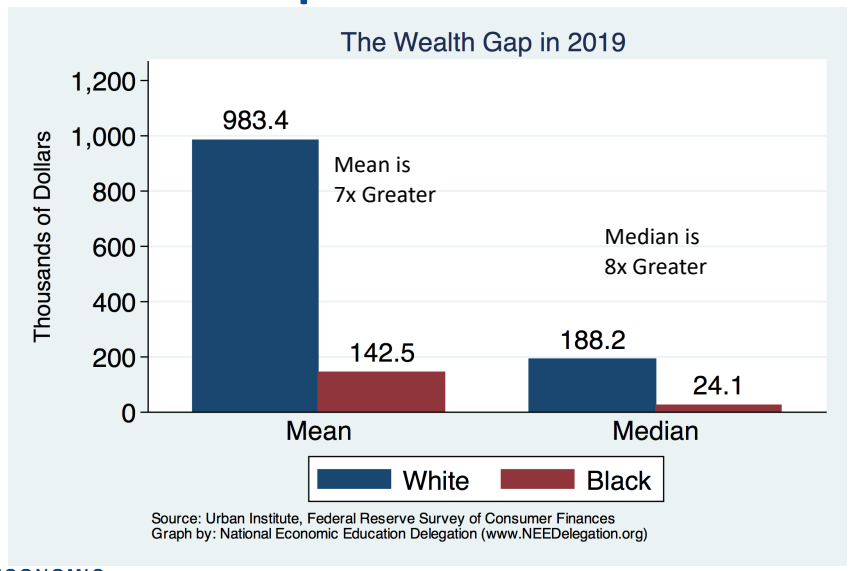


6

Evidence

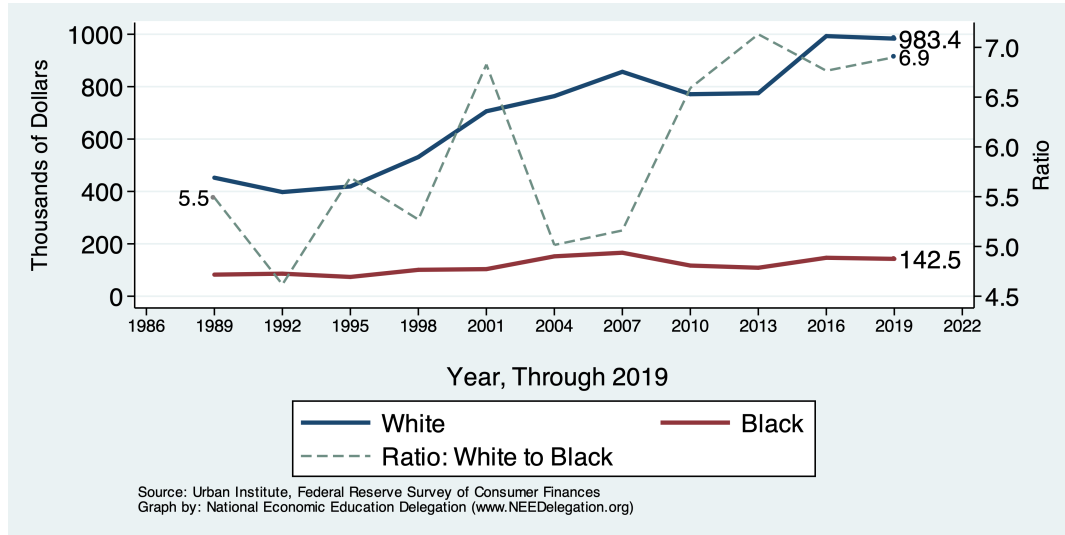
7

Evidence of the Gap



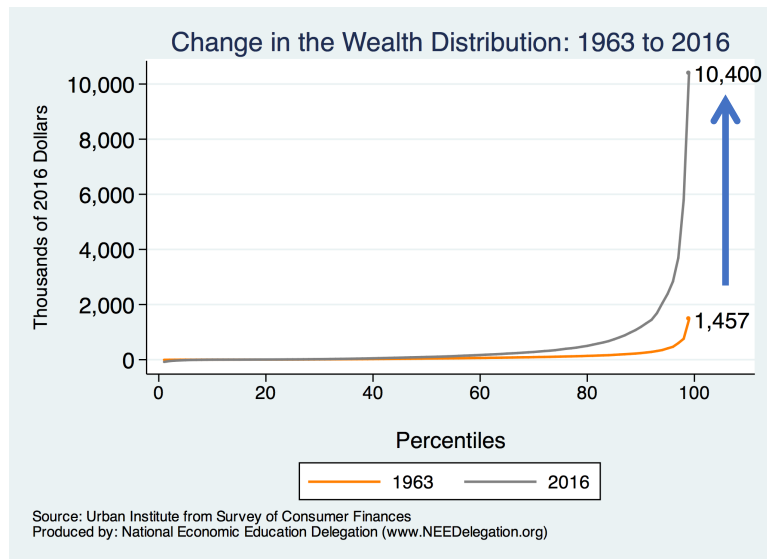
8

Wealth Gap Over Time: Mean

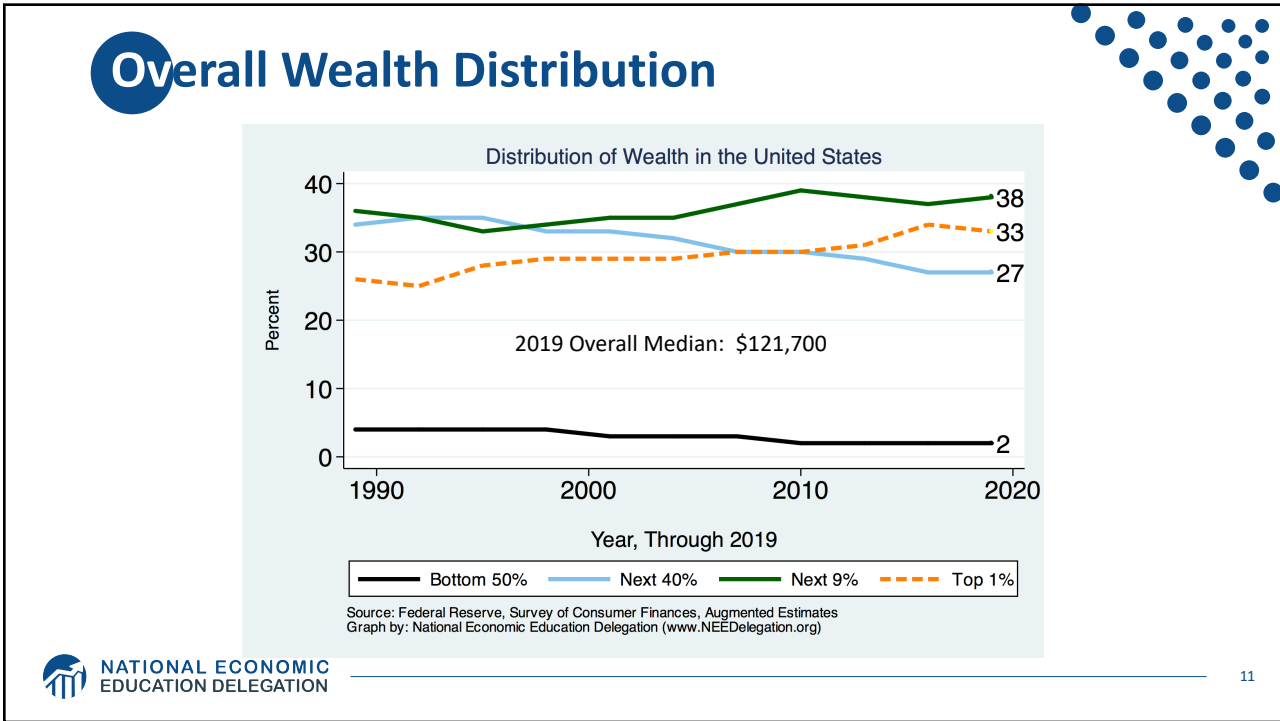


9

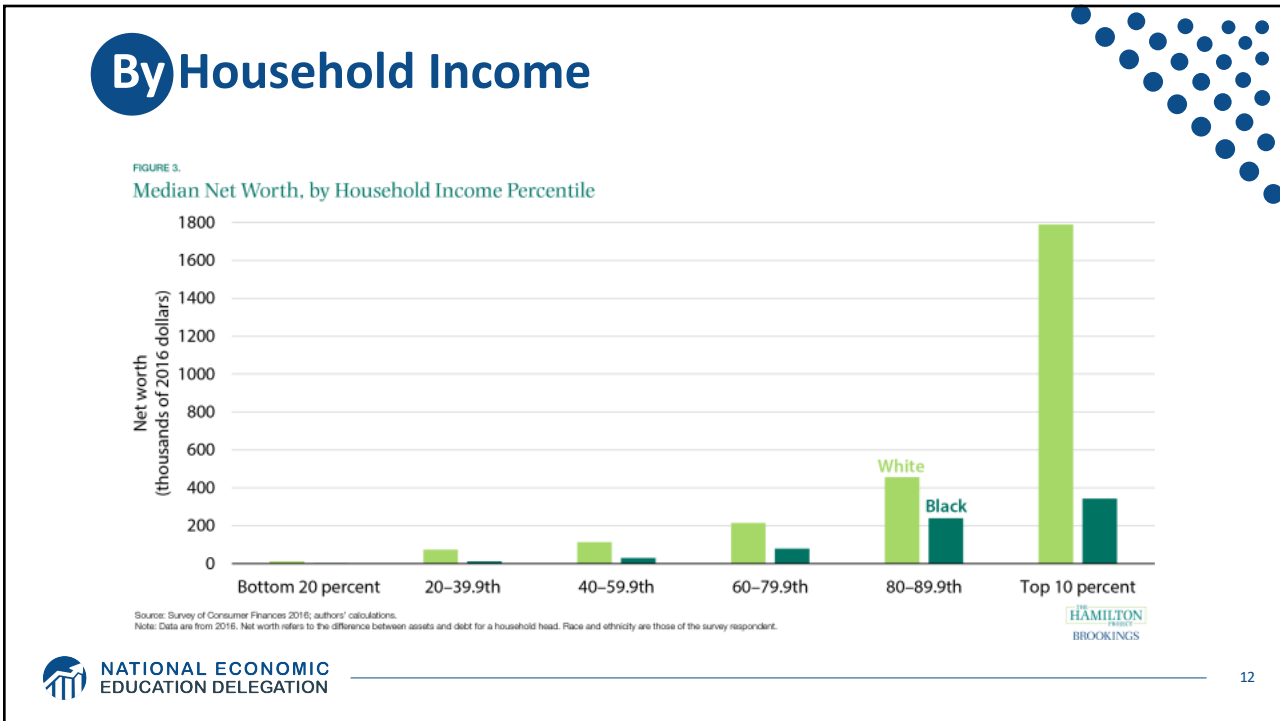
Wealth is More and More Concentrated



10



11



12

Why Wealth is Important



13

Household Level Benefits

• Choices/Life Agency

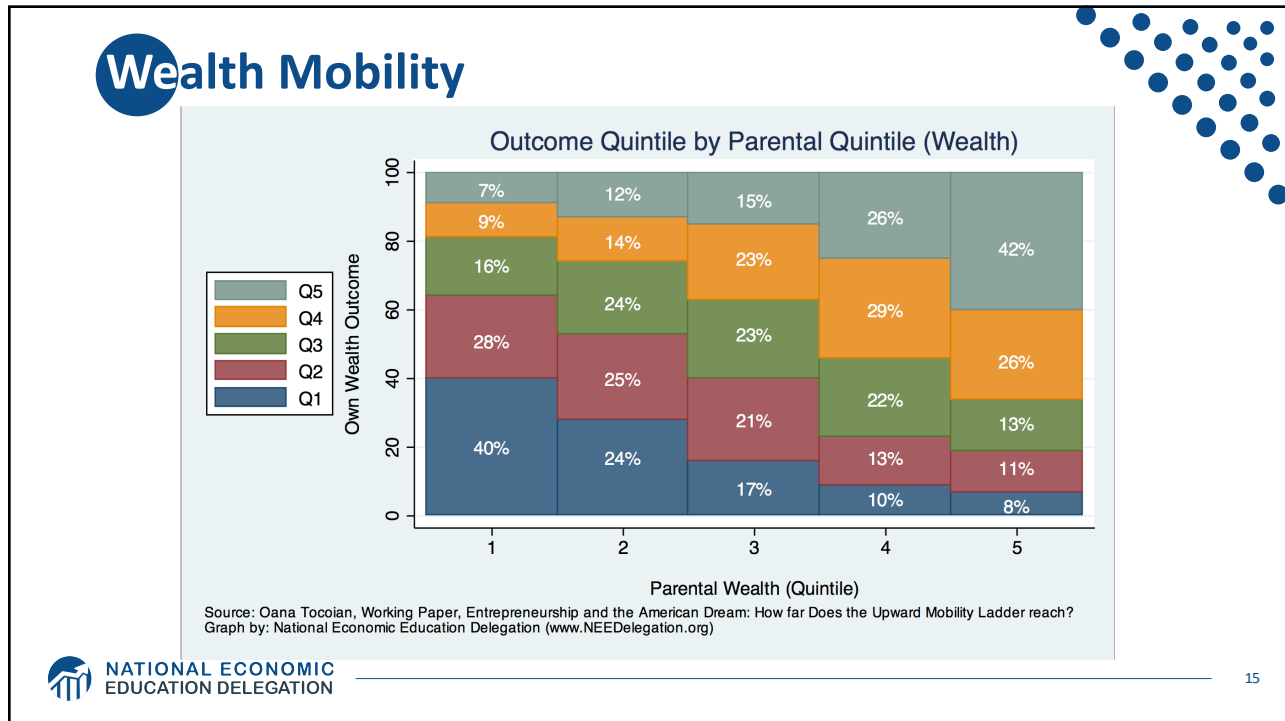
- Finance high quality education
- Living in good neighborhoods
- Saving for retirement
- Capital to start a business
- Withstand financial hardship
- Better legal counsel
- Exert political influence
- Finance costly medical procedure
- Bequests

• Wealth is iterative

- Wealth begets more wealth.
 - Access to higher return investments.
- Wealth transfers across generations.
 - Wealth is sticky.



14



15

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

NATIONAL ECONOMIC EDUCATION DELEGATION

16

Sources of Disparities



17

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.**



18

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.*



19

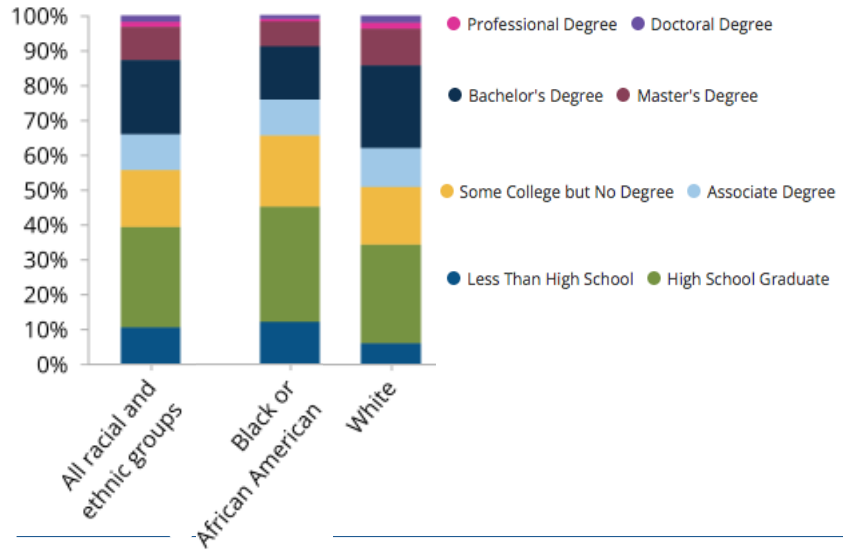
Potential Explanations: Differences in...

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



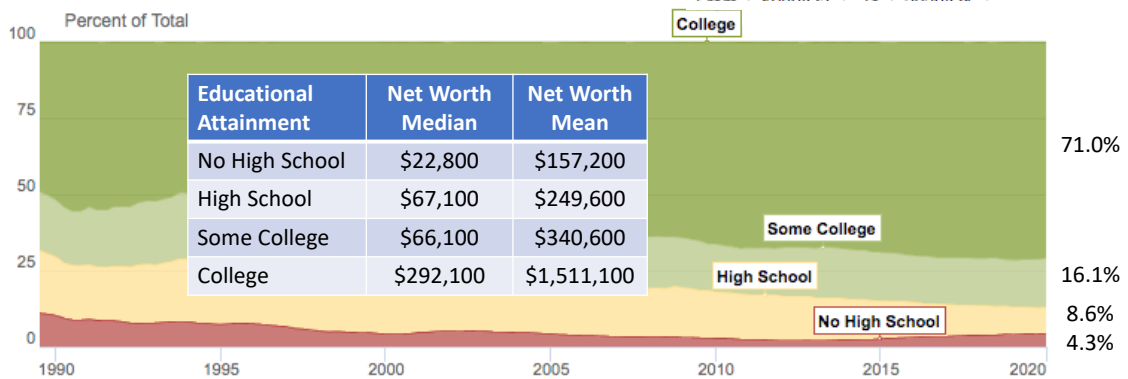
20

Differences in Educational Attainment, 2017



21

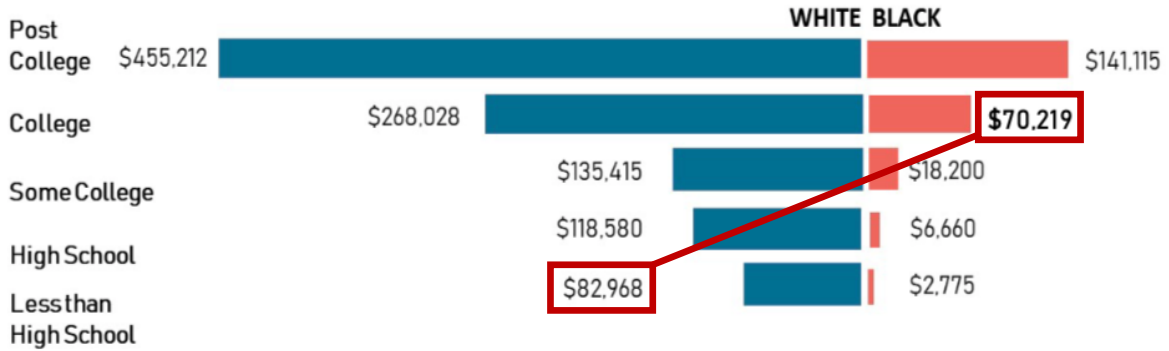
Wealth by Educational Attainment



22

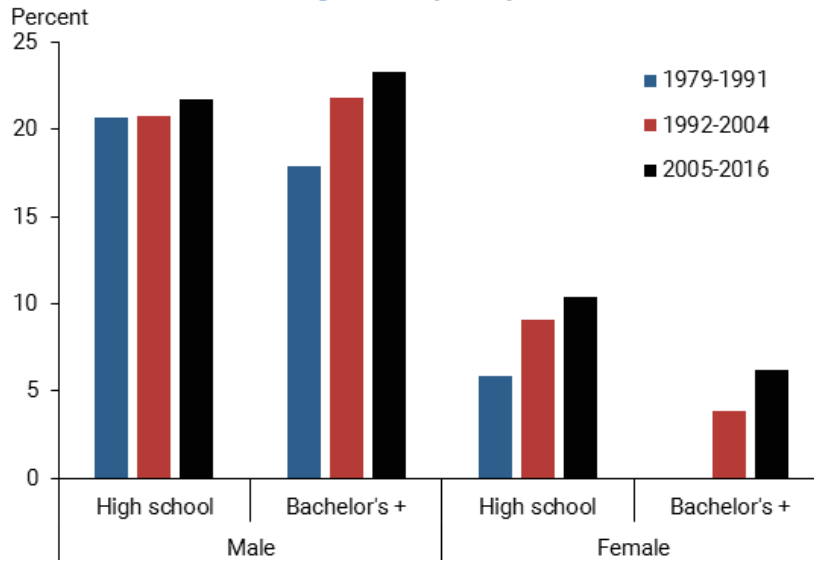
Educational Attainment

Median Household Net Worth by Race and Education



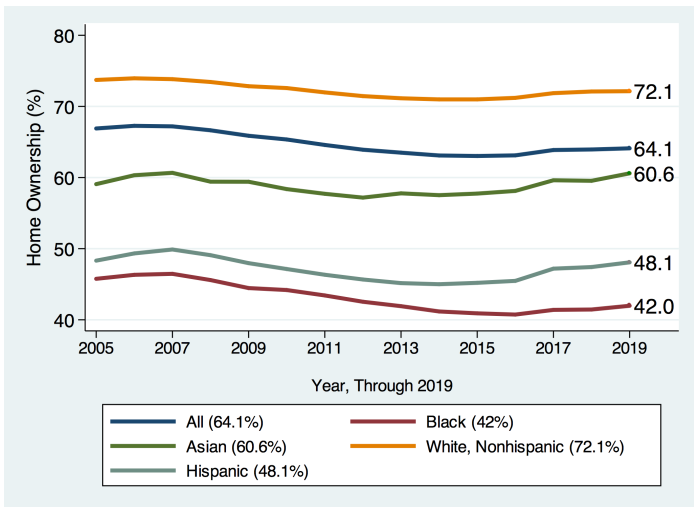
23

Black-White Earnings Gap by Education



24

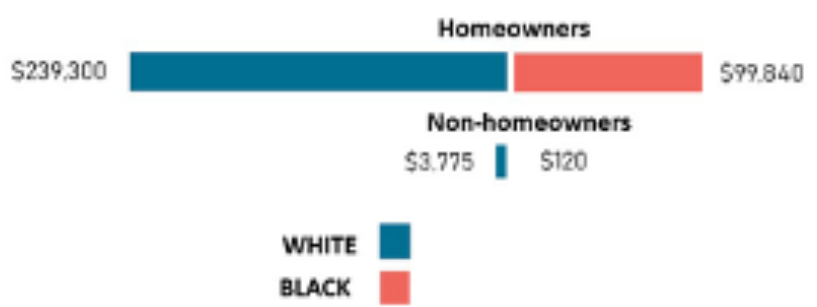
Home Ownership



25

Home Ownership

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



26

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.



NATIONAL ECONOMIC
EDUCATION DELEGATION

27

Source: Brookings, Home ownership while black

27

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**



NATIONAL ECONOMIC
EDUCATION DELEGATION

28

28

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.



29

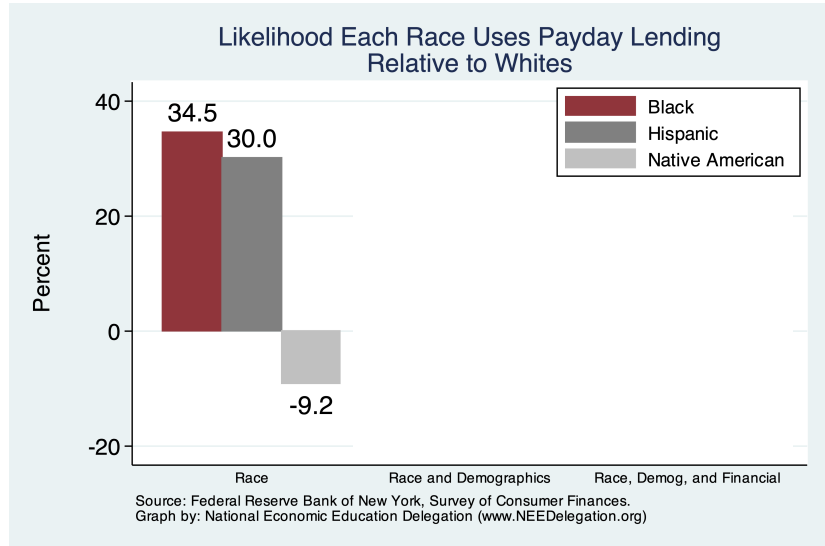
Financial Literacy

- **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.**



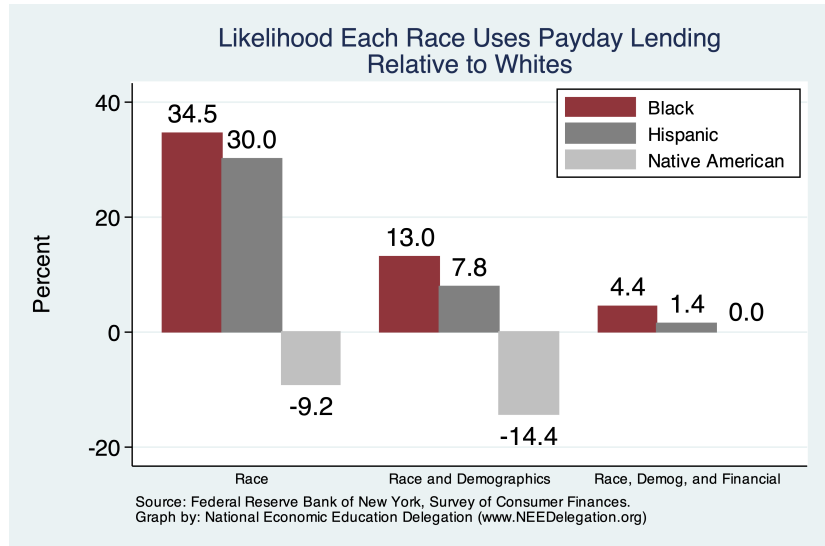
30

Use of Payday Lenders



31

Use of Payday Lenders



32

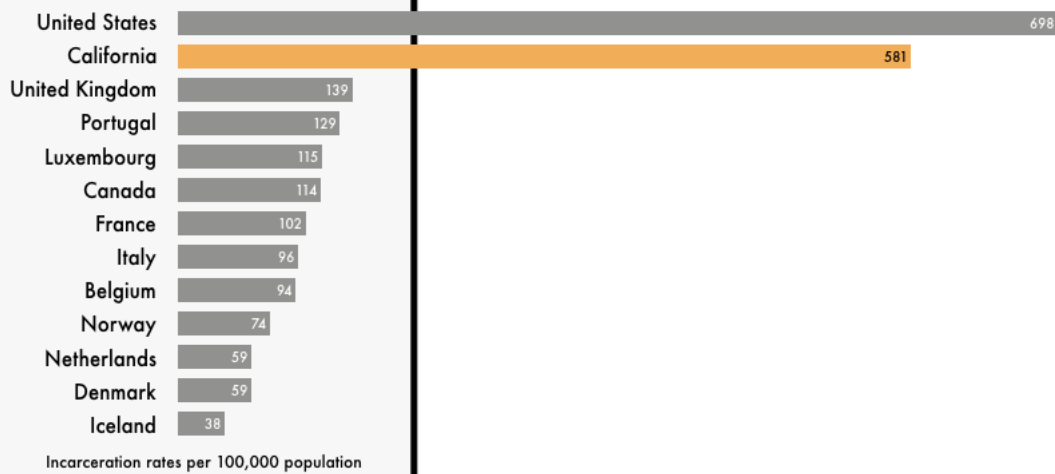
Incarceration Likely Plays A Role



33

INCARCERATION RATES

COMPARING CALIFORNIA AND FOUNDING NATO COUNTRIES



Source: <https://www.prisonpolicy.org/global/2018.html>

34

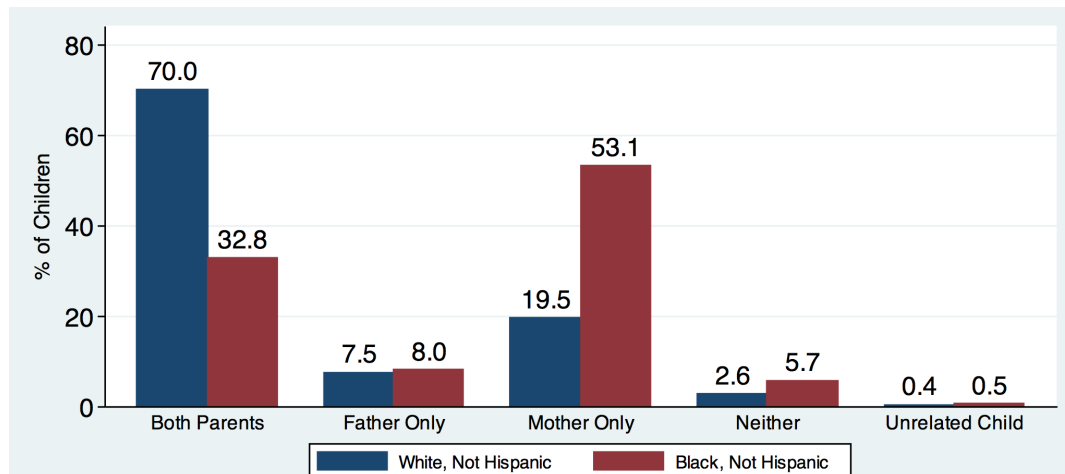
Family Structure

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.

35

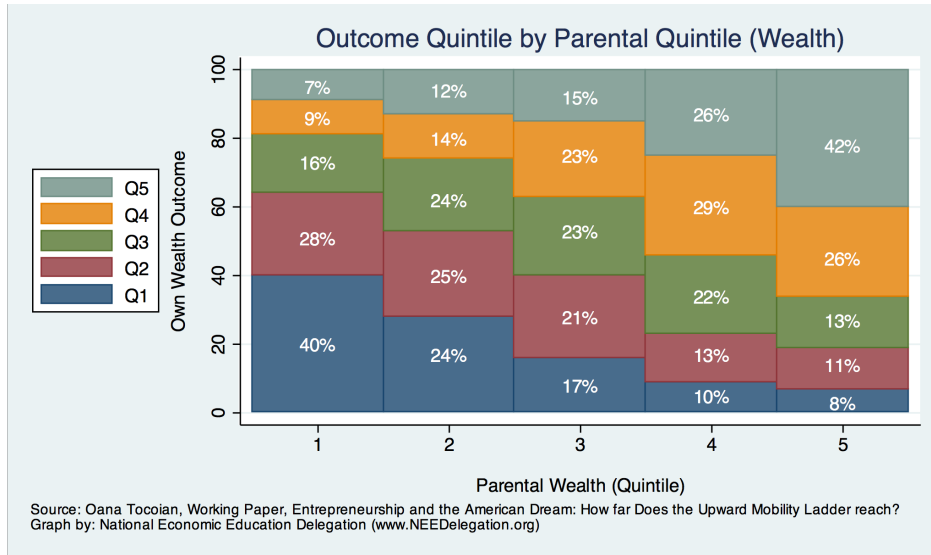
Kids – Household Types



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

36

Initial Endowment

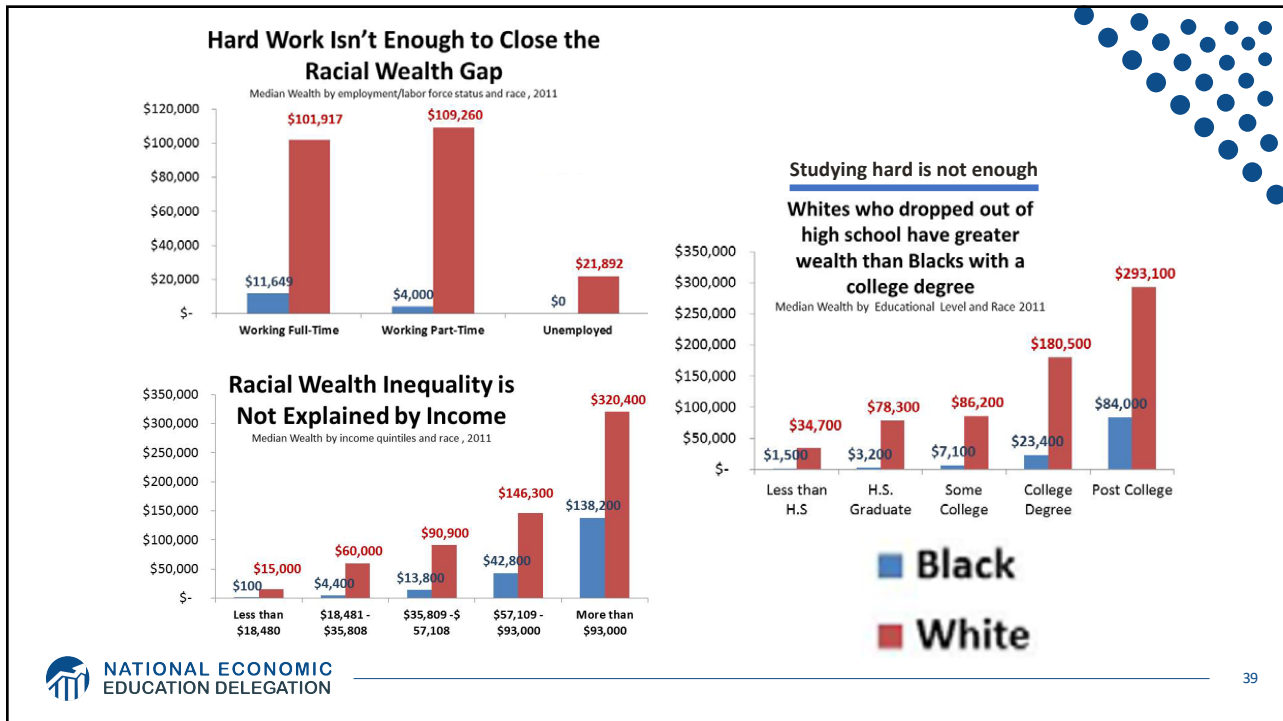


37

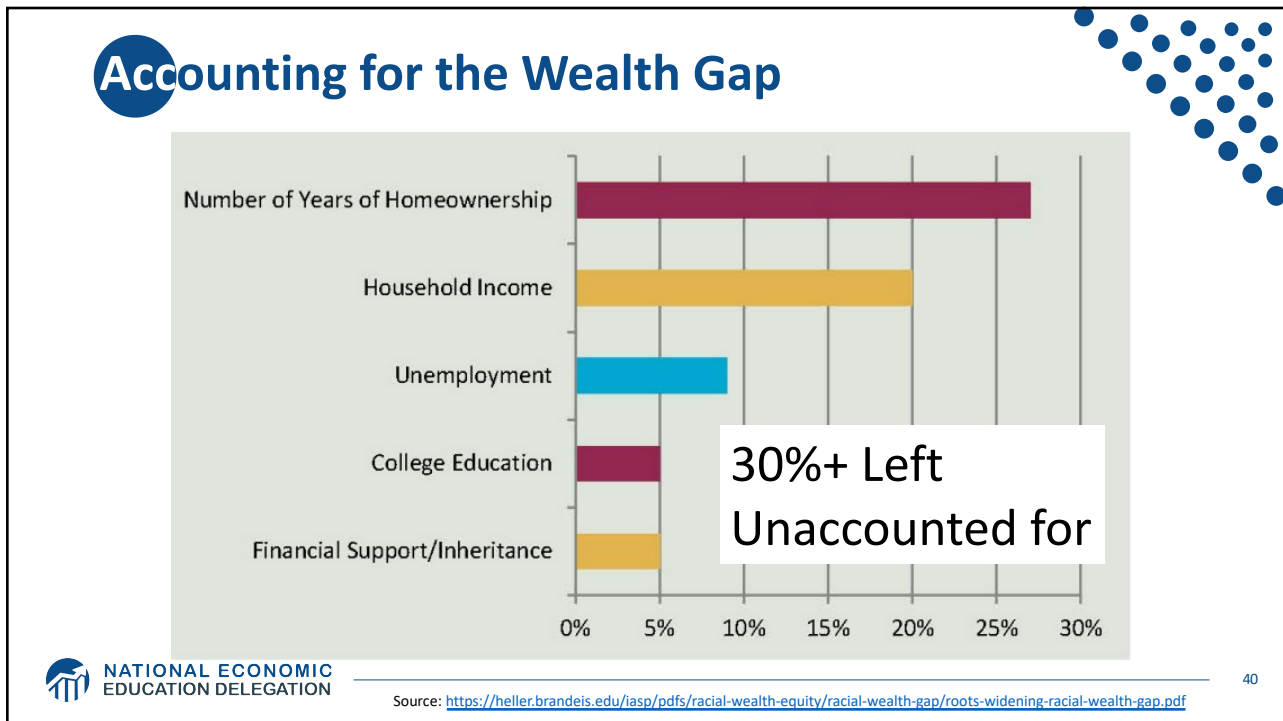
What is Fundamentally Responsible?

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

38



39



40

Policy Options



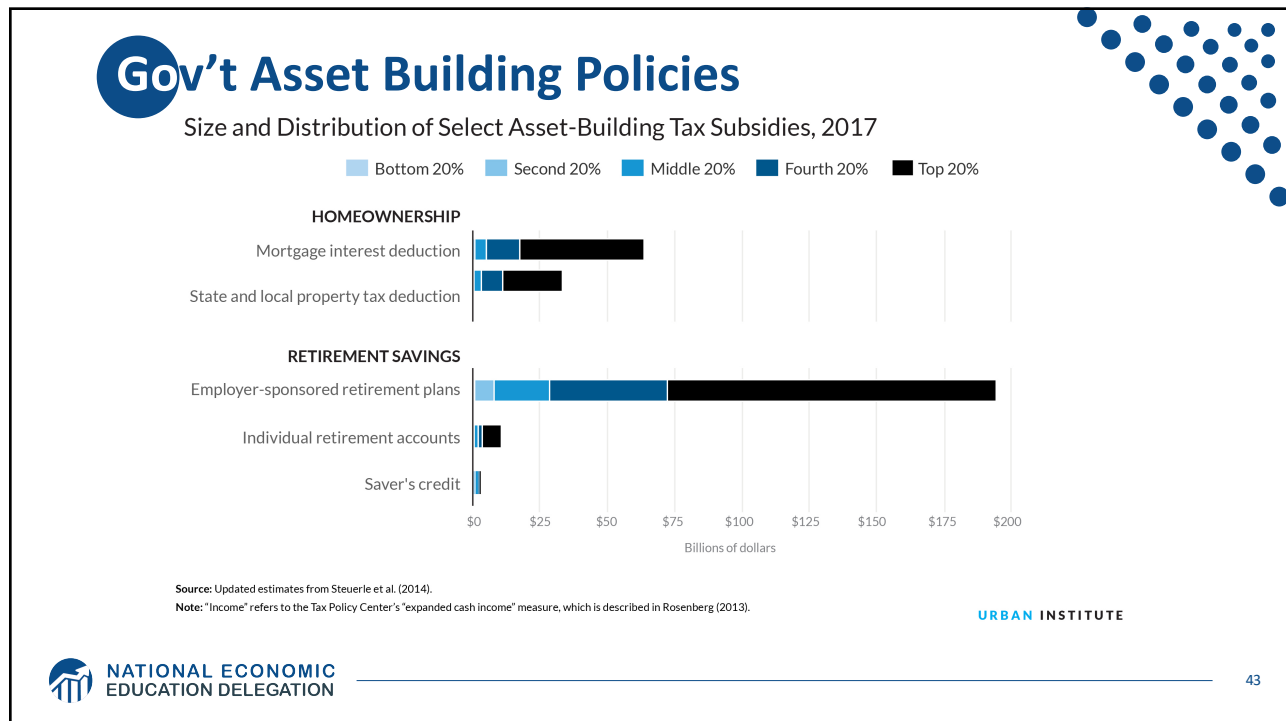
41

Categories of Policy Areas

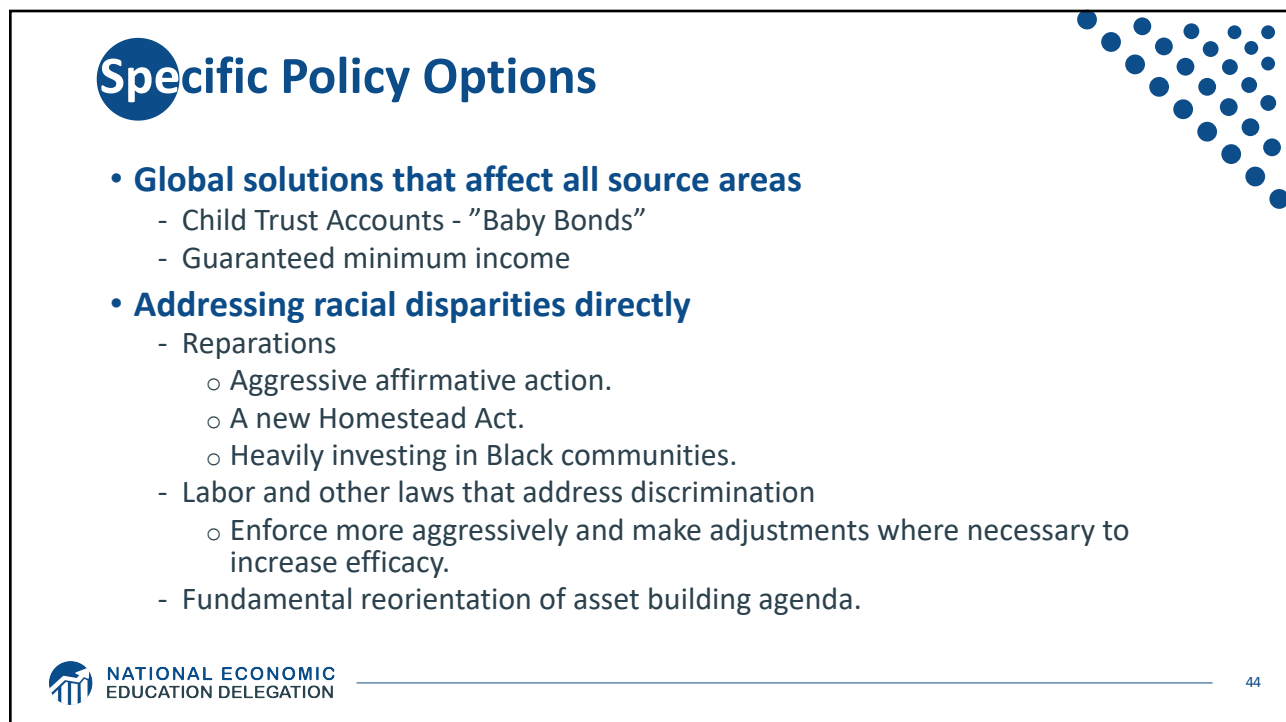
- **Housing**
 - FHA and redlining
- **Health Care**
- **Incarceration**
 - Black incarceration rates are very high.
- **Transportation**
 - Interstate system
- **Broadband**
 - Access is inversely related to regional income
- **Education**
- **Workforce**
- **Income support and stability**
- **Asset accumulation**



42



43



44

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.



NATIONAL ECONOMIC
EDUCATION DELEGATION

Source: Urban Institute

45

45

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.
- **Problem: Multipliers are short circuited.**



NATIONAL ECONOMIC
EDUCATION DELEGATION

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

46

46

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.**
 - 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.**

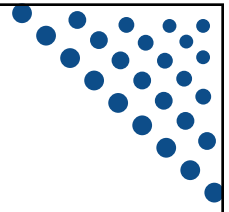
47

Autonomous Vehicles: Jon Haveman



48

Thank you!



Any Questions?

www.NEEDelegation.org

Jon Haveman, Ph.D.

Jon@NEEDelegation.org

Contact NEED: info@needelegation.org

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



NATIONAL ECONOMIC
EDUCATION DELEGATION