

# *Osher Lifelong Learning Institute, Summer 2022*

## Contemporary Economic Policy

University of Casper College  
Sep-Oct, 2022

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



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## Course Outline

### • Contemporary Economic Policy

- Week 1 (9/2): Economic Update (Geoffrey Woglom, Amherst College)
- Week 2 (9/9): Trade and Globalization (Alan Deardorff, University of Michigan)
- Week 3 (9/16): Climate Change Economics (Sarah Jacobson, Williams College)
- **Week 4 (9/23): The Black-White Wealth Gap (Mike Shor, Univ. Connecticut)**
- Week 5 (9/30): Economic Inequality (Chris Herrington, VA Commonwealth)
- Week 6 (10/7): Autonomous Vehicles (Jon Haveman, NEED)



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## Submitting Questions

- **Please submit questions in the chat.**
  - I will try to handle them as they come up but may take them in a bunch as time permits.
- **We will do a verbal Q&A once the material has been presented.**
  - And the questions in the chat have been addressed.
- **OLLI allowing, we can stay beyond the end of class to have further discussion.**

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## The Black-White Wealth Gap

Mike Shor, Ph.D.  
University of Connecticut  
23 September 2022



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## Outline

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



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## 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.**
  - The value of all assets minus the value of all debts.
  - Assets can be financial and physical.

### • 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)...



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# Evidence



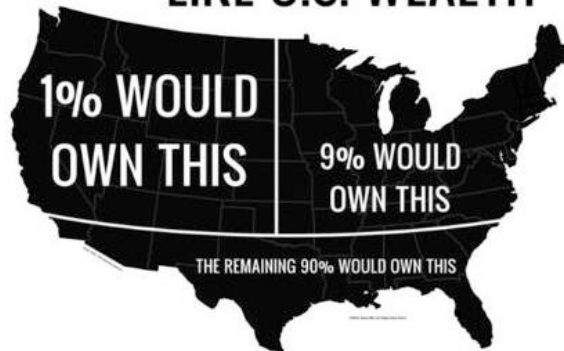
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## Wealth inequality in America

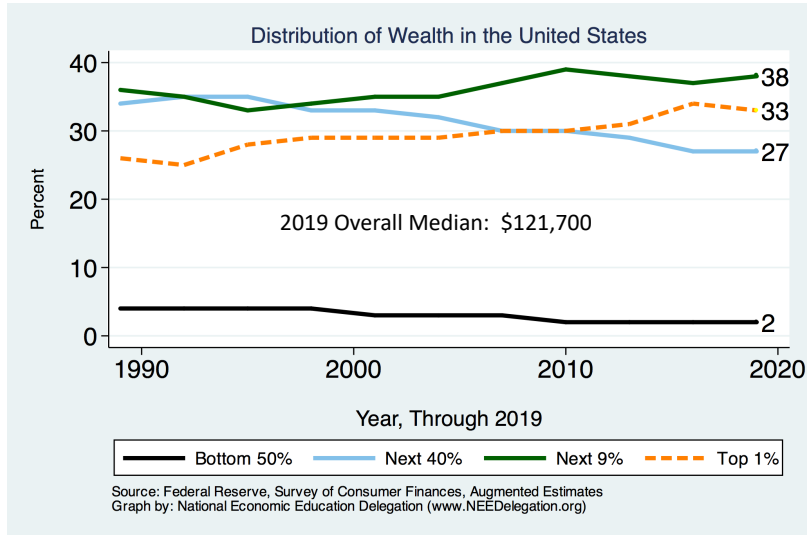
IF U.S. LAND WERE DIVIDED  
LIKE U.S. WEALTH



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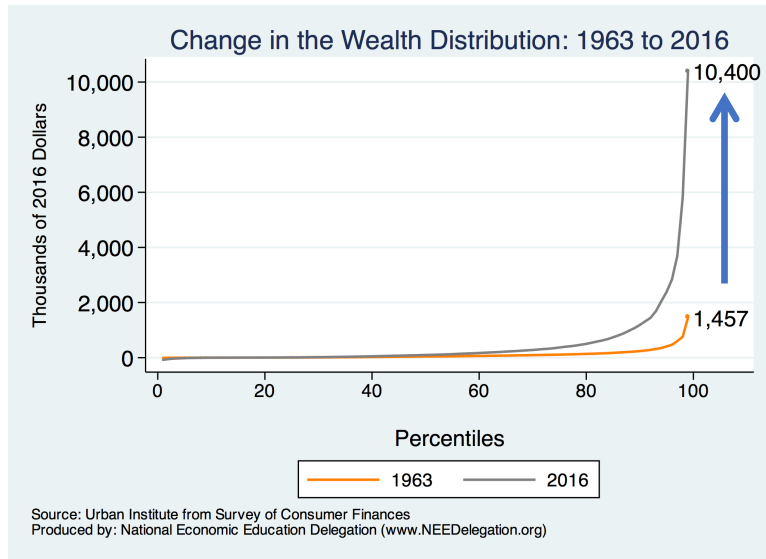
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# Overall Wealth Distribution

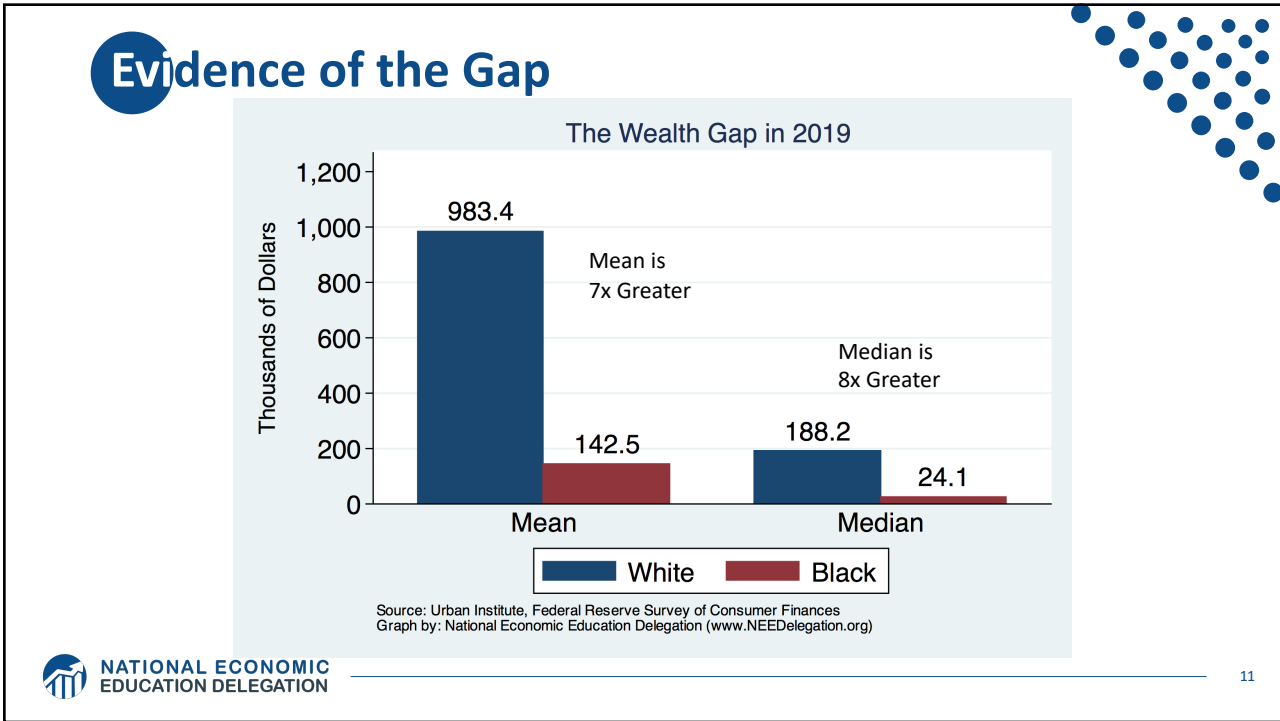


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# Wealth is More and More Concentrated



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## Wealth Disparities, 2019

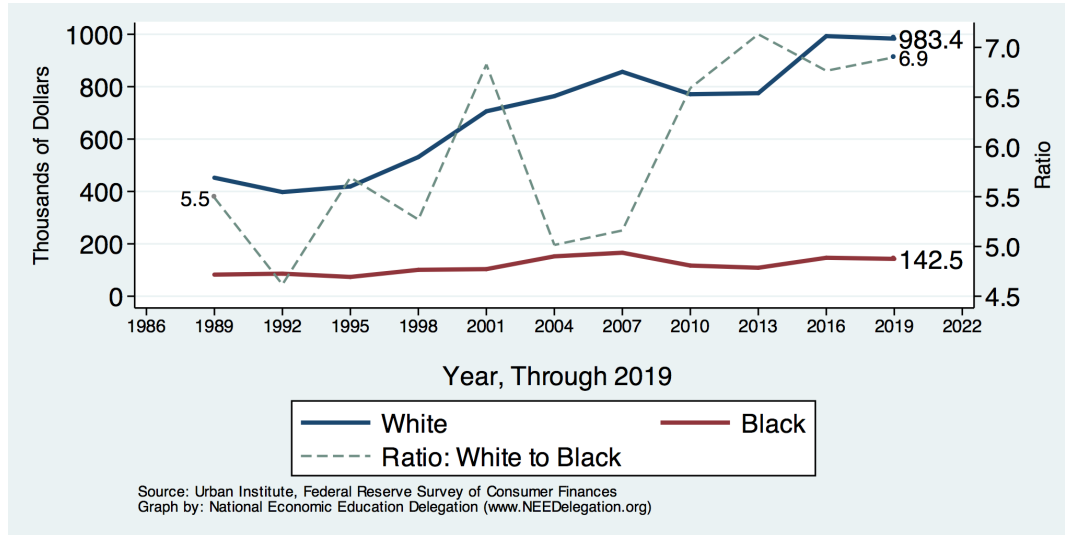
Race/Ethnicity	Mean Wealth	Share of Families	Share of Wealth	Ratio of Shares (Share of Wealth/Share of Families)
White, non-Hispanic	\$983,400	64.9	85.3	1.3
<b>Black, non-Hispanic</b>	<b>\$142,500</b>	<b>14.2</b>	<b>2.7</b>	<b>0.2</b>
Hispanic or Latino	\$165,500	9.6	2.1	0.2
Other or Multiple Race	\$657,200	11.3	9.9	0.9

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Source: Federal Reserve, Survey of Consumer Finances

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## Wealth Gap Over Time: Mean

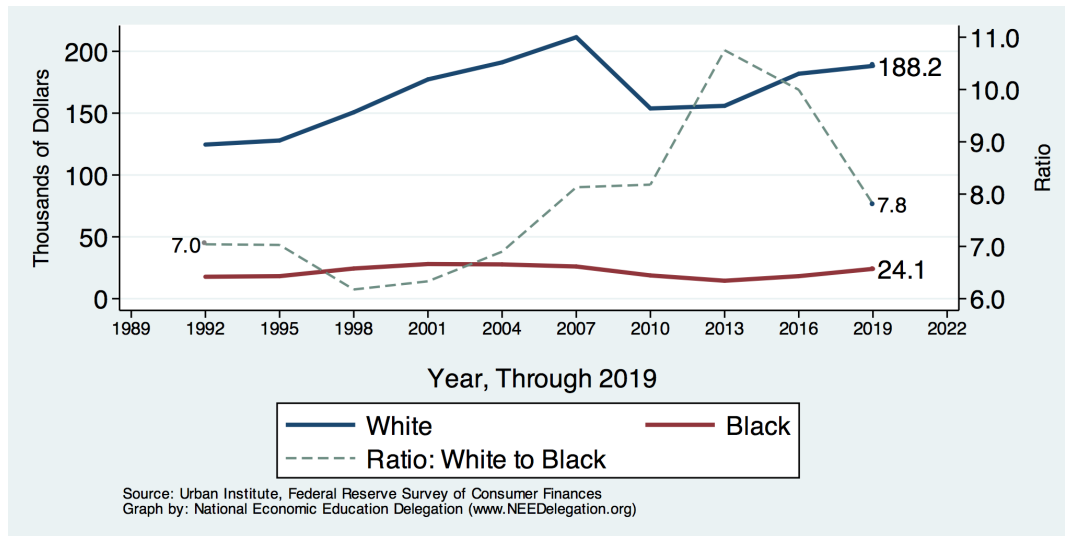


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## Wealth Gap Over Time: Median



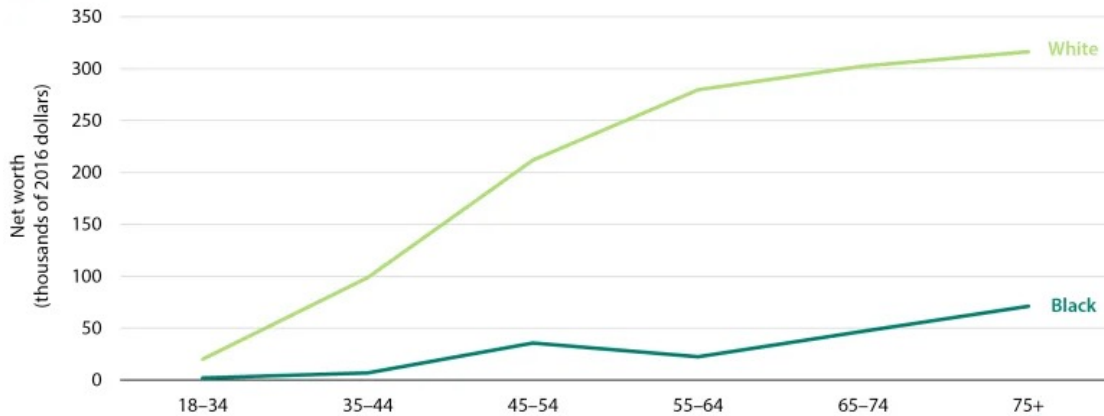
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# Net Worth by Age and Race

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

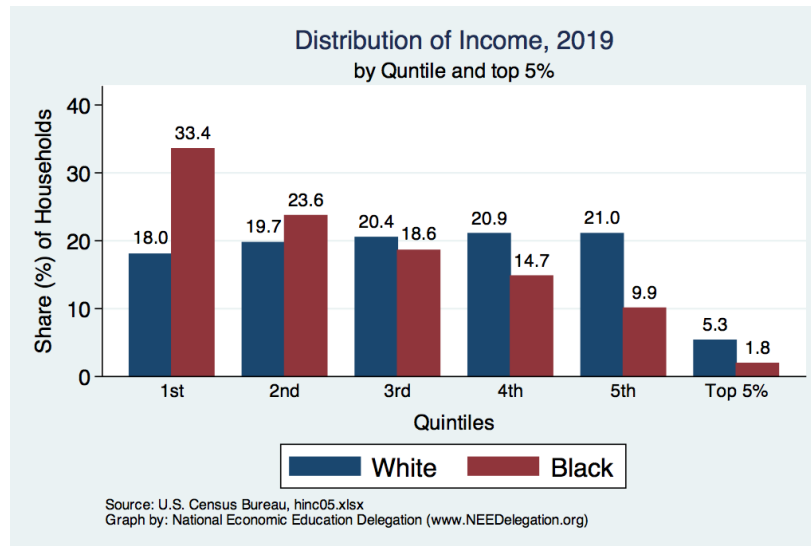


Source: Survey of Consumer Finances 2016; authors' calculations.  
Note: Data are from 2016. Net worth refers to the difference between assets and debt for a household head. Race and ethnicity are those of the survey respondent.



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

# Black Household Incomes Relative to White

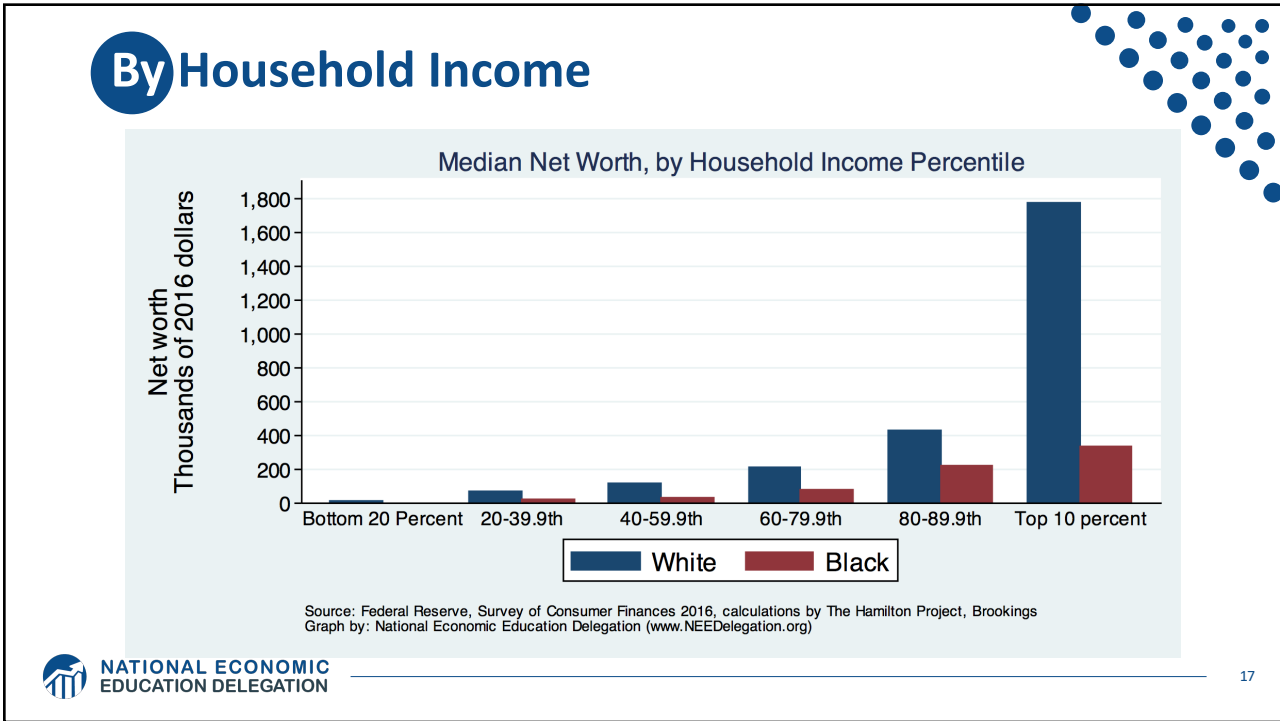


Source: U.S. Census Bureau, hinc05.xlsx  
Graph by: National Economic Education Delegation ([www.NEEDelegation.org](http://www.NEEDelegation.org))

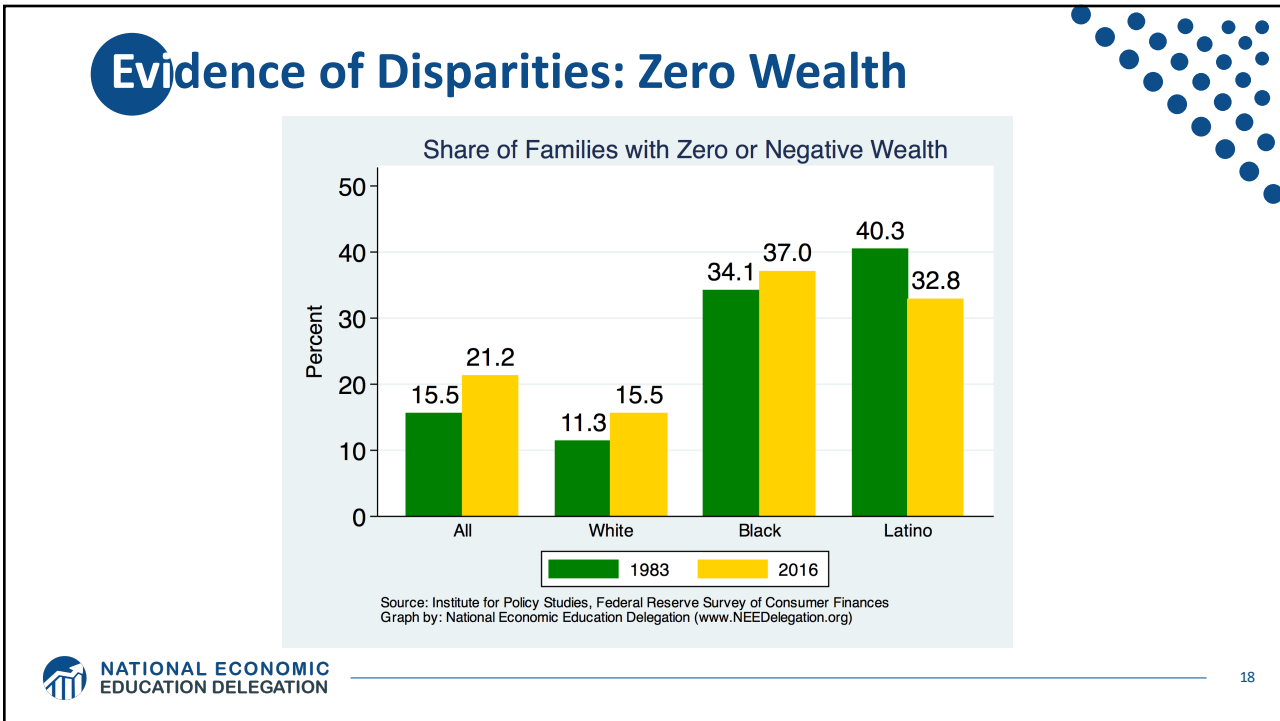


Source: [pewsocialtrends.org](http://pewsocialtrends.org)





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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 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.



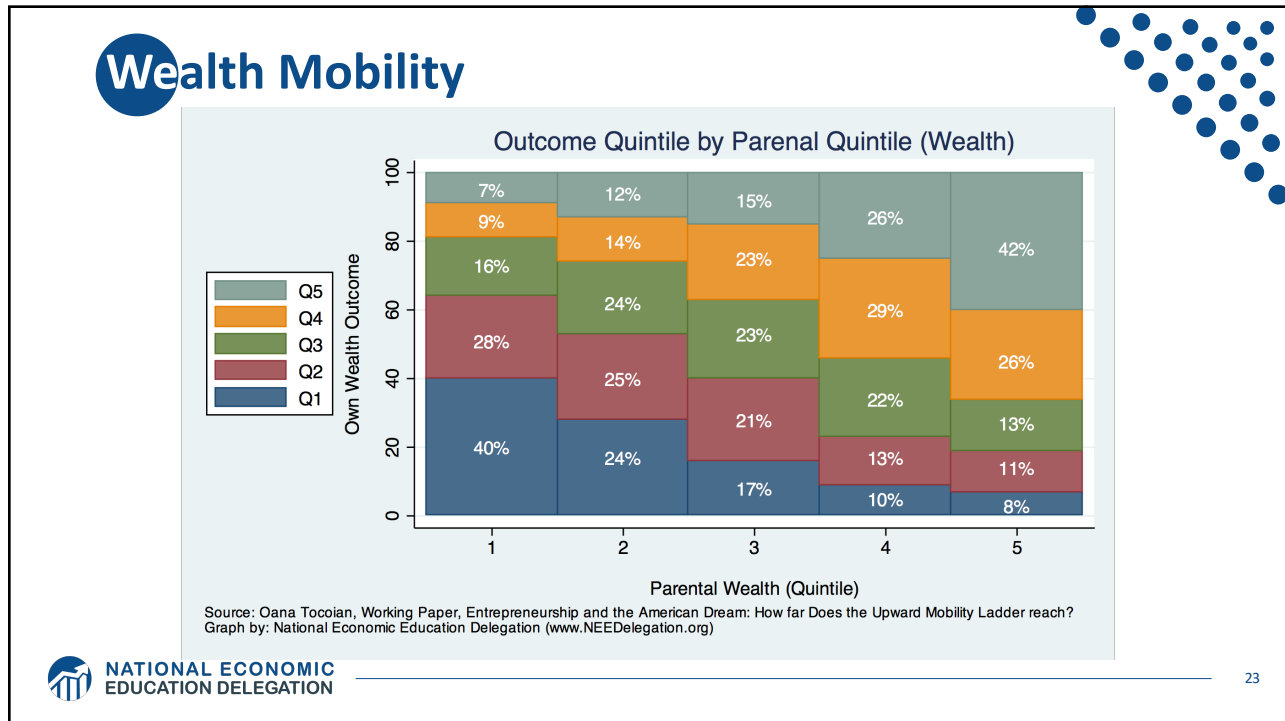
## Parental Wealth is Important

- **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.**





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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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# 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.
- **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.**



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



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## 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

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## Educational Attainment: Policy

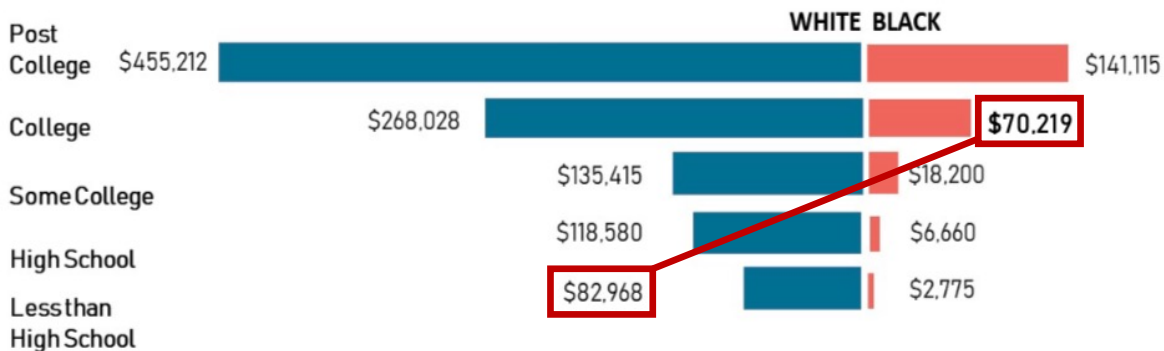
### • How do we increase educational attainment?

- 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.
- Make publicly available pre-k education.
- Mandate kindergarten by age 5.
- No one able to drop out before age 18 or at least 11 completed years of education.

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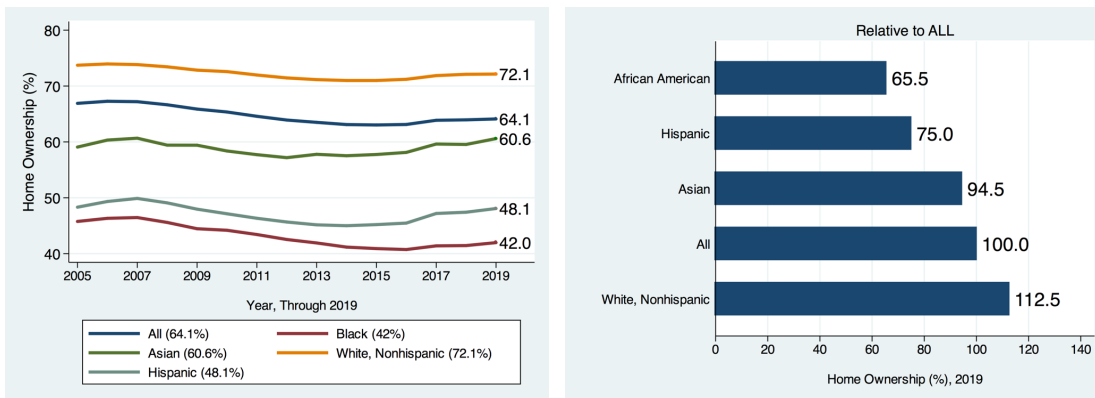
# Educational Attainment

## Median Household Net Worth by Race and Education



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# Home Ownership: Households



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## Home Ownership

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

**Homeowners**  
 WHITE: \$239,300  
 BLACK: \$99,840

**Non-homeowners**  
 WHITE: \$3,775  
 BLACK: \$120

WHITE ■  
 BLACK ■

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## Wealth Equality Through Home Ownership?

- **Well-documented evidence of historical and ongoing housing and lending discrimination.**
  - Appraisals, buyers, lenders, local laws, covenants...
- **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.

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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**
  - This makes it a less attractive investment.



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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.



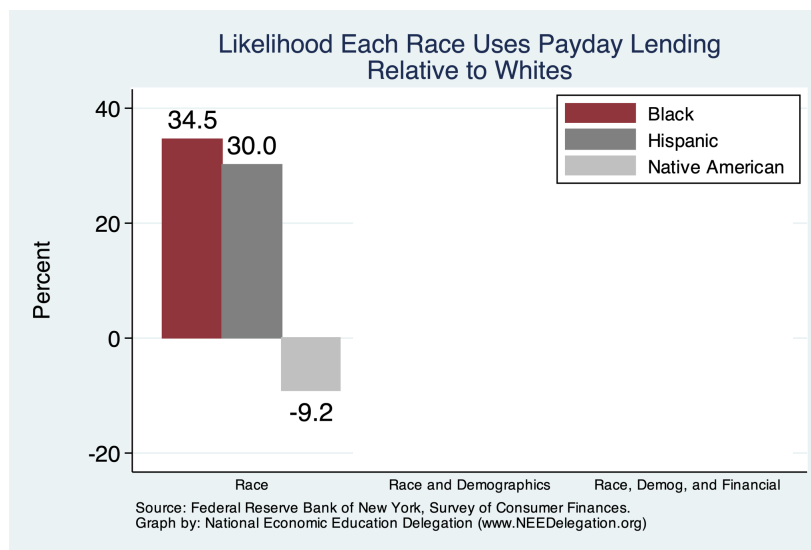
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## Financial Literacy

- **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.**

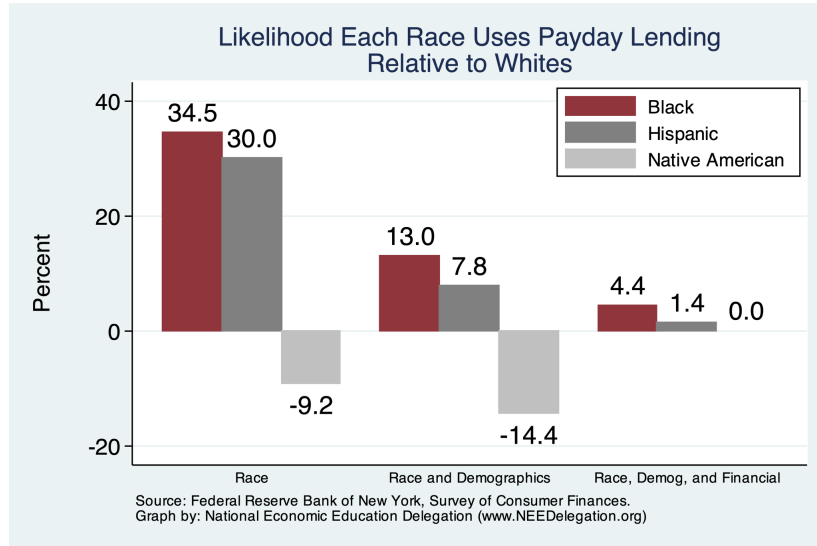
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## Use of Payday Lenders

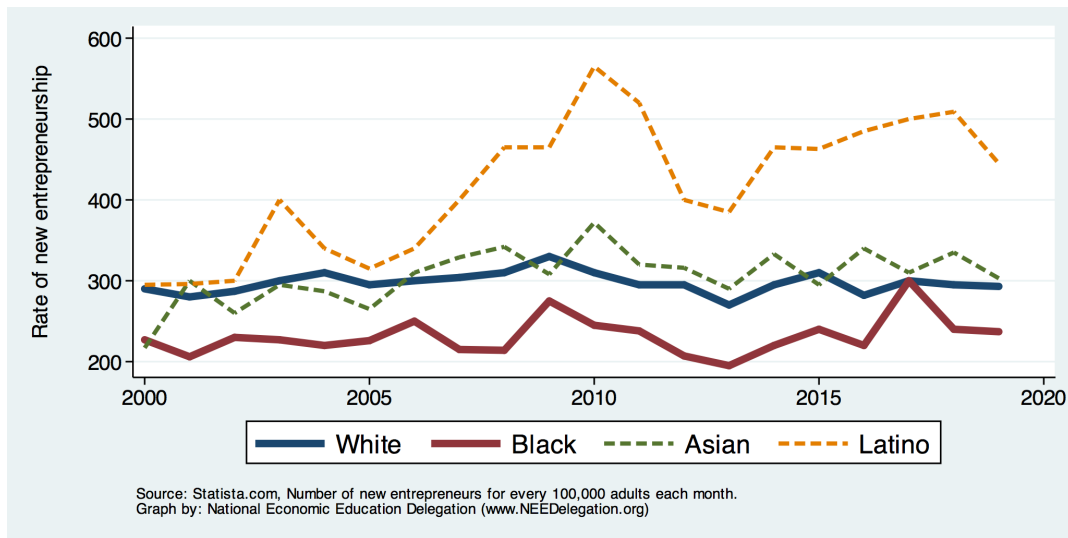


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## Use of Payday Lenders



## Entrepreneurship: Rate of New Entrepreneurs



## 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.**



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## Soft Skills and Personal Responsibility?

- **Employability**

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

- **Reality**

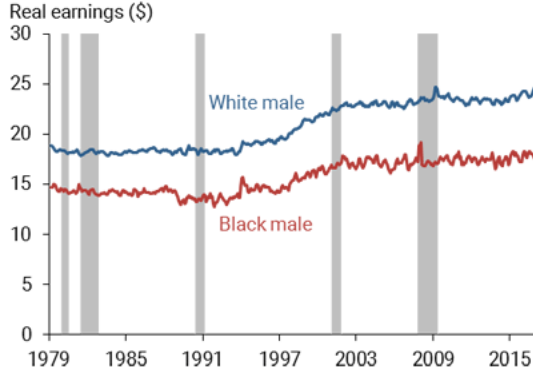
- Black workers are crowded into service sector jobs.
- Well represented in service, sales and office, and production, transportation, and material moving
- Relatively less well represented in construction, extraction, and maintenance.



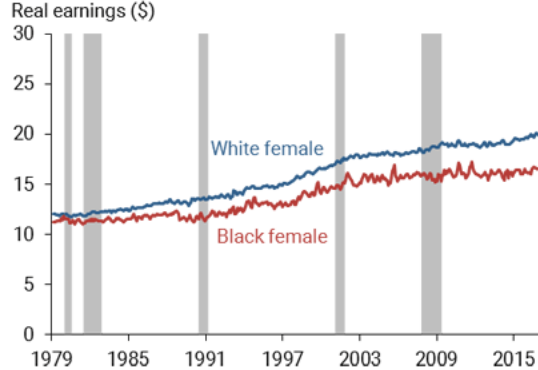
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# Wage Gap: Controlling for education, age, job type.

C. Average hourly earnings for men



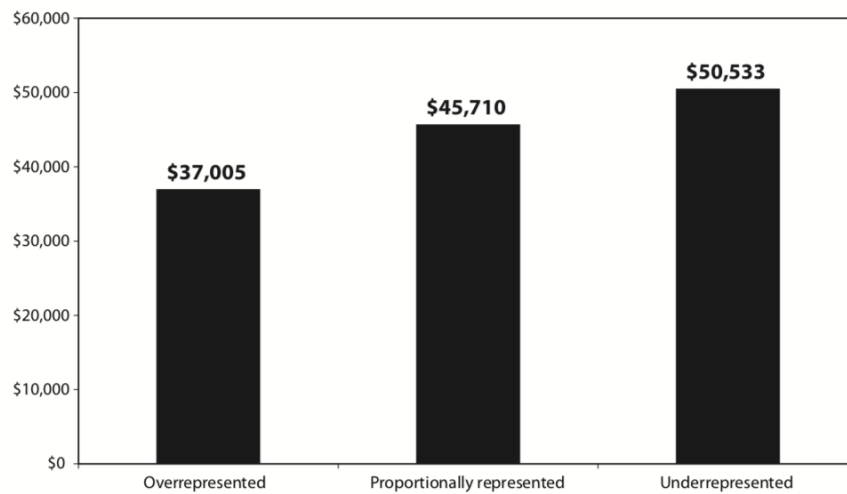
D. Average hourly earnings for women



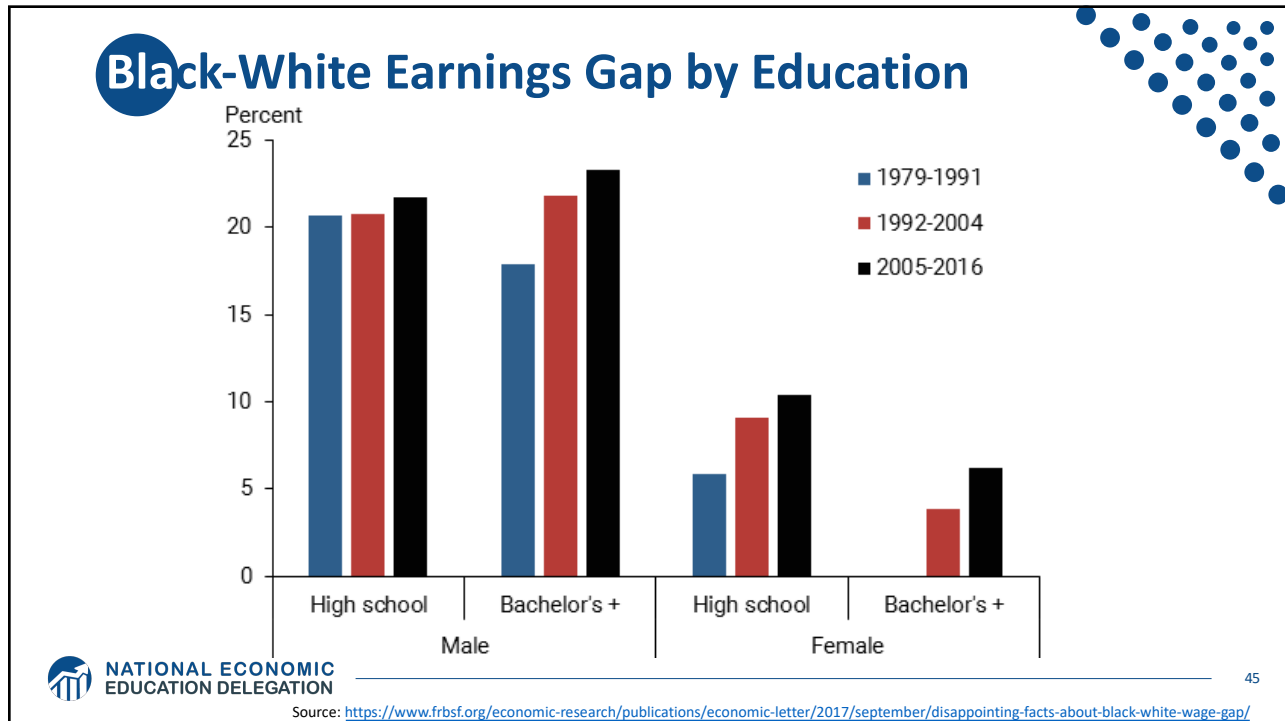
Source: <https://www.frbsf.org/economic-research/publications/economic-letter/2017/september/disappointing-facts-about-black-white-wage-gap/>

# Overrepresented Where Wages are Low

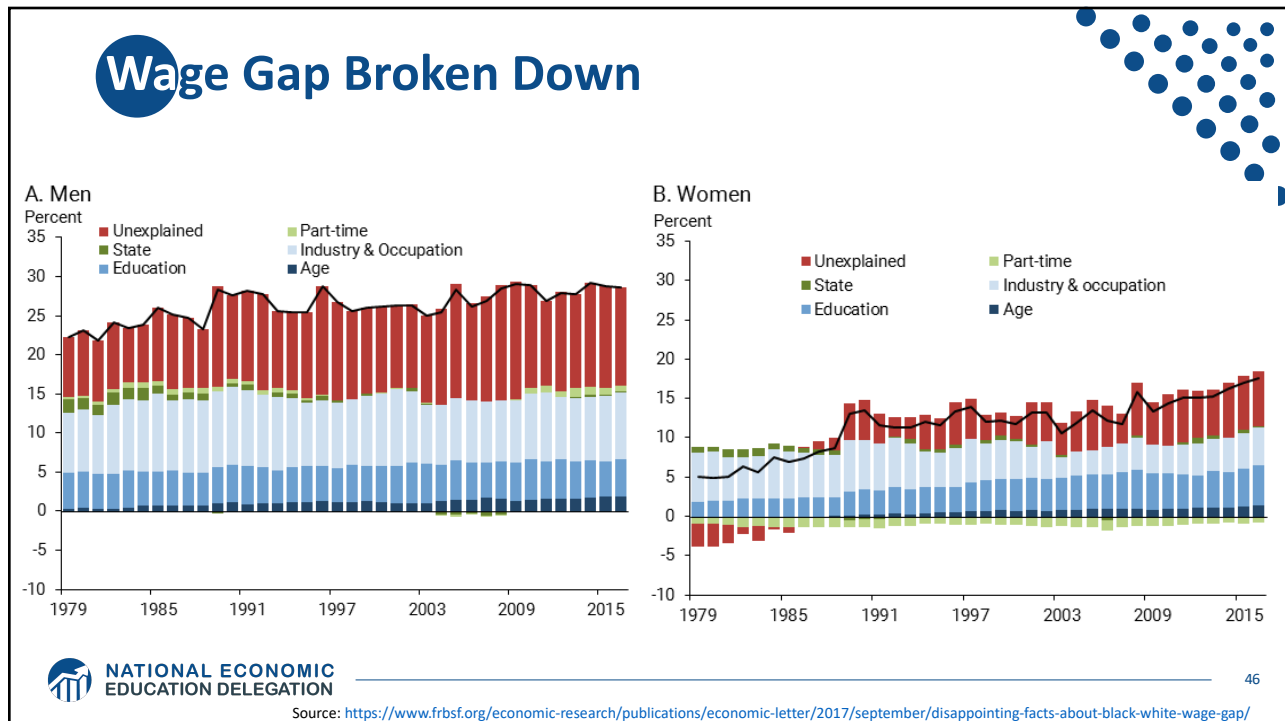
Average occupational annual wage by representation of black men, 2005-07



Source: Hamilton Darrick, Algernon Austin, and William Darity, Jr. Whiter Jobs, Higher Wages :Occupational Segregation and the Lower Wages of Black Men Economic Policy Institute, Briefing Paper #288 2011.



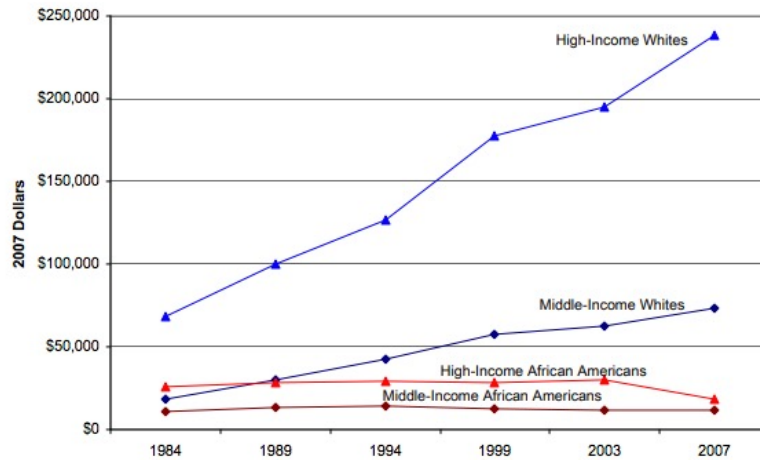
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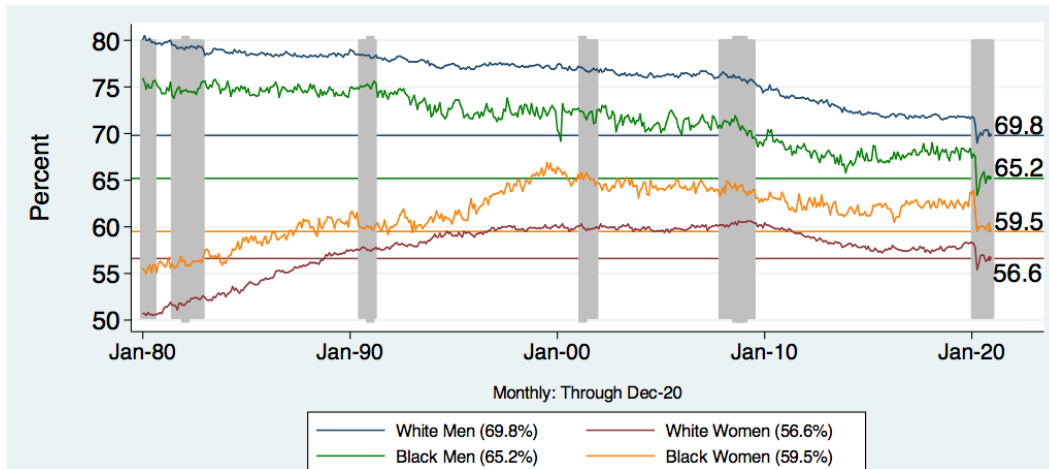
# Equality of Income ≠ Equality of Wealth

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



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# Labor Force Participation

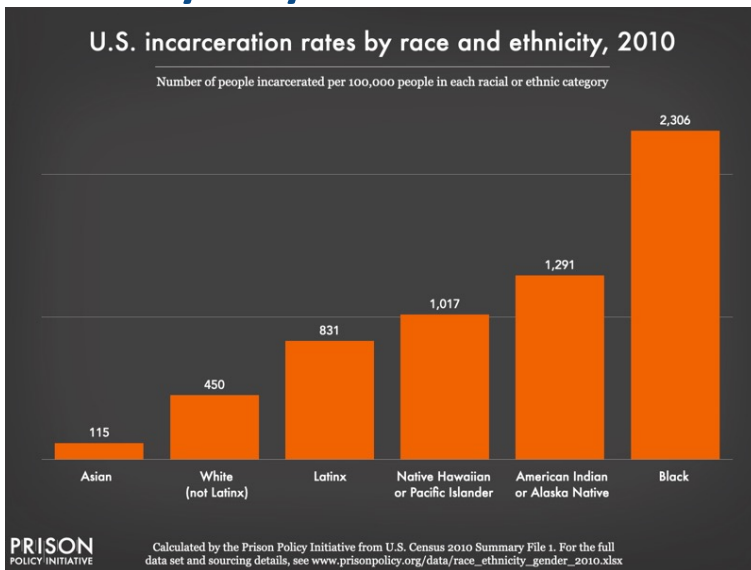


Source: Bureau of Labor Statistics, seasonally adjusted, 20 years and older.  
Graph by: National Economic Education Delegation ([www.NEEDelegation.org](http://www.NEEDelegation.org))

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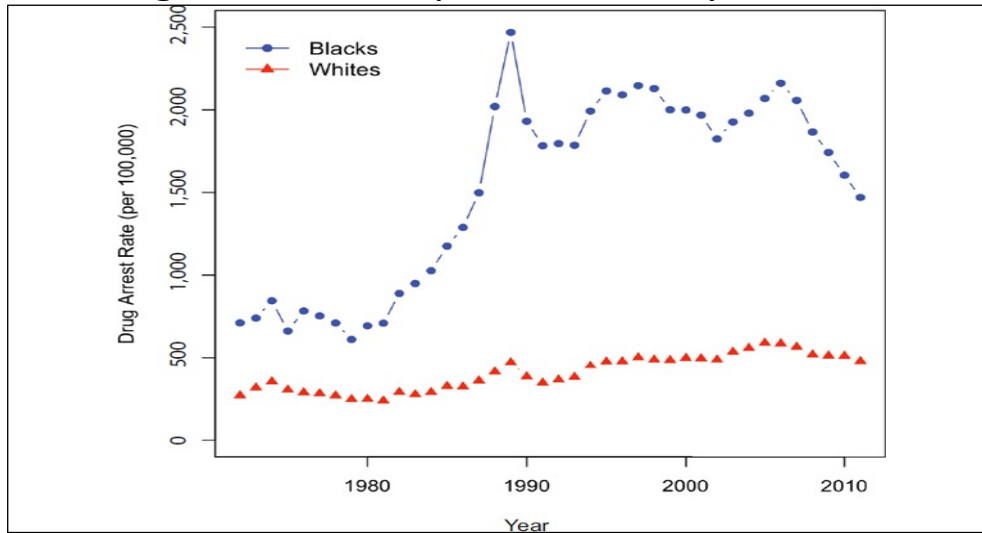


# Incarceration Likely Plays A Role



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# US Drug Arrest Rates per 100,000 by Race



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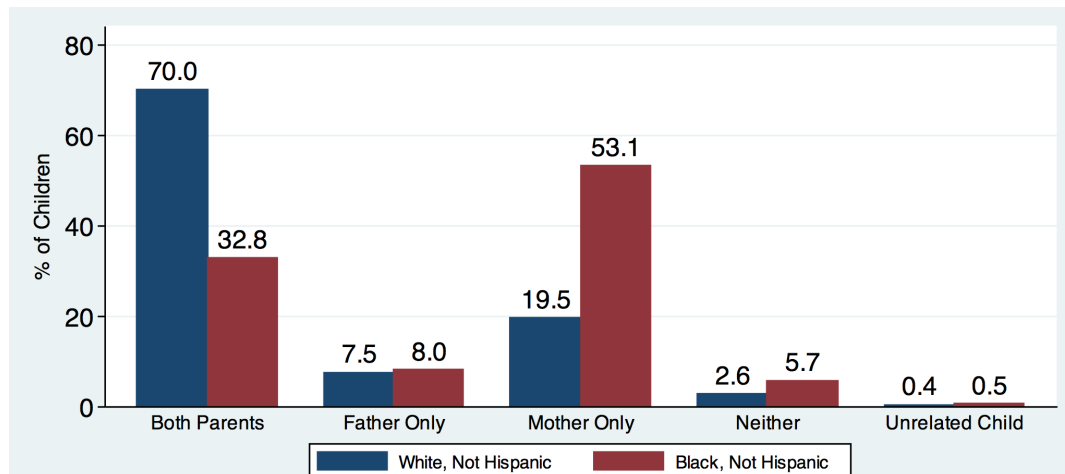
## Family Structure

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.

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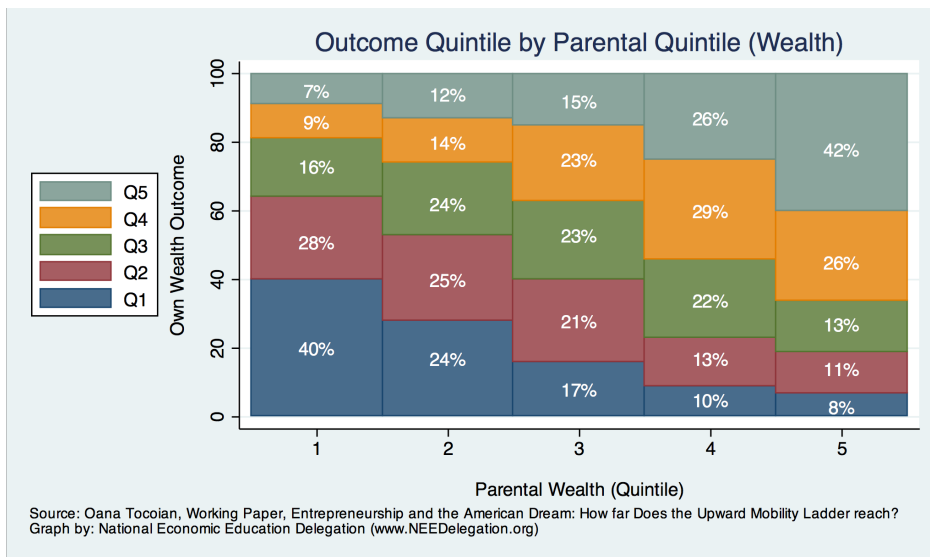
## Kids – Household Types



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

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# Initial Endowment

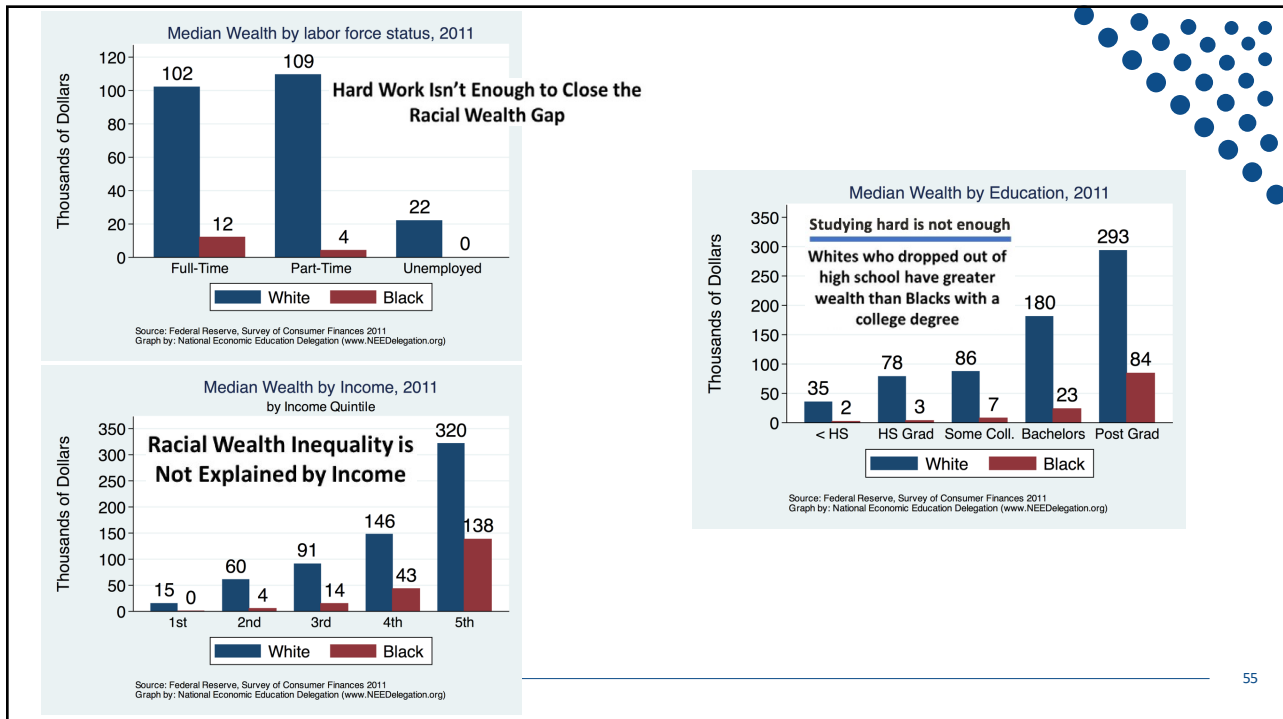


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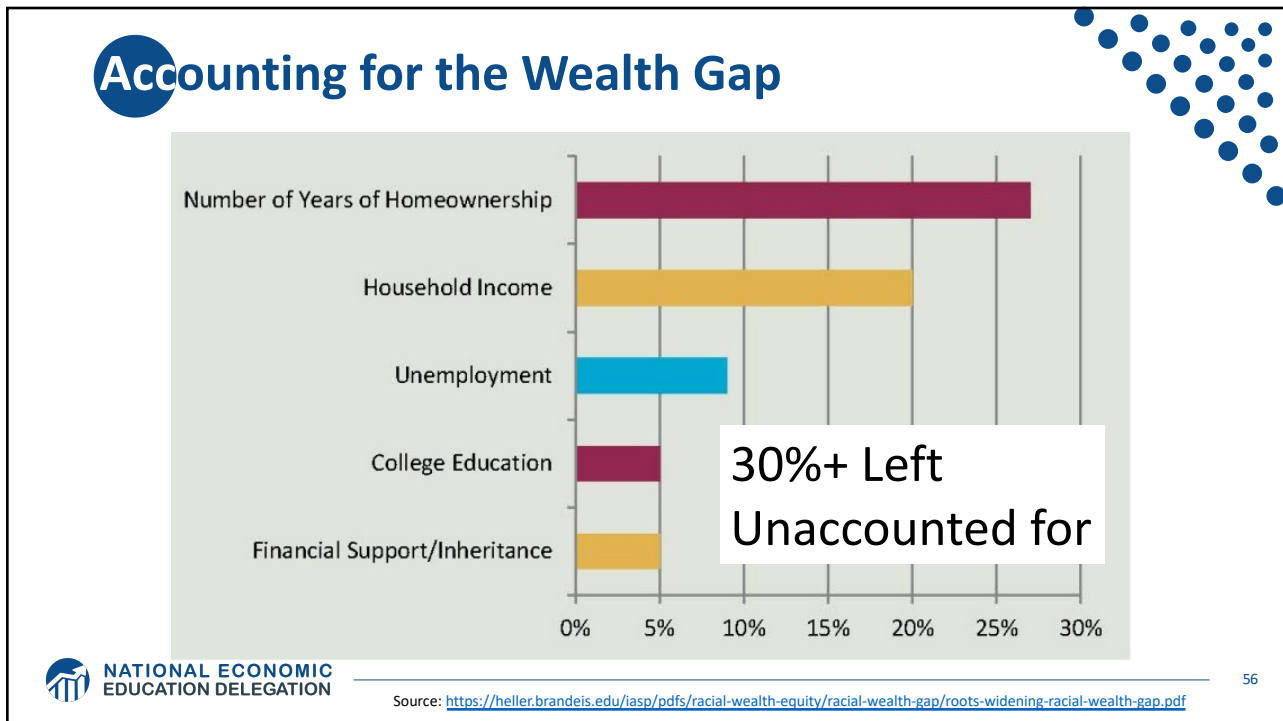
# What is Fundamentally Responsible?

- 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**
  - Black incarceration rates are very high.
- **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
    - Aggressive affirmative action.
    - A new Homestead Act.
    - Heavily investing in Black communities.
    - Differential tax treatment.
  - Labor and other laws that address discrimination
    - Enforce more aggressively and make adjustments where necessary to increase efficacy.
  - Fundamental reorientation of asset building agenda.



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## Reform Criminal Justice System

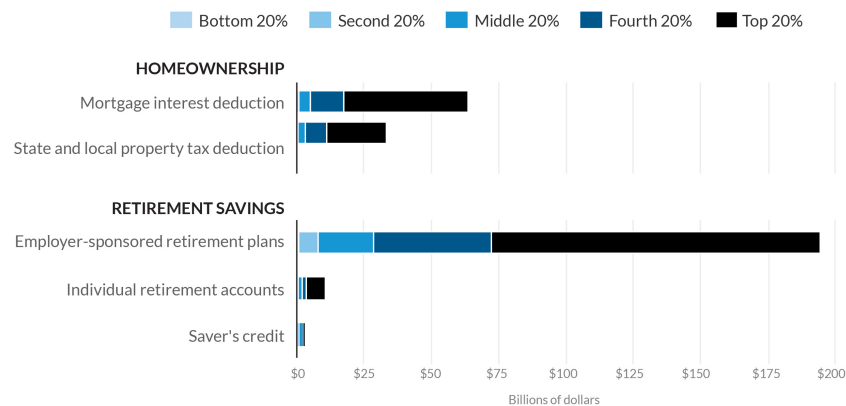
- **Legal restrictions on the rights of people who have had contact with the criminal justice system, particularly contact resulting in conviction.**
- **Usually placed in civil and regulatory codes, collateral consequences may limit a person's:**
  - ability to vote
  - live in public housing
  - qualify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



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## Gov't Asset Building Policies

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



URBAN INSTITUTE

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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.

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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.**
  - 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.**

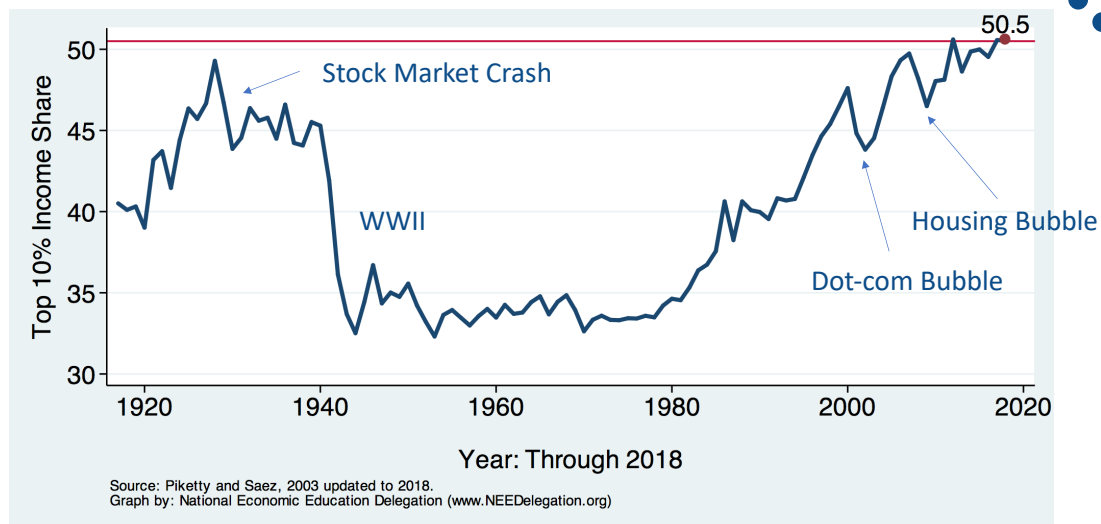


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## Income Inequality: Chris Herrington



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**Thank you!**

# Any Questions?

[www.NEEDelegation.org](http://www.NEEDelegation.org)

Mike Shor, Ph.D.

Mike.Shor@UConn.edu

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