



Osher Lifelong Learning Institute, Spring 2022
Contemporary Economic Policy

Dartmouth College
April-May, 2022

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

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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

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Course Outline

• Contemporary Economic Policy

- Week 1 (4/18): US Economy & Russia/Ukraine Conflict
- Week 2 (4/25): Trade and Globalization (Alan Deardorff, University of Michigan)
- **Week 3 (5/2): The Black-White Wealth Gap (Jon Haveman, NEED)**
- Week 4 (5/9): Federal Debt (Brian Peterson, Central College)
- Week 5 (5/16): Autonomous Vehicles (Jon Haveman, NEED)
- Week 6 (5/23): Economic Mobility (Kathryn Wilson, Kent State University)

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The Black-White Wealth Gap

Jon Haveman, Ph.D.

National Economic Education Delegation



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Credits and Disclaimer

- **This slide deck was authored by:**
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 - Patrick Mason, Florida State University
 - Steven Craig, University of Houston
- **Disclaimer**
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 - 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).



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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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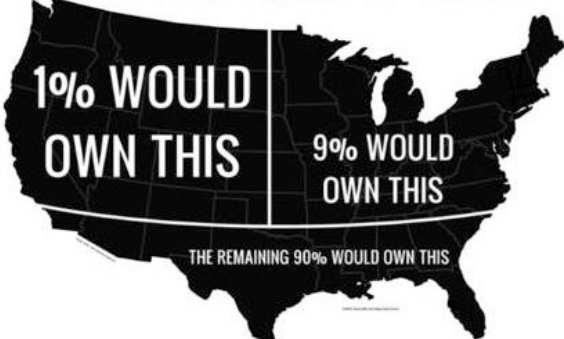
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Wealth inequality in America


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



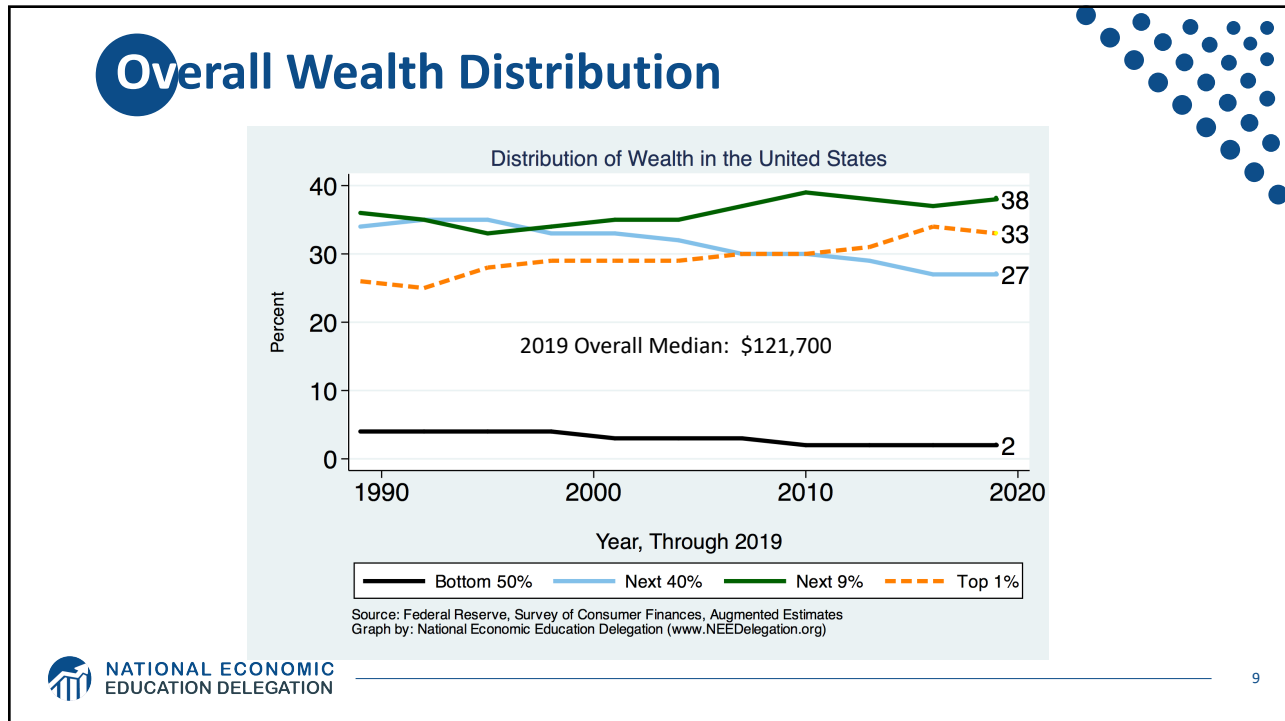
1% WOULD OWN THIS

9% WOULD OWN THIS

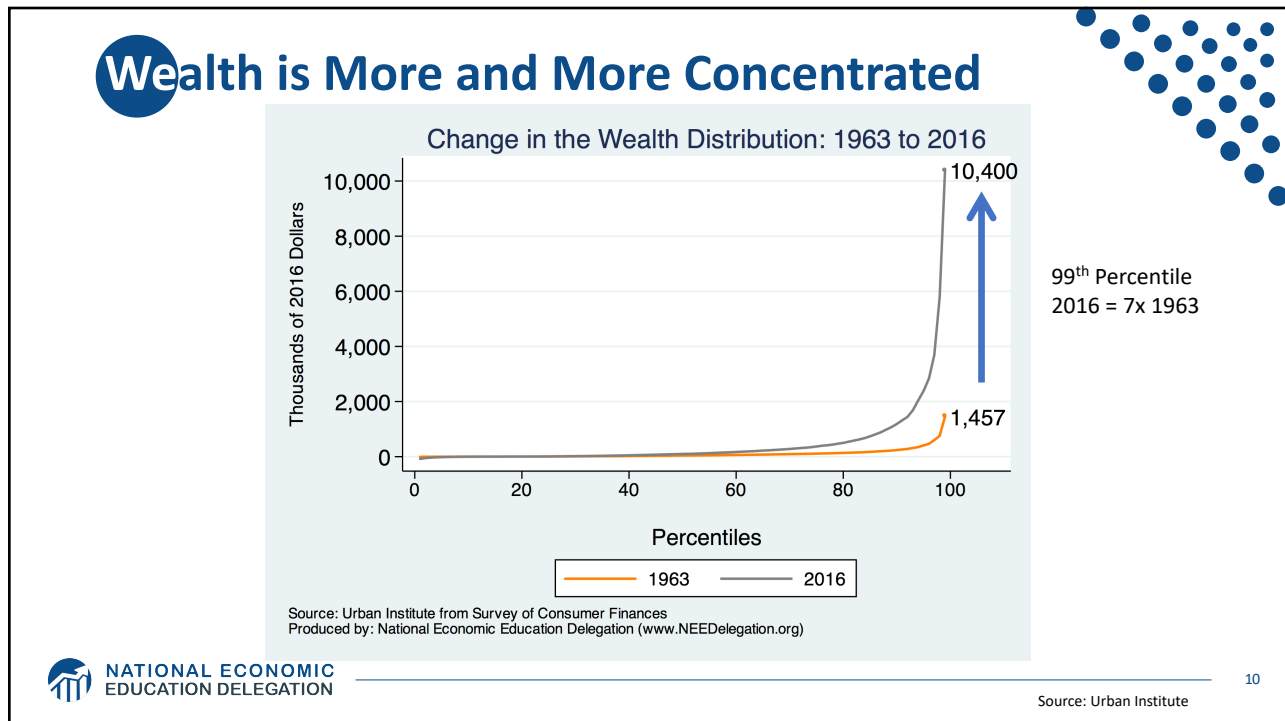
THE REMAINING 90% WOULD OWN THIS

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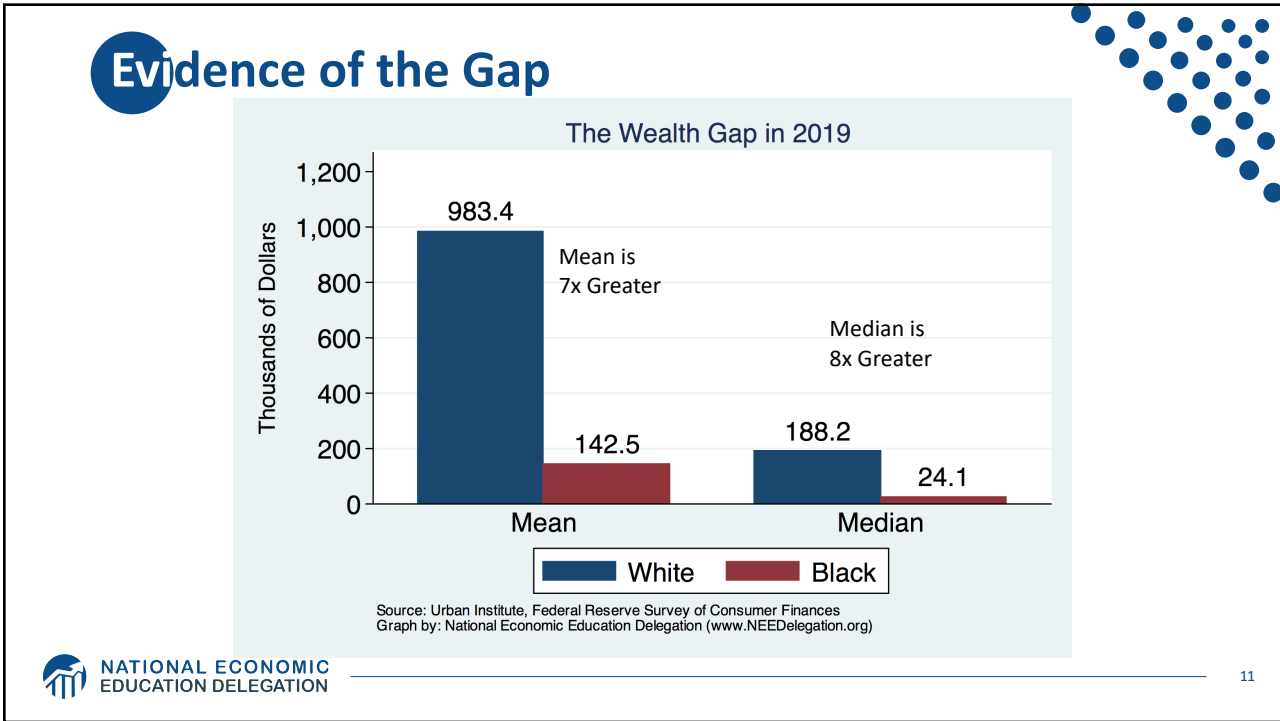
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Wealth Disparities, 2019

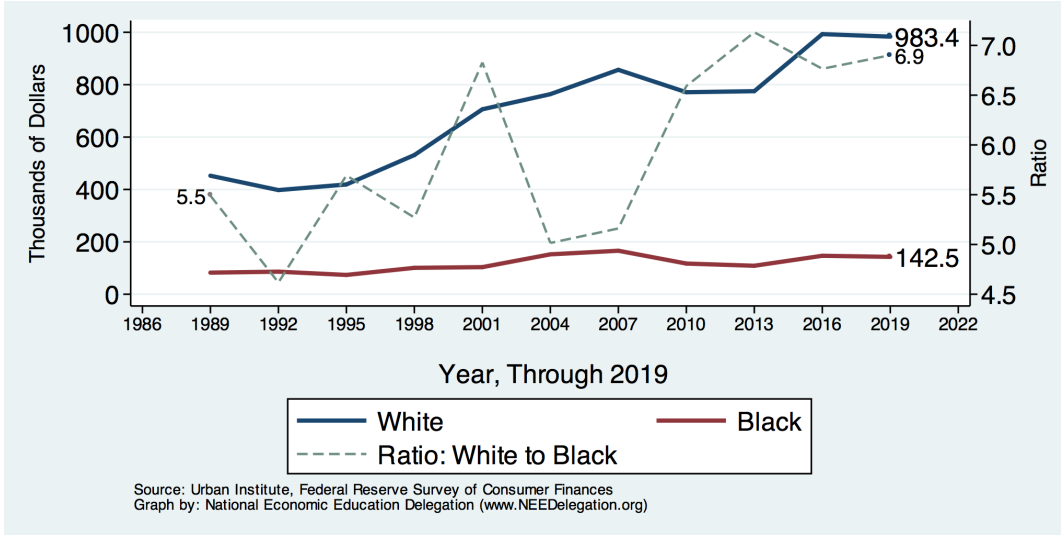
Race/Ethnicity	Mean Wealth	Share of Families	Share of Wealth	Ratio of Shares (Share of Wealth/Share of Families)
White, non-Hispanic	\$983,400	64.9	85.3	1.3
Black, non-Hispanic	\$142,500	14.2	2.7	0.2
Hispanic or Latino	\$165,500	9.6	2.1	0.2
Other or Multiple Race	\$657,200	11.3	9.9	0.9

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Source: Federal Reserve, Survey of Consumer Finances

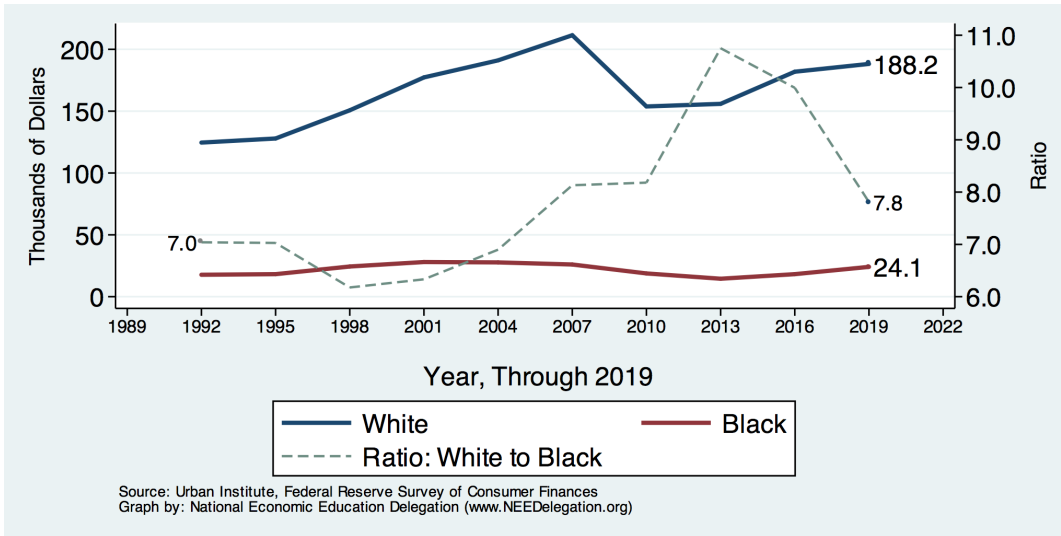
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Wealth Gap Over Time: Mean



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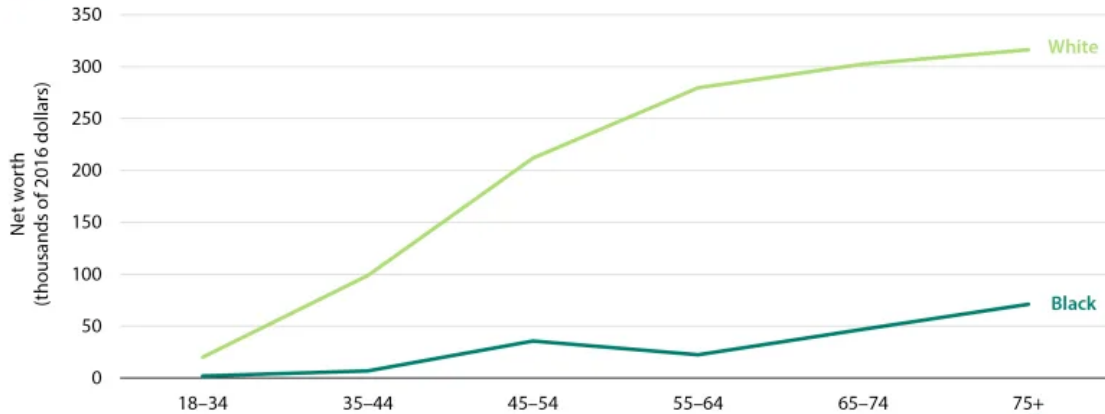
Wealth Gap Over Time: Median



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Net Worth by Age and Race

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



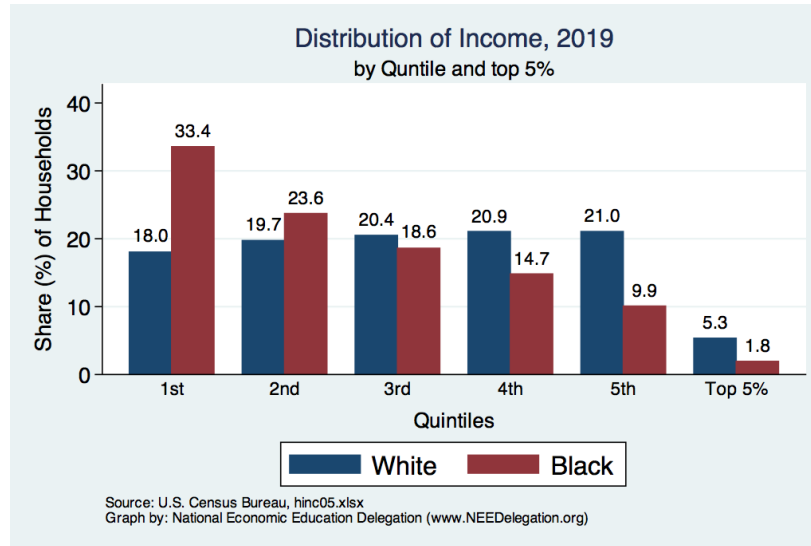
Source: Survey of Consumer Finances 2016; authors' calculations.
Note: Data are from 2016. Net worth refers to the difference between assets and debt for a household head. Race and ethnicity are those of the survey respondent.



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

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Black Household Incomes Relative to White



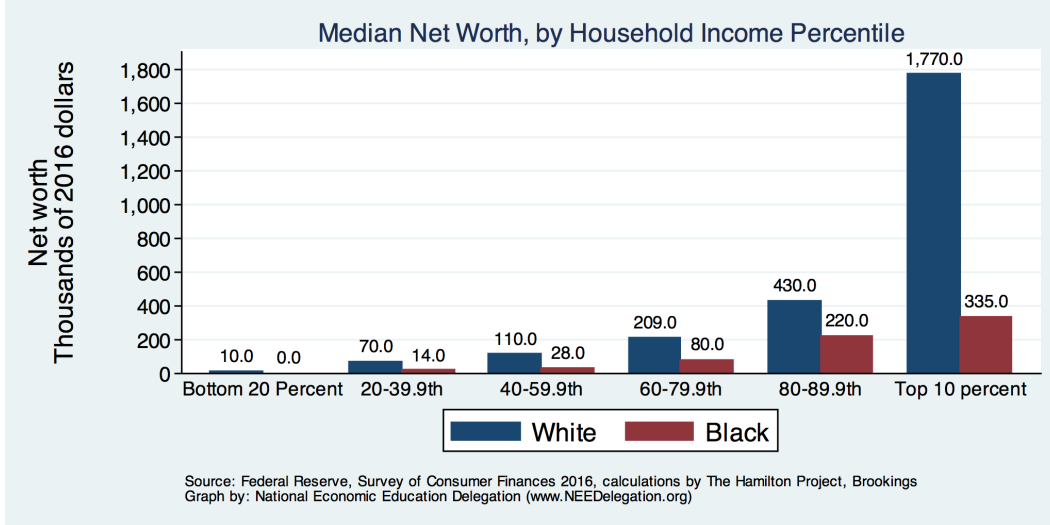
Source: U.S. Census Bureau, hinc05.xlsx
Graph by: National Economic Education Delegation (www.NEEDelegation.org)



Source: pewsocialtrends.org

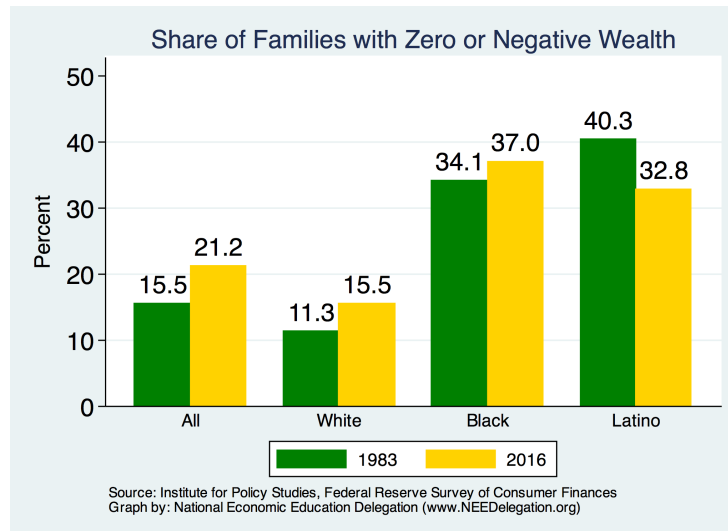
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By Household Income



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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 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.



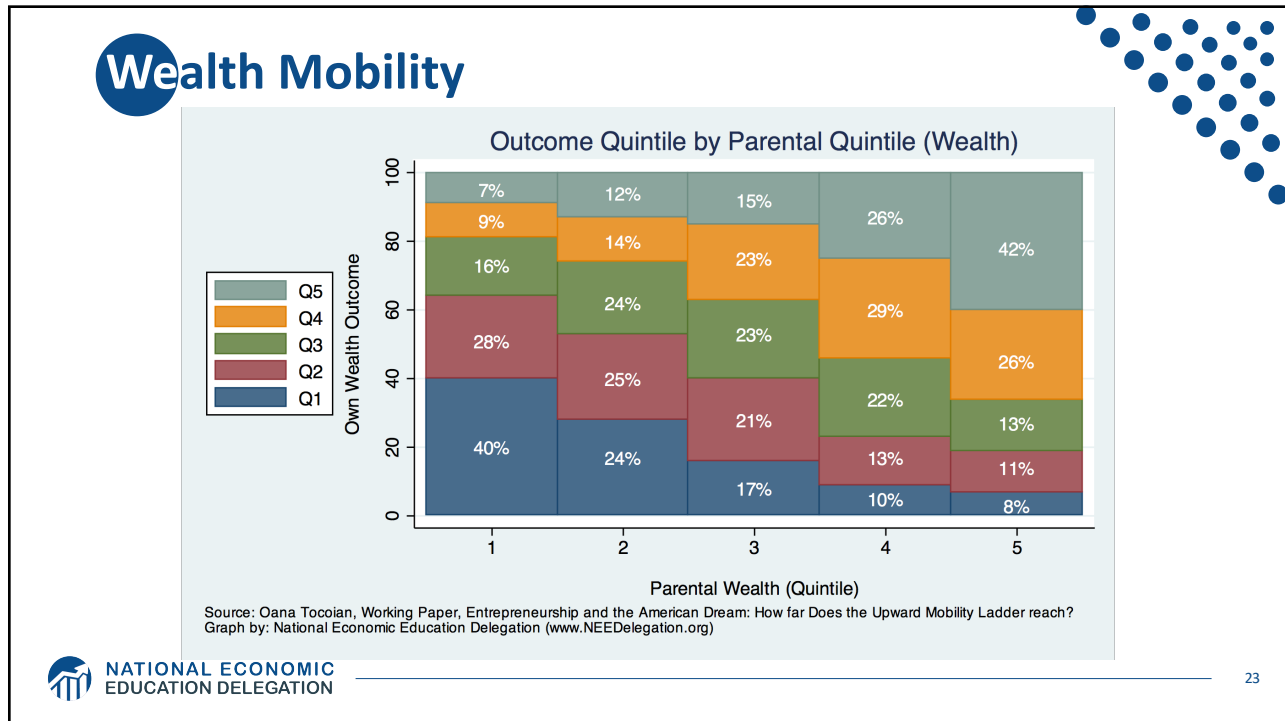
Parental Wealth is Important

- **Important pre-estate transfer effects on kids:**

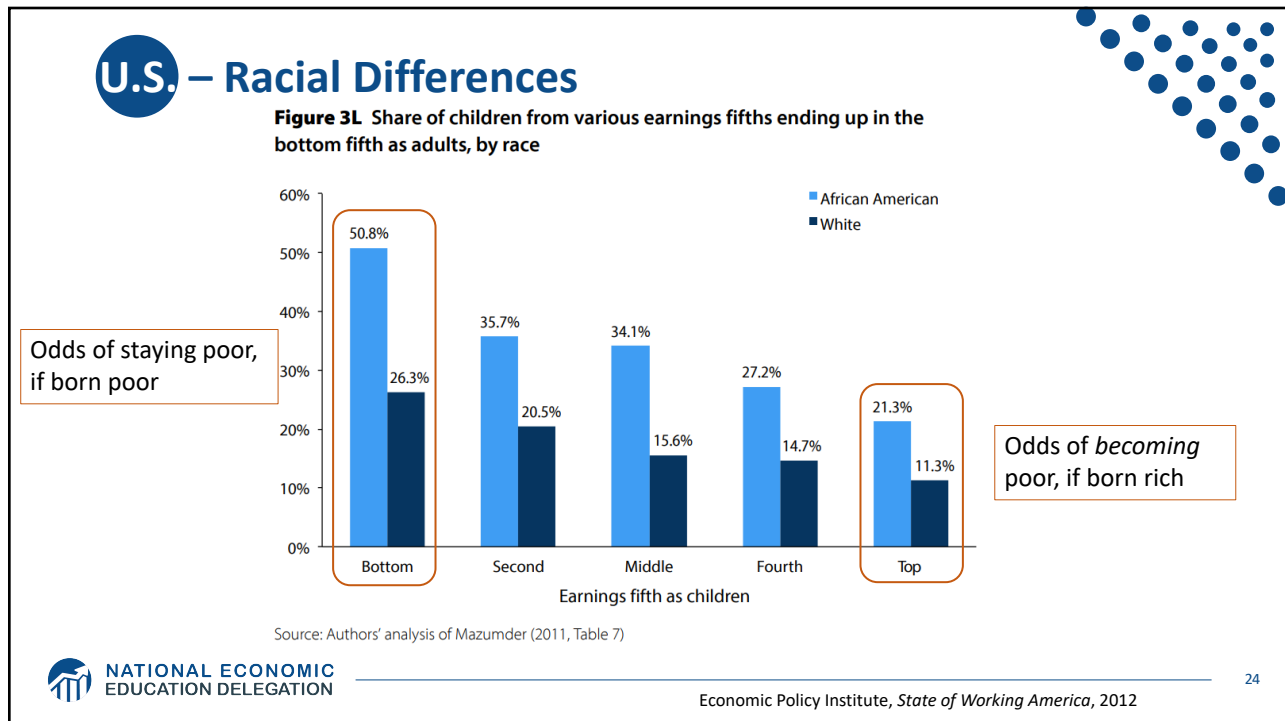
- Influences human capital accumulation.
- Influences the returns to education.
- Adult incomes of offspring.

- **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.**



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** financial contribution from **children to parents.**
 - Makes wealth accumulation that much harder.
 - 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.**

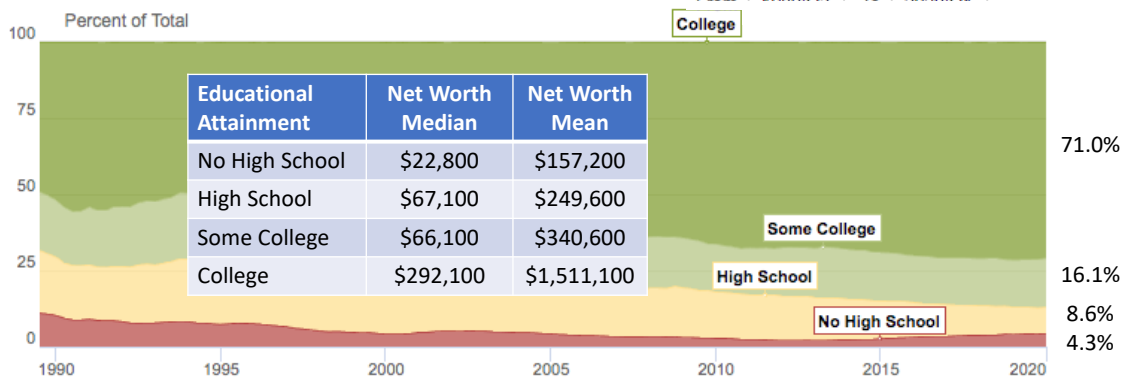


Potential Explanations: Differences in...

- Educational attainment
- Home ownership
- Increased savings
- Financial literacy
- Soft skills & personal responsibility
- Entrepreneurship
- Wages
- Labor force participation
- Incarceration rates
- Family structure
- Initial endowment

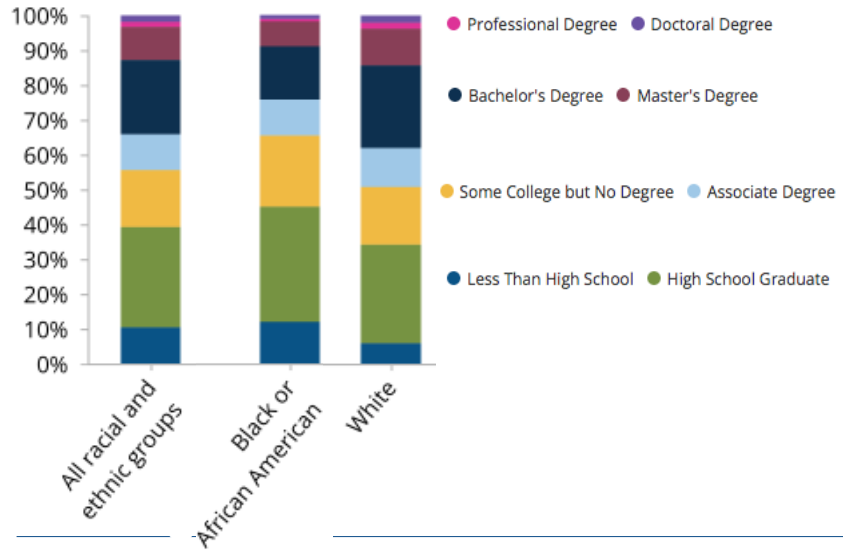
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Wealth by Educational Attainment



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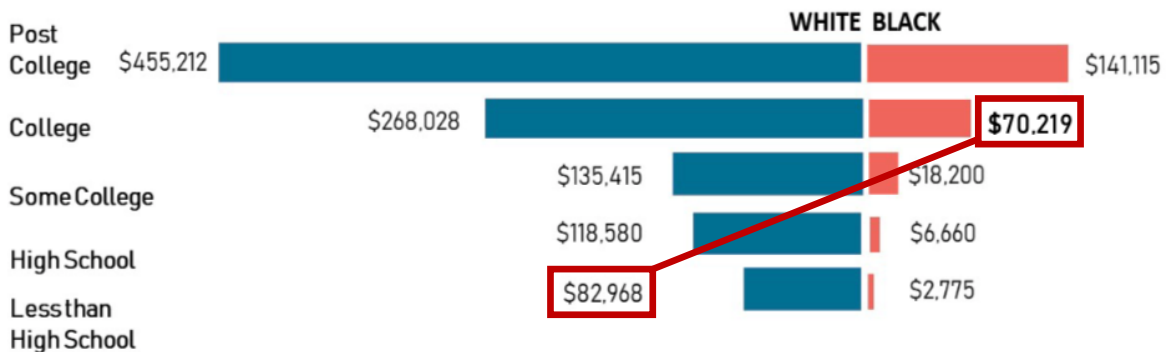
Differences in Educational Attainment, 2017



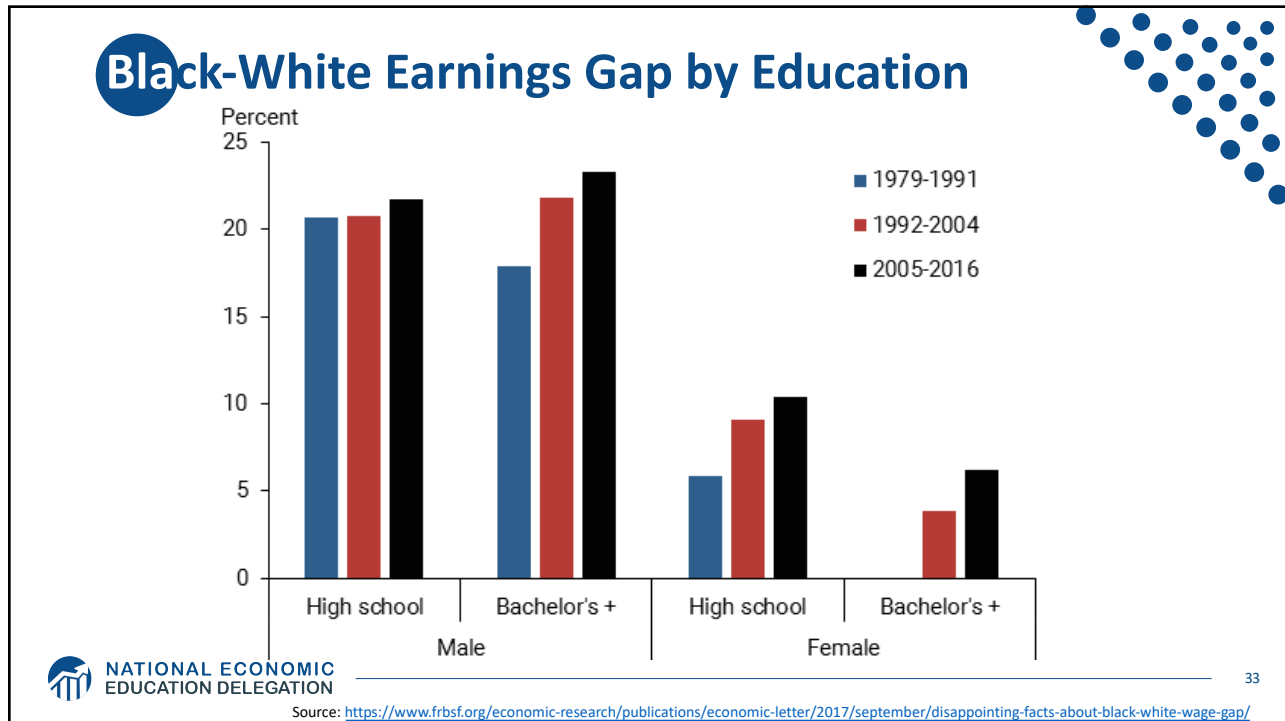
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Educational Attainment

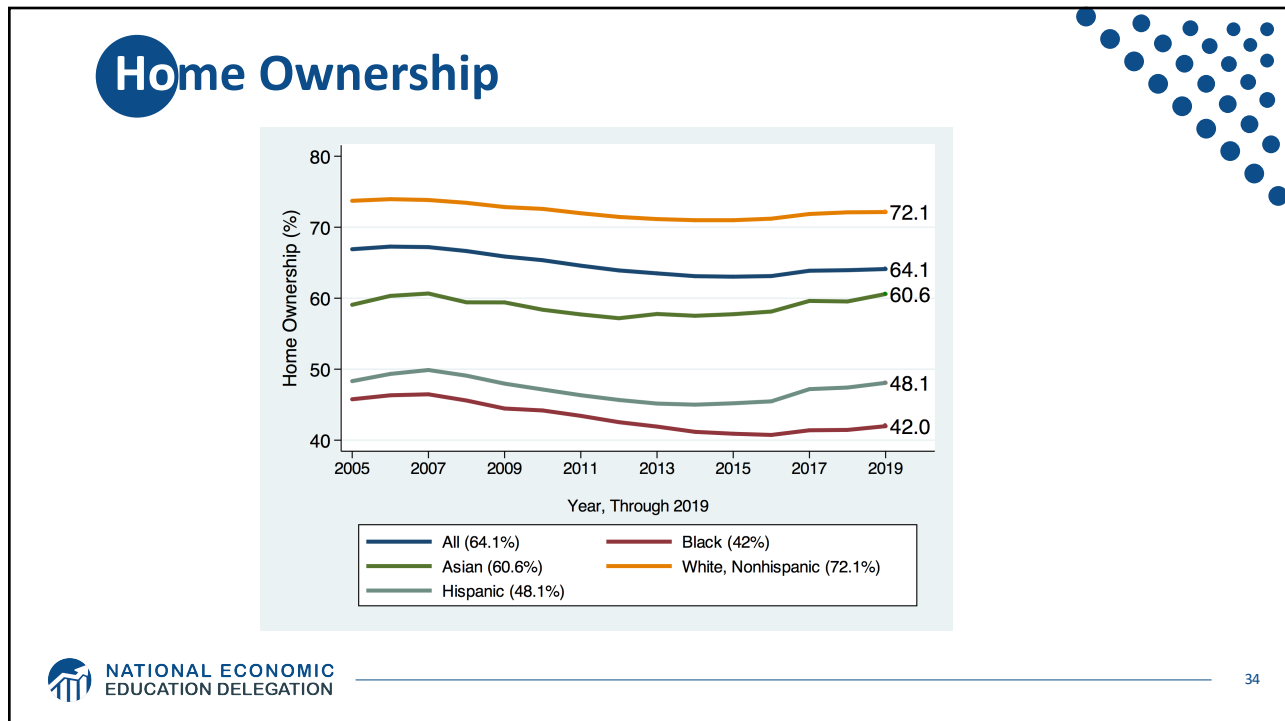
Median Household Net Worth by Race and Education



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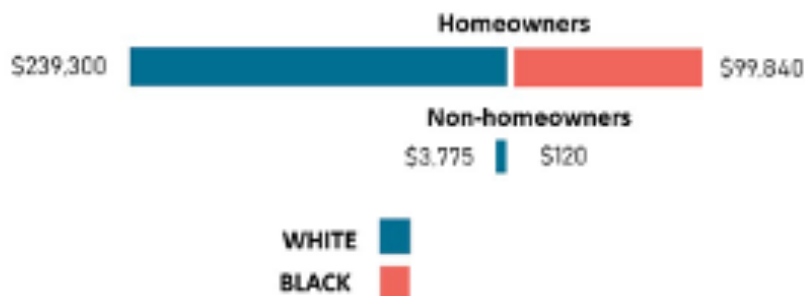
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Home Ownership

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



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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.
 - o 23% after adjusting for quality and amenities.

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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.
- **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.



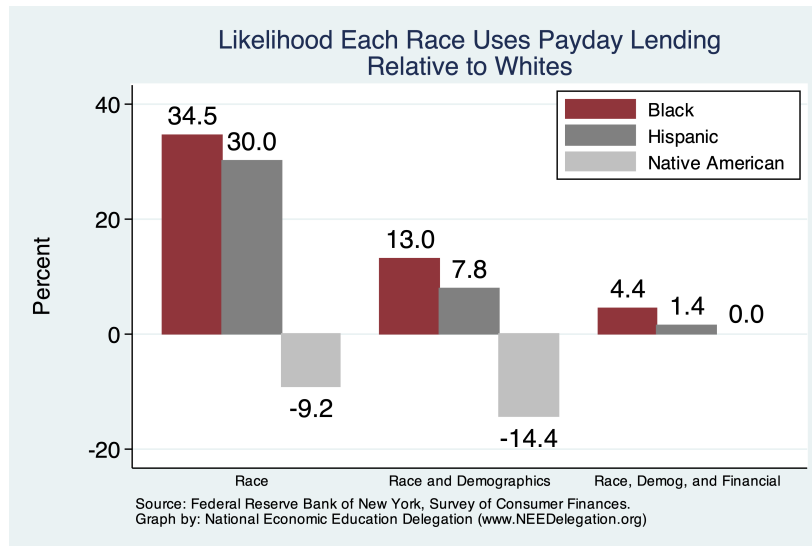
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Financial Literacy

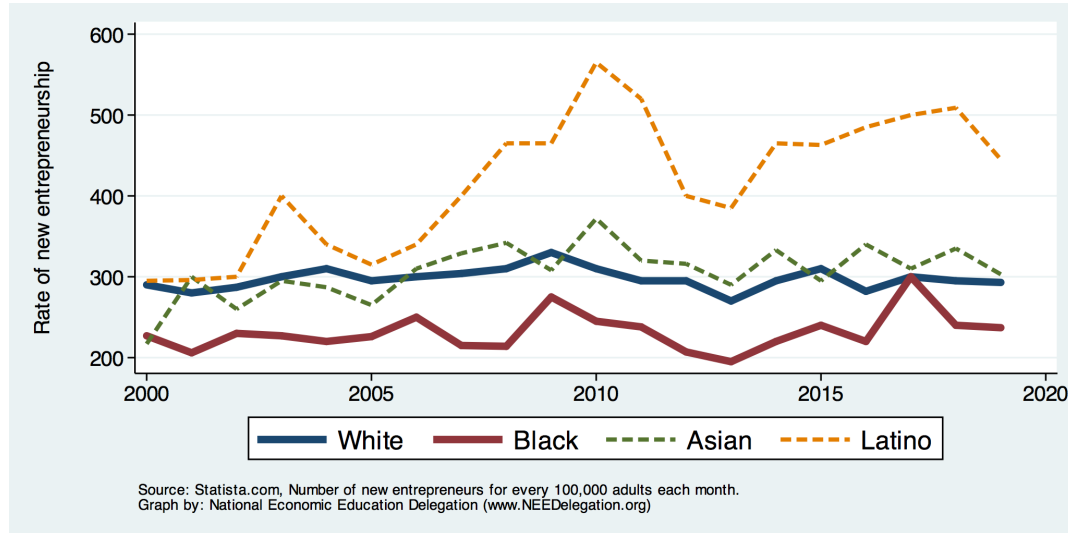
- **Financial literacy doesn't matter that much when you don't have any finances to manage.**
 - The insufficient financial literacy argument is often leveled specifically at Black households.
 - o The argument holds equally with regard to all households of comparable incomes.

- **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



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Source: Statistica

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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

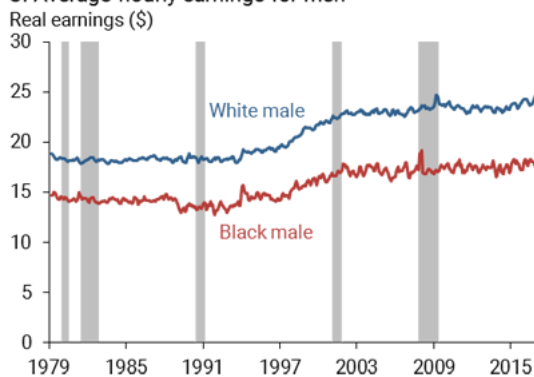
• Reality

- 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.

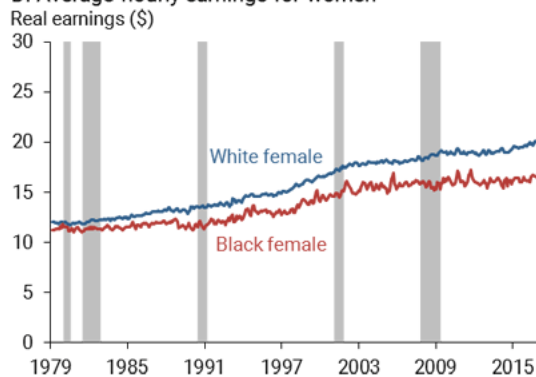
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Wage Gap: Controlling for education, age, job type.

C. Average hourly earnings for men

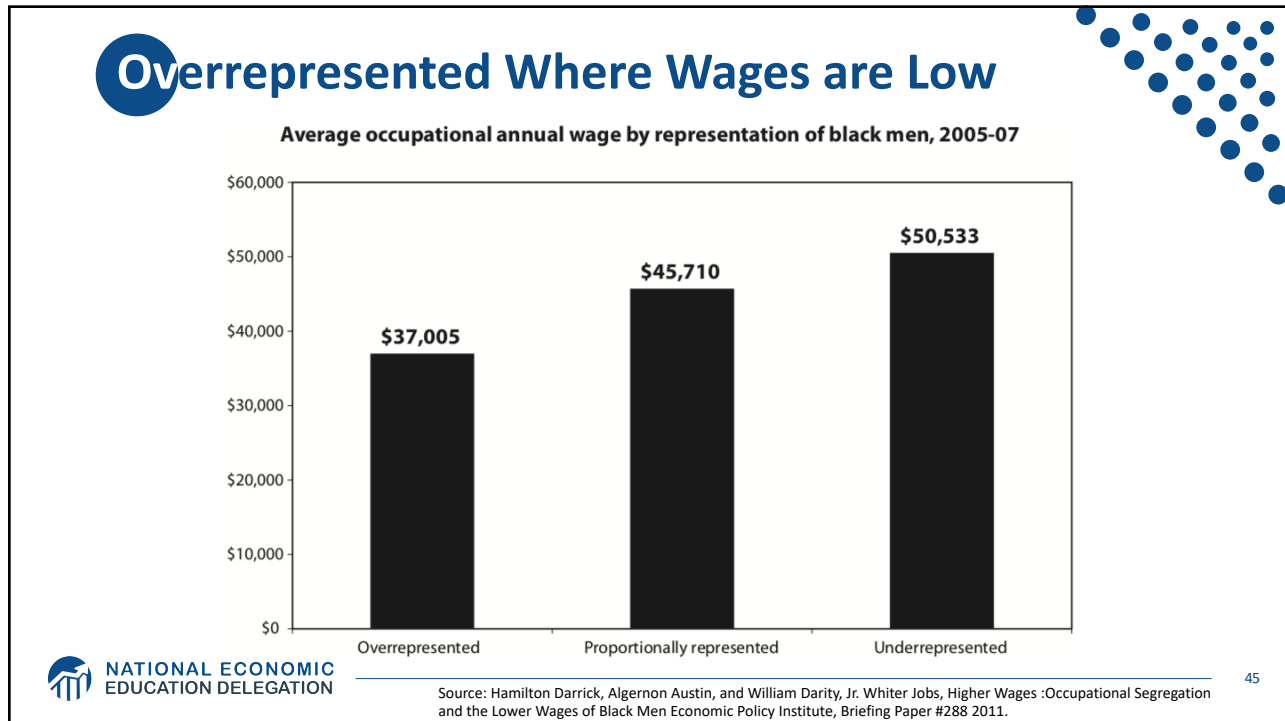


D. Average hourly earnings for women

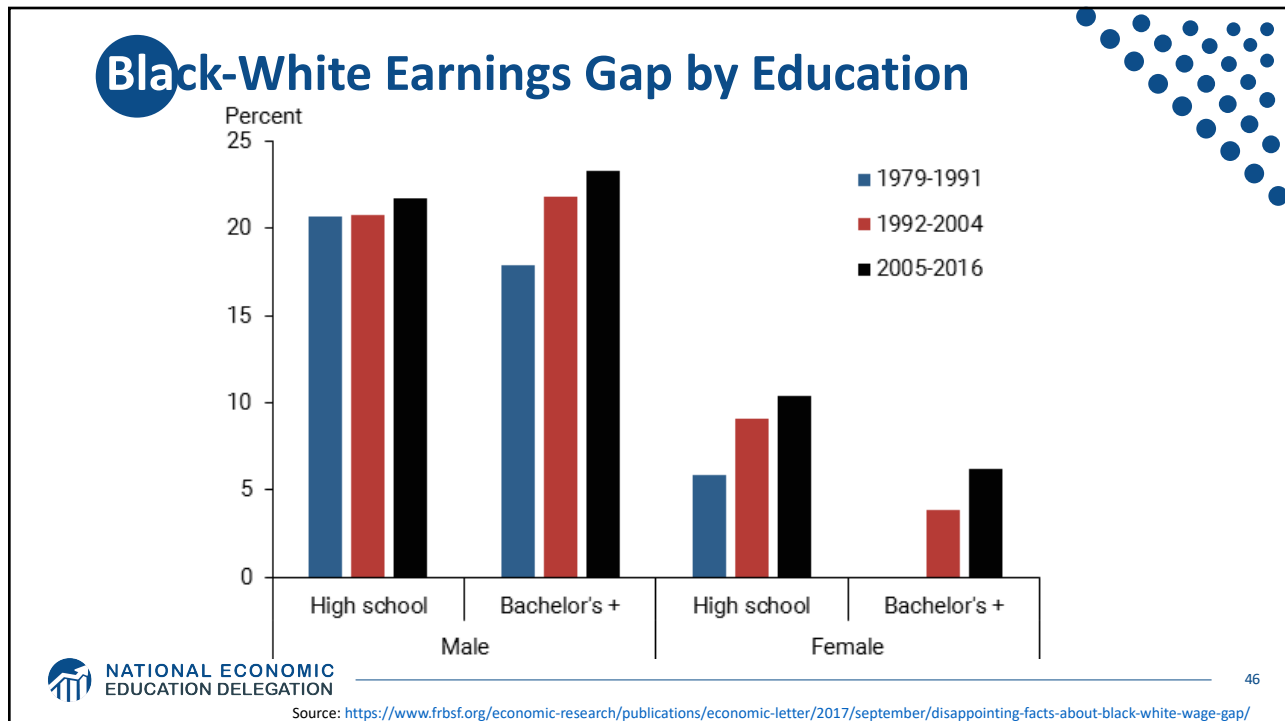


Source: <https://www.frbsf.org/economic-research/publications/economic-letter/2017/september/disappointing-facts-about-black-white-wage-gap/>

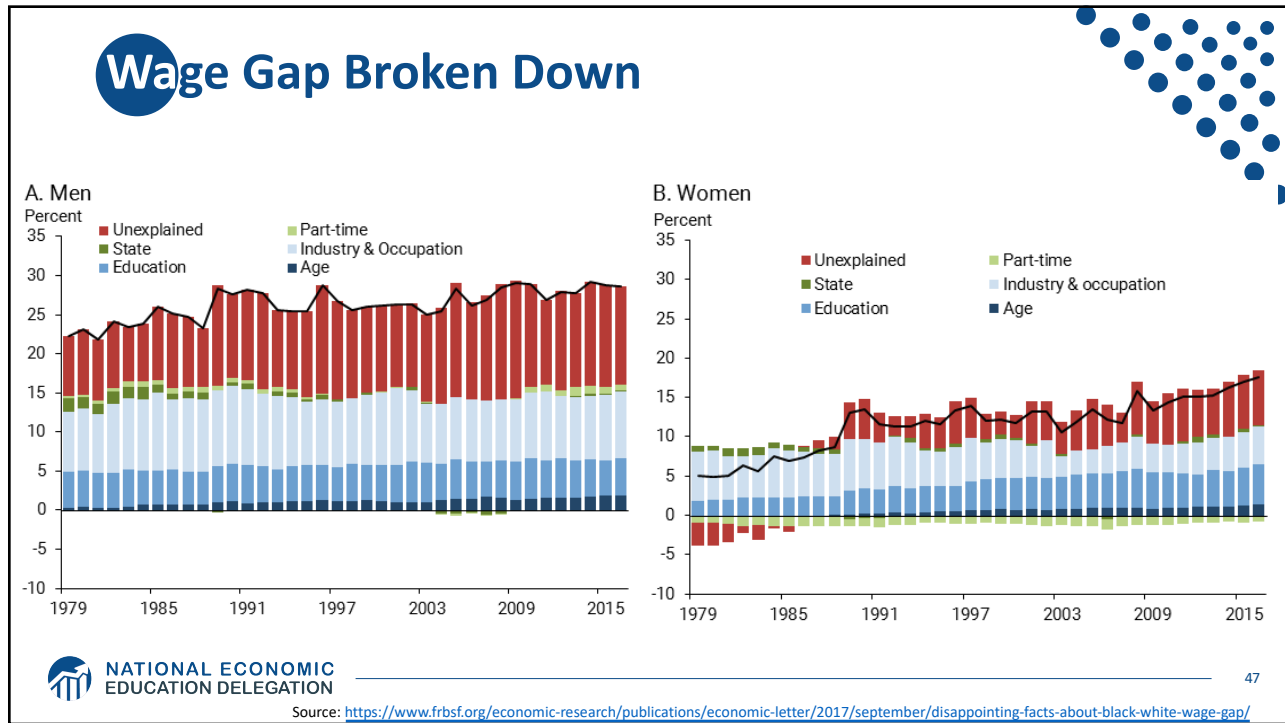
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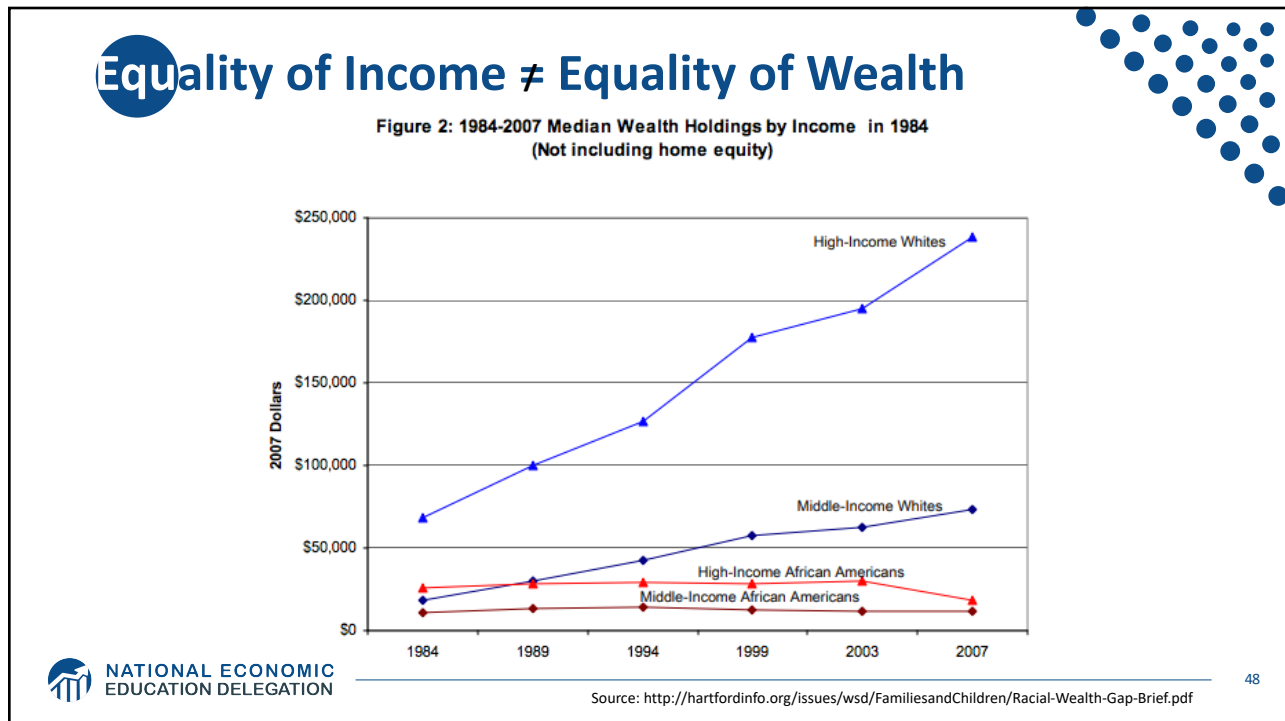
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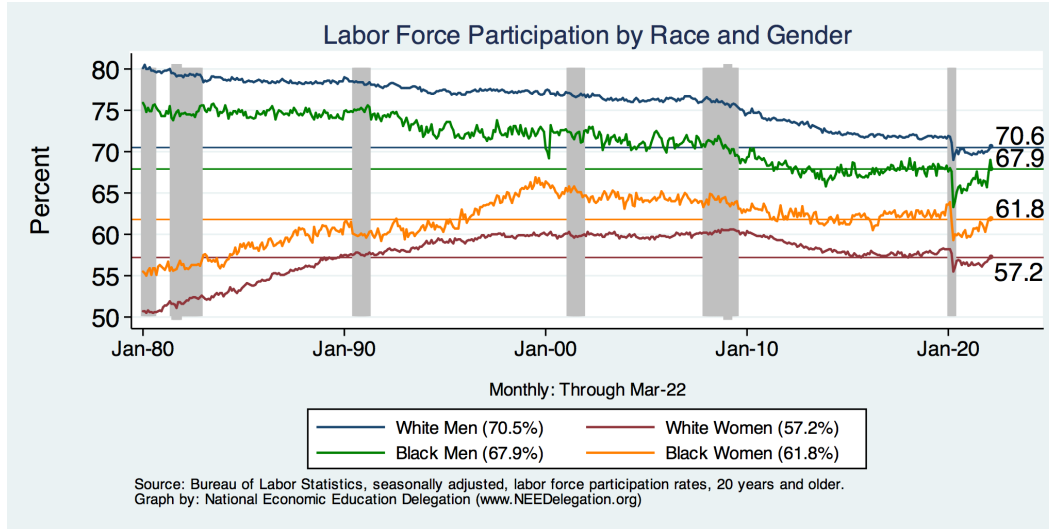


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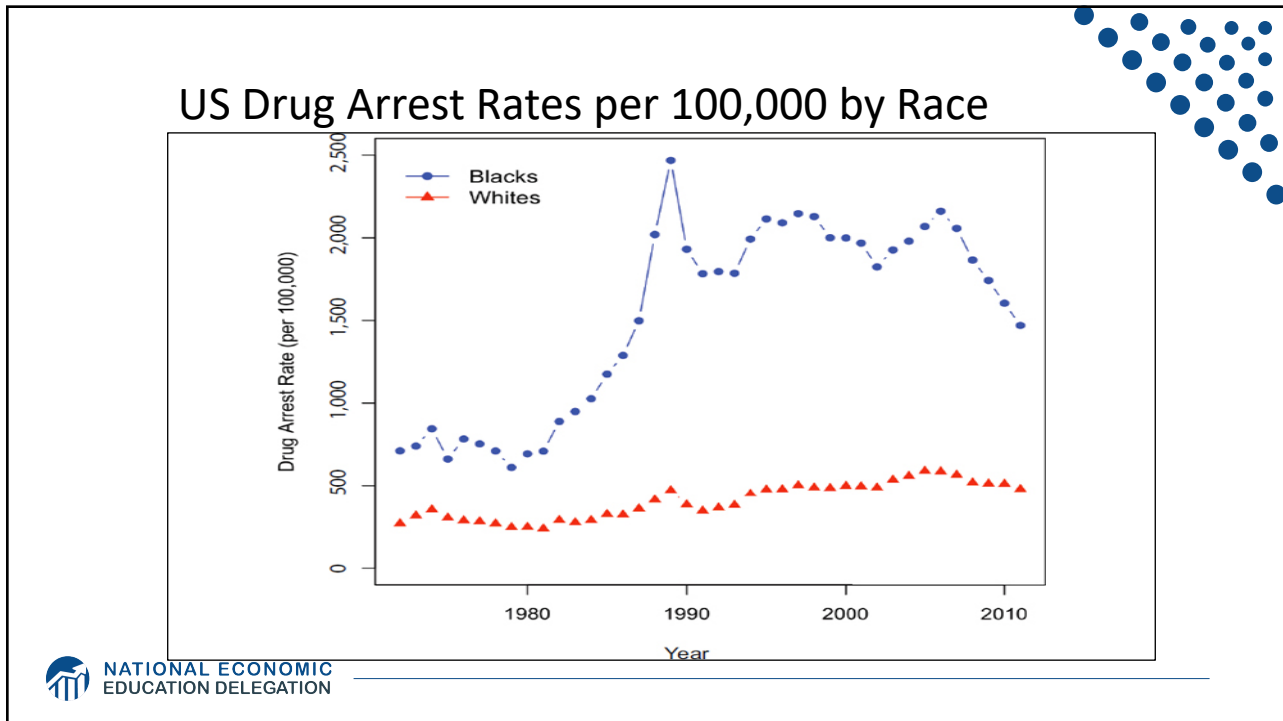
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Labor Force Participation

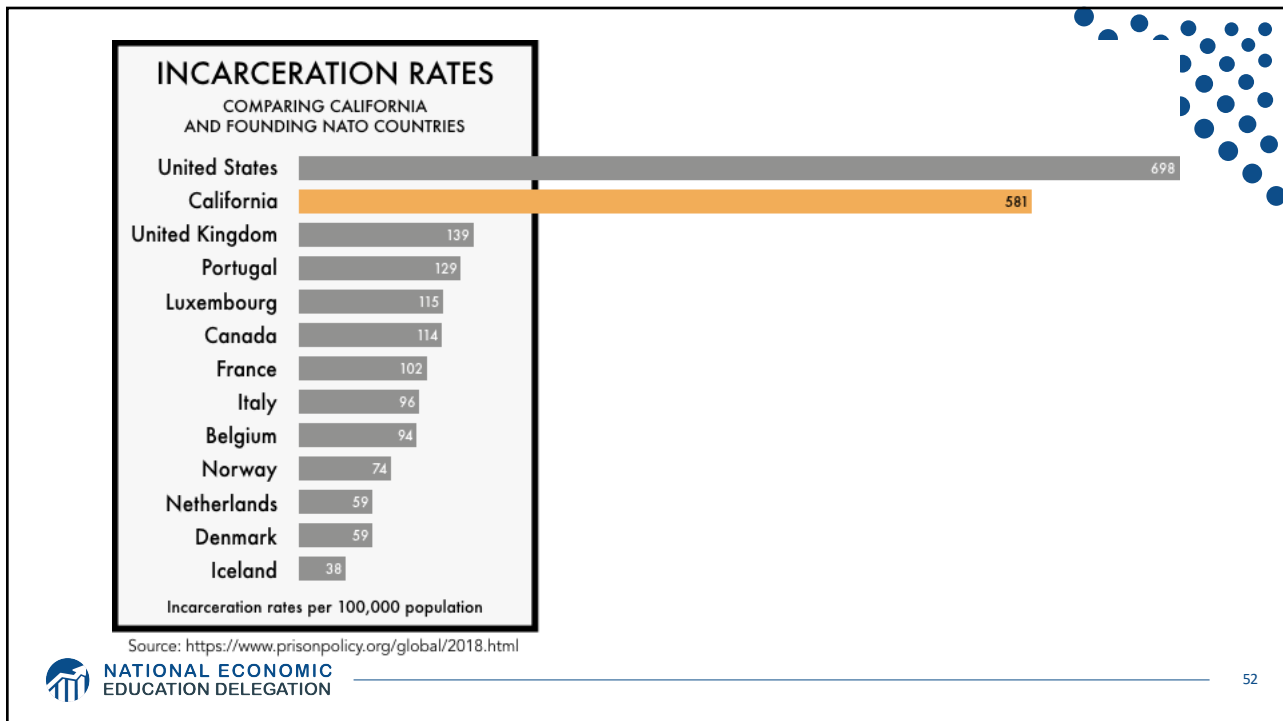


Incarceration Likely Plays A Role





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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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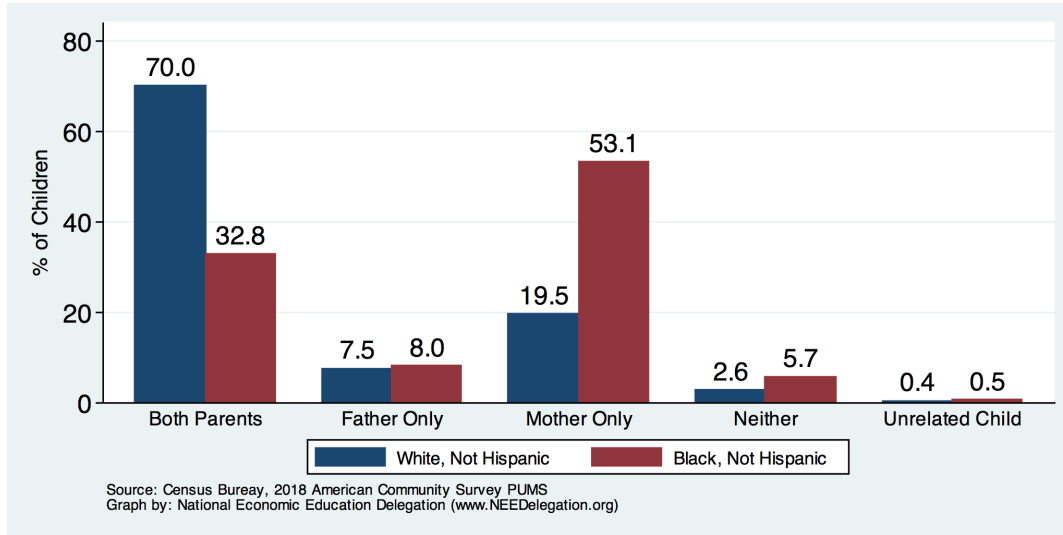
Family Structure

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

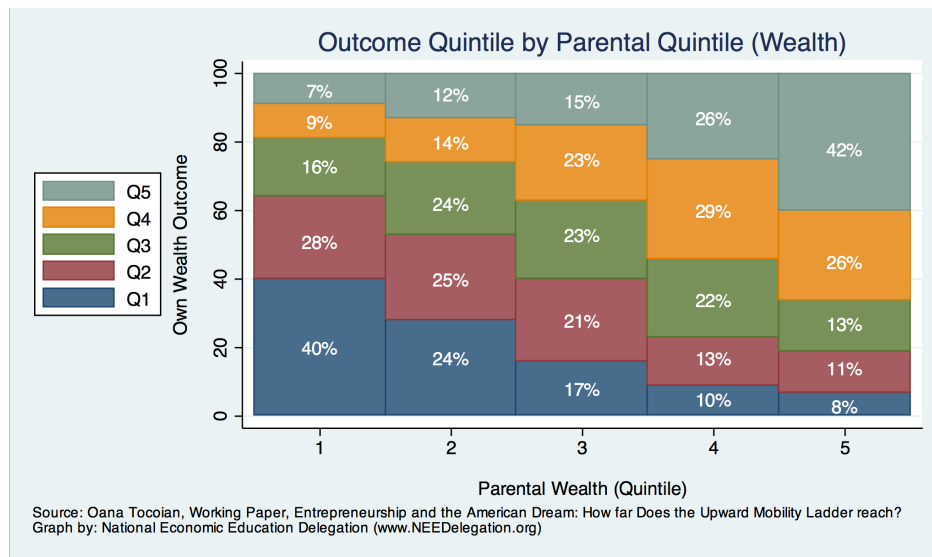
Source: Zaw, Khaing, Jhumpa Bhattachayra, Anne Price, Darrick Hamilton and William Darity, Jr. *Women, Race and Wealth* Samuel DuBois Cook Center for Social Equity and the Insight Center for Community Economic Development 2017.

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Kids – Household Types



Initial Endowment

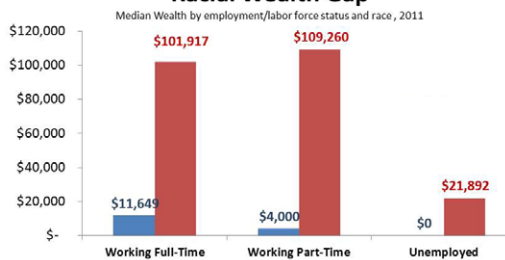


What is Fundamentally Responsible?

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

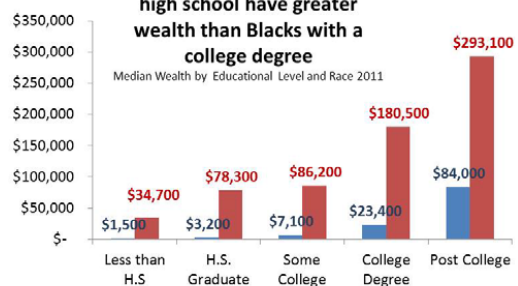
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Hard Work Isn't Enough to Close the Racial Wealth Gap

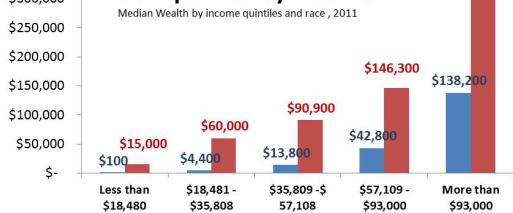


Studying hard is not enough

Whites who dropped out of high school have greater wealth than Blacks with a college degree



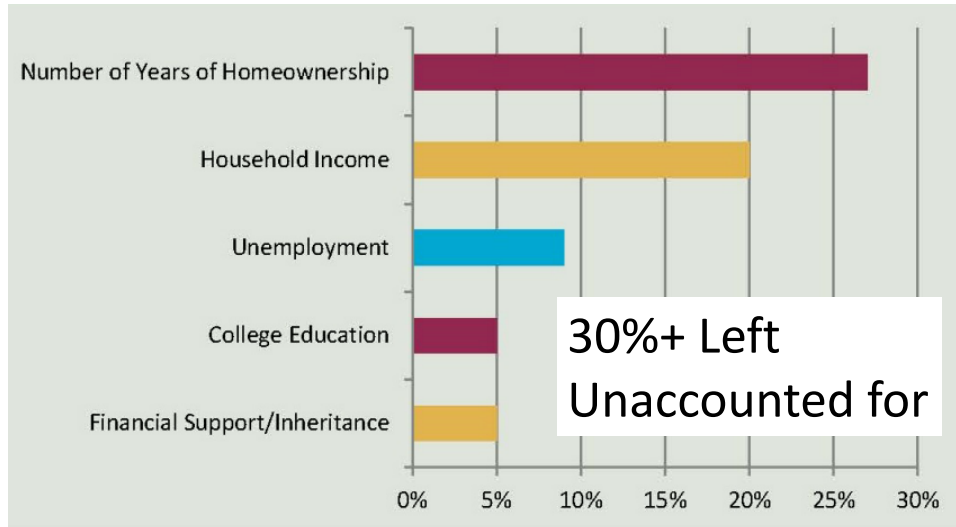
Racial Wealth Inequality is Not Explained by Income



Black
White

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Accounting for the Wealth Gap



Policy Options

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**



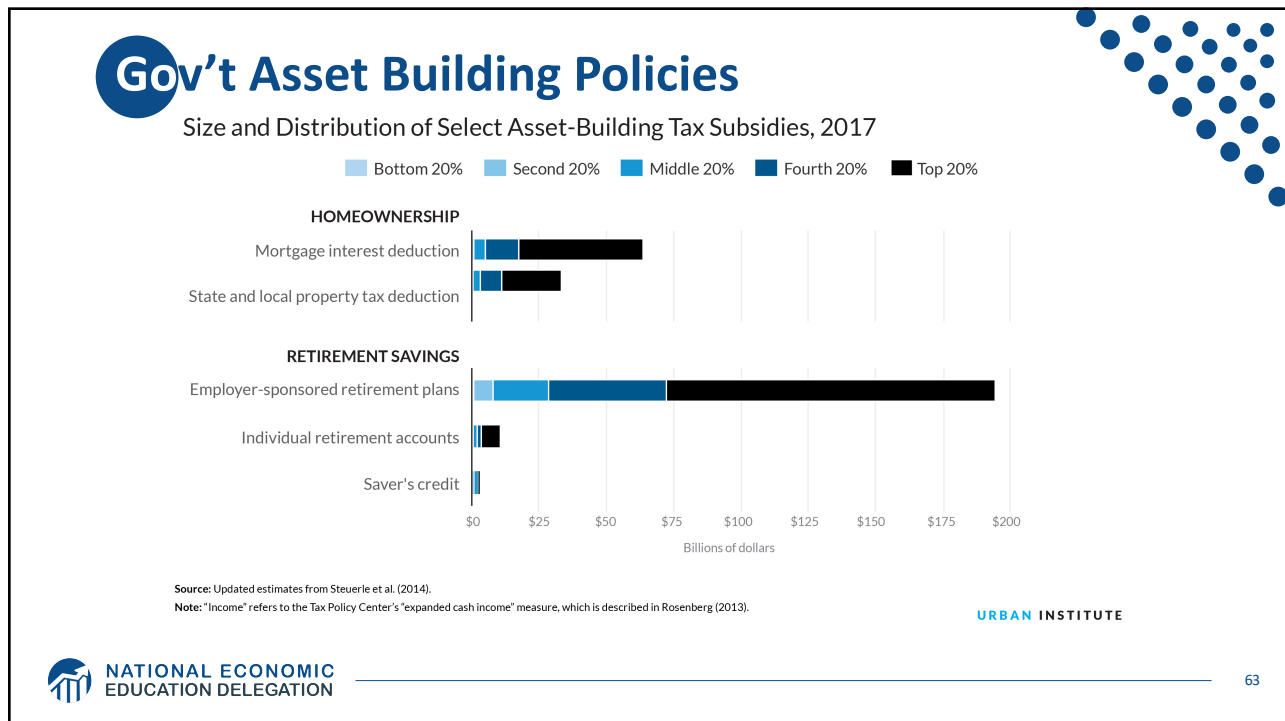
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Specific Policy Options

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

- **Common Assertion: Marshalling the enormous purchasing power of the Black community will drive progress.**
 - More than \$1.3 trillion in buying power.*
- **Common 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 held as “reserve”.
- **Suppose lent to purchase a house.**
 - That money is then deposited in a bank.
 - Most of that money is lent out.
 - The rest is held as “reserve”.
 - Suppose lent to purchase a house.
 - That money is then deposited....
- **This is how wealth is created in the banking system.**
 - Many banks are charging interest on essentially the same deposit.



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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 now go 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.
 - Capacity of banks. Capacity of depositors (3% of all U.S. wealth).

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Why the Short Circuiting of Black Banking?

Category	White	Black
Home Ownership (%)	73.7	45.0
Other Residential Property Ownership (%)	15.1	8.2
Residential Ownership (%)	75.8	12.5
Mean Asset Value (Thousands \$)		
- Own Home	354.8	199.3
- Other Residential	430.6	173.6
Share of Res. Value (%)	80.0	5.7

• Numbers of banks & credit unions

- Total: 10,655
- Black owned: 43 (0.4%)

• They are very small

- All Black owned: \$5.8 Billion
- JP Morgan Chase: \$2.8 TRILLION

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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.



Can It Be Made To Work?

- **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.**
- **Walling off isn't enough. Also need to:**
 - Capitalize the Black banking sector and economy.
 - Offer fair protections from predatory market forces.
 - Larger White banks start off with more economic power.



Summary

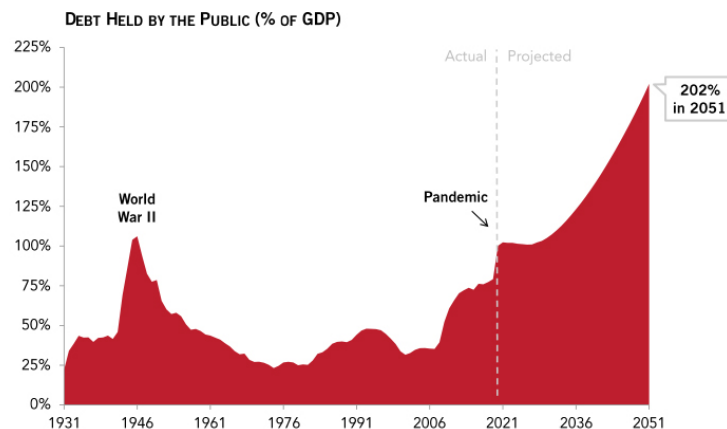
- **The Black White wealth gap is enormous (2019)**
 - Mean: White wealth is 6.9x Black wealth.
 - Median: White wealth is 7.8x Black wealth.
- **There are many explanations in the common narrative.**
 - Many do not stand up to scrutiny.
- **Government policies have contributed enormously this gap.**
 - 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.**
 - Closing the gap means that Black families have to OUTPERFORM White families.

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The Federal Debt: Brian Peterson



The national debt is on an unsustainable path

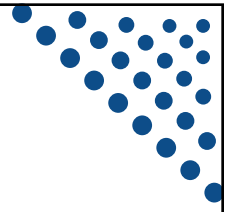


SOURCE: Congressional Budget Office, The 2021 Long-Term Budget Outlook, March 2021.
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Thank you!



Any Questions?

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