

Osher Lifelong Learning Institute, Spring 2023 **Contemporary Economic Policy Issues**

Duke University
May-June 2023

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



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**
- **Healthcare Economics**



Course Outline

• Contemporary Economic Policy

- Week 1 (5/2): US Economic Update (Geoffrey Woglom, Amherst College)
- Week 2 (5/9): Monetary Policy (Geoffrey Woglom)
- Week 3 (5/16): Healthcare Economics (Kelley Cullen, E. Washington University)
- Week 4 (5/23): Climate Change Economics (Sarah Jacobson, Williams College)
- **Week 5 (5/30): The Black-White Wealth Gap (Mike Shor, Univ. of Connecticut)**
- Week 6 (6/6): Federal Debt (Jon Haveman, NEED)

3



The Black-White Wealth Gap

Mike Shor, Ph.D.

Duke University
May 30, 2023



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.**
 - 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)...



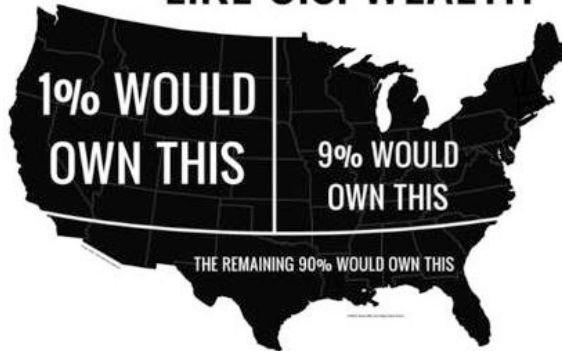
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Evidence

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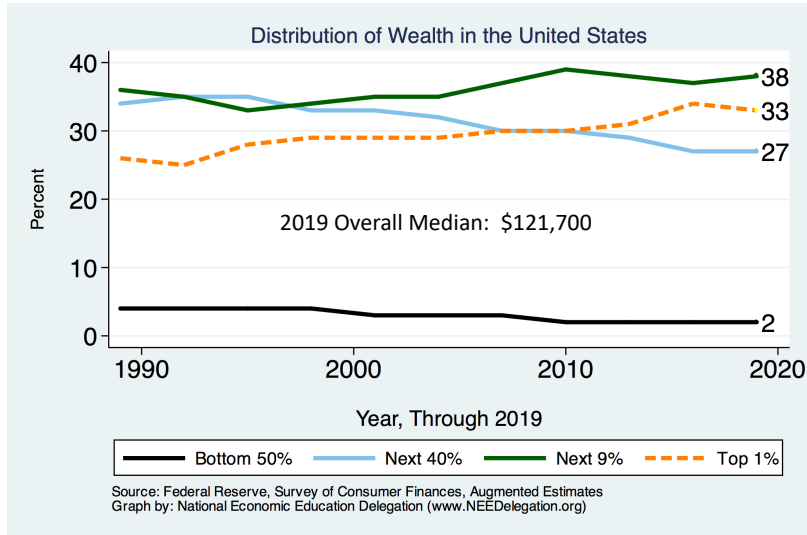
Wealth inequality in America

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

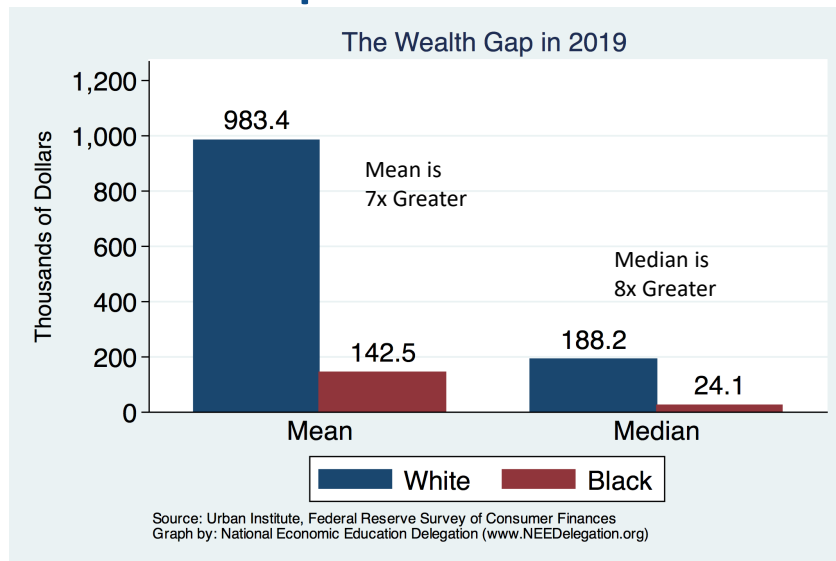


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Overall Wealth Distribution



Evidence of the Gap

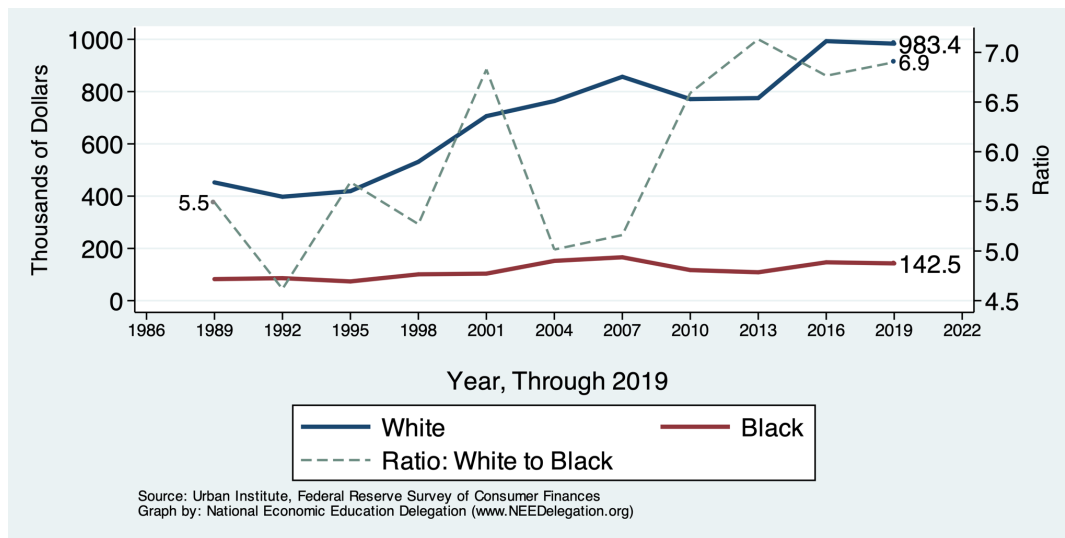


Wealth Disparities, 2019

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

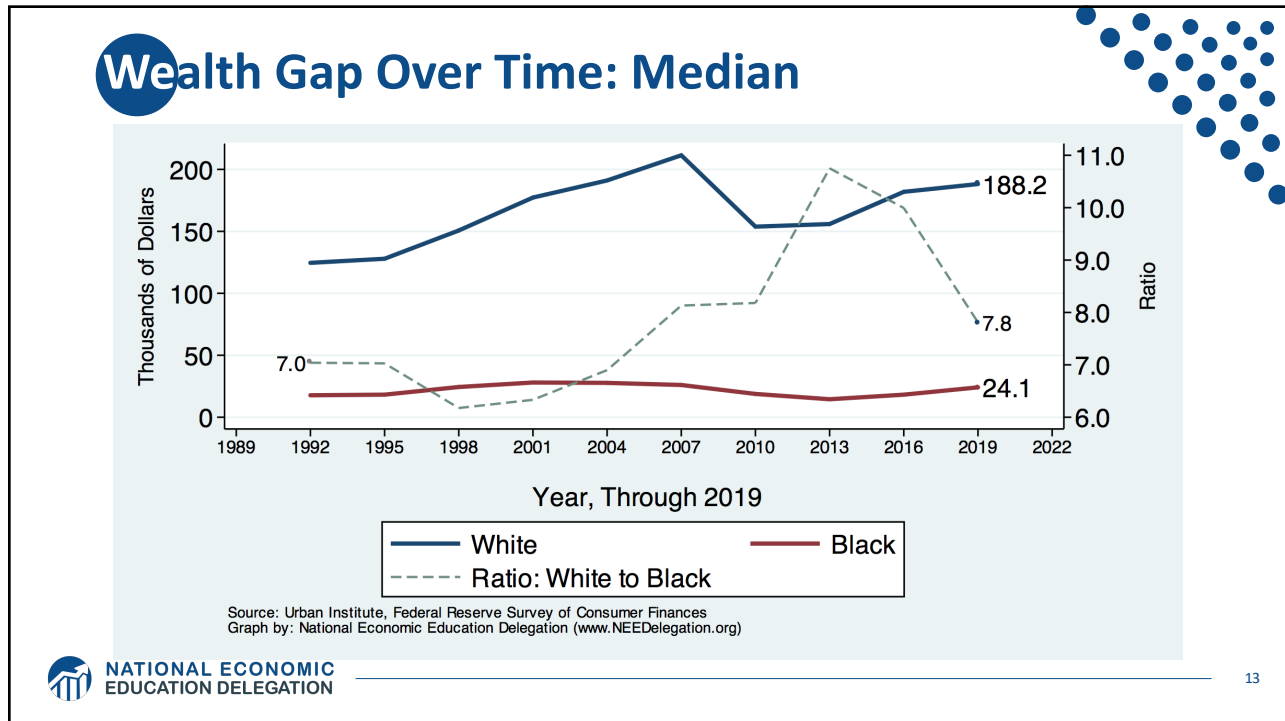
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Wealth Gap Over Time: Mean

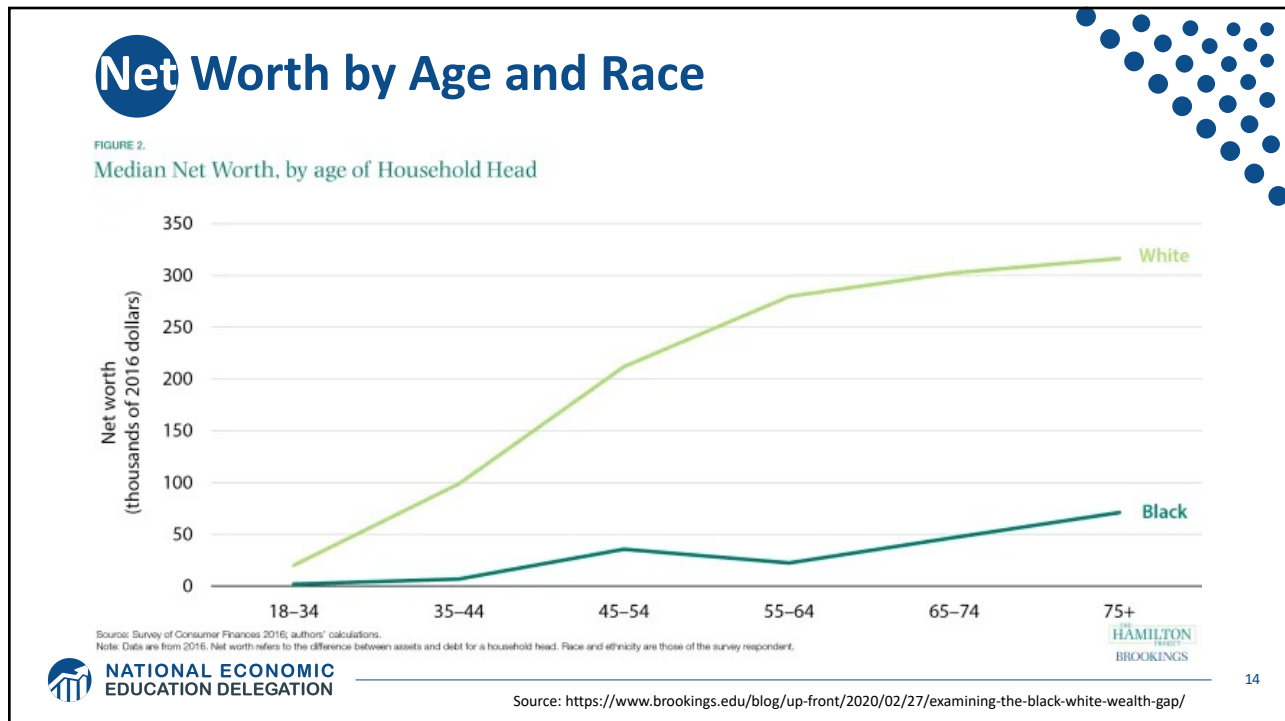


Source: Urban Institute, Federal Reserve Survey of Consumer Finances
Graph by: National Economic Education Delegation (www.NEEDelegation.org)

12

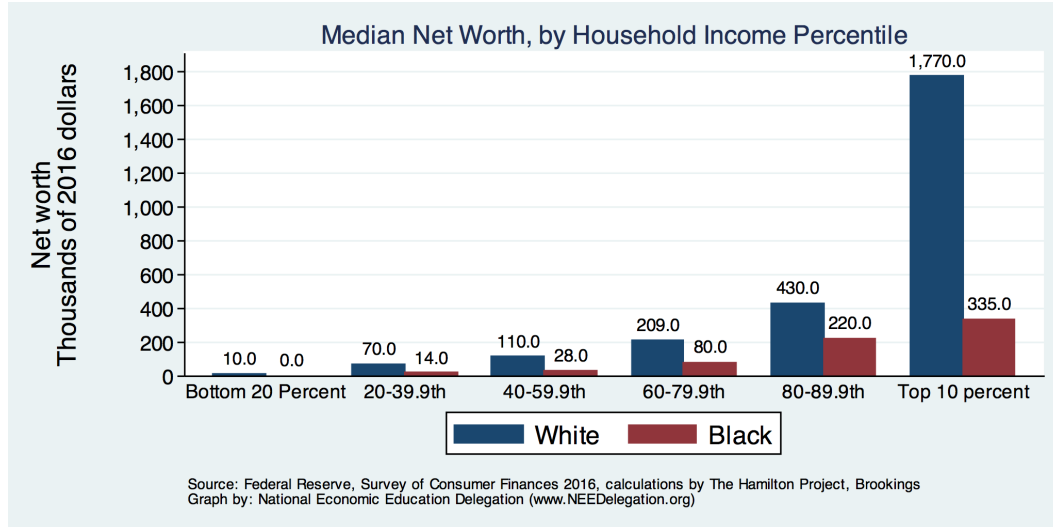


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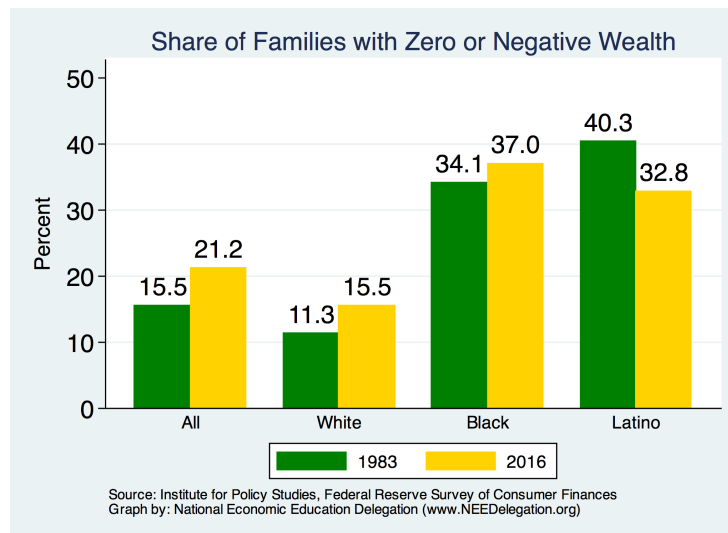
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Net Worth by Household Income



15

Evidence of Disparities: Zero Wealth



16

Why Wealth is Important



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17

17

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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18

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.



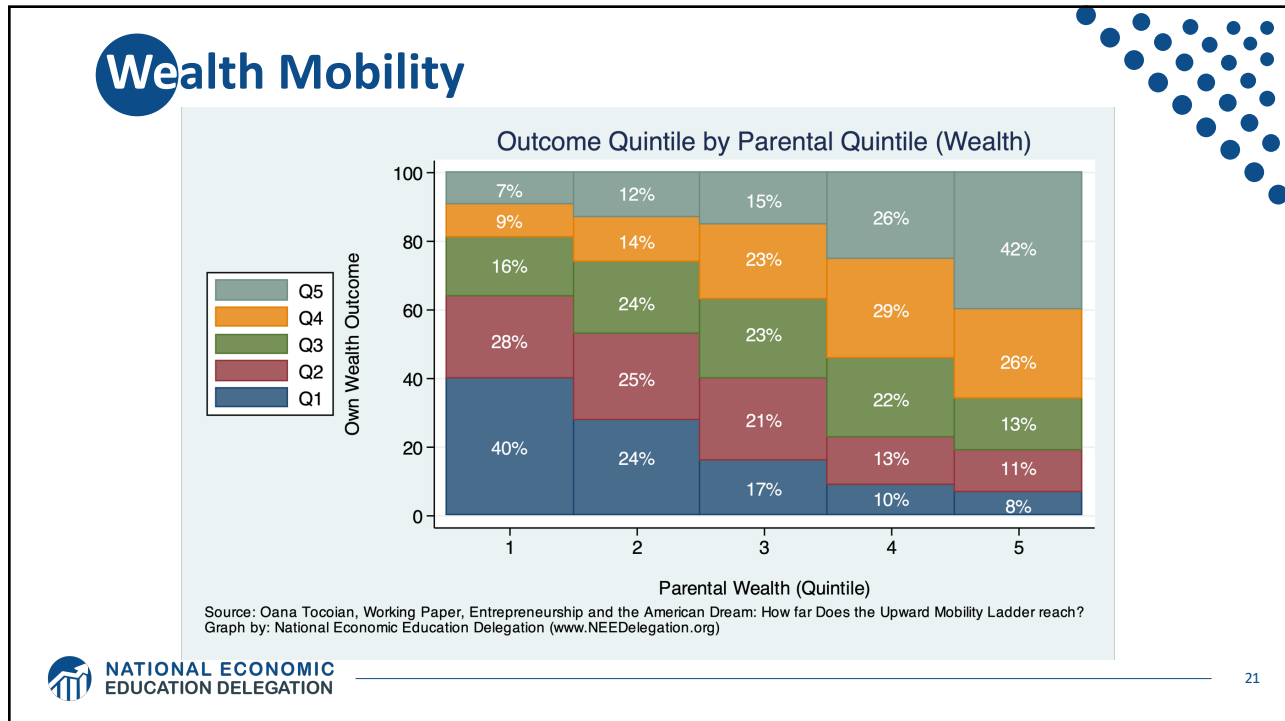
Parental Wealth is Important

- **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.**





21

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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22

Sources of Disparities



23

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.**



24

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.*



25

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 |



26

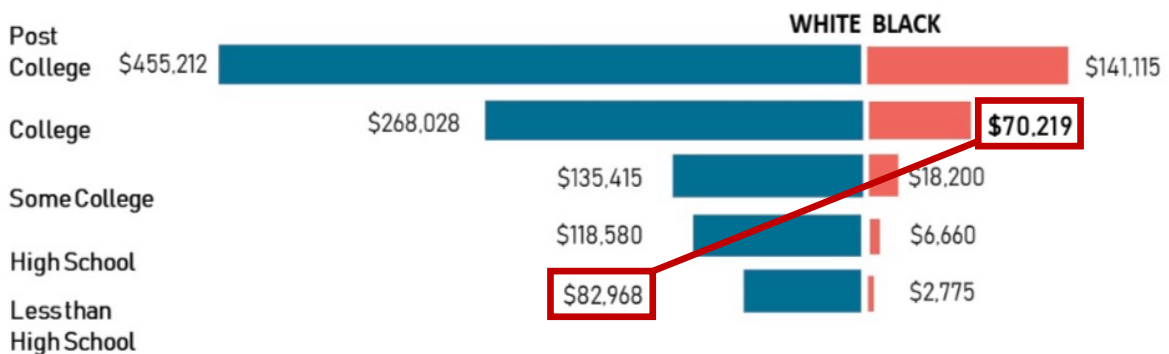
Wealth by Educational Attainment

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

27

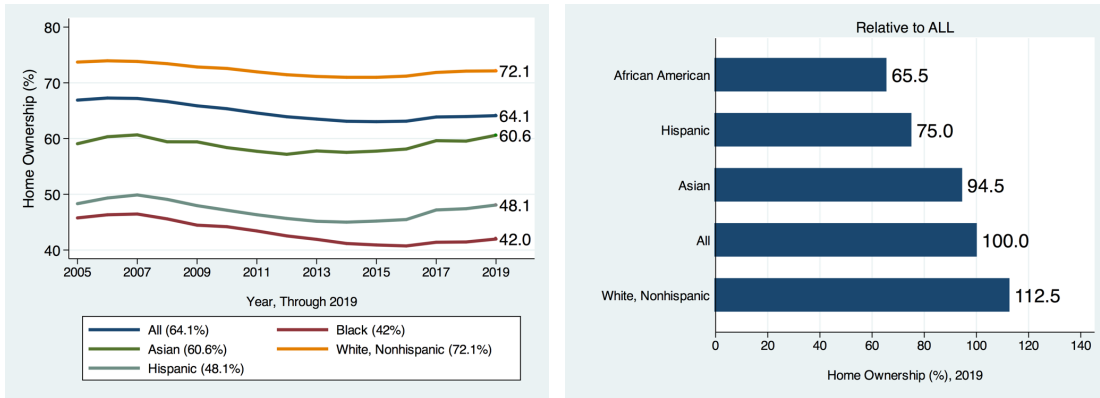
Educational Attainment

Median Household Net Worth by Race and Education



28

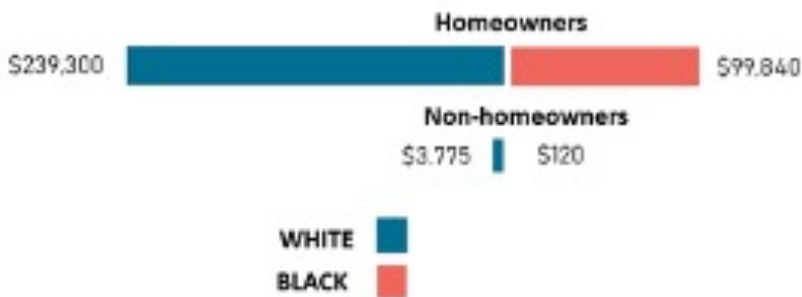
Home Ownership: Households



29

Home Ownership

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



30

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

31

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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32

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.



33

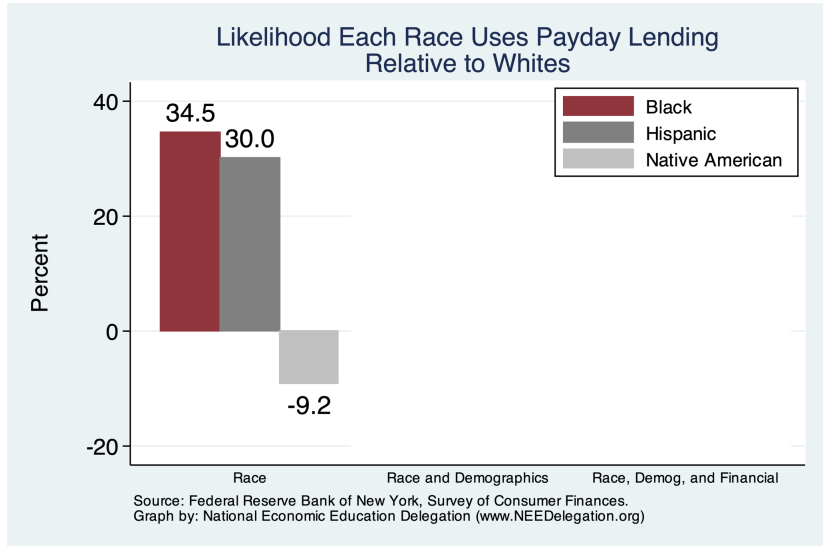
Financial Literacy

- **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.**



34

Use of Payday Lenders

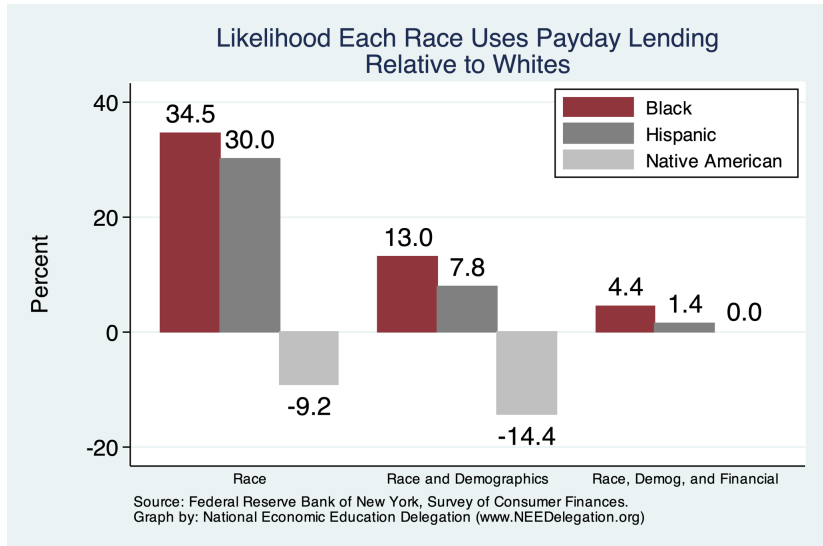


Source: Federal Reserve Bank of New York; Survey of Consumer Finances

35

35

Use of Payday Lenders

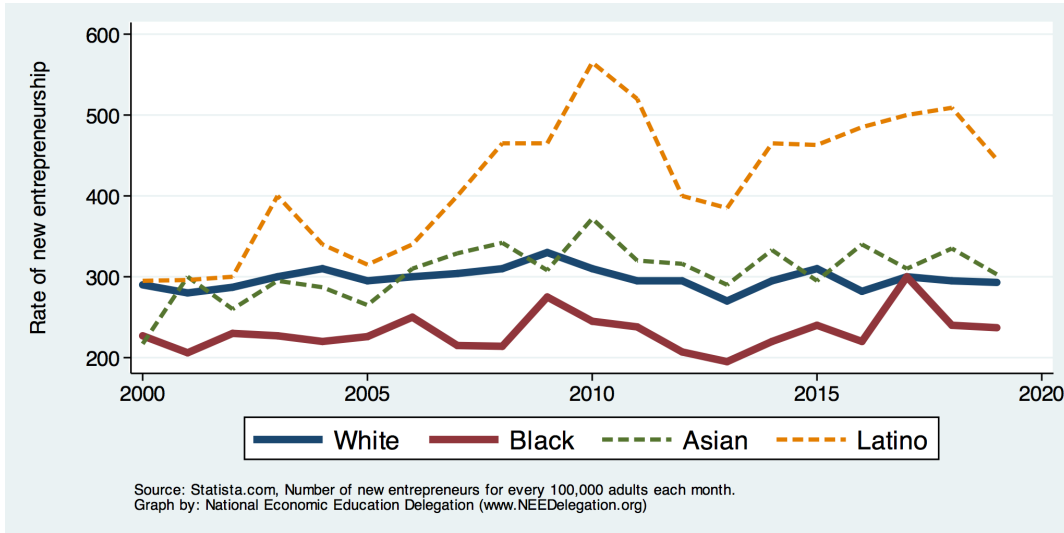


Source: Federal Reserve Bank of New York; Survey of Consumer Finances

36

36

Entrepreneurship: Rate of New Entrepreneurs



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Source: Statista

37

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.**



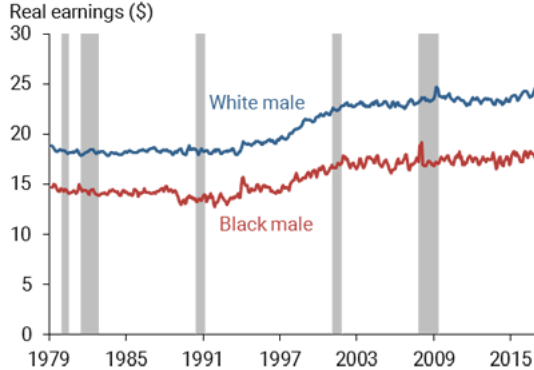
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38

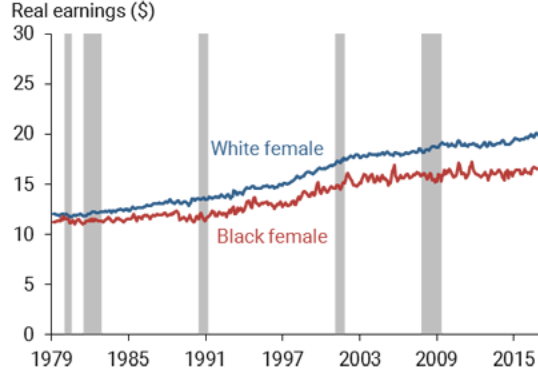
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Wage Gap: Controlling for education, age, job type.

C. Average hourly earnings for men



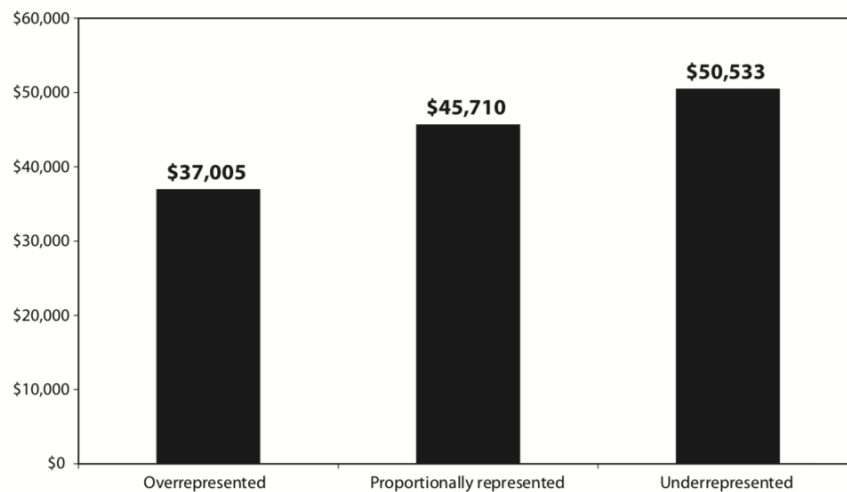
D. Average hourly earnings for women



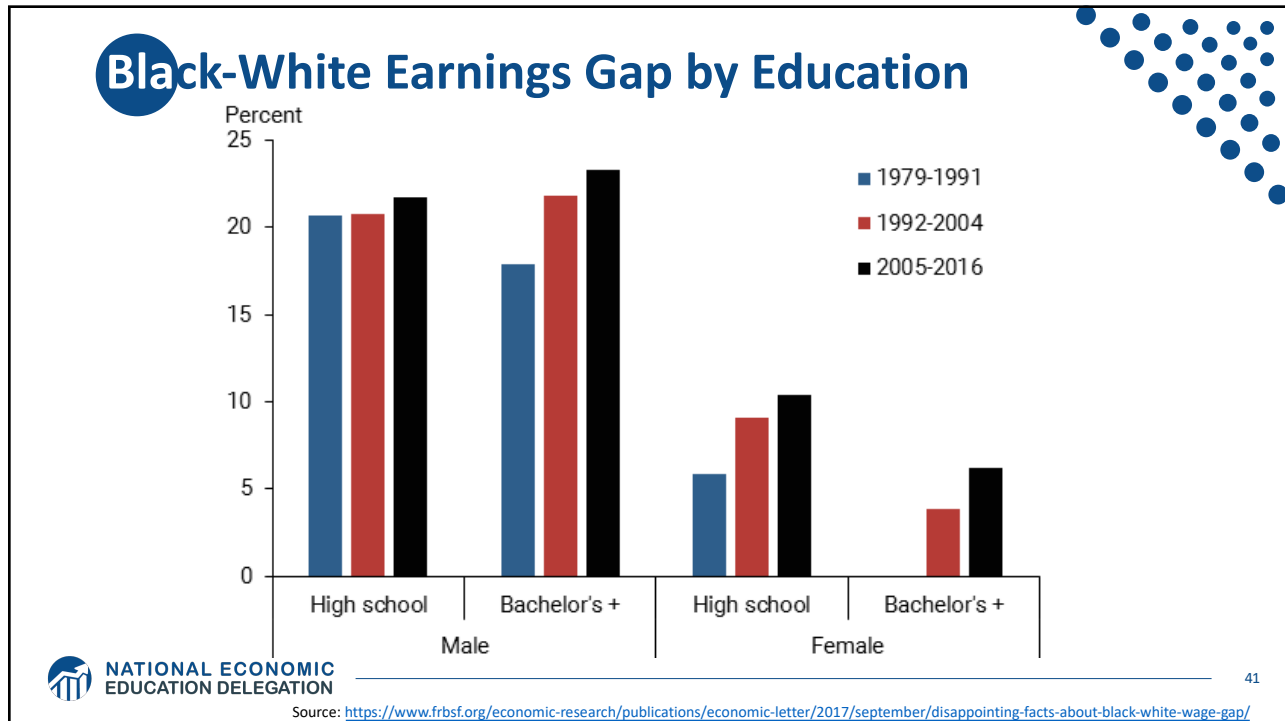
Source: <https://www.frbsf.org/economic-research/publications/economic-letter/2017/september/disappointing-facts-about-black-white-wage-gap/>

Overrepresented Where Wages are Low

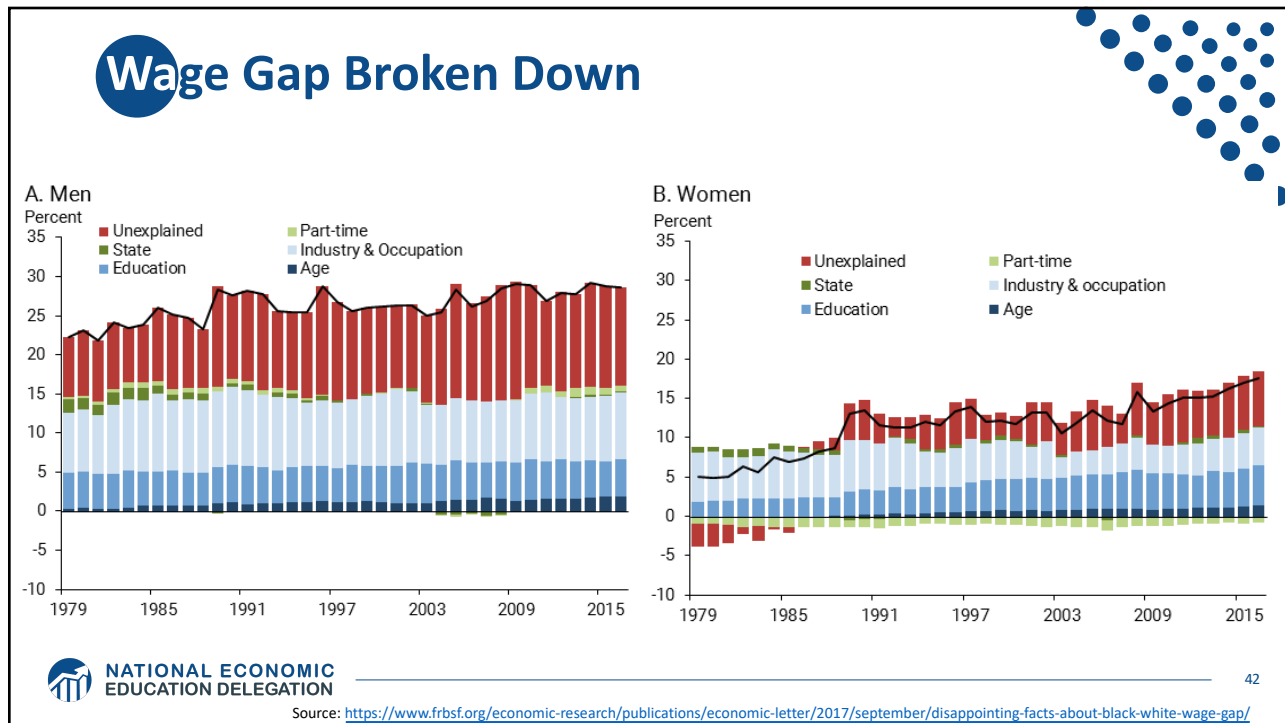
Average occupational annual wage by representation of black men, 2005-07



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.



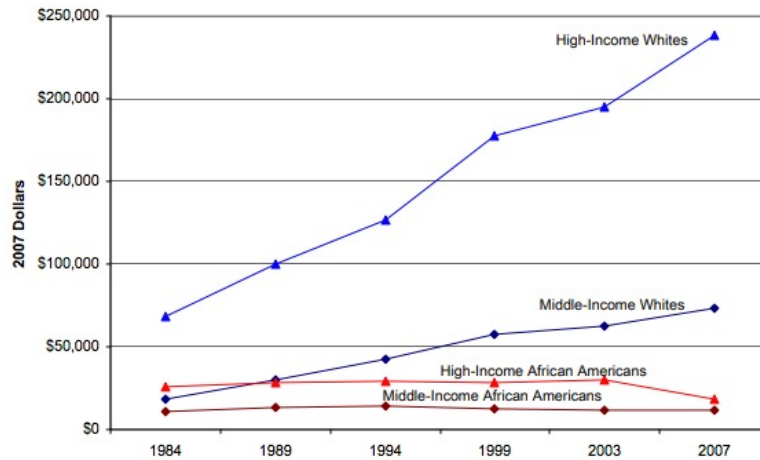
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42

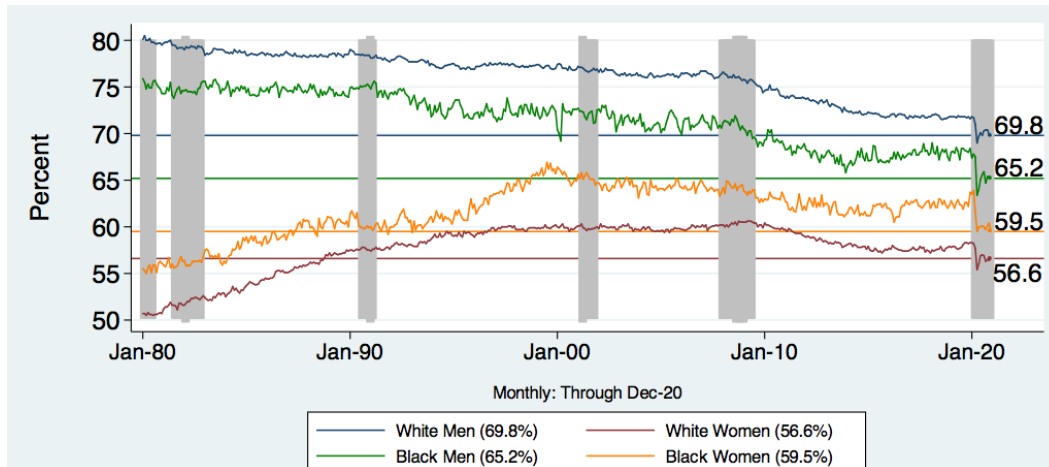
Equality of Income ≠ Equality of Wealth

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



43

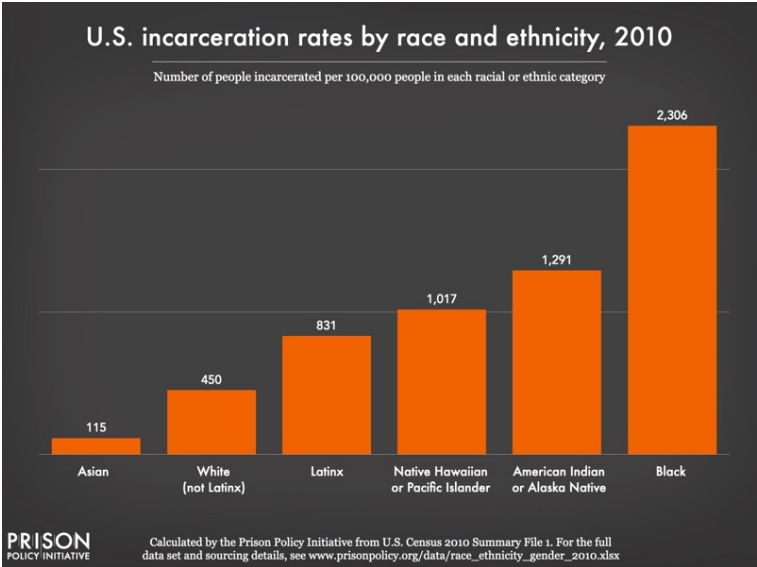
Labor Force Participation



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

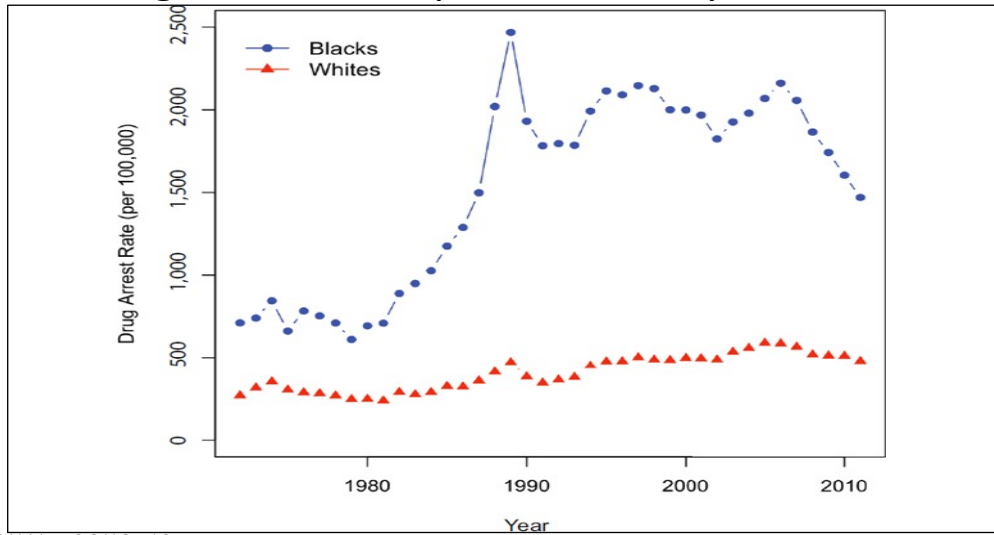
44

Incarceration Likely Plays A Role



45

US Drug Arrest Rates per 100,000 by Race



46

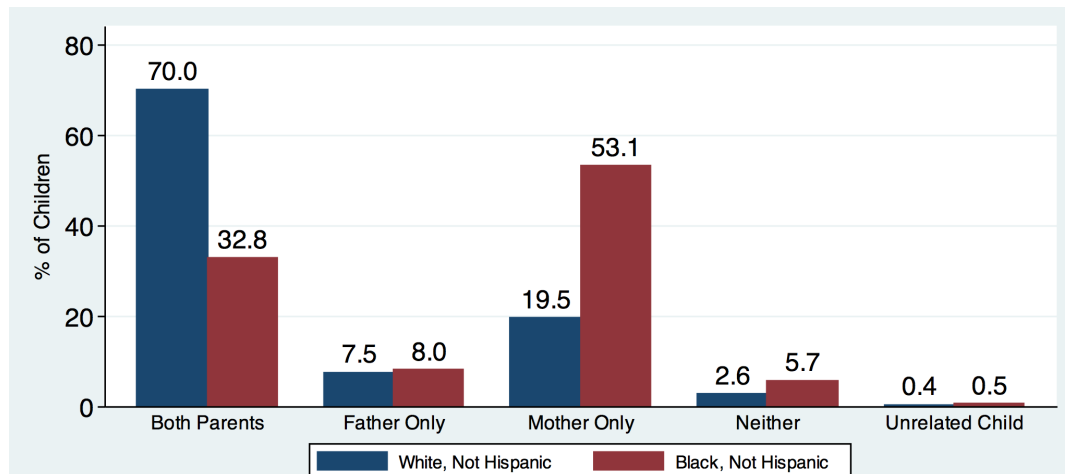
Family Structure

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.

47

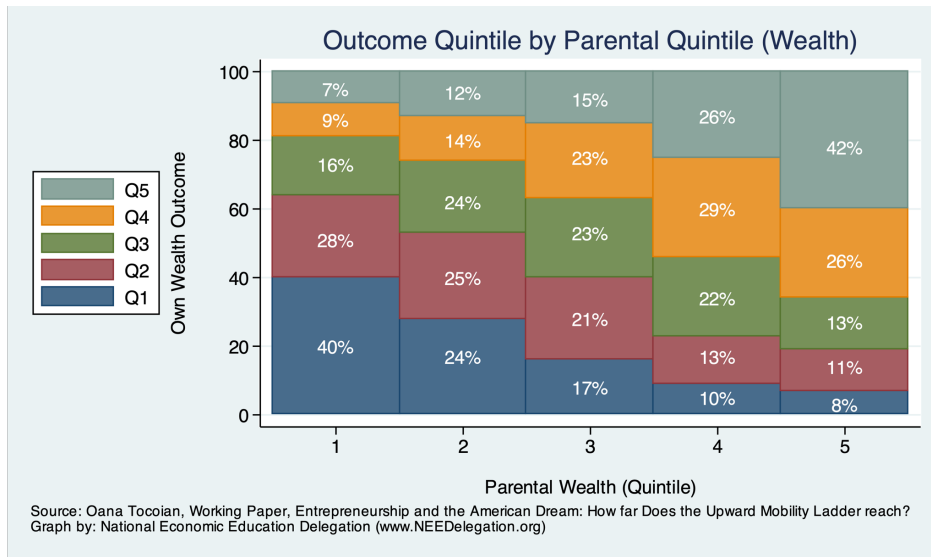
Kids – Household Types



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

48

Initial Endowment

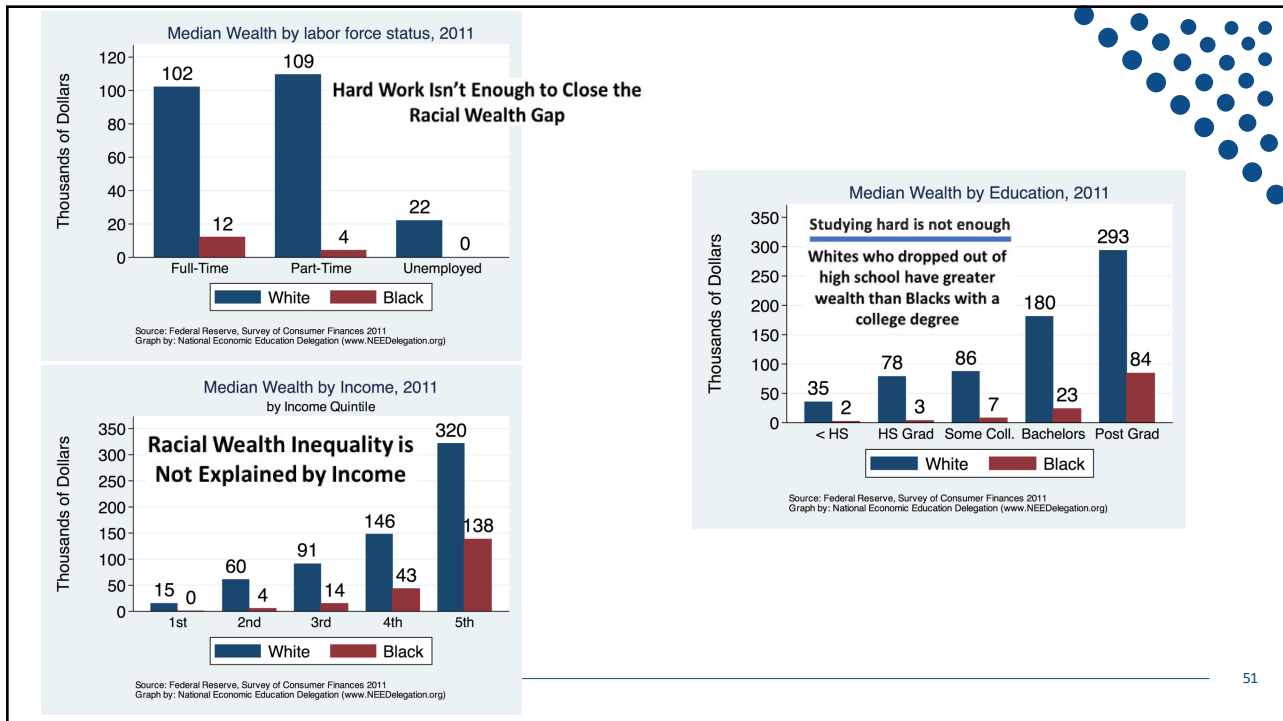


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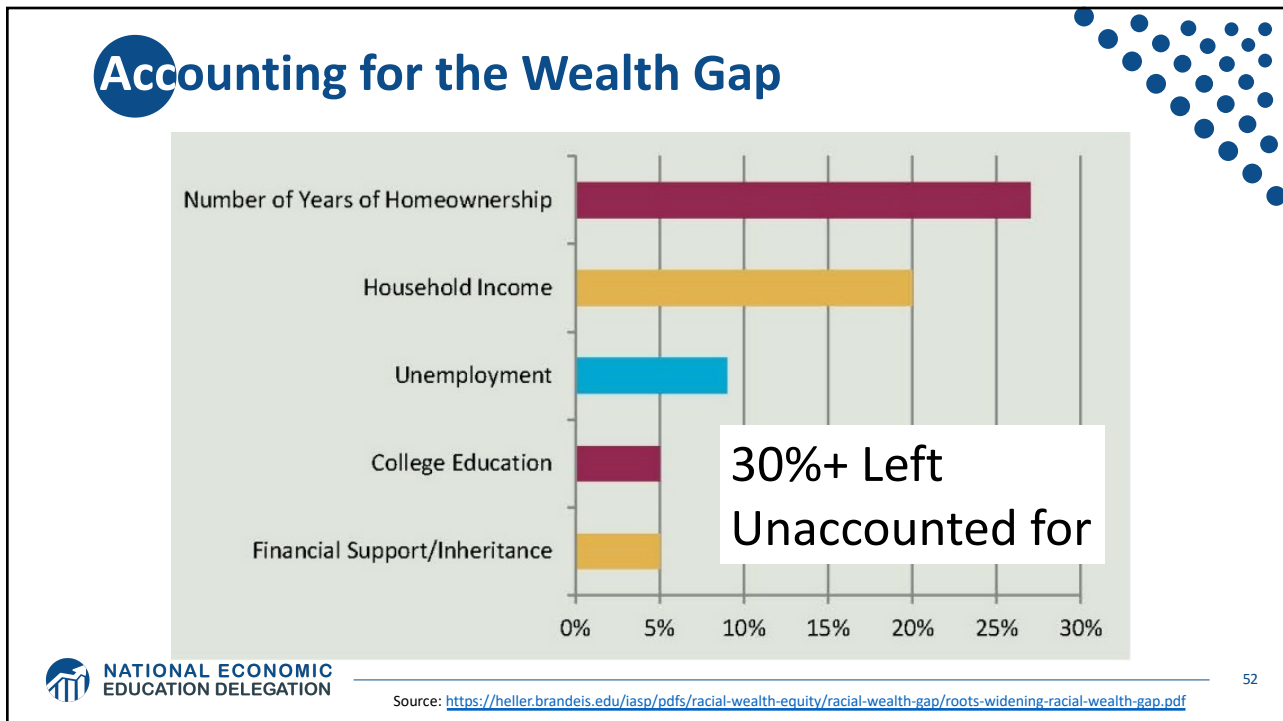
What is Fundamentally Responsible?

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

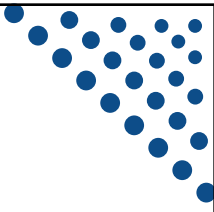
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51



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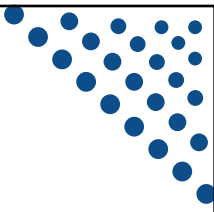


Policy Options

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53

53



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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54

54

Specific Policy Options

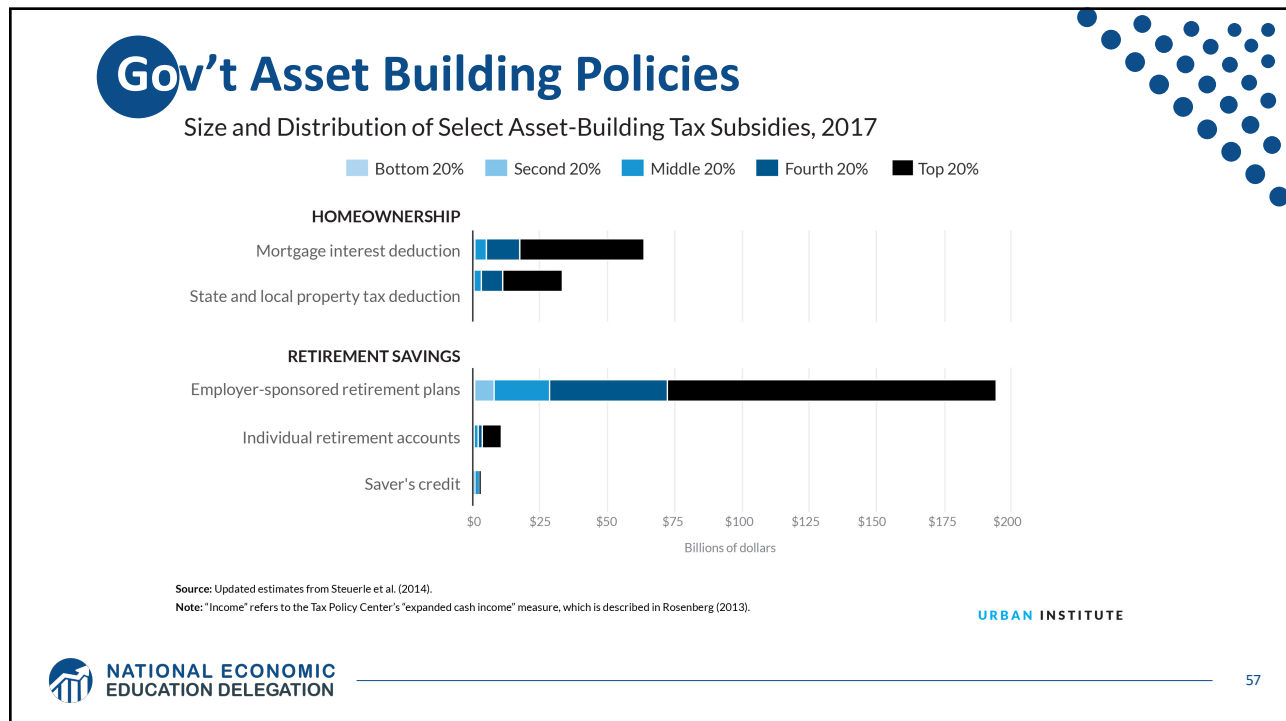
- **Global solutions that affect all source areas**
 - Child Trust Accounts – “Baby Bonds”
 - Guaranteed minimum income
- **Addressing racial disparities directly**
 - Reparations
 - Aggressive affirmative action.
 - A new Homestead Act.
 - Heavily investing in Black communities.
 - Differential tax 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.

55

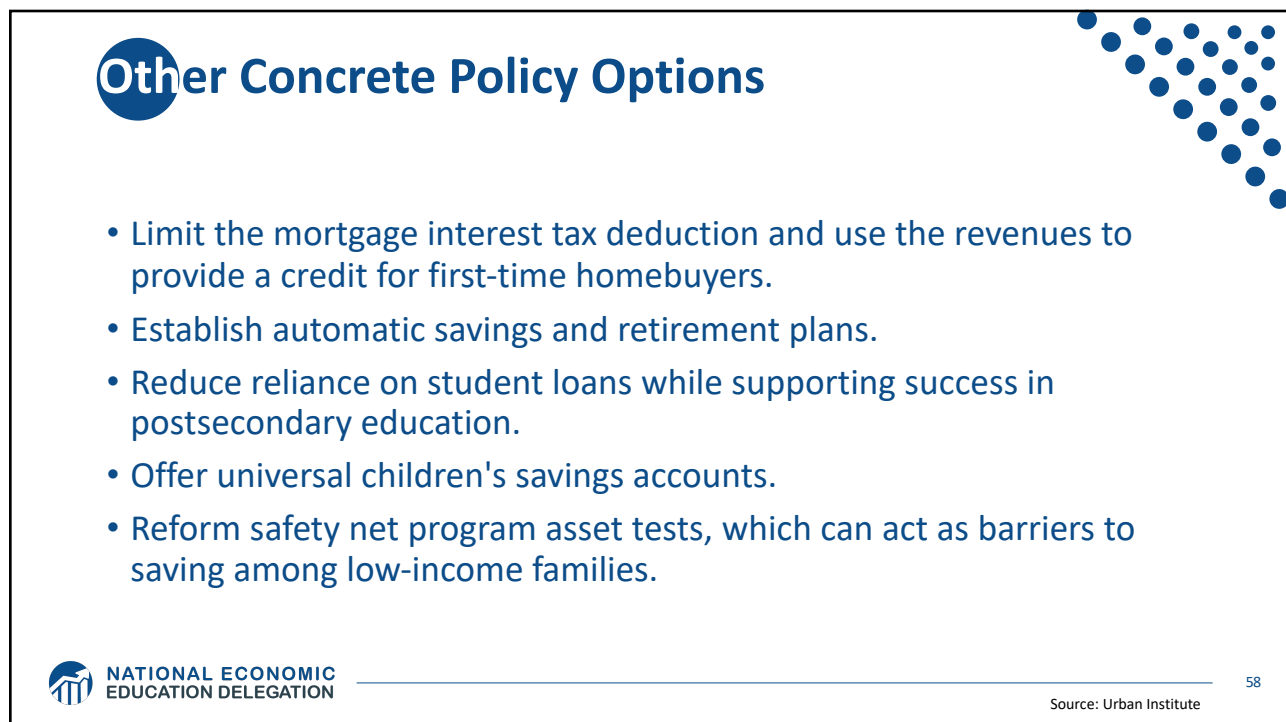
Reform Criminal Justice System

- **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

56



57



58

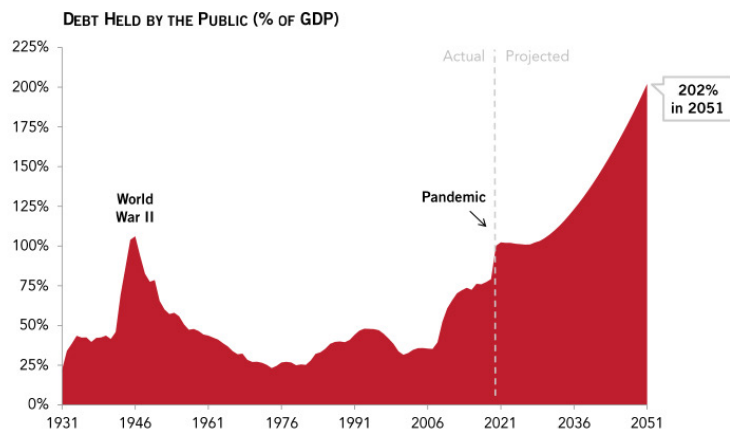
Summary

- **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.**

The Federal Debt: Jon Haveman



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?

www.NEEDecon.org

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