



# *Osher Lifelong Learning Institute, Fall 2022* **Contemporary Economic Policy Issues**

University of New Mexico  
November, 2022

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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
- Healthcare Economics

2

## Course Outline

- **Contemporary Economic Policy:**

- Week 1 (11/1): US Economic Update (Jon Haveman, NEED)
- Week 2 (11/8): Economic Inequality (Adina Ardelean, Santa Clara University)
- Week 3 (11/15): Economic Mobility (Kathryn Wilson, Kent State University)
- **Week 4 (11/29): The Black-White Wealth Gap (Jon Haveman, NEED)**



3

## Submitting Questions

- **Please submit questions of clarification in the chat.**
  - I will try to handle them as they come up.
- **We will do a verbal Q&A once the material has been presented.**
- **Slides will be available from the NEED website tomorrow ([https://needelegation.org/delivered\\_presentations.php](https://needelegation.org/delivered_presentations.php))**



4



# The Black-White Wealth Gap

*November 29, 2022*

Jon Haveman, Ph.D.

National Economic Education Delegation



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5

5

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- **This slide deck was authored by:**
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6

6

## Outline

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



7

## 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...

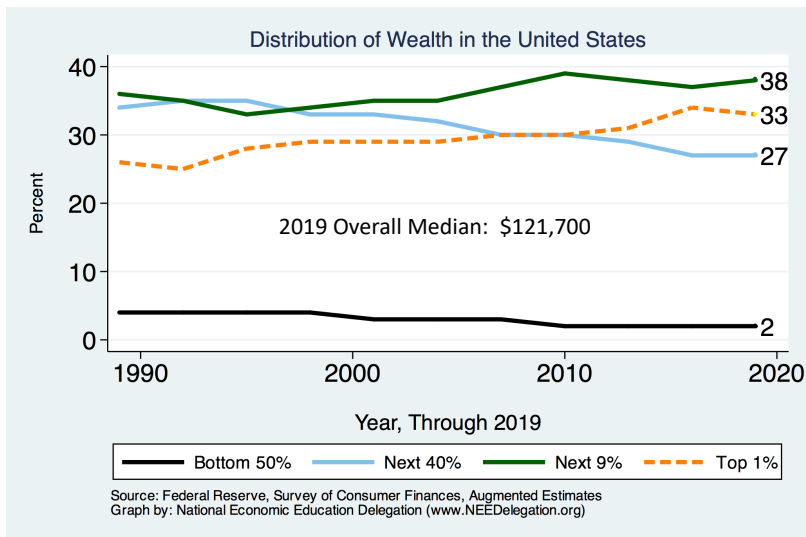
### • Debts include:

- Home mortgages, car loans, credit cards, and any other significant financial obligations (excl regular bills)...



8

## Overall Wealth Distribution

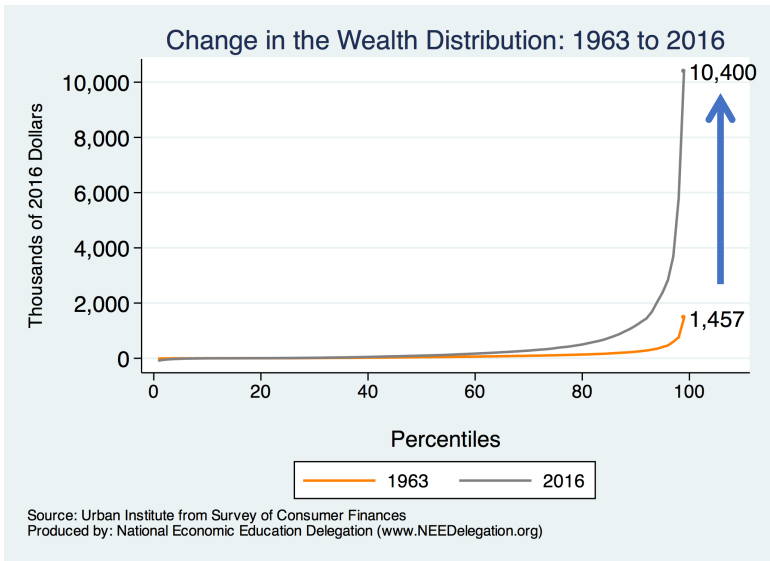


## Wealth inequality in America

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



# Wealth is More and More Concentrated

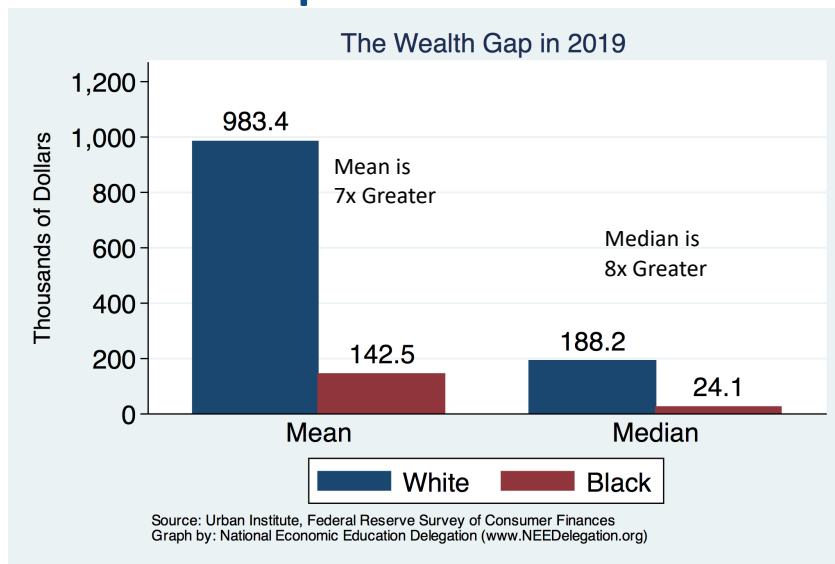


11

# Evidence

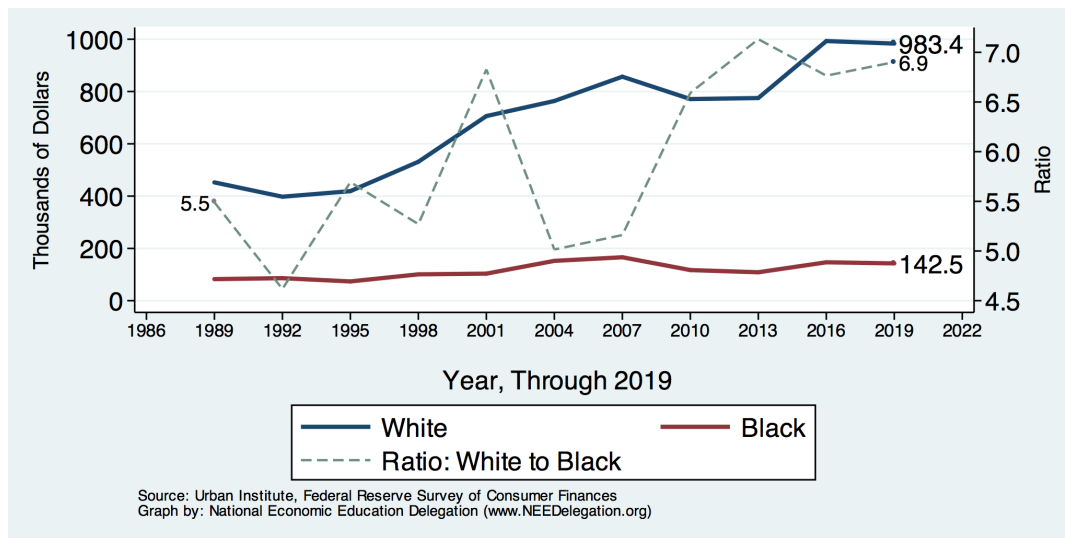
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## Evidence of the Gap



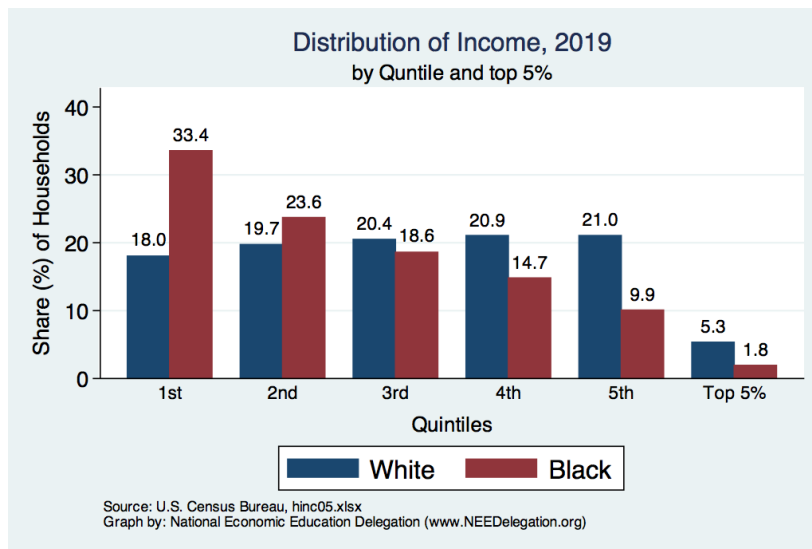
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## Wealth Gap Over Time: Mean



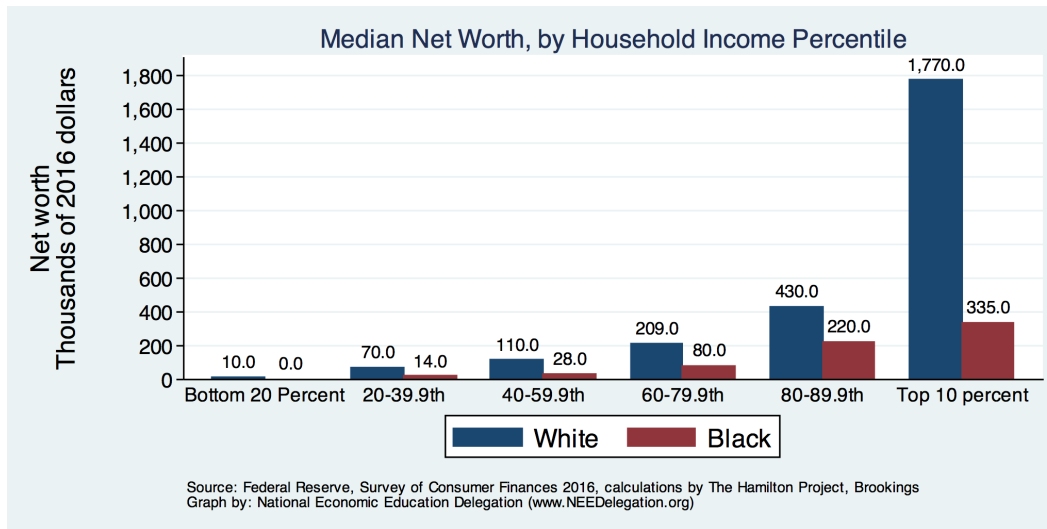
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## Black Household Incomes Relative to White



15

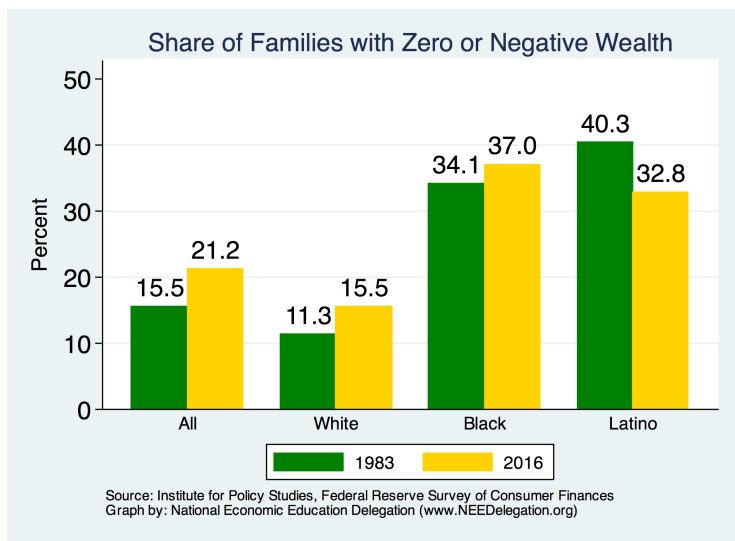
## By Household Income



16



## Evidence of Disparities: Zero Wealth



17

## Why Wealth is Important

18

## 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



19

## 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.



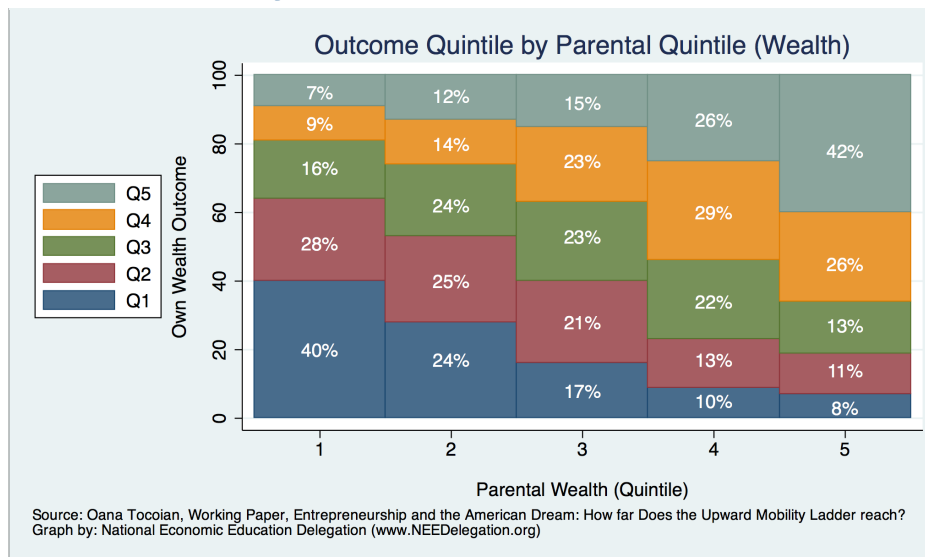
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## Parental Wealth is Important

- **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.**
- **And it's clear that nurture plays a big role.**

21

## Wealth Mobility



22

## 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



23

## Sources of Disparities



24

## 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.**



25

## 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.***



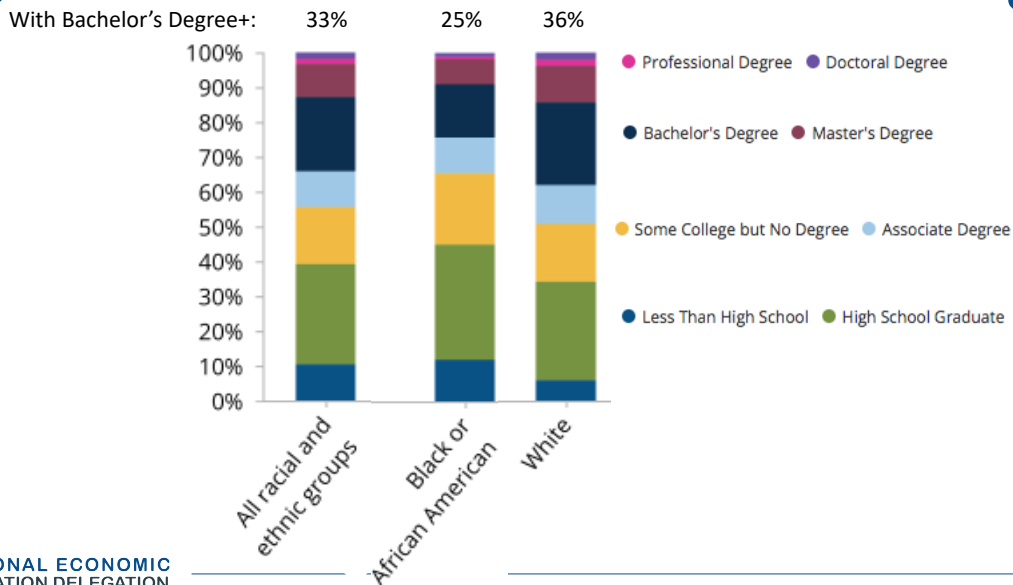
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## Potential Explanations: Differences in...

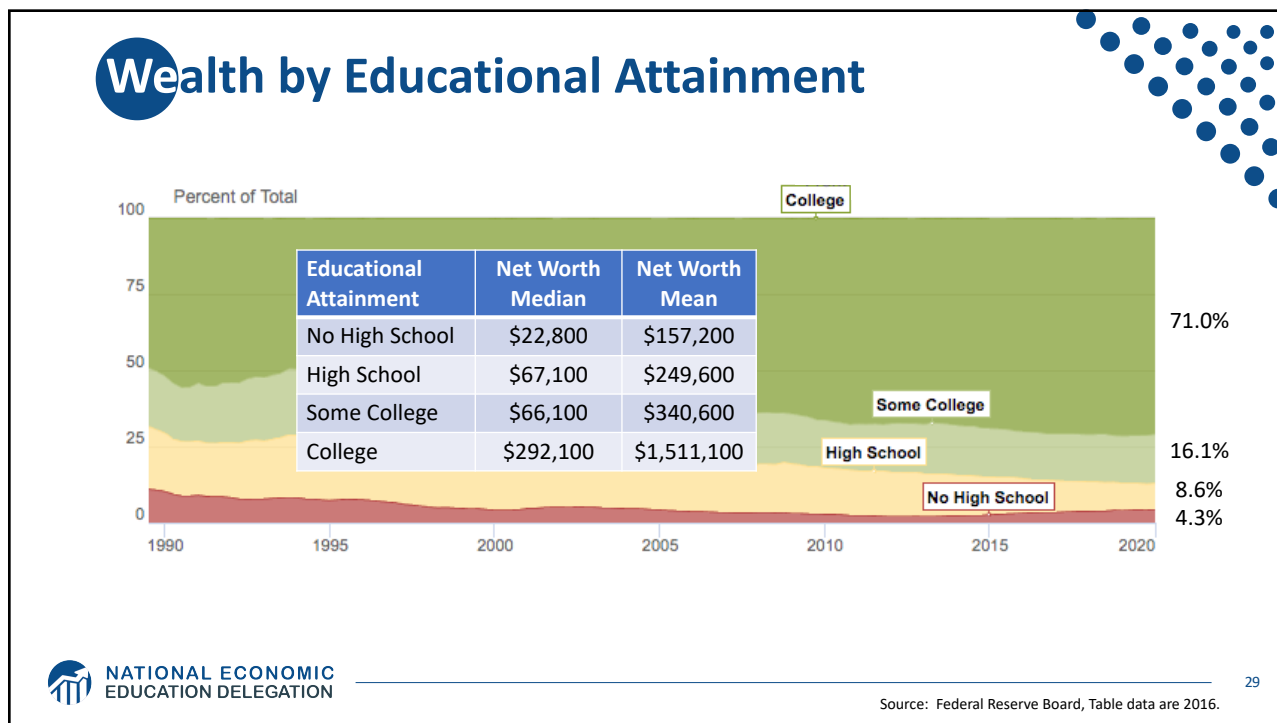
- Educational attainment
- Home ownership
- Increased savings
- Financial literacy
- Soft skills & personal responsibility
- Entrepreneurship
- Wages
- Incarceration rates
- Family structure
- Initial endowment

27

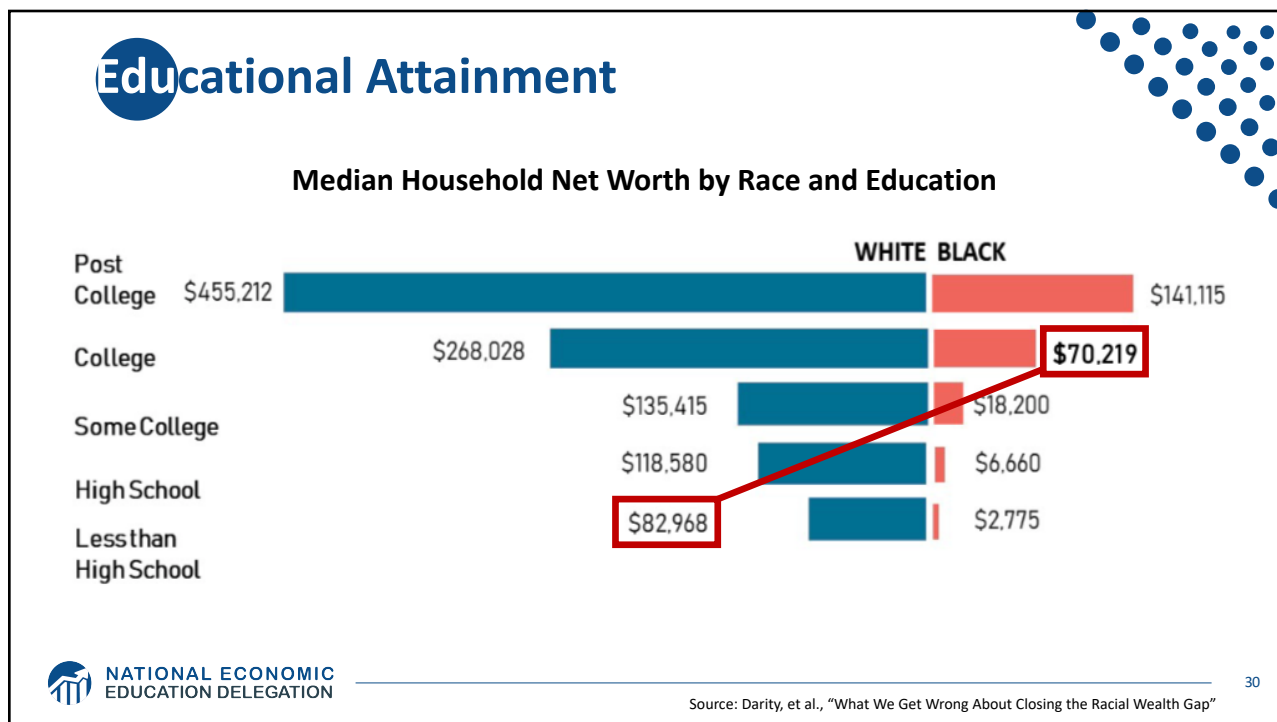
## Differences in Educational Attainment, 2017



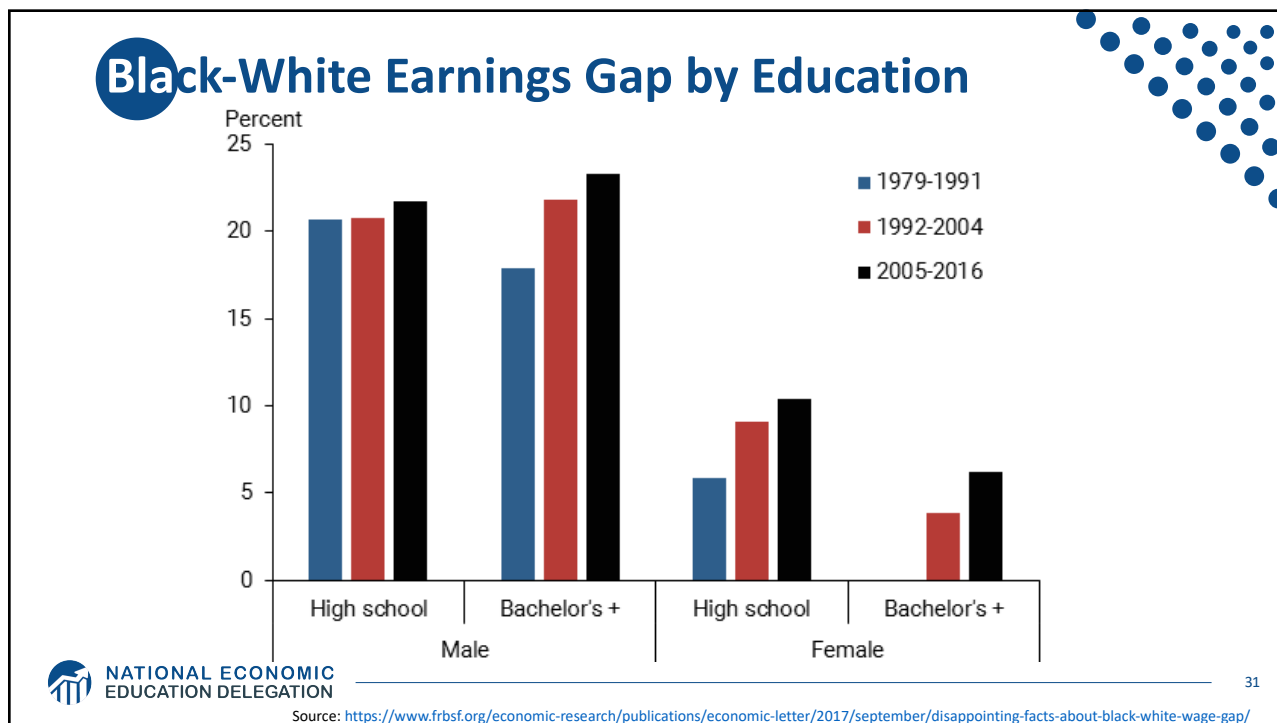
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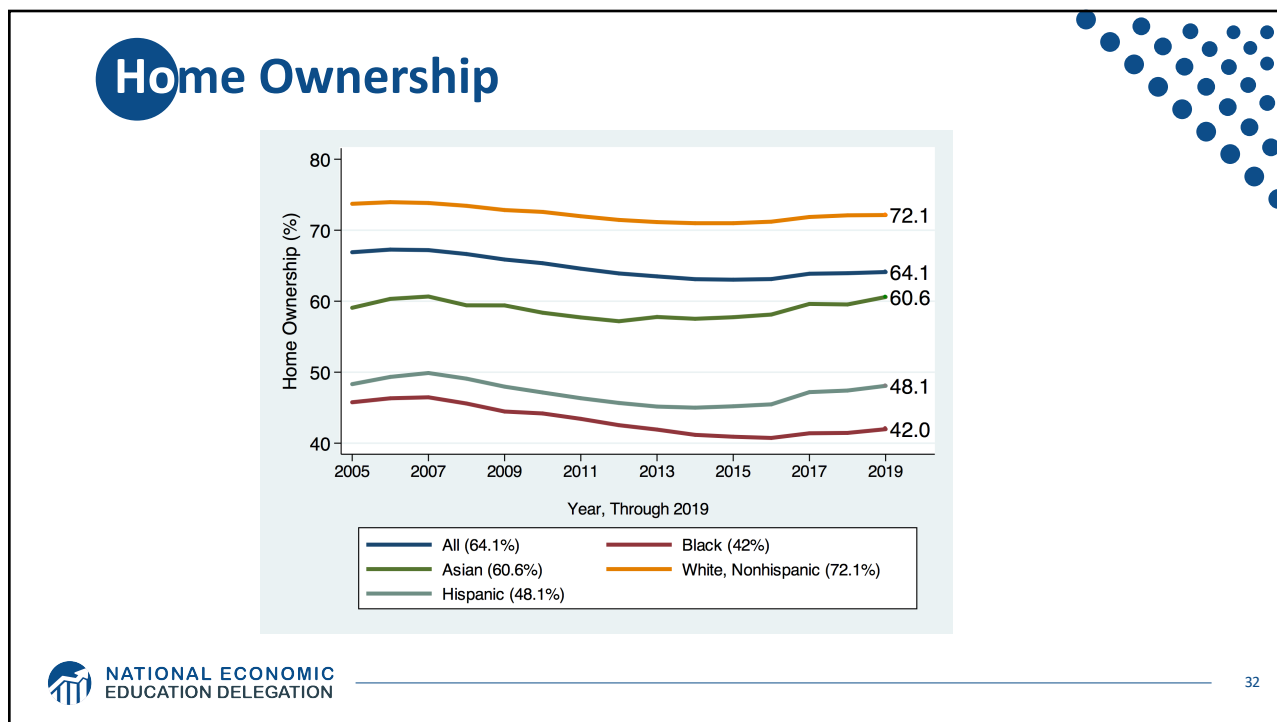
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31

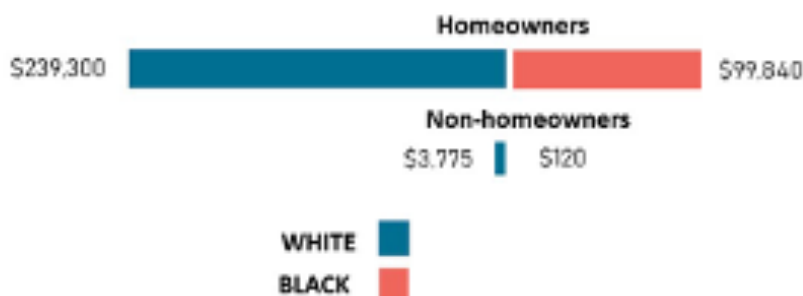


32



## Home Ownership

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



33

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

34

## 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**



35

## 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.



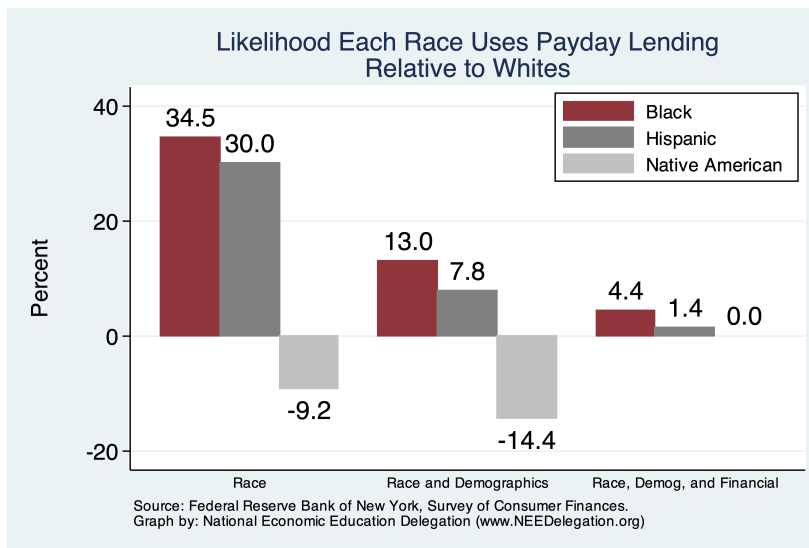
36

# 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.

37

# Use of Payday Lenders



38

# Soft Skills and Personal Responsibility

## • Employability

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

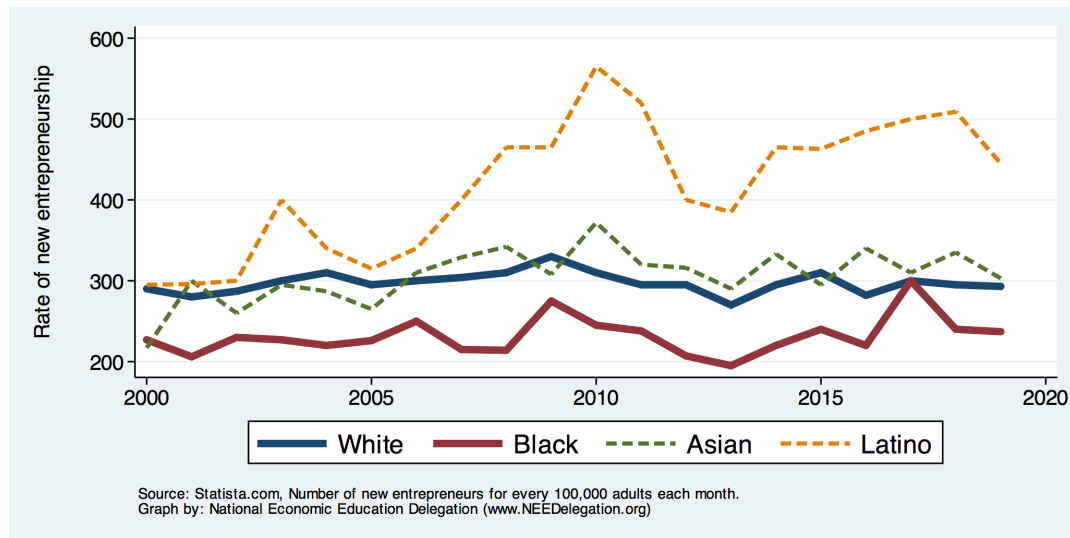
## • Reality

- 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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# Entrepreneurship: Rate of New Entrepreneurs



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Source: Statistica

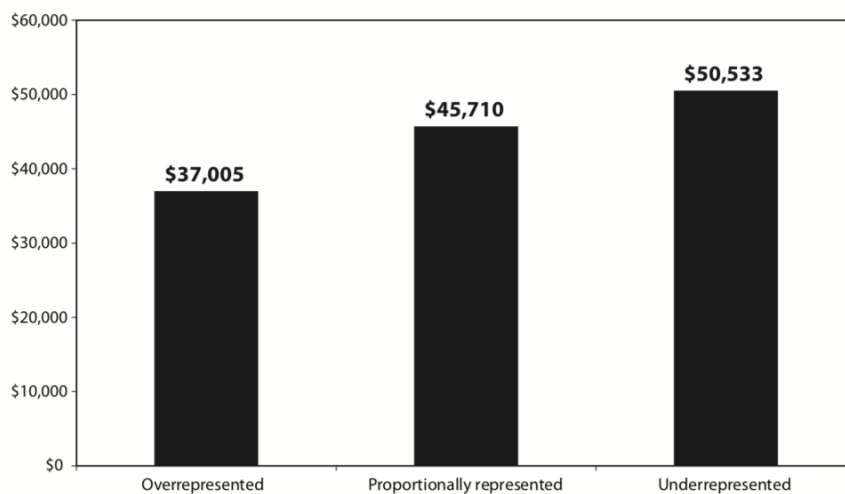
## Explaining Differences in Entrepreneurship

- **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.**

41

## Overrepresented Where Wages are Low

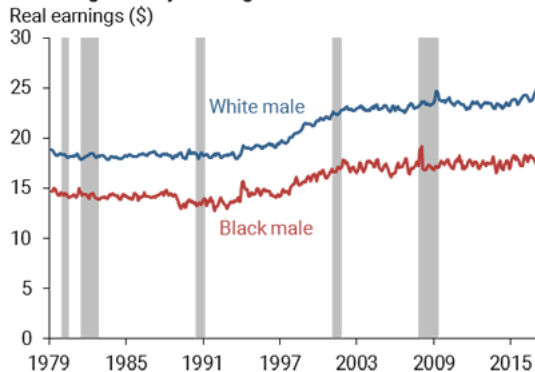
Average occupational annual wage by representation of black men, 2005-07



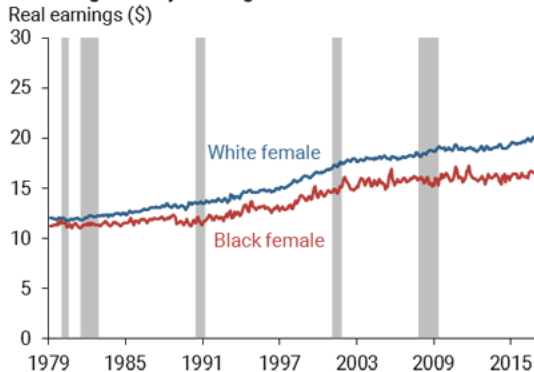
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# Wage Gap: Controlling for education, age, job type.

C. Average hourly earnings for men



D. Average hourly earnings for women



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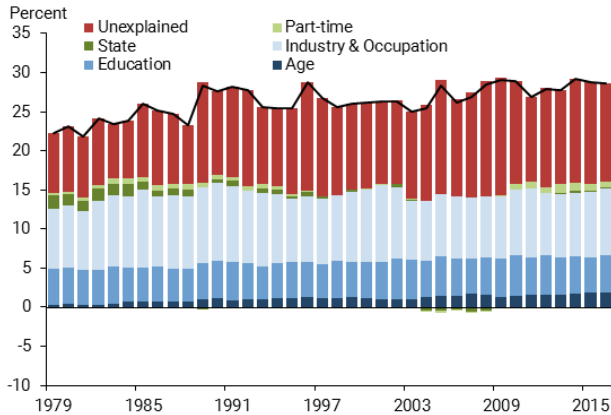
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Source: <https://www.frbsf.org/economic-research/publications/economic-letter/2017/september/disappointing-facts-about-black-white-wage-gap/>

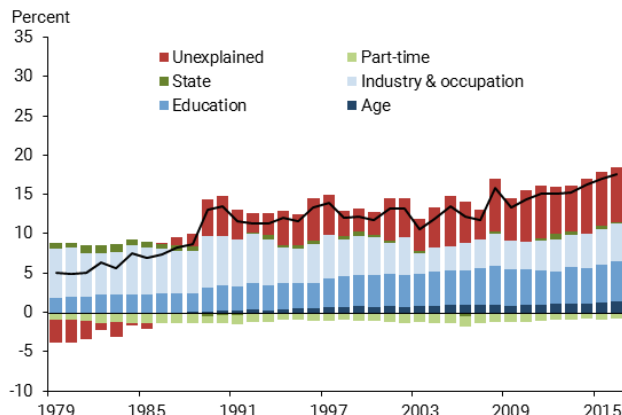
43

# Wage Gap Broken Down

A. Men



B. Women

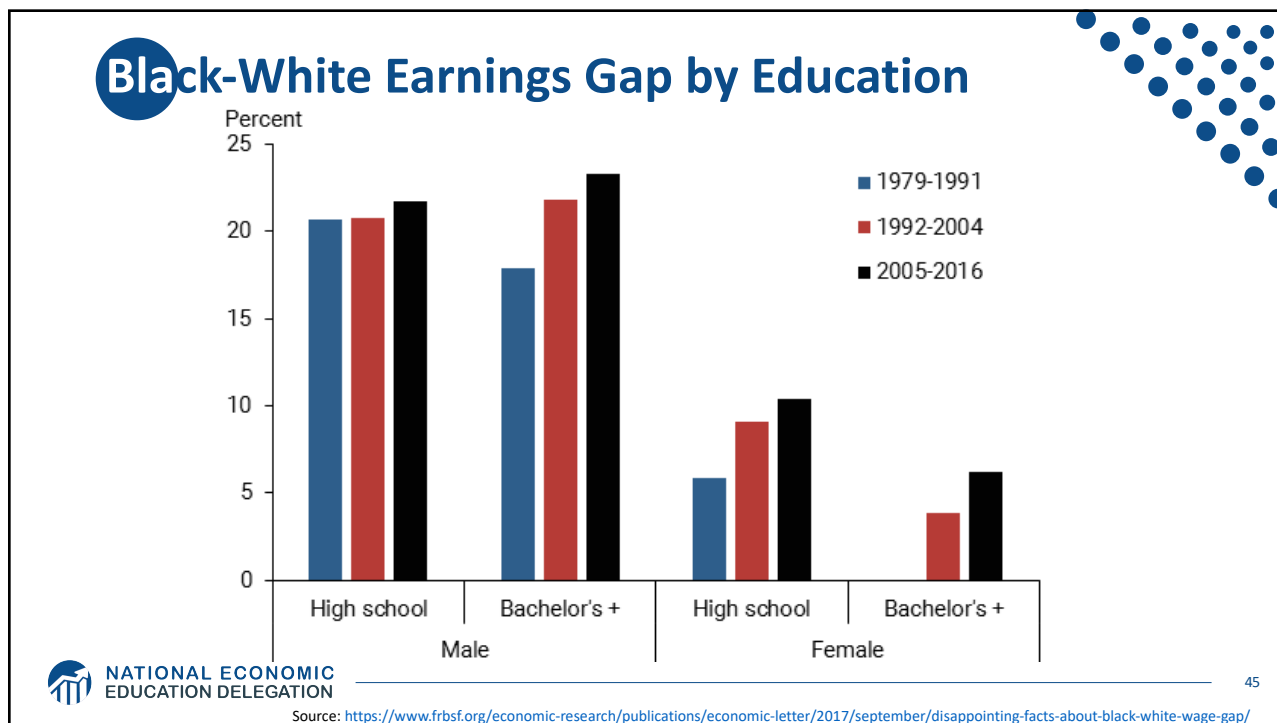


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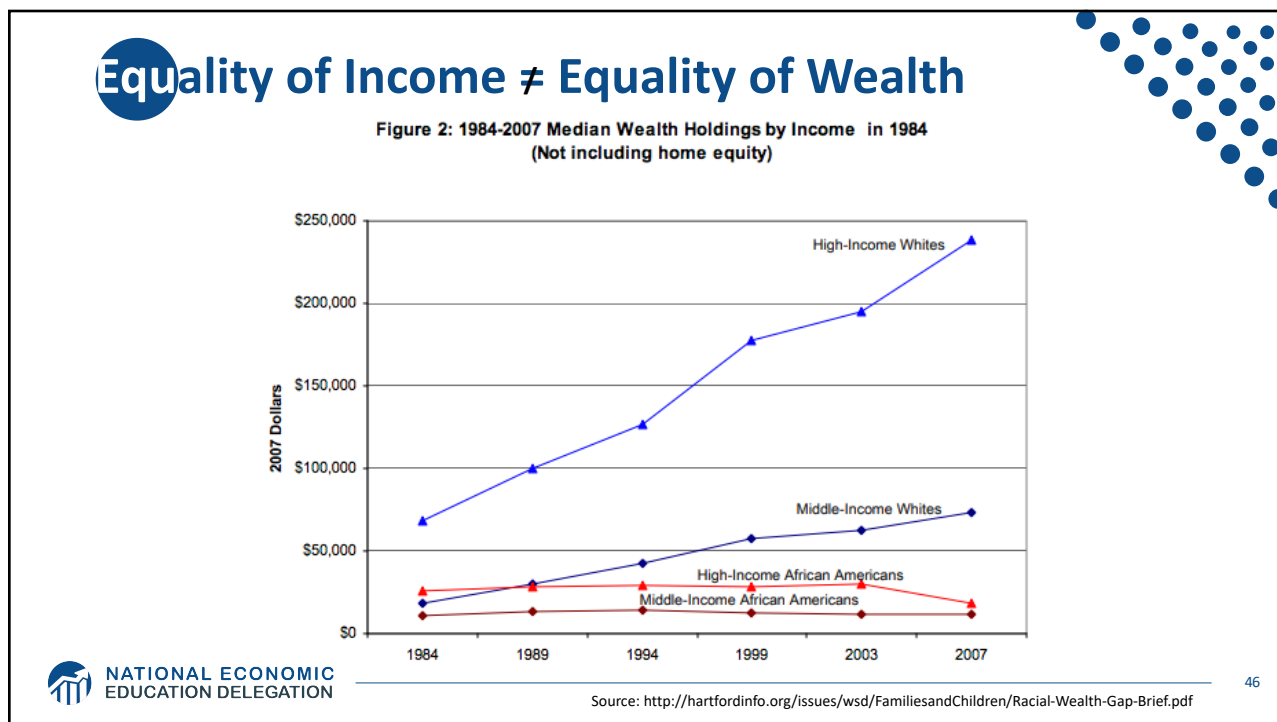
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Source: <https://www.frbsf.org/economic-research/publications/economic-letter/2017/september/disappointing-facts-about-black-white-wage-gap/>

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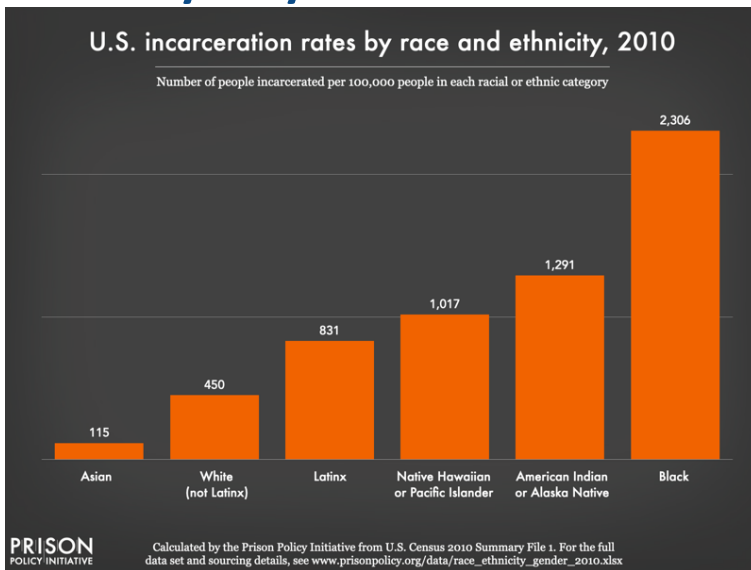


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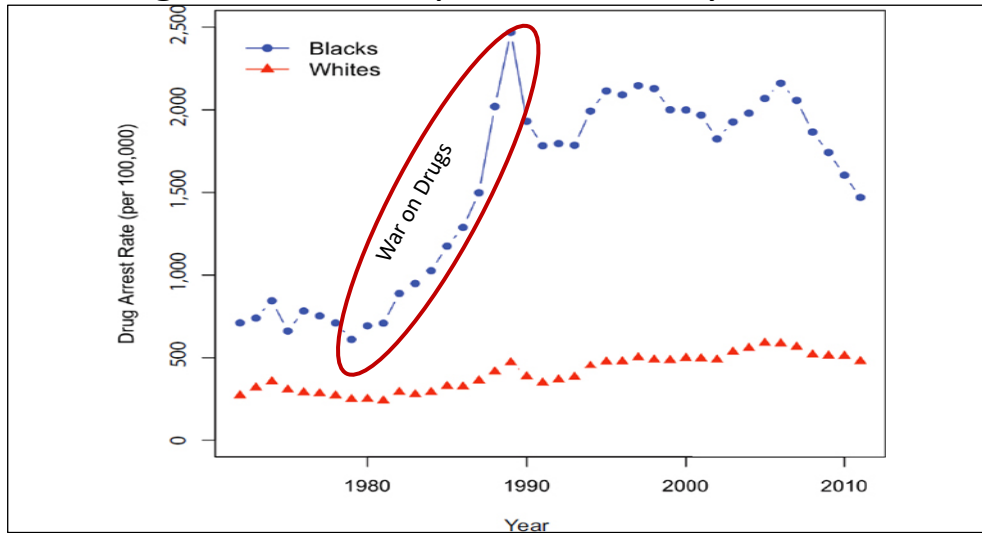
46

# Incarceration Likely Plays A Role



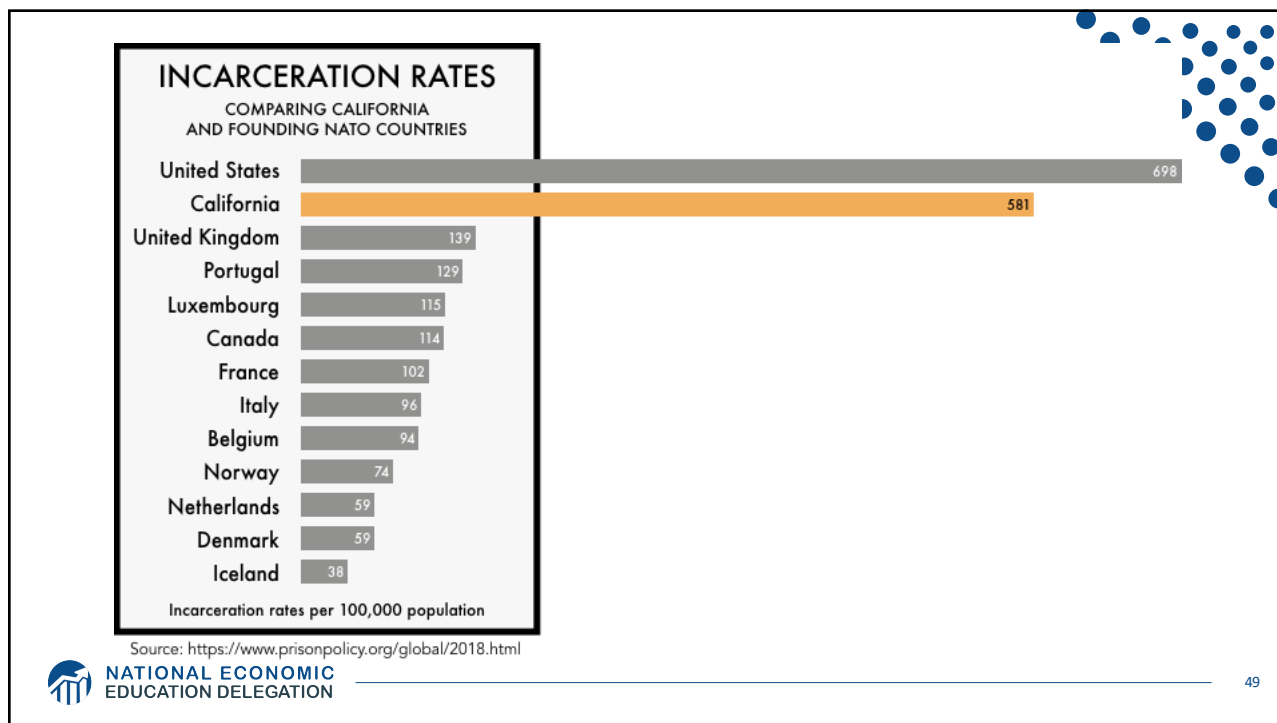
47

# US Drug Arrest Rates per 100,000 by Race



48





49

## Family Structure

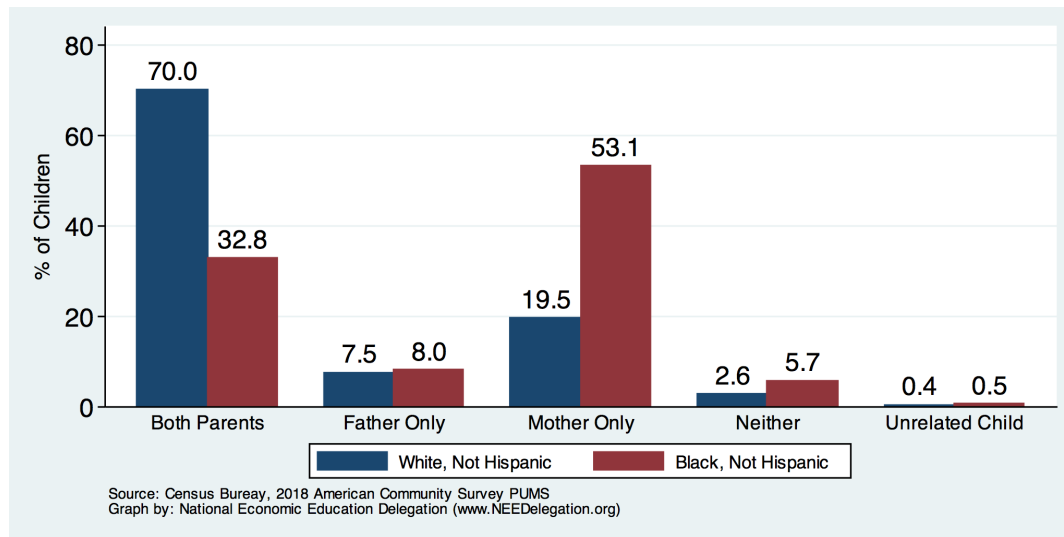
AGE	No Bachelor's Degree				With Bachelor's Degree			
	MARRIED		SINGLE		MARRIED		SINGLE	
	BLACK	WHITE	BLACK	WHITE	BLACK	WHITE	BLACK	WHITE
20-29	\$4,000	\$13,000	\$0	\$2,000	\$7,700	\$18,700	\$-11,000	\$3,400
30-39	\$12,000	\$33,450	\$0	\$0	\$-20,500	\$97,000	\$0	\$7,500
40-49	\$22,501	\$60,000	\$1,000	\$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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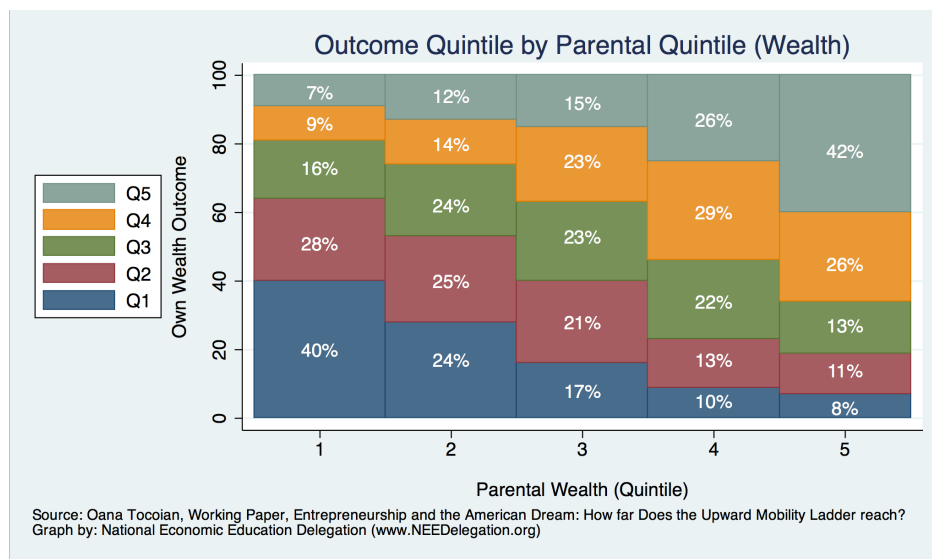
50

## Kids – Household Types



51

## Initial Endowment

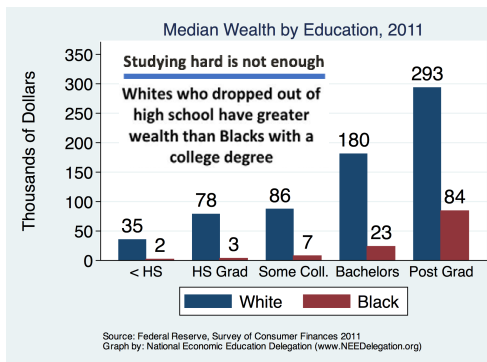
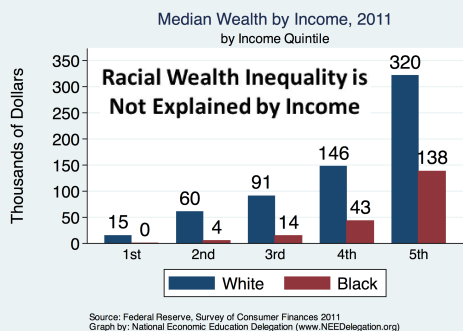
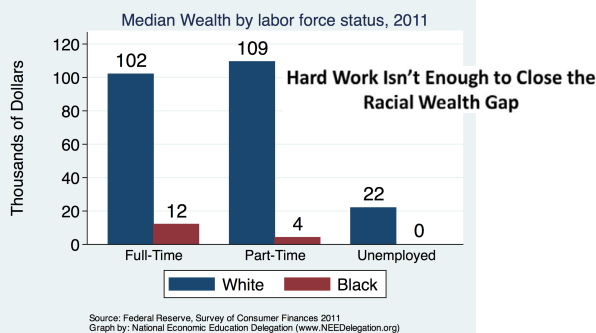


52

# What is Fundamentally Responsible?

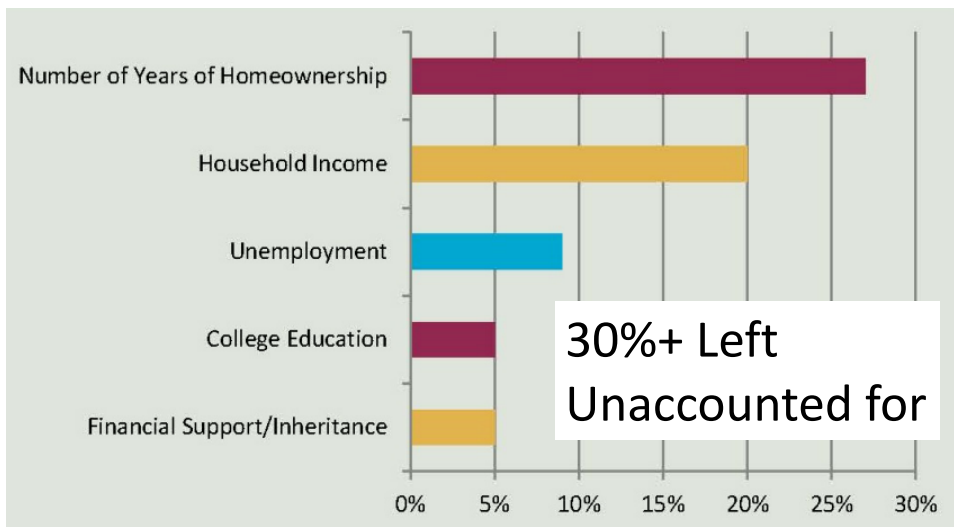
- Individual behaviors?
- Structural characteristics of the economy?
- History – policy and otherwise?

53



54

## Accounting for the Wealth Gap



55

## Policy Options

56

## 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**



57

## 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.
  - Labor and other laws that address discrimination
    - Enforce more aggressively and make adjustments where necessary to increase efficacy.
  - Fundamental reorientation of asset building agenda.



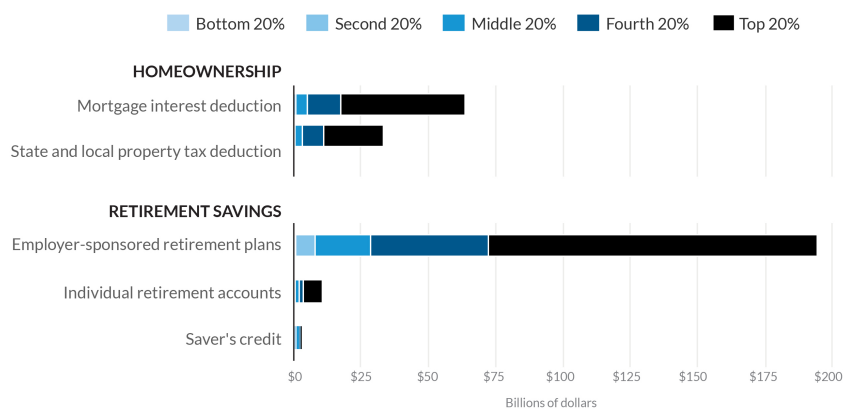
58

## 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

## 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).

## 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

61

61

## Suggestions, Not Really Policies



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62

62

## 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>

63

63

## Intro to Fractional Reserve Banking

- **Money is deposited in an account in a bank.**
- **Most of that money is lent out.**
  - The rest is the “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 the “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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64

64



## 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).

65

## Why the Short Circuiting of Black Banking?

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

### • 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

66

## 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.



67

## 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.



68

## 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.**



## Thank you!

# Any Questions?

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

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Jon@NEEDelegation.org

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