

# *Osher Lifelong Learning Institute, Summer 2022* **Contemporary Economic Policy**

Rochester Institute of Technology  
July-Aug, 2022

Jon Haveman, Ph.D.  
National Economic Education Delegation



## **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**



## 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  
29 August 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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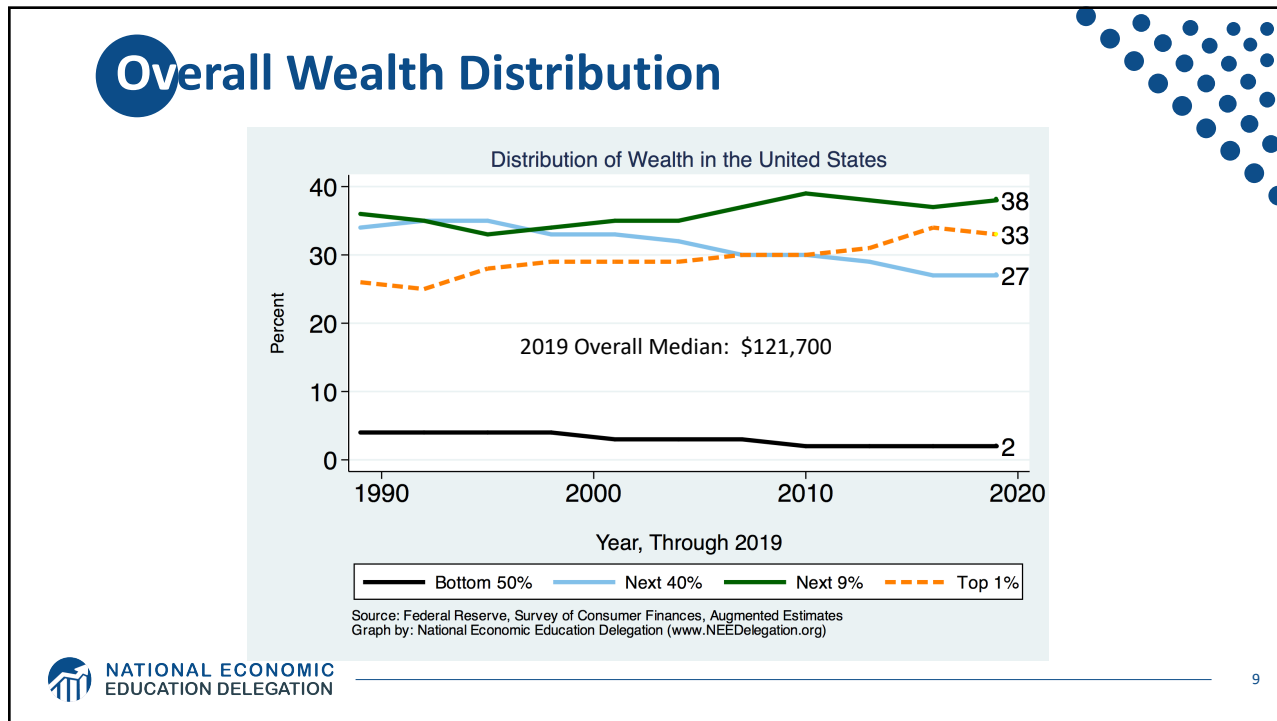
## Wealth inequality in America

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

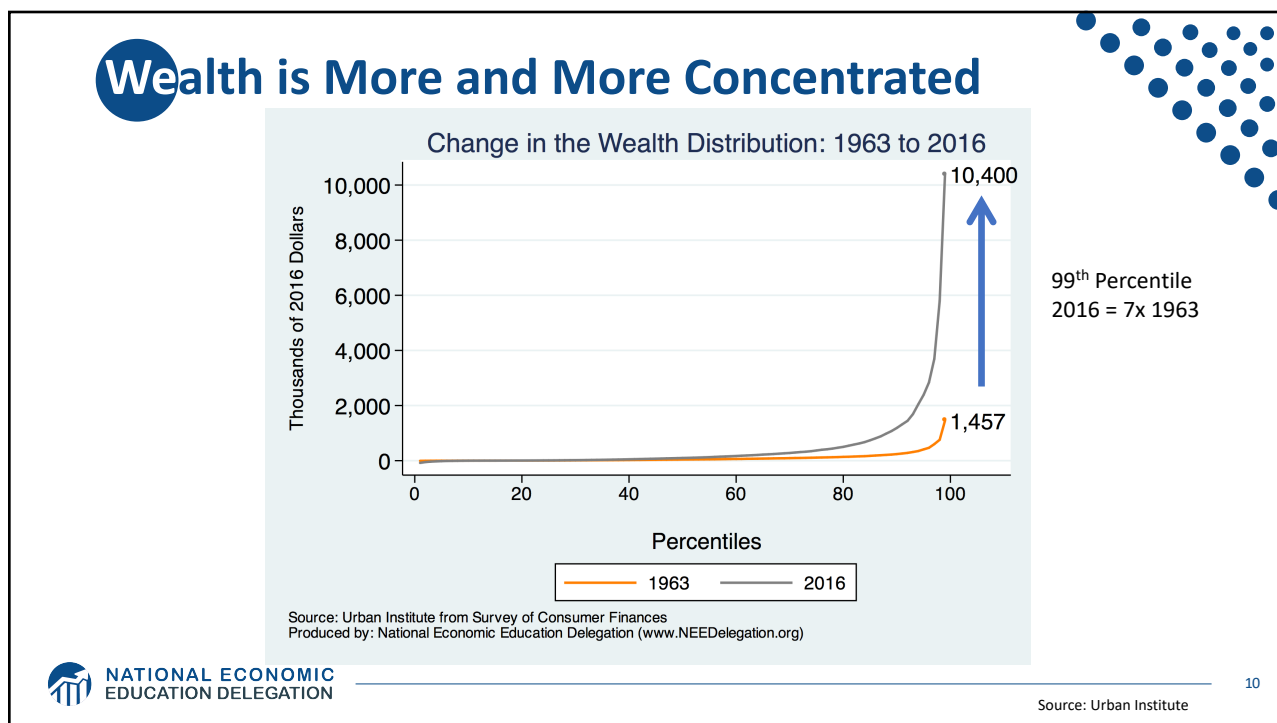


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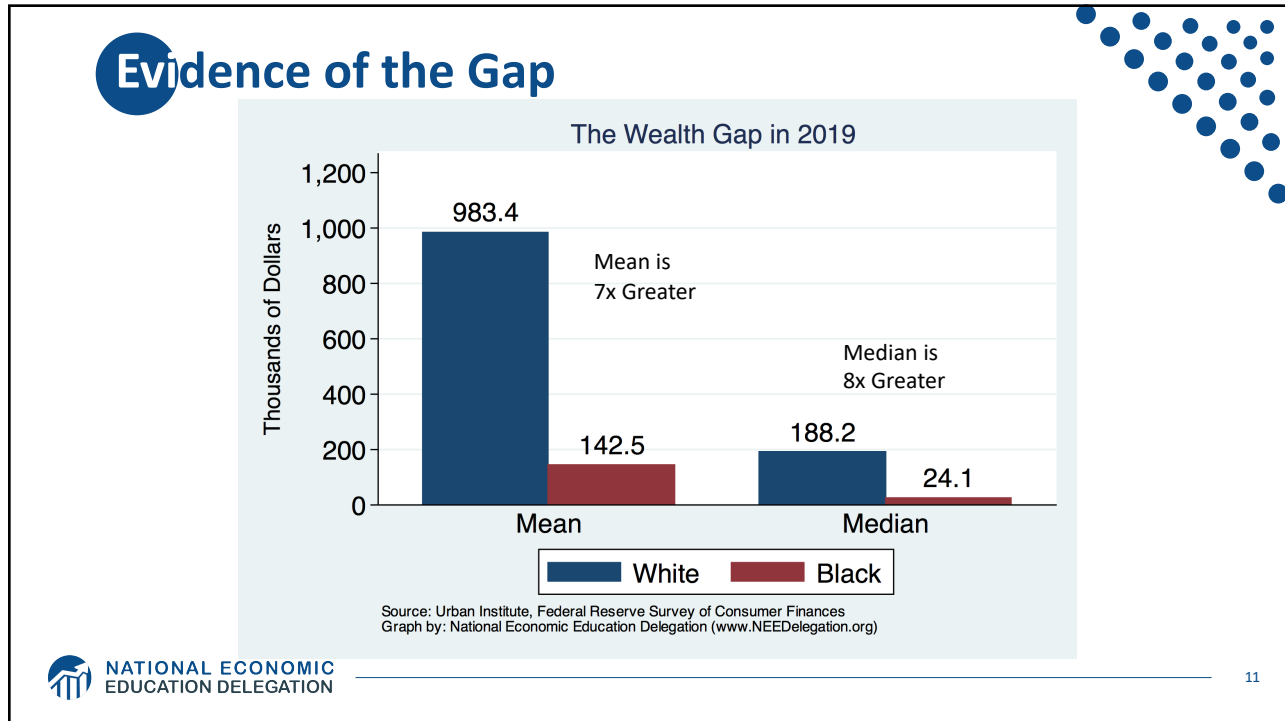
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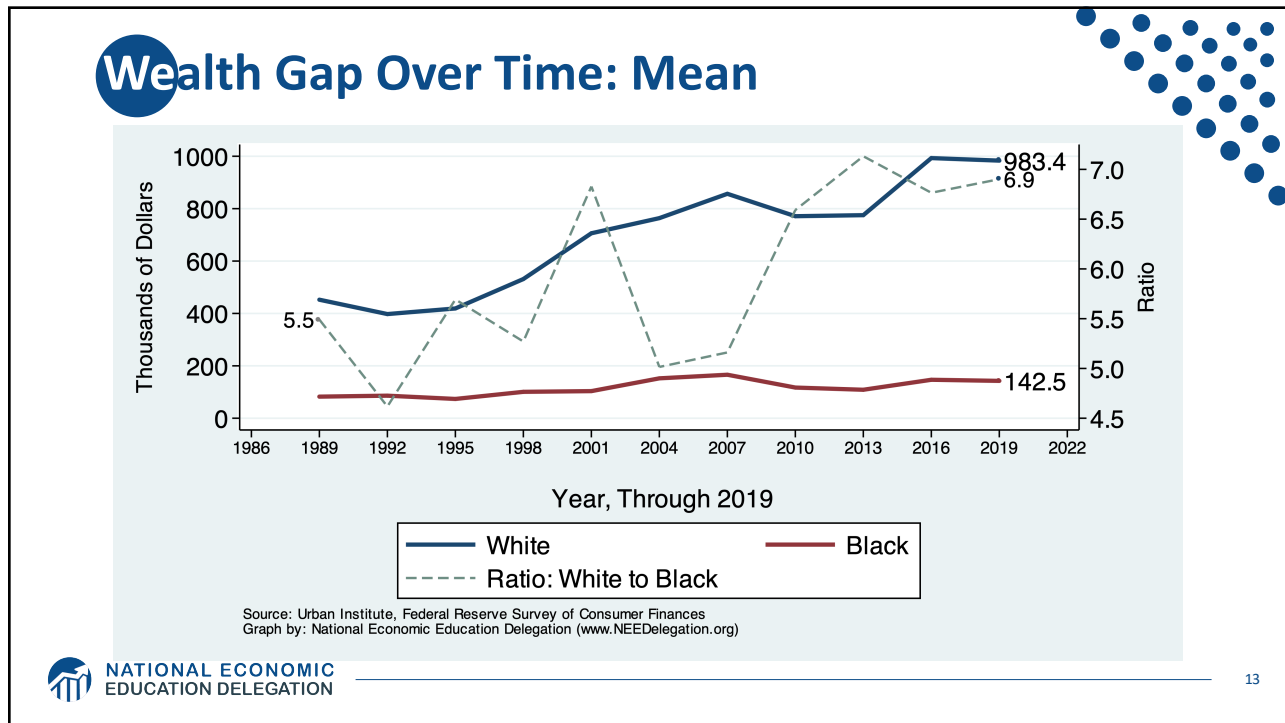
## Wealth Disparities, 2019

| 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   |

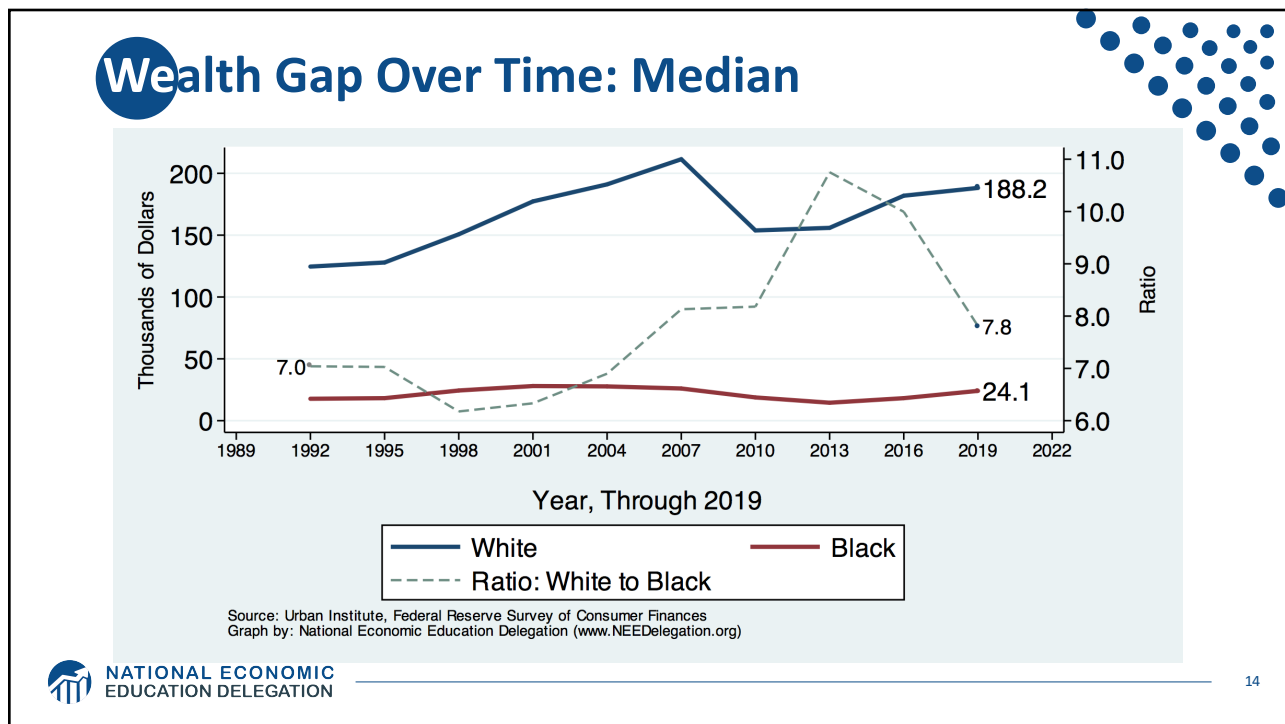
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Source: Federal Reserve, Survey of Consumer Finances

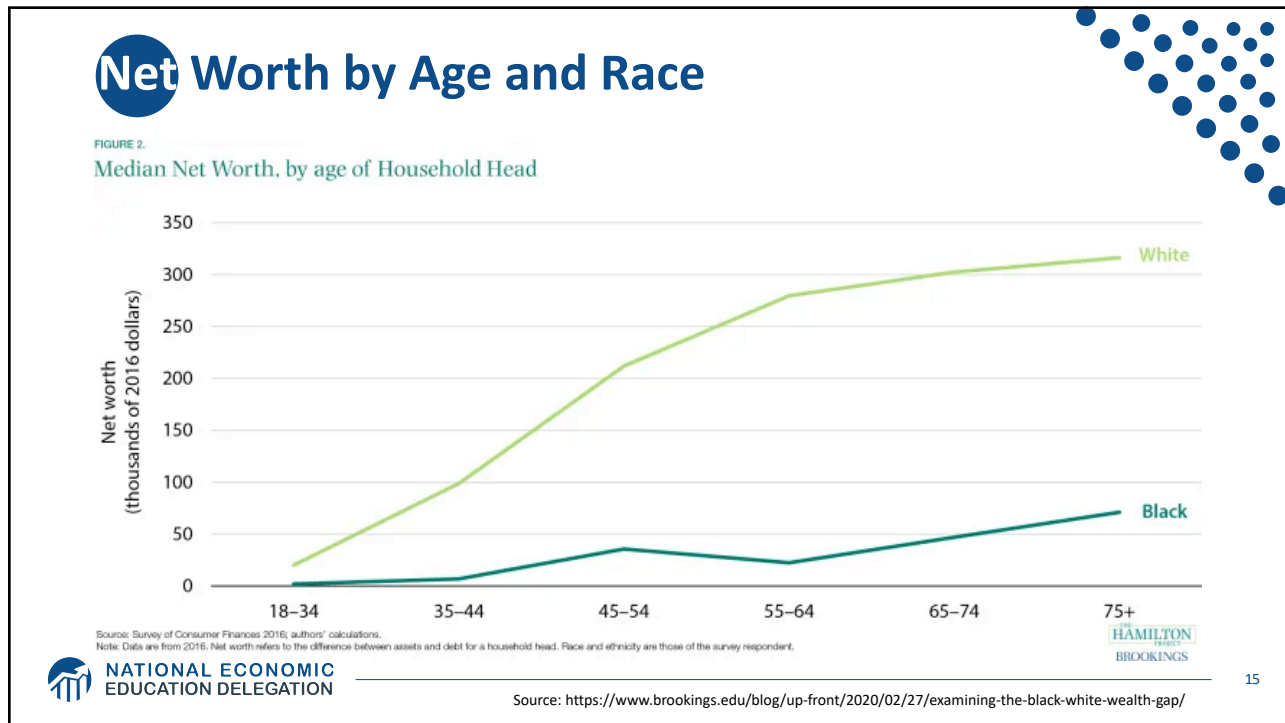
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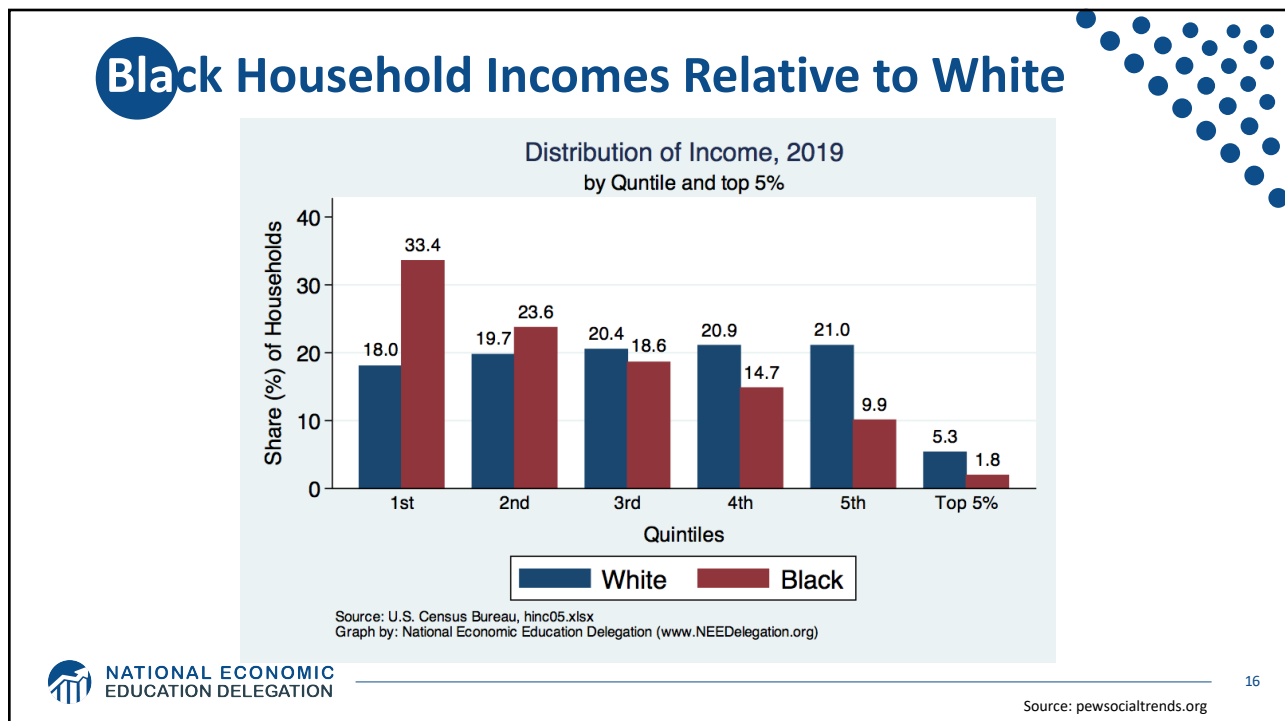
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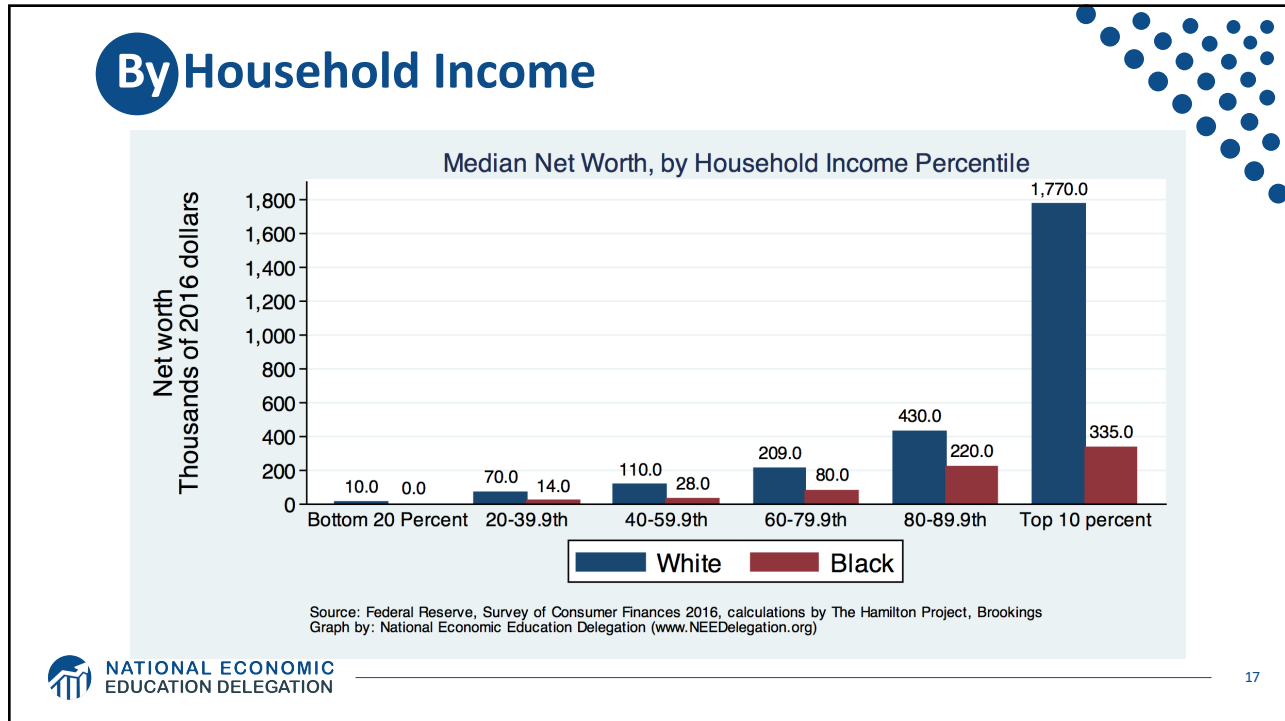


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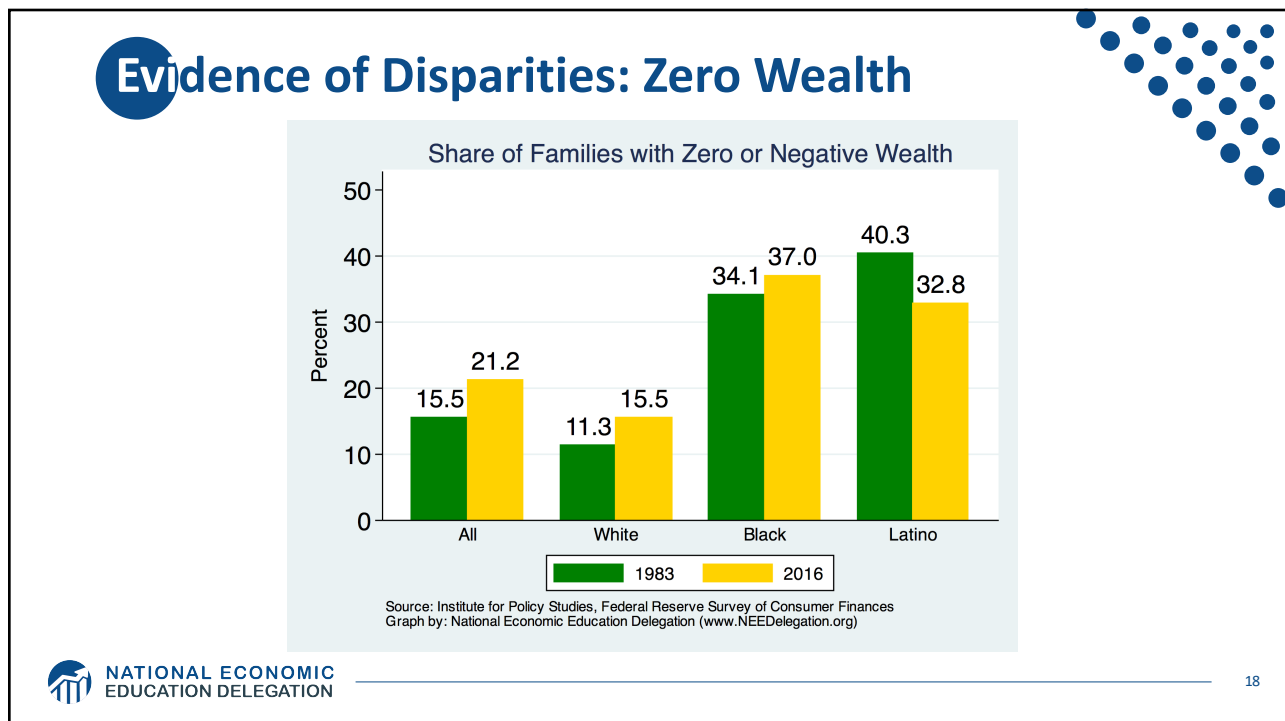


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# Why Wealth is Important

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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.
  - o Access to higher return investments.
- Wealth transfers across generations.
  - o Wealth is sticky.



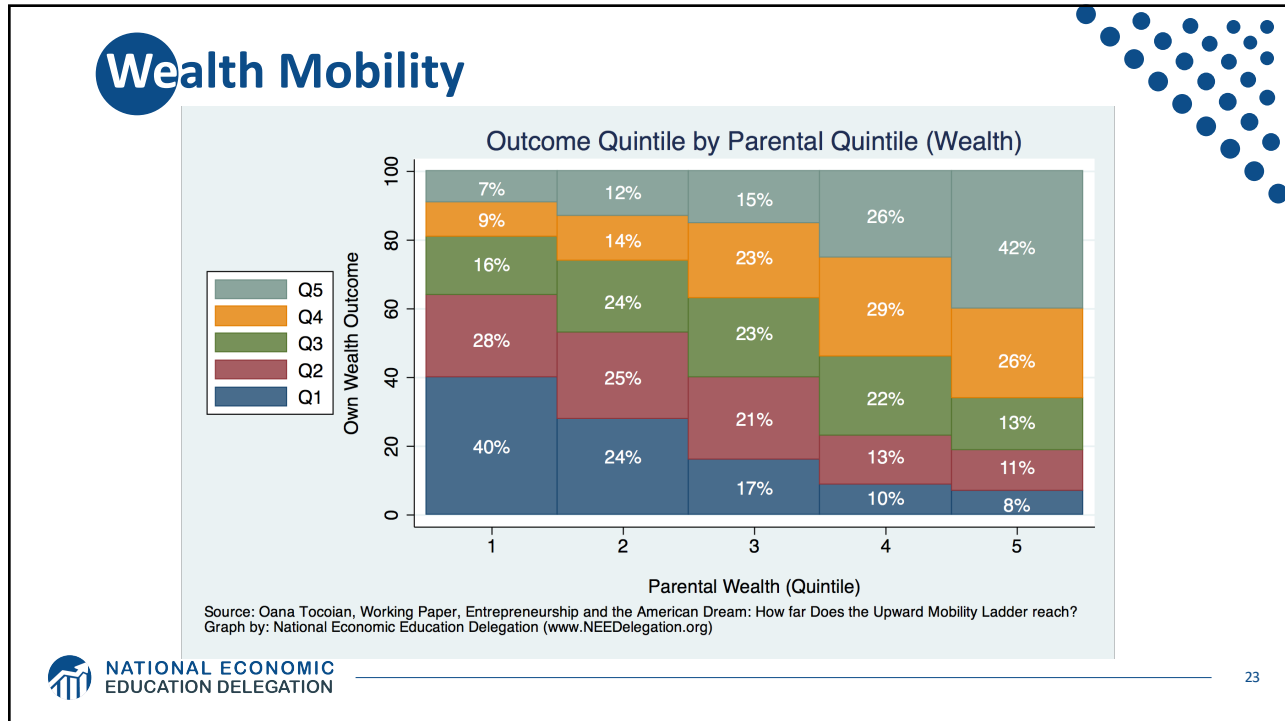
## Parental Wealth is Important

- **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...

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



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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    |

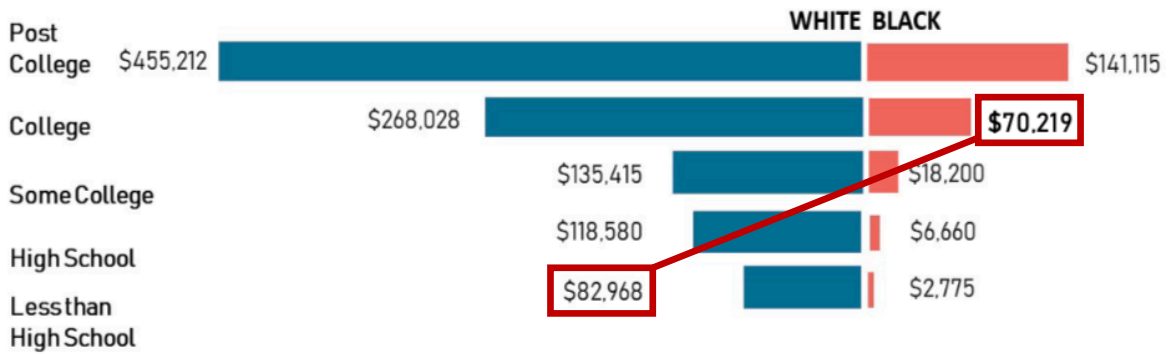
## Educational Attainment: Policy

### • 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.

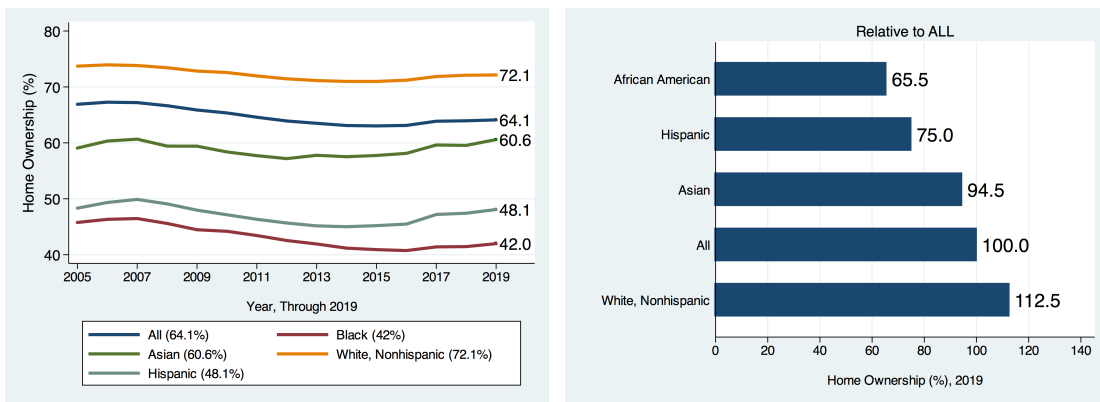
# Educational Attainment

## Median Household Net Worth by Race and Education



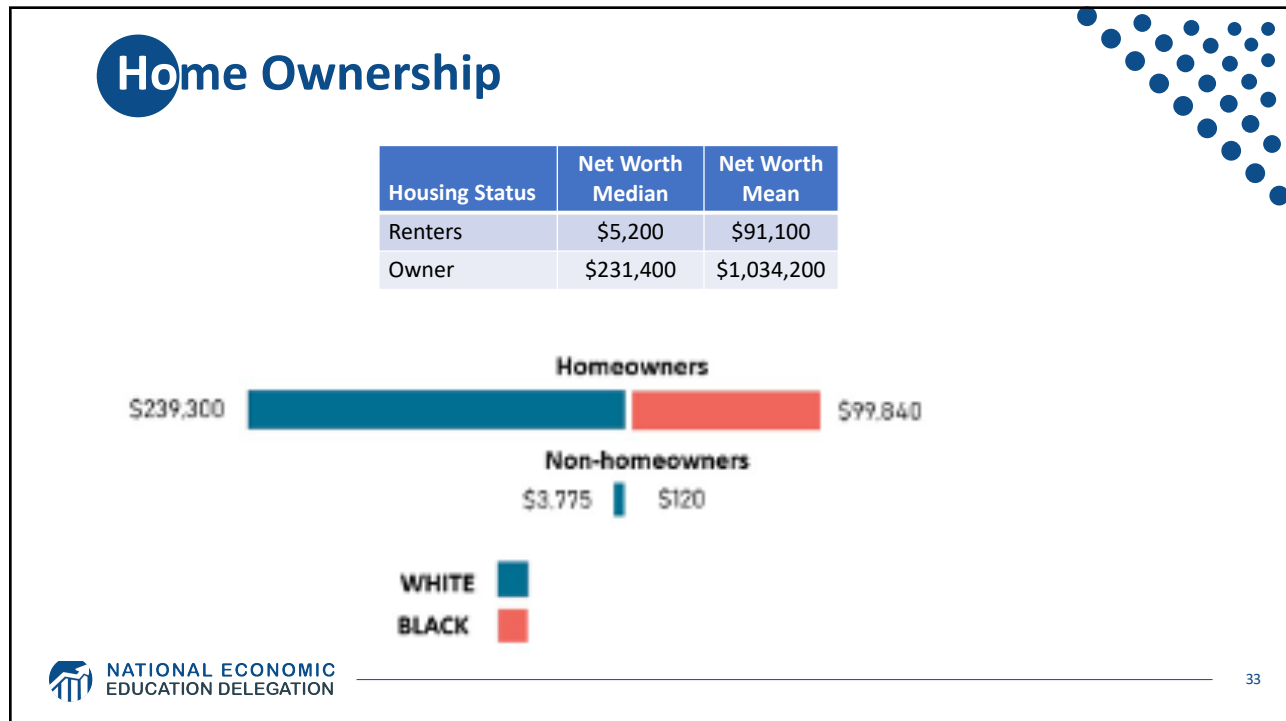
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# Home Ownership: Households



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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.



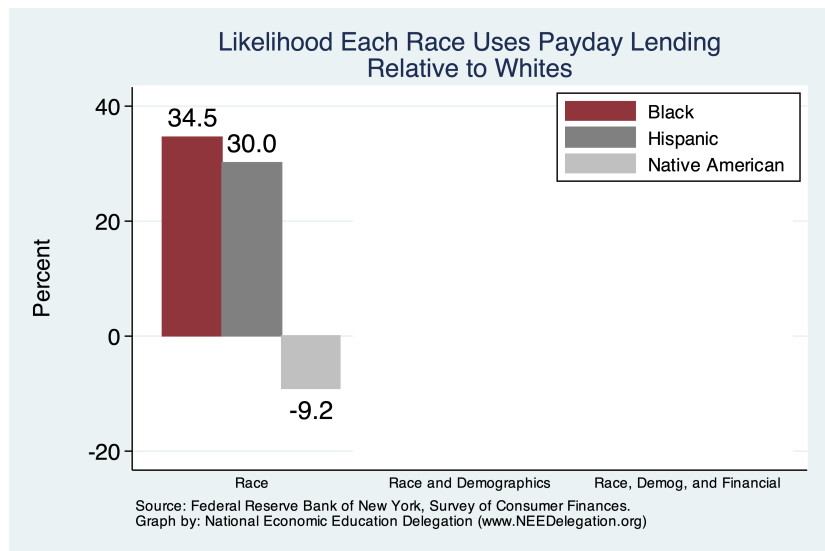
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# Financial Literacy

- **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.**

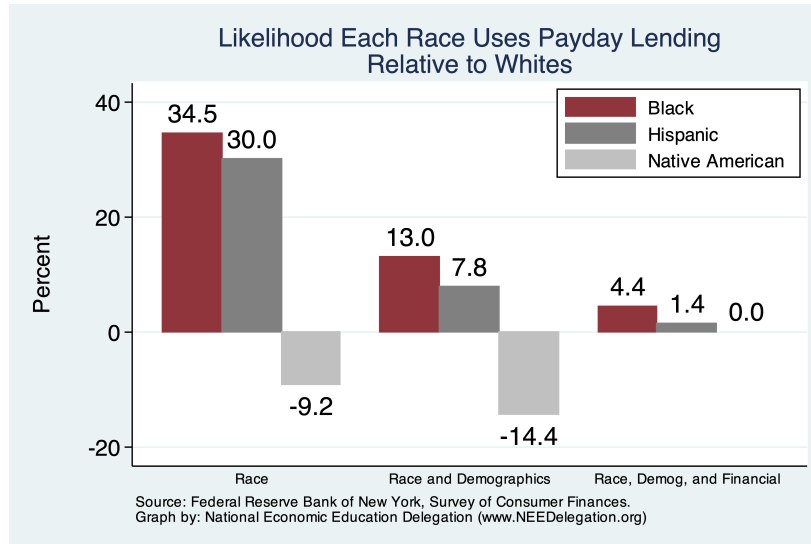
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# Use of Payday Lenders

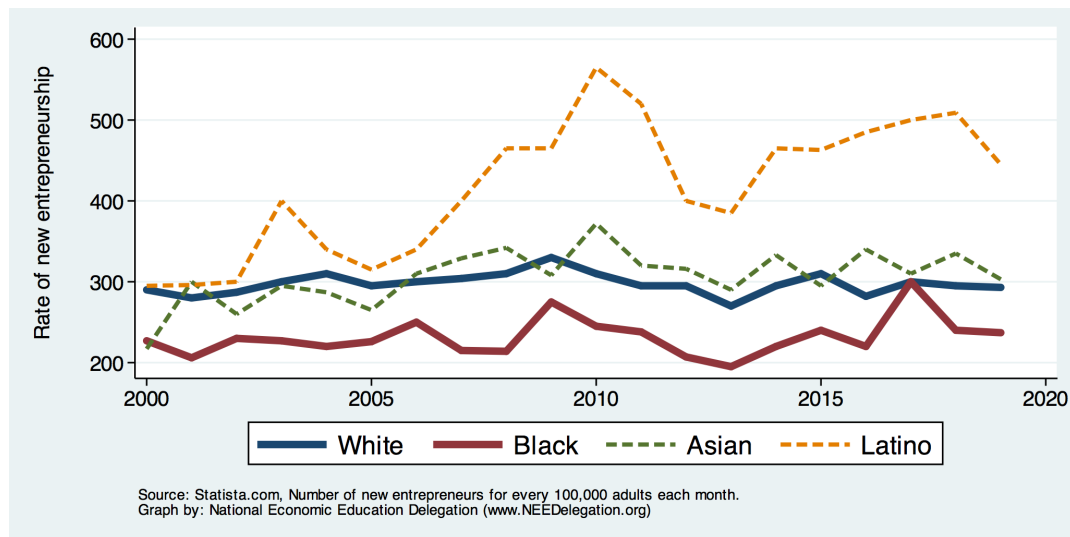


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## Use of Payday Lenders



## 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.**



## Soft Skills and Personal Responsibility?

- **Employability**

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

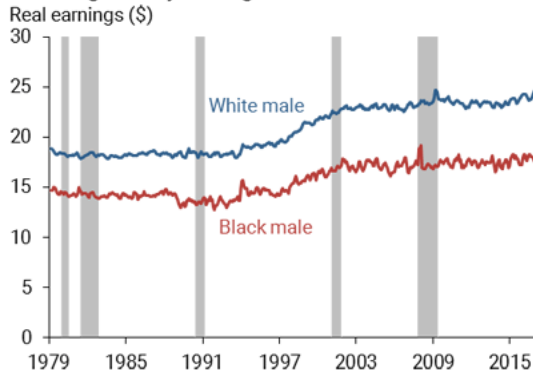
- **Reality**

- 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.

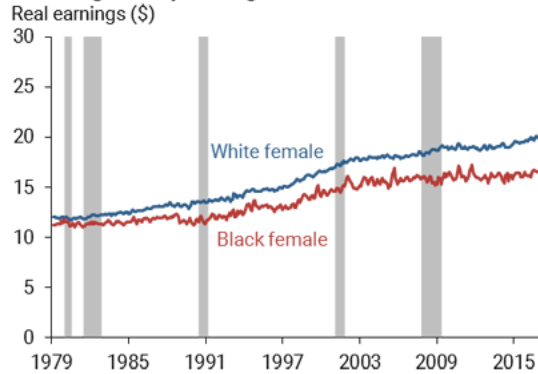


# Wage Gap: Controlling for education, age, job type.

C. Average hourly earnings for men



D. Average hourly earnings for women



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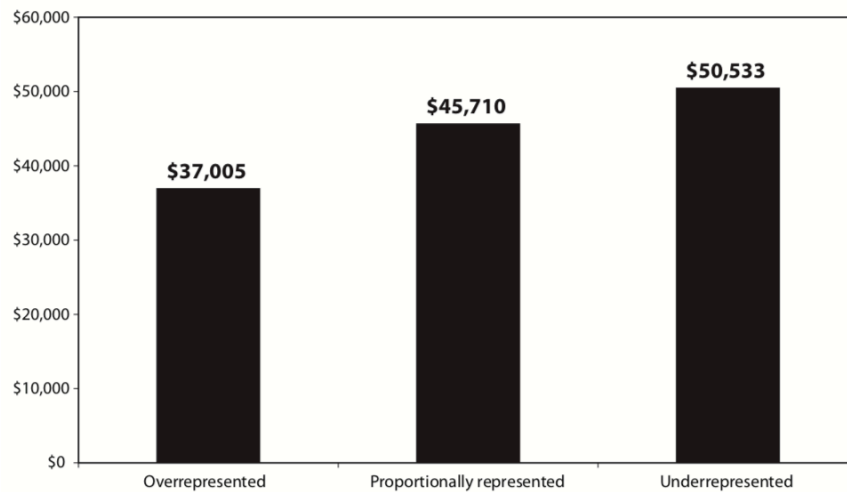
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Source: <https://www.frbsf.org/economic-research/publications/economic-letter/2017/september/disappointing-facts-about-black-white-wage-gap/>

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# Overrepresented Where Wages are Low

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

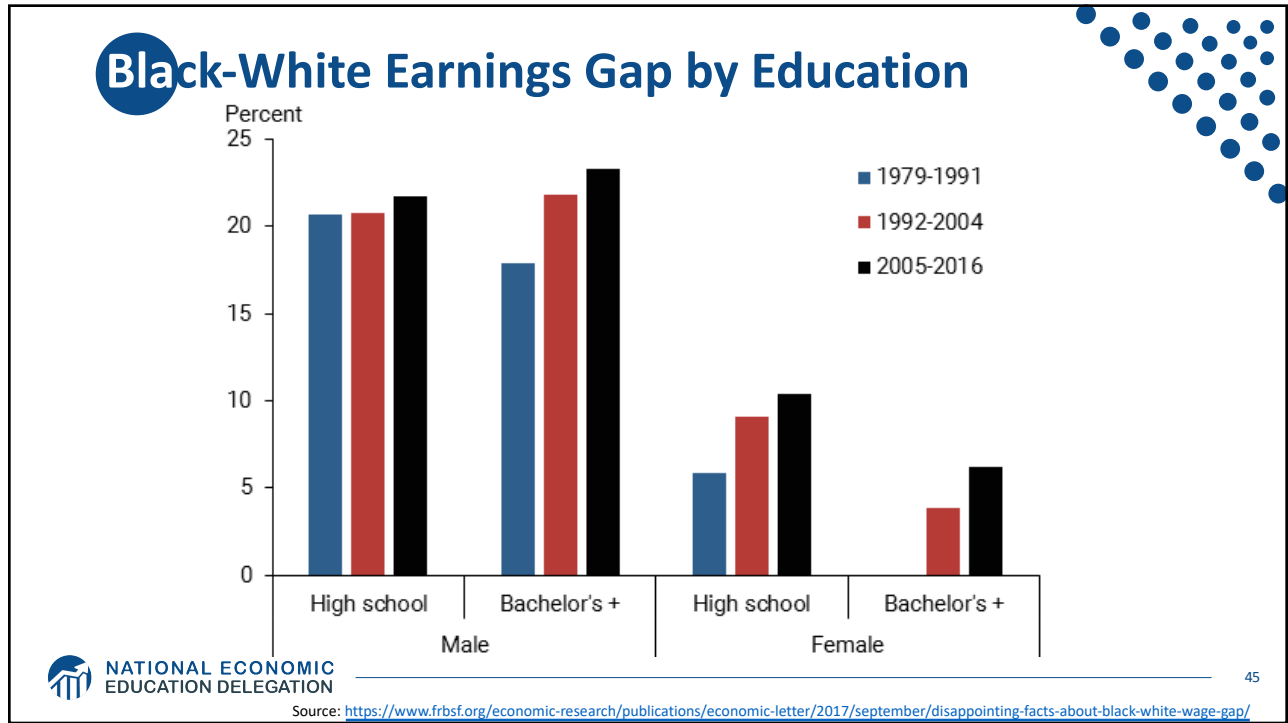


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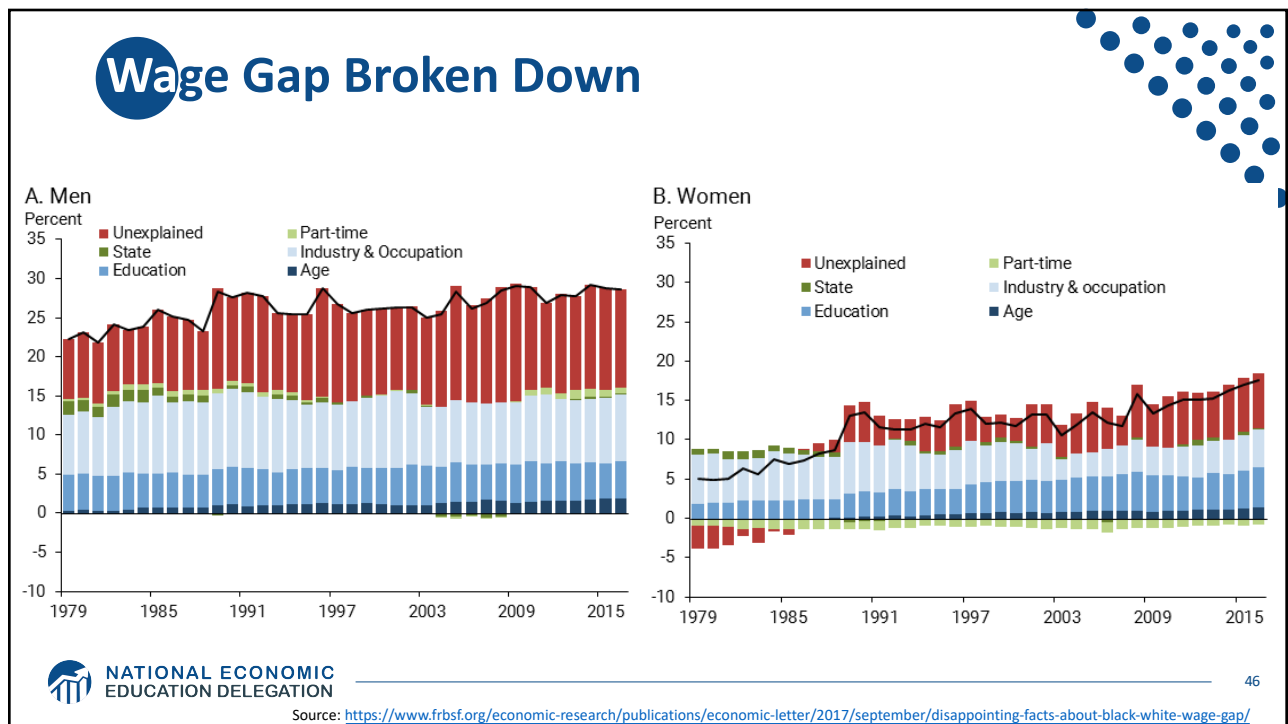
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Source: Hamilton Darrick, Algernon Austin, and William Darity, Jr. Whiter Jobs, Higher Wages :Occupational Segregation and the Lower Wages of Black Men Economic Policy Institute, Briefing Paper #288 2011.

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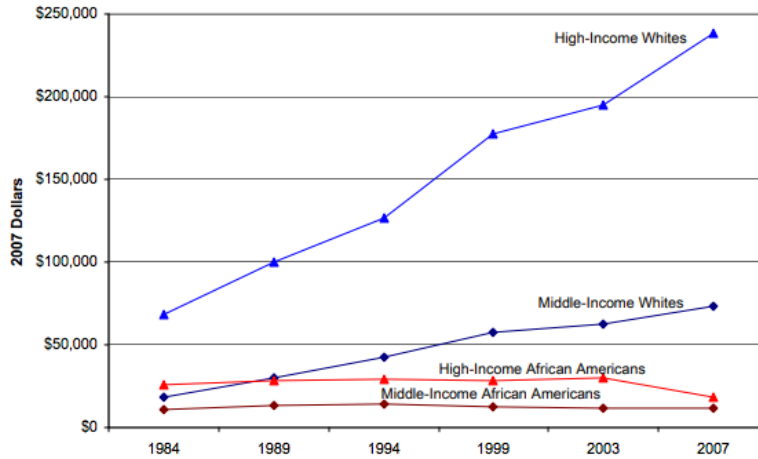
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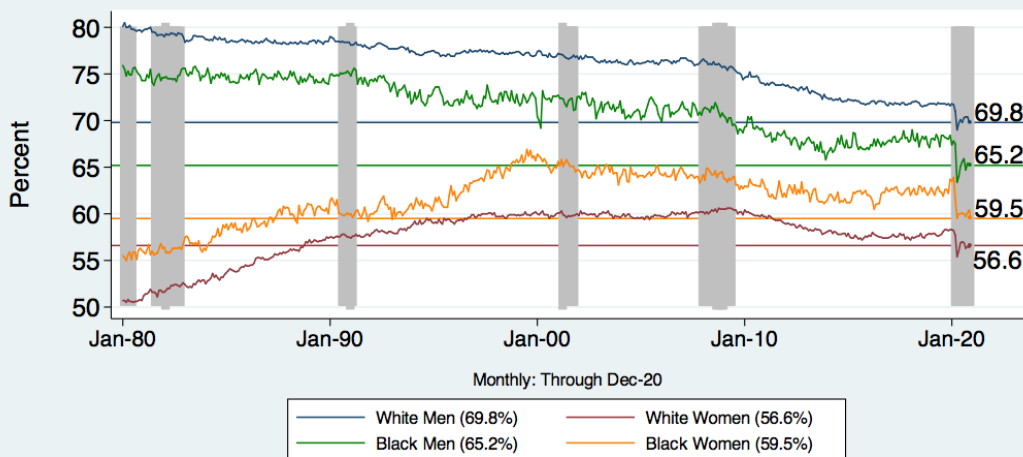
# Equality of Income ≠ Equality of Wealth

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))

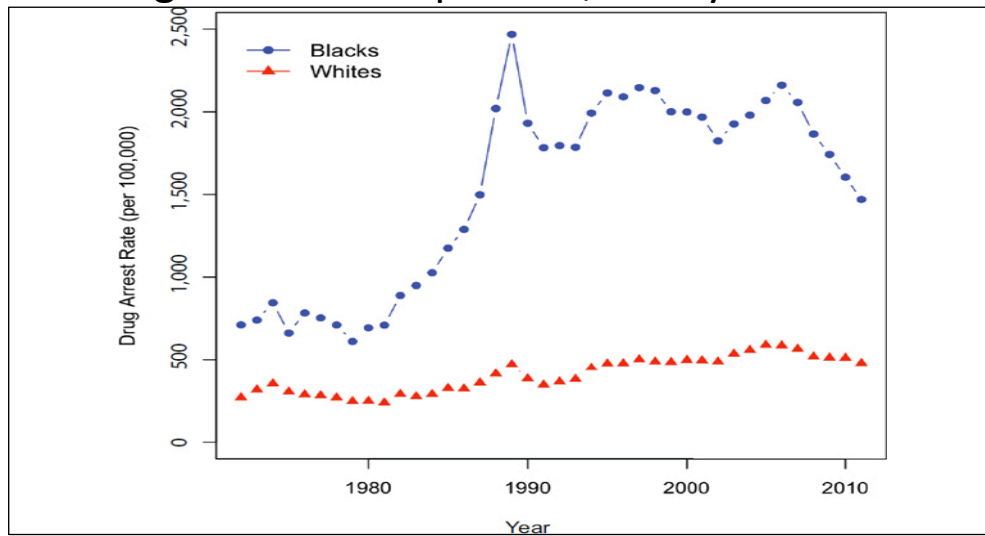
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# Incarceration Likely Plays A Role



# US Drug Arrest Rates per 100,000 by Race



## 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.

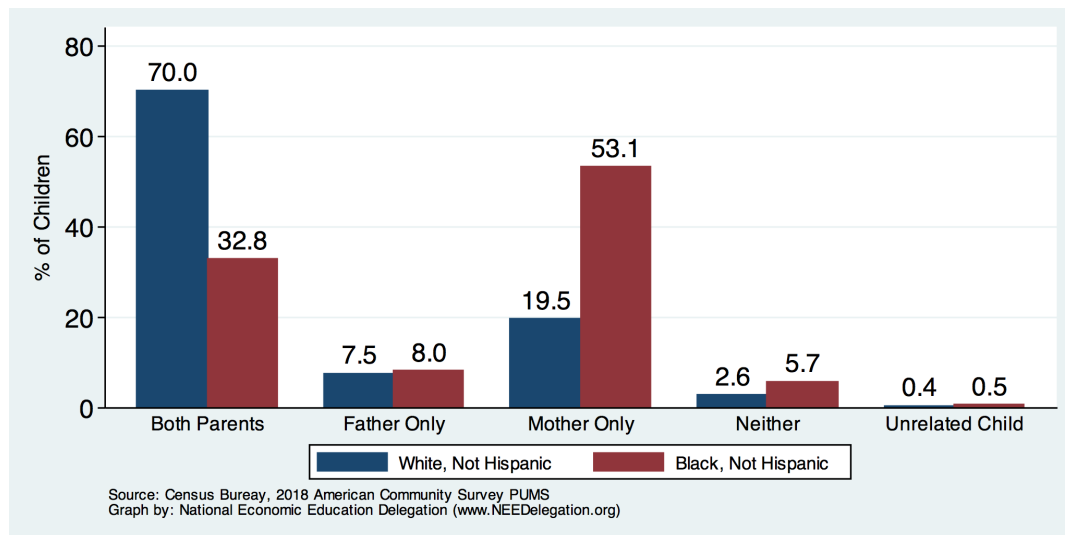


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## Kids – Household Types

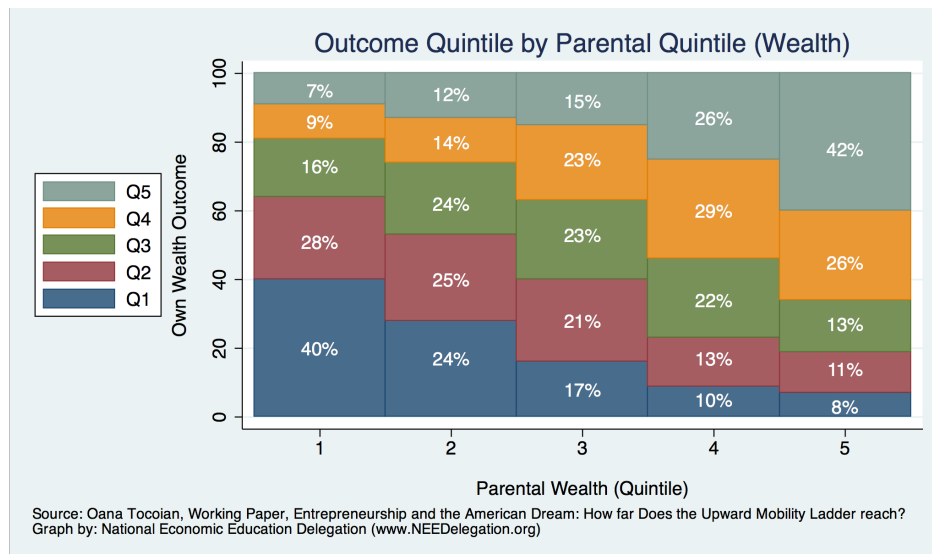


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## Initial Endowment



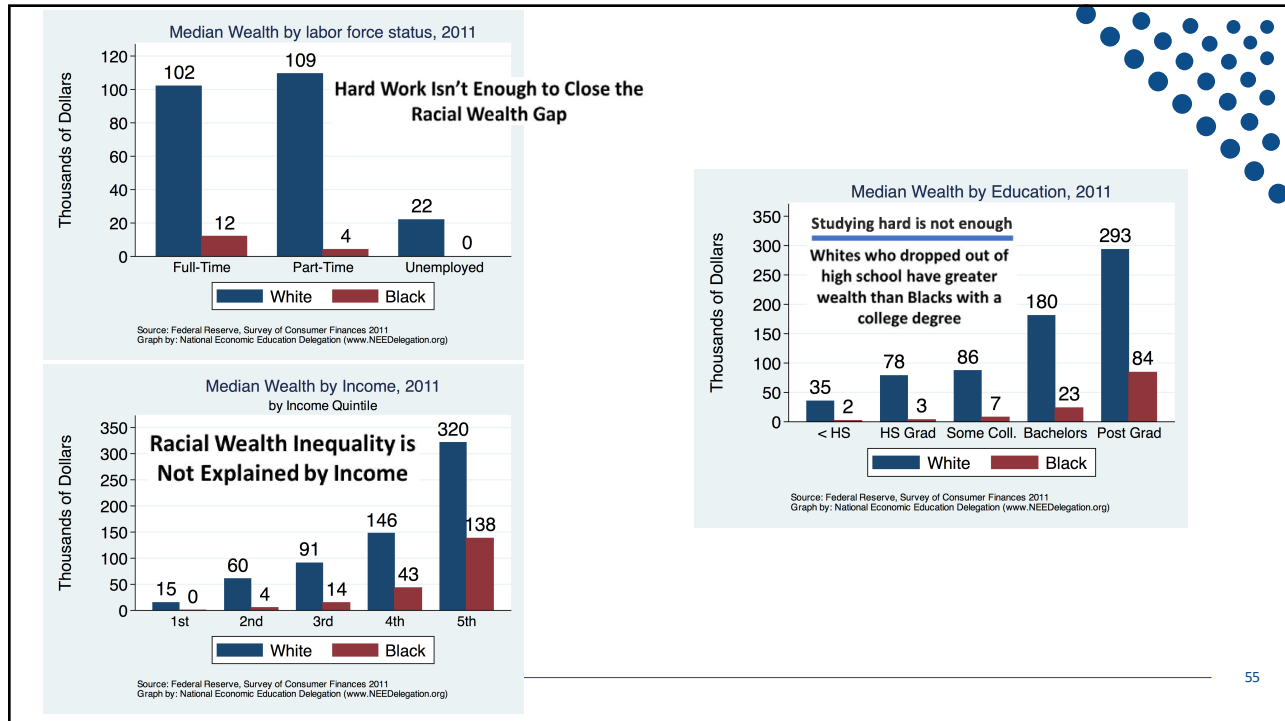
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## What is Fundamentally Responsible?

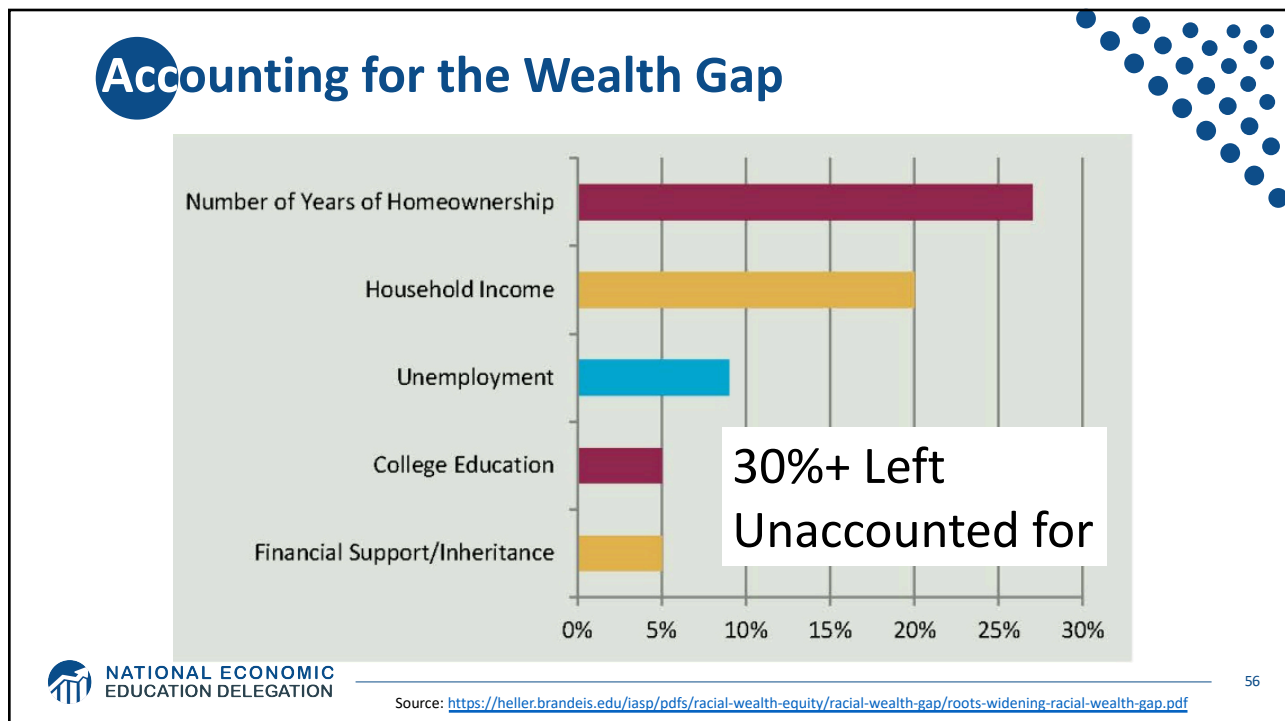
- Individual behaviors?
- Structural characteristics of the economy?
- History – policy and otherwise?



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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.



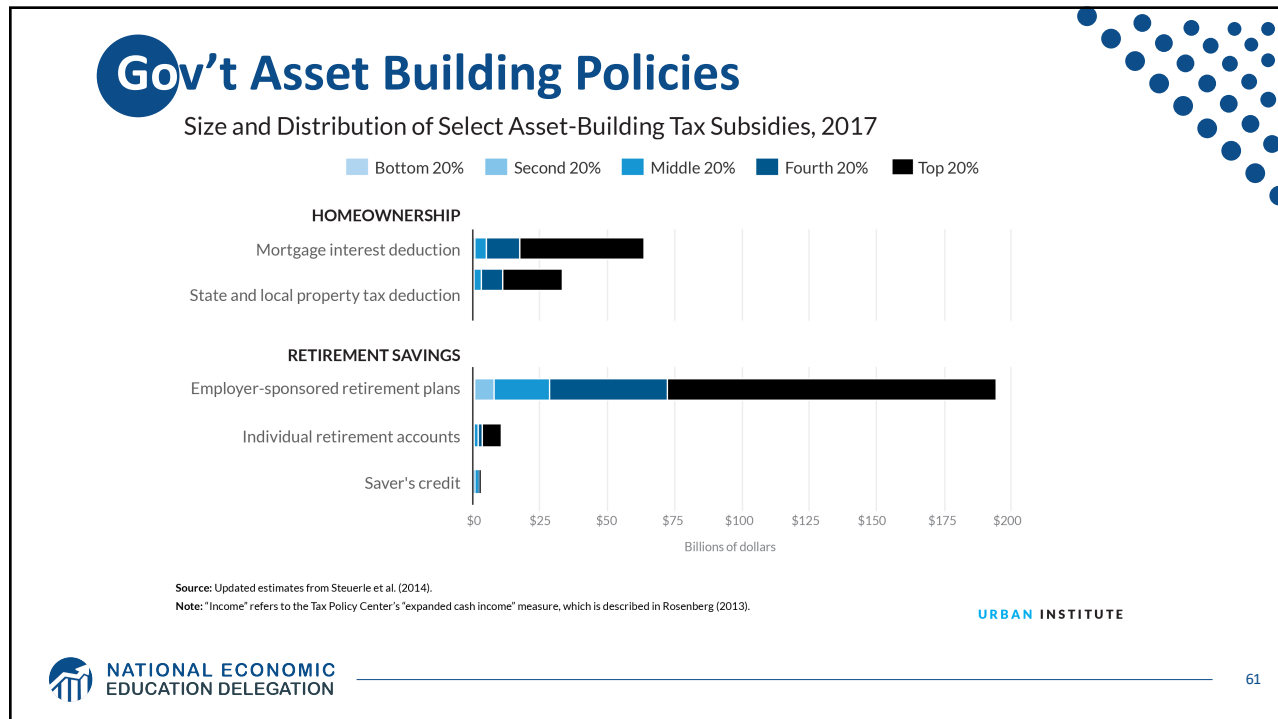
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## Reform Criminal Justice System

- **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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## 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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Source: Urban Institute

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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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## Thank you!

# Any Questions?

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