

Osher Lifelong Learning Institute, Winter 2022

Contemporary Economic Policy

Santa Clara University
Nov-Dec, 2022

Jon Haveman, Ph.D.
National Economic Education Delegation



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National Economic Education Delegation

- **Vision**

- One day, the public discussion of policy issues will be grounded in an accurate perception of the underlying economic principles and data.

- **Mission**

- NEED unites the skills and knowledge of a vast network of professional economists to promote understanding of the economics of policy issues in the United States.

- **NEED Presentations**

- Are **nonpartisan** and are intended to reflect the consensus of the economics profession.



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Who Are We?

- **Honorary Board: 54 members**

- 2 Fed Chairs: Janet Yellen, Ben Bernanke
- 6 Chairs Council of Economic Advisers
 - o Furman (D), Rosen (R), Bernanke (R), Yellen (D), Tyson (D), Goolsbee (D)
- 3 Nobel Prize Winners
 - o Akerlof, Smith, Maskin

- **Delegates: 652+ members**

- At all levels of academia and some in government service
- All have a Ph.D. in economics
- Crowdsource slide decks
- Give presentations

- **Global Partners: 49 Ph.D. Economists**

- Aid in slide deck development

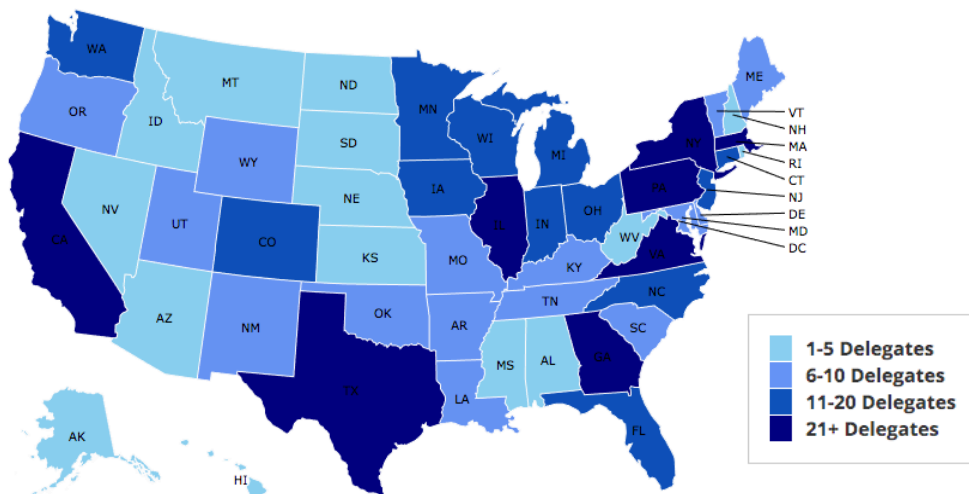


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Where Are We?



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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

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Course Outline

- **Week 1 (11/29):** **The Black-White Wealth Gap**
- **Week 2 (12/13):** History of Policy Discrimination in the United States

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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.**
 - May also do some verbal Q&A during the 10 minute break at 10:55.
- **Slides will be available from the NEED website shortly after class**
(https://needelegation.org/delivered_presentations.php)

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The Black-White Wealth Gap

November 29, 2022

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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- **This slide deck was reviewed by:**

- Patrick Mason, Florida State University
- Steven Craig, University of Houston

- **Disclaimer**

- NEED presentations are designed to be nonpartisan.
- 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).



Outline

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



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

• Assets include:

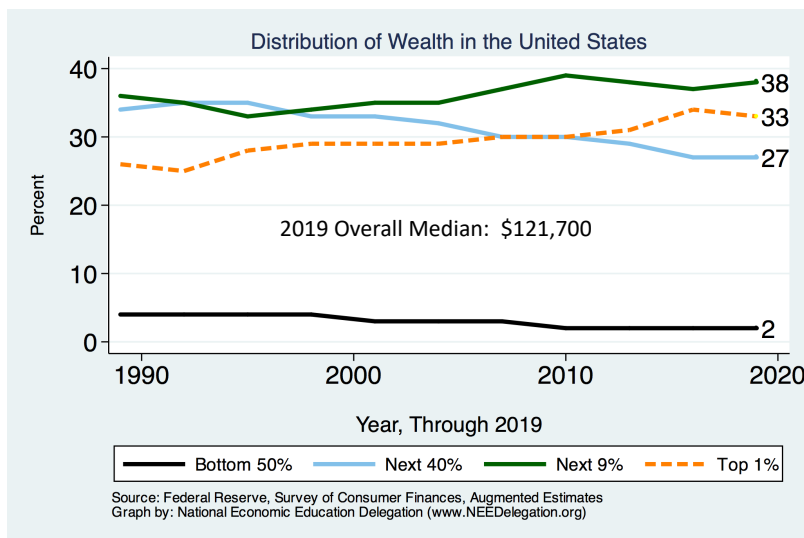
- Owned homes, cars, stocks, businesses, savings and checking accounts, pensions, life insurance...

• Debts include:

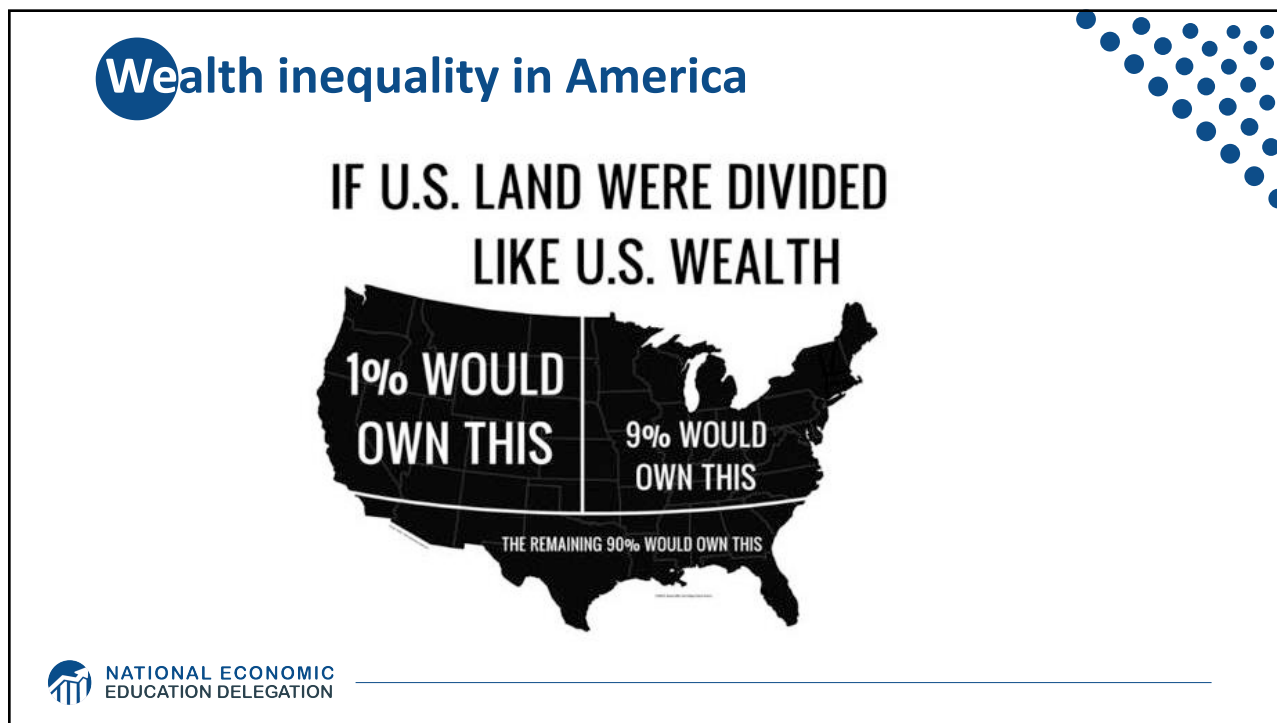
- Home mortgages, car loans, credit cards, and any other significant financial obligations (excl regular bills)...

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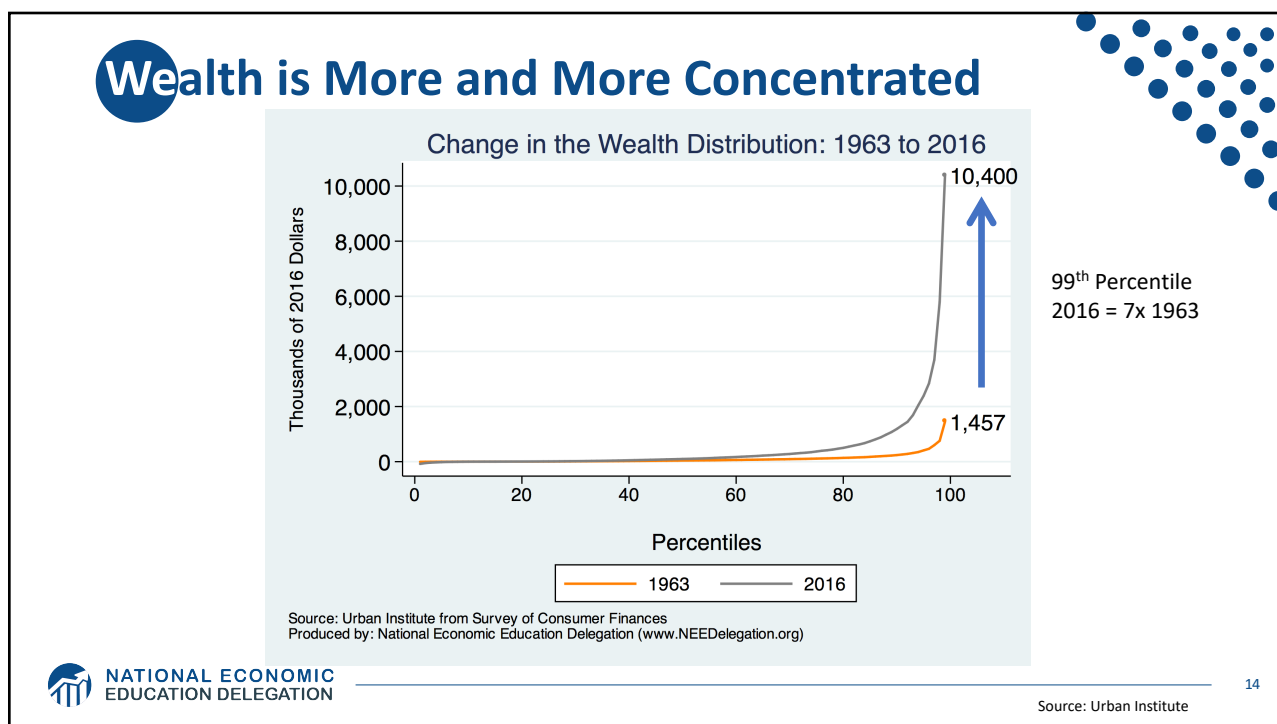
Overall Wealth Distribution



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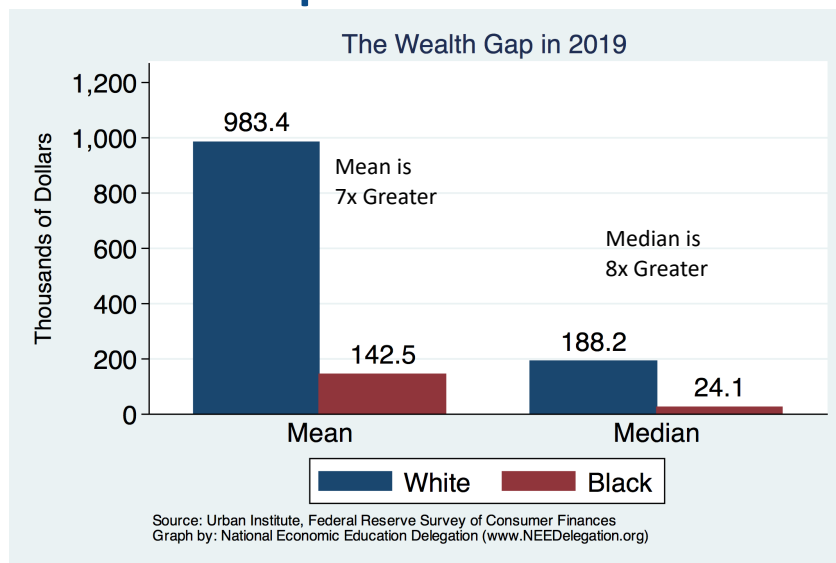


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Evidence

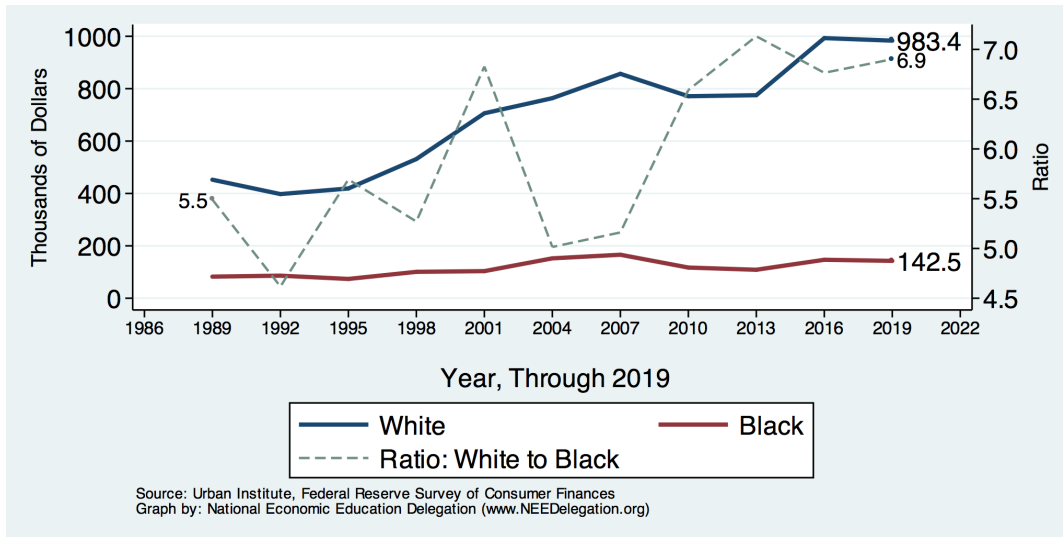
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Evidence of the Gap



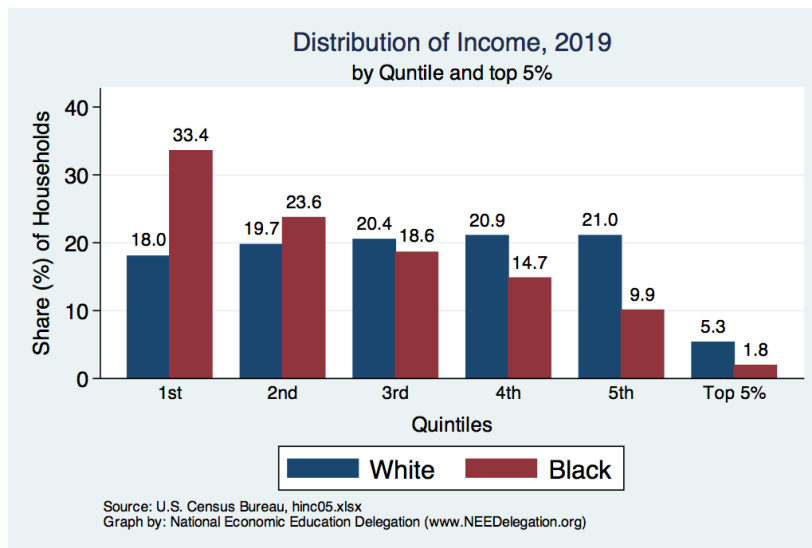
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Wealth Gap Over Time: Mean

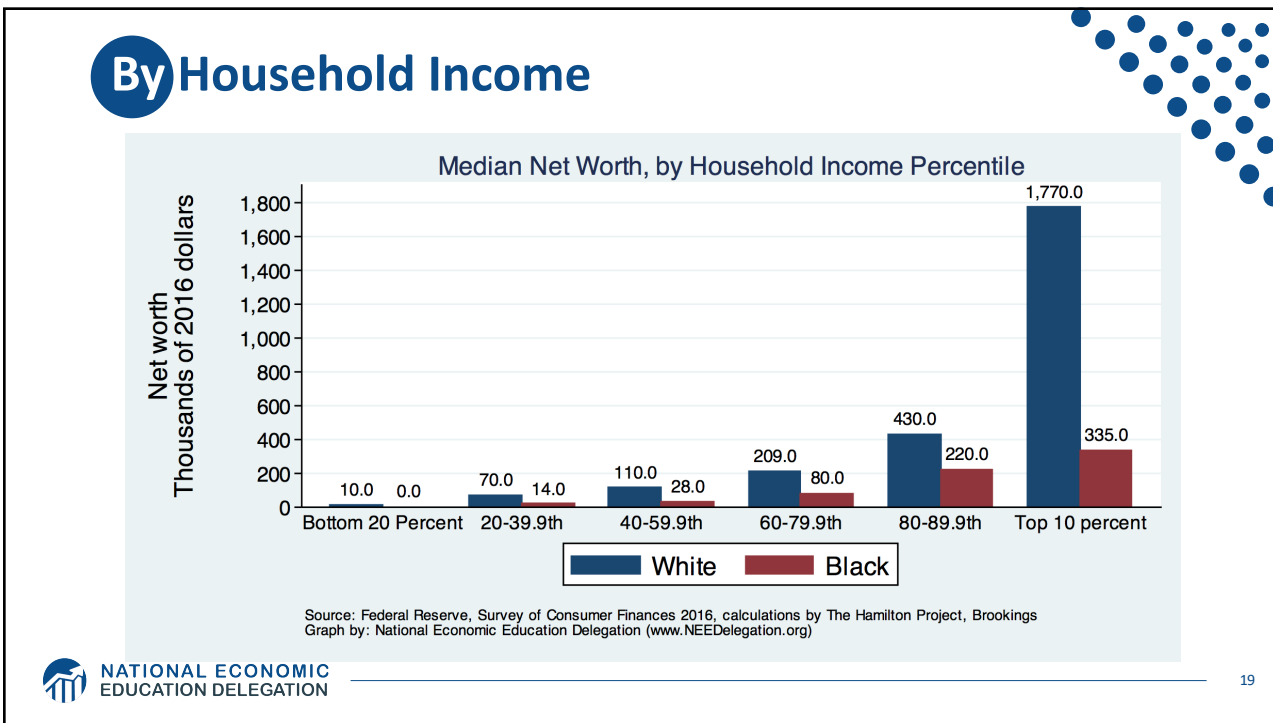


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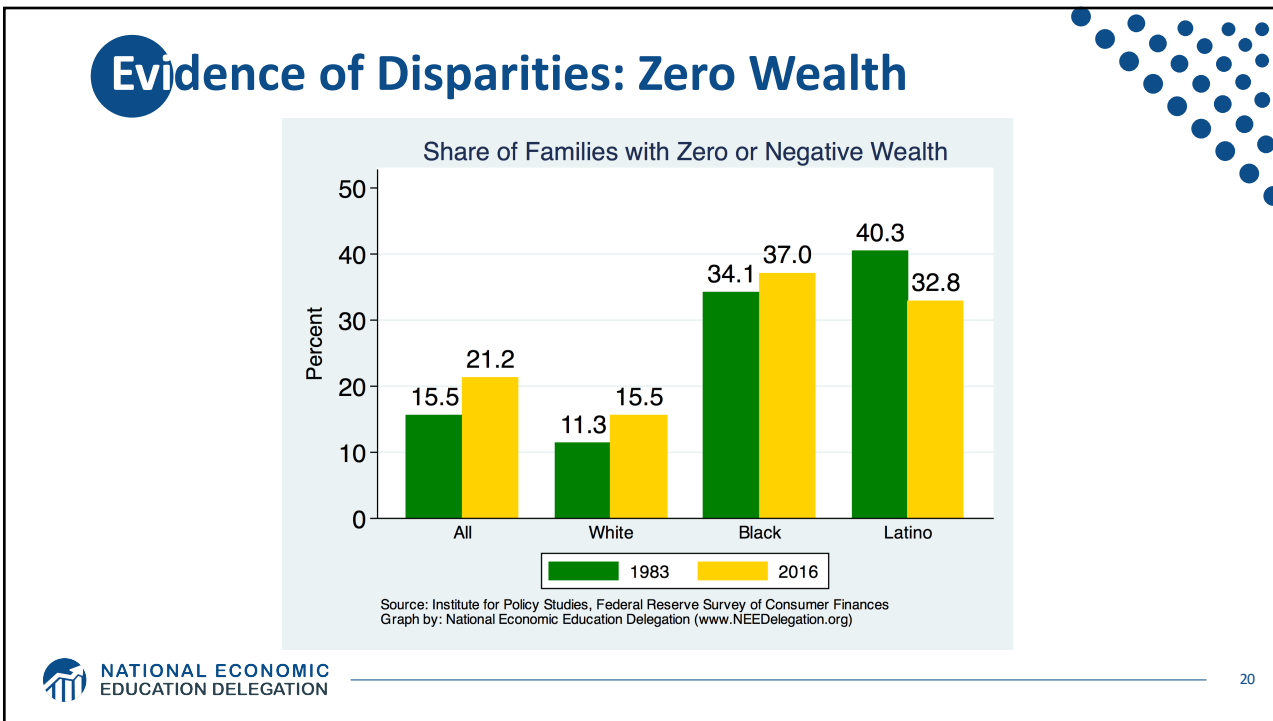
Black Household Incomes Relative to White



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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 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:**

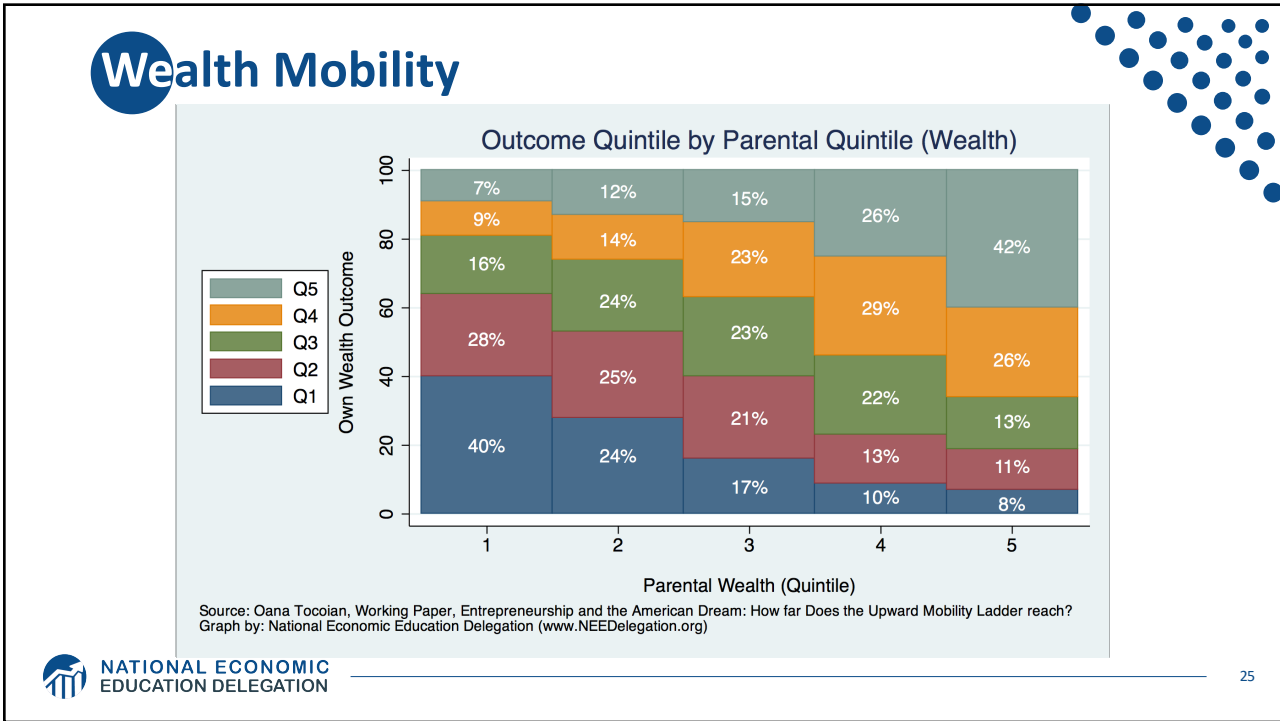
- Influences human capital accumulation.
- Influences the returns to education.
- Adult incomes of offspring.

- **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.**



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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

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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.*



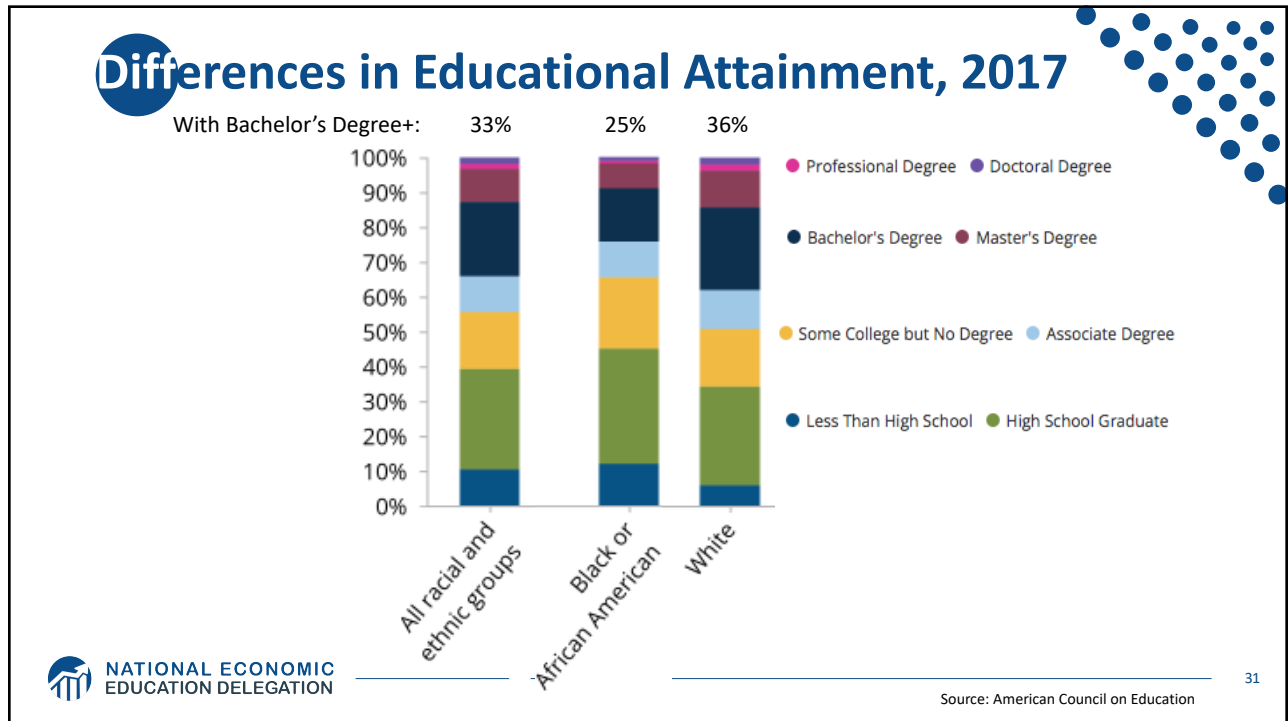
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Potential Explanations: Differences in...

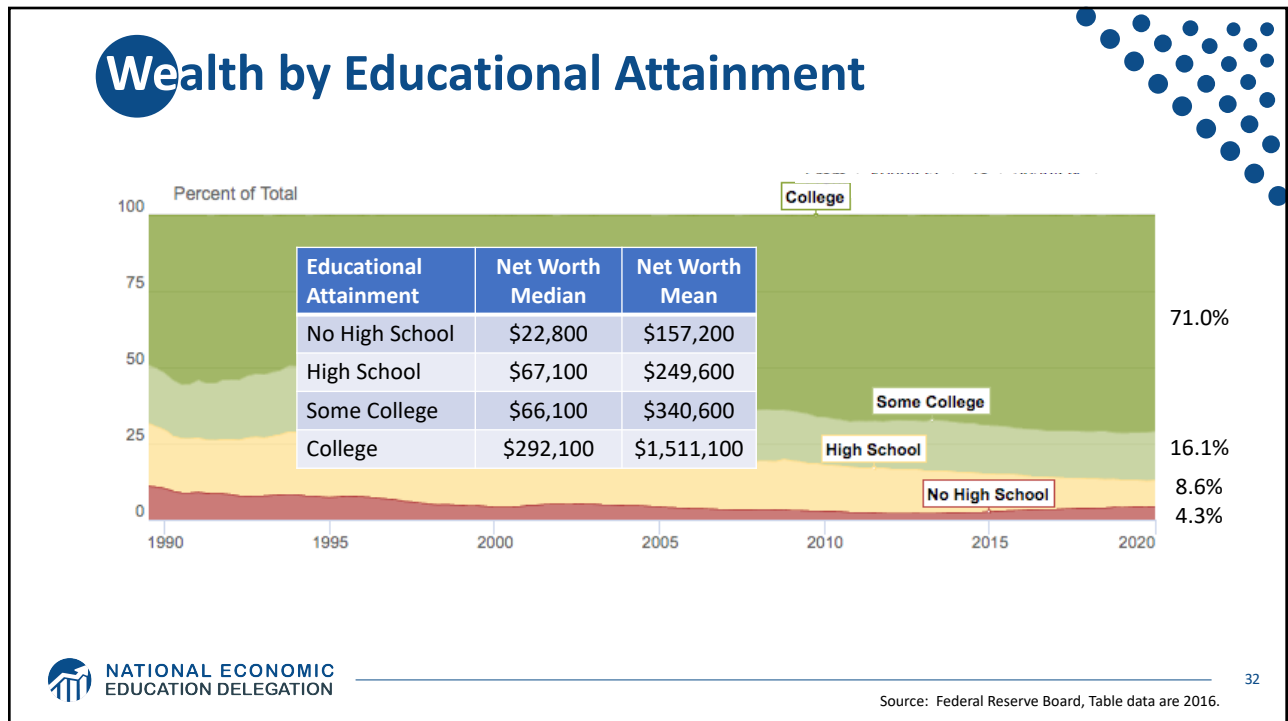
- Educational attainment
- Home ownership
- Increased savings
- Financial literacy
- Soft skills & personal responsibility
- Entrepreneurship
- Wages
- Incarceration rates
- Family structure
- Initial endowment



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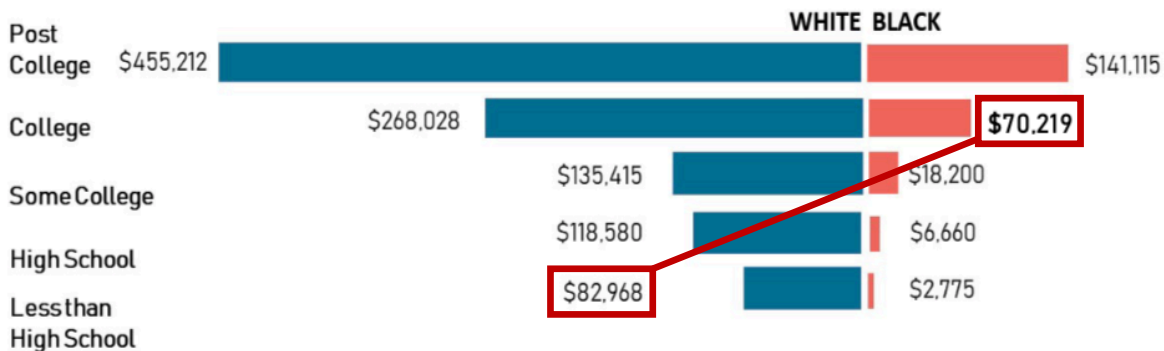
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Educational Attainment

Median Household Net Worth by Race and Education

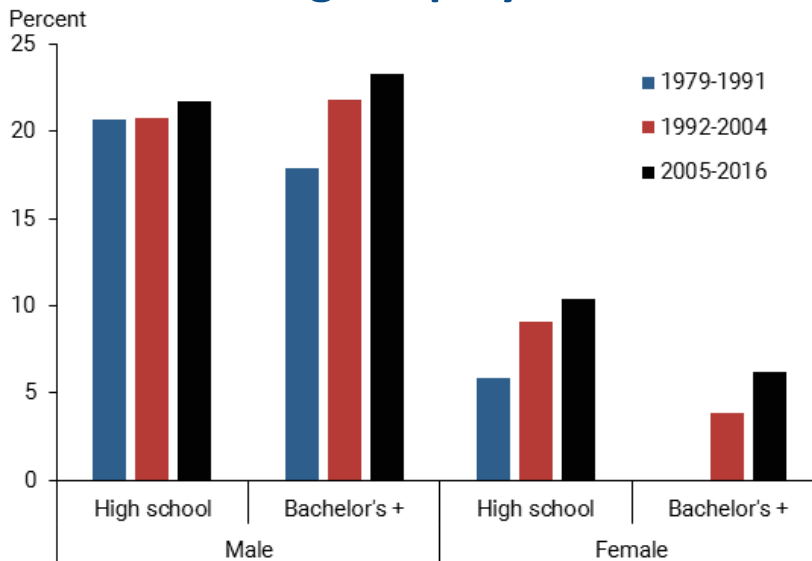


Source: Darity, et al., "What We Get Wrong About Closing the Racial Wealth Gap"

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Black-White Earnings Gap by Education

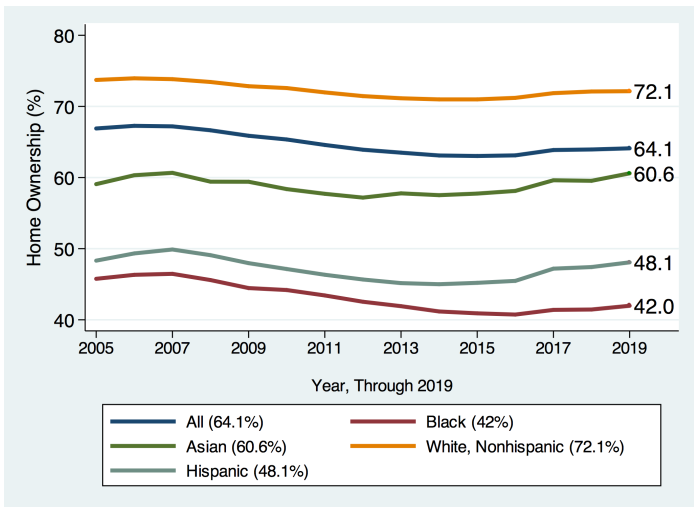


Source: <https://www.frbsf.org/economic-research/publications/economic-letter/2017/september/disappointing-facts-about-black-white-wage-gap/>

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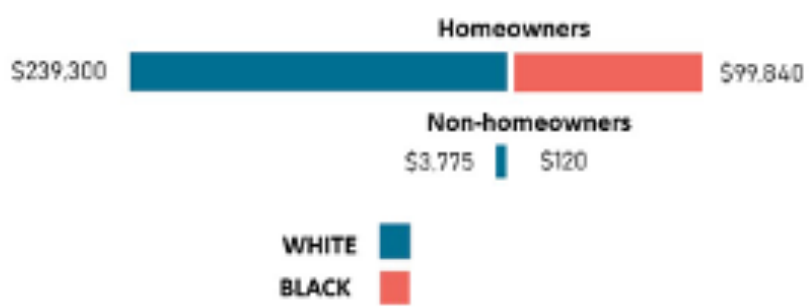
Home Ownership



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



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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**



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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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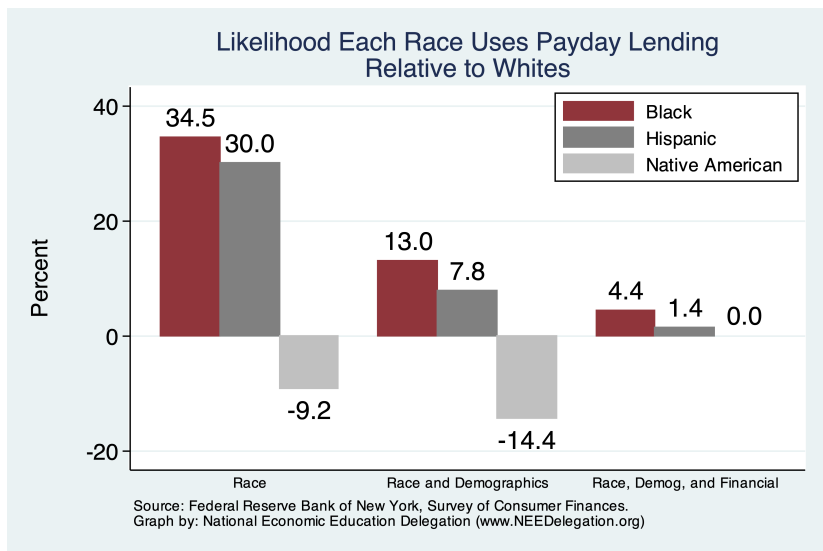
Financial Literacy

- **Financial literacy doesn't matter that much when you don't have any finances to manage.**
- **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



Soft Skills and Personal Responsibility

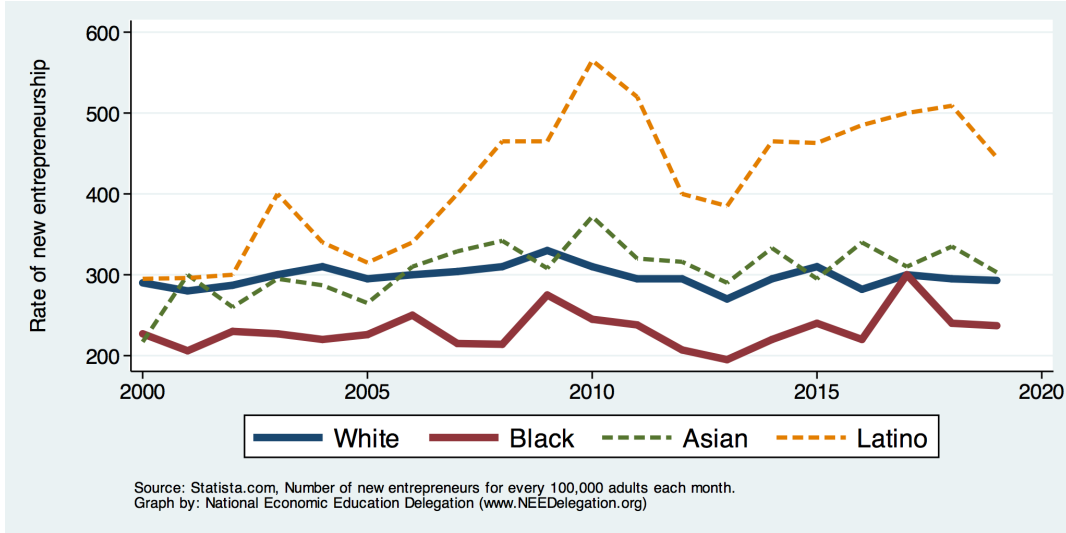
• Employability

- 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.

Entrepreneurship: Rate of New Entrepreneurs



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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.

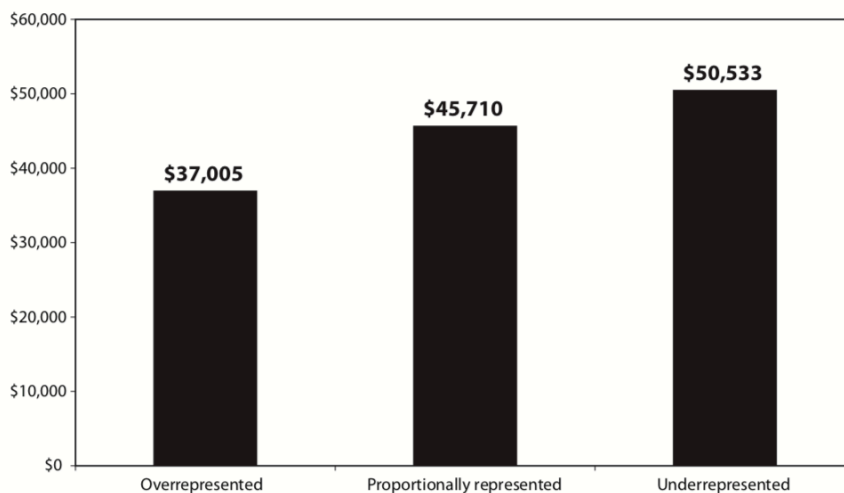
- **Generally lower levels of education.**

- **Previous business ownership by family.**

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Overrepresented Where Wages are Low

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



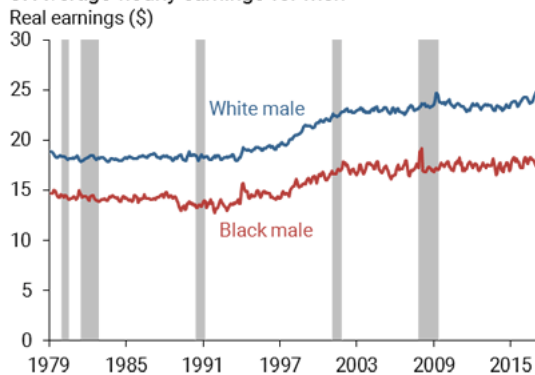
Source: Hamilton Darrick, Algernon Austin, and William Darity, Jr. Whiter Jobs, Higher Wages :Occupational Segregation and the Lower Wages of Black Men Economic Policy Institute, Briefing Paper #288 2011.

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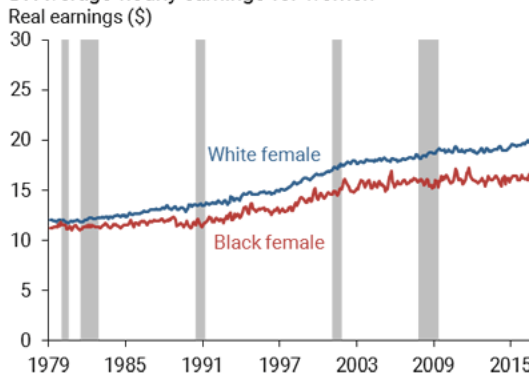
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Wage Gap: Controlling for education, age, job type.

C. Average hourly earnings for men



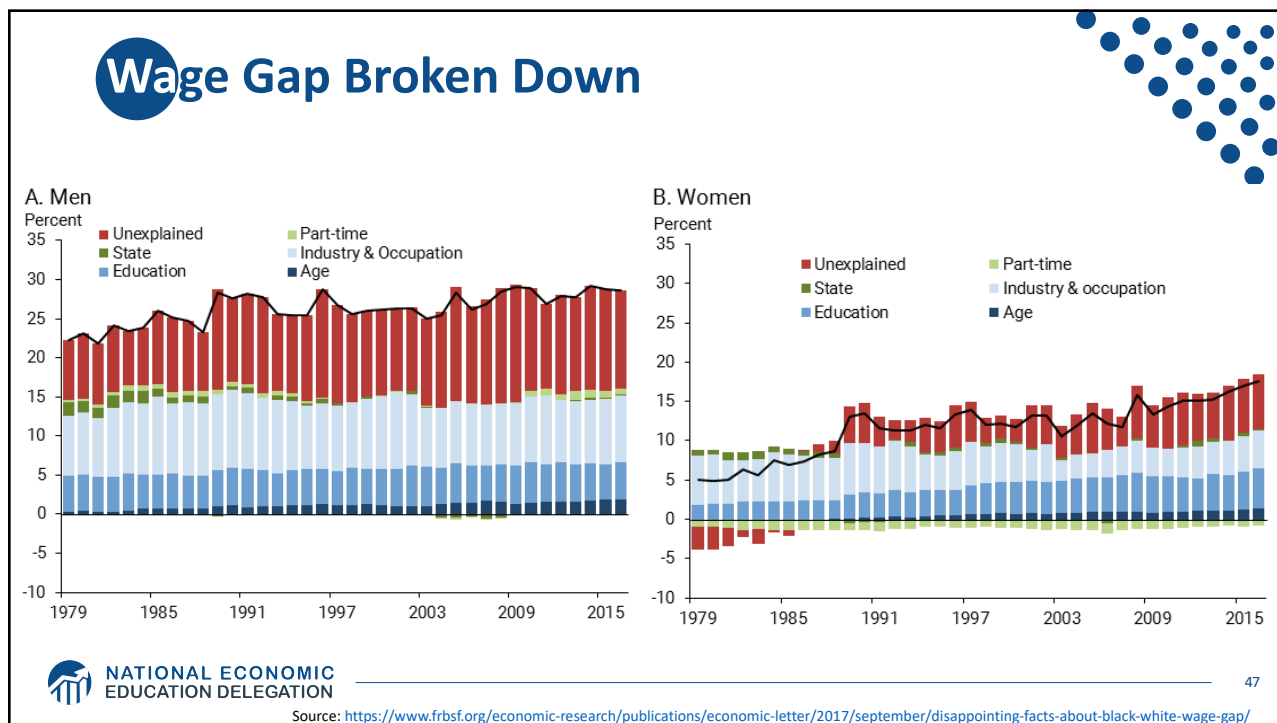
D. Average hourly earnings for women



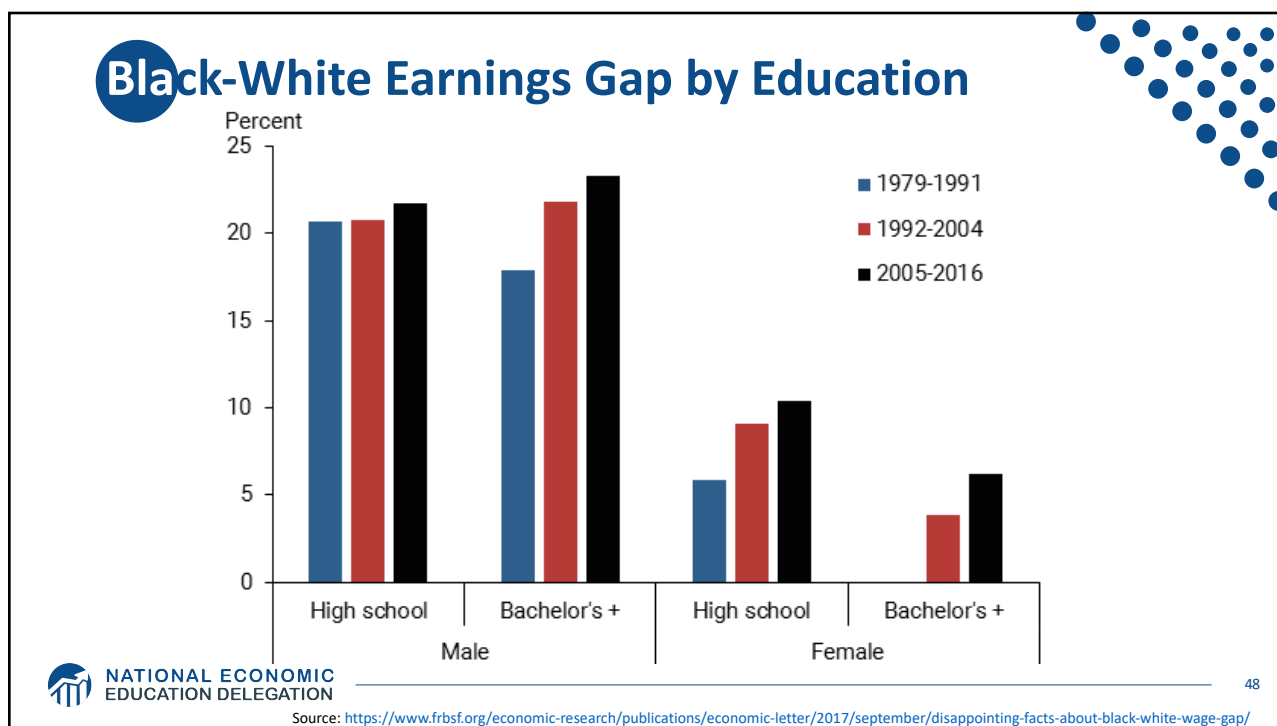
Source: <https://www.frbsf.org/economic-research/publications/economic-letter/2017/september/disappointing-facts-about-black-white-wage-gap/>

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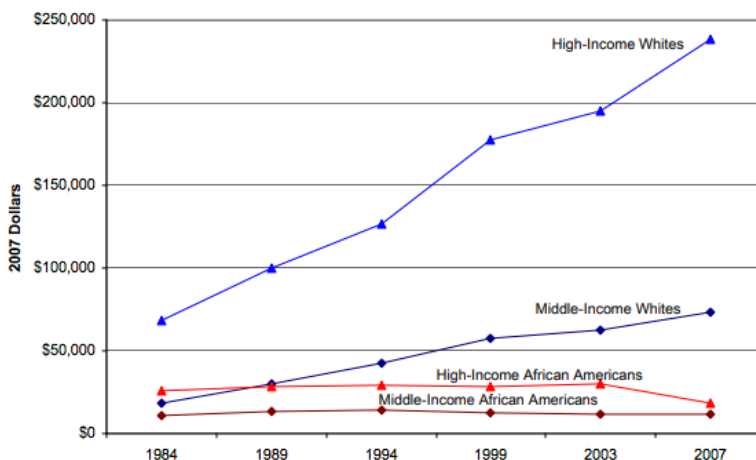
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Equality of Income ≠ Equality of Wealth

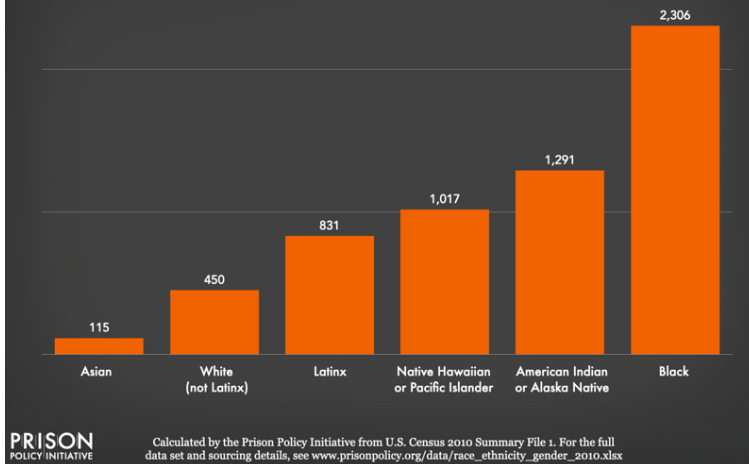
Figure 2: 1984-2007 Median Wealth Holdings by Income in 1984 (Not including home equity)

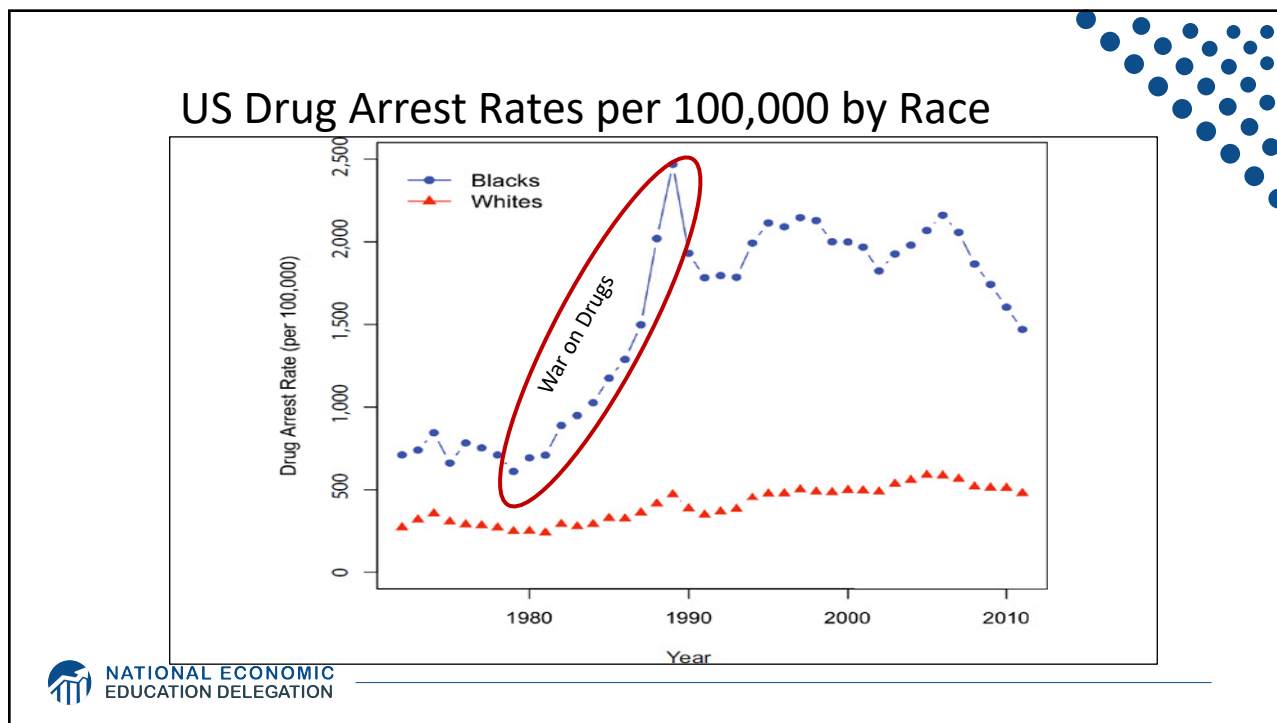


Incarceration Likely Plays A Role

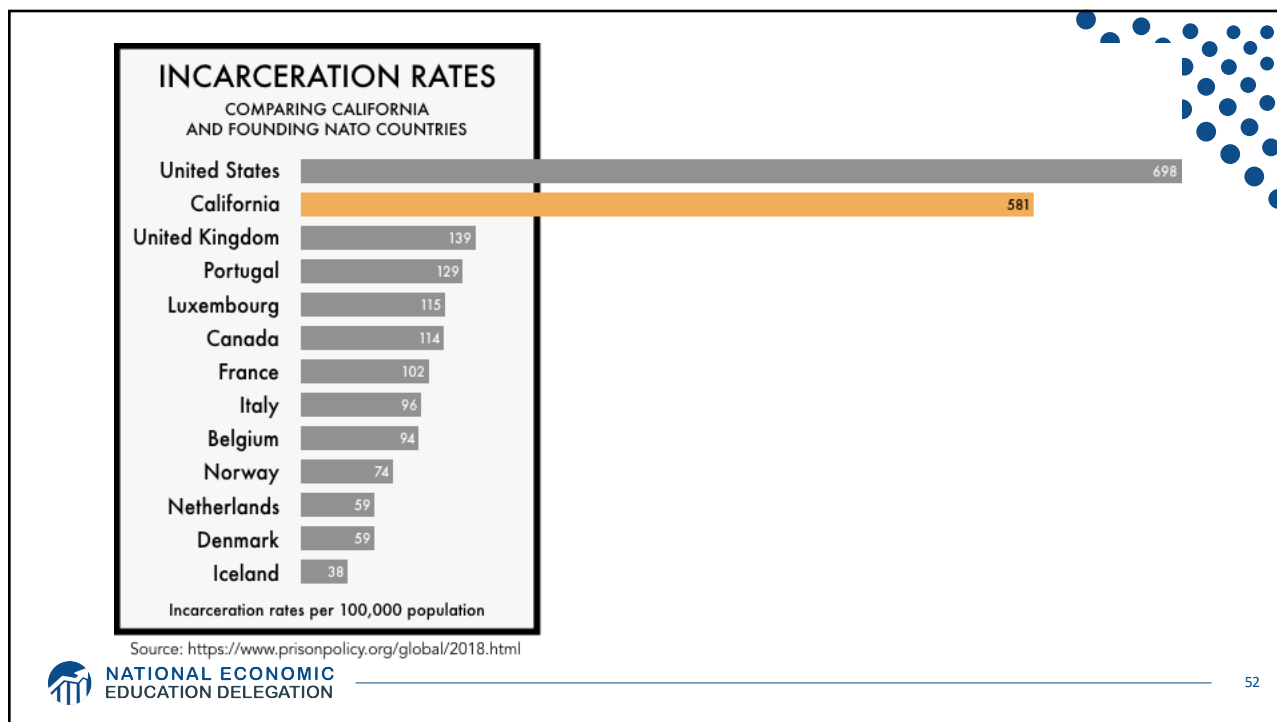
U.S. incarceration rates by race and ethnicity, 2010

Number of people incarcerated per 100,000 people in each racial or ethnic category





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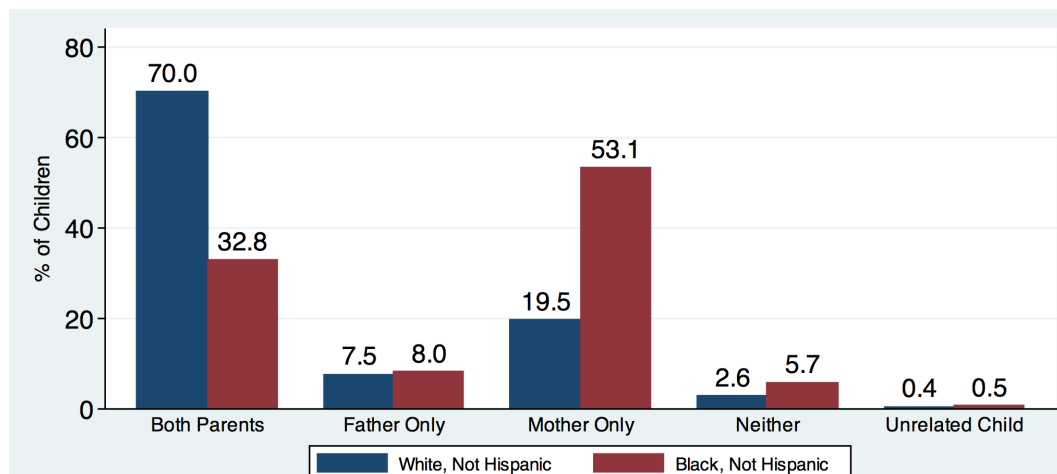
Family Structure

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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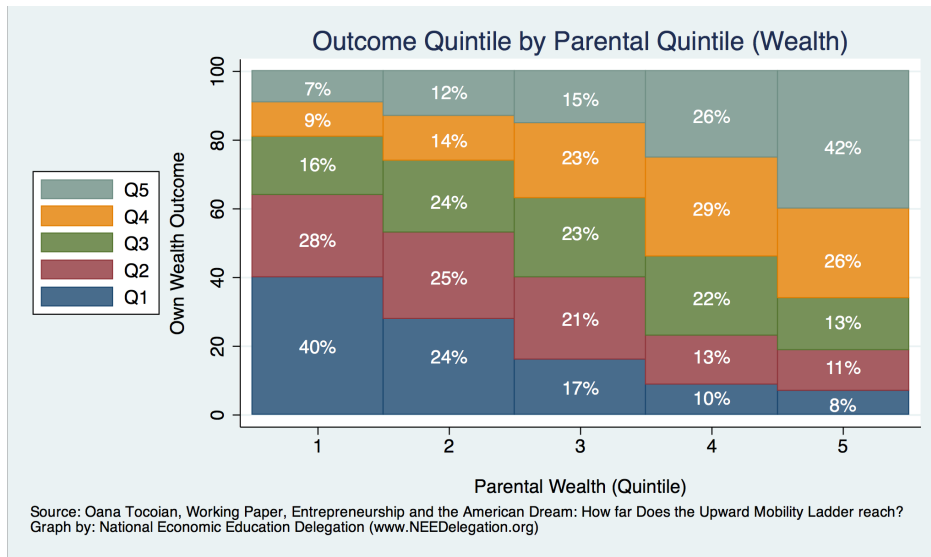
Kids – Household Types



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

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Initial Endowment

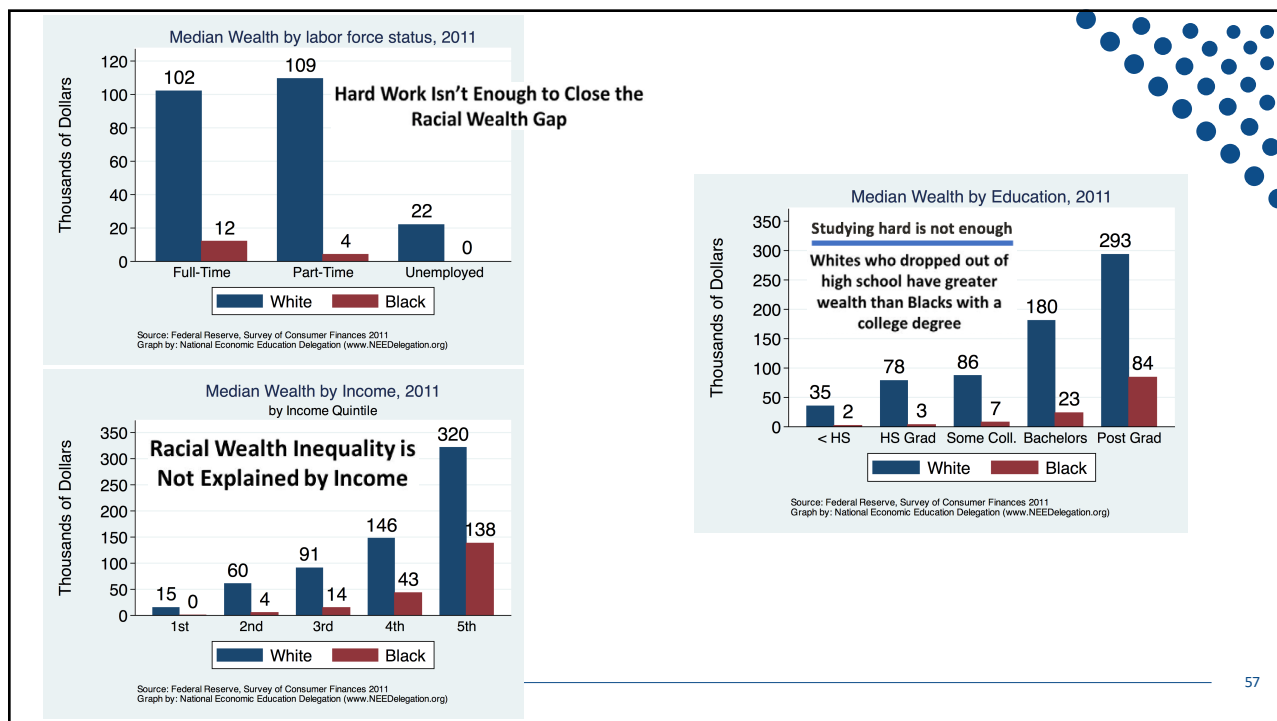


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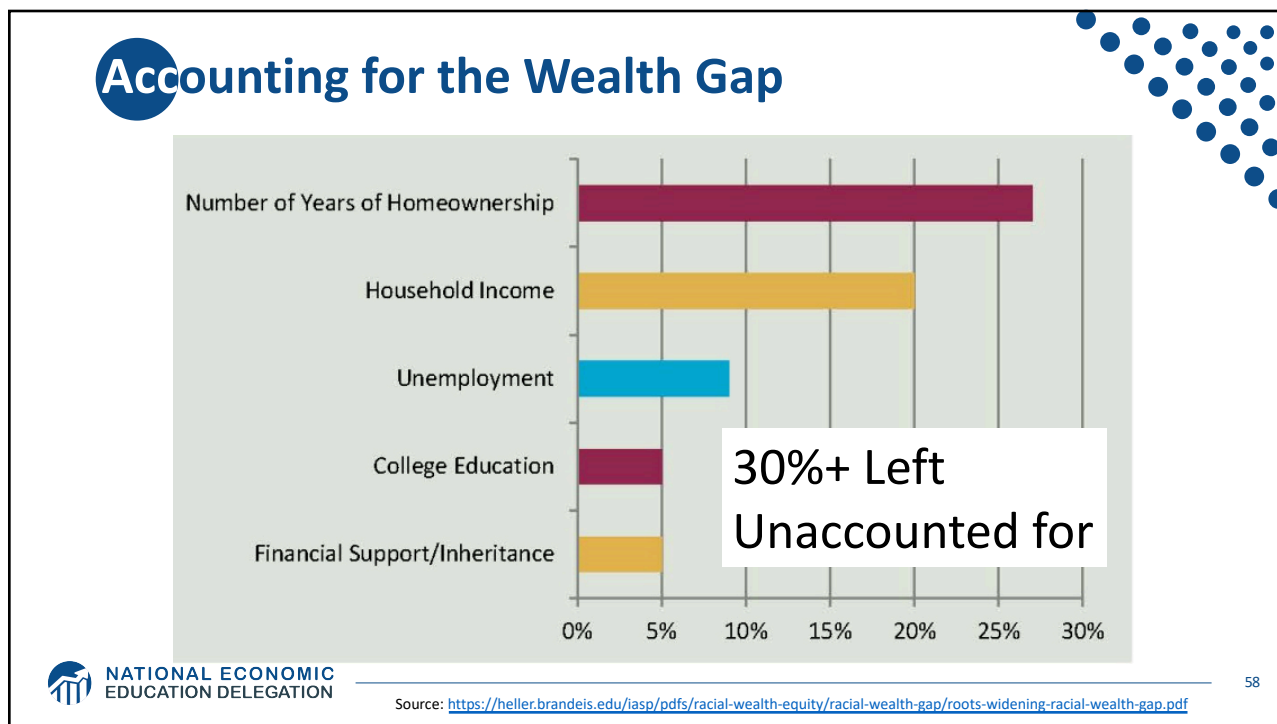
What is Fundamentally Responsible?

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

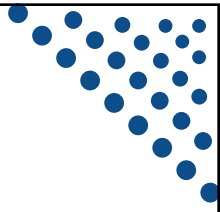
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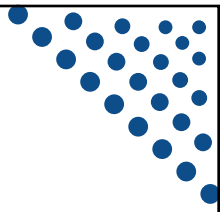


Policy Options

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



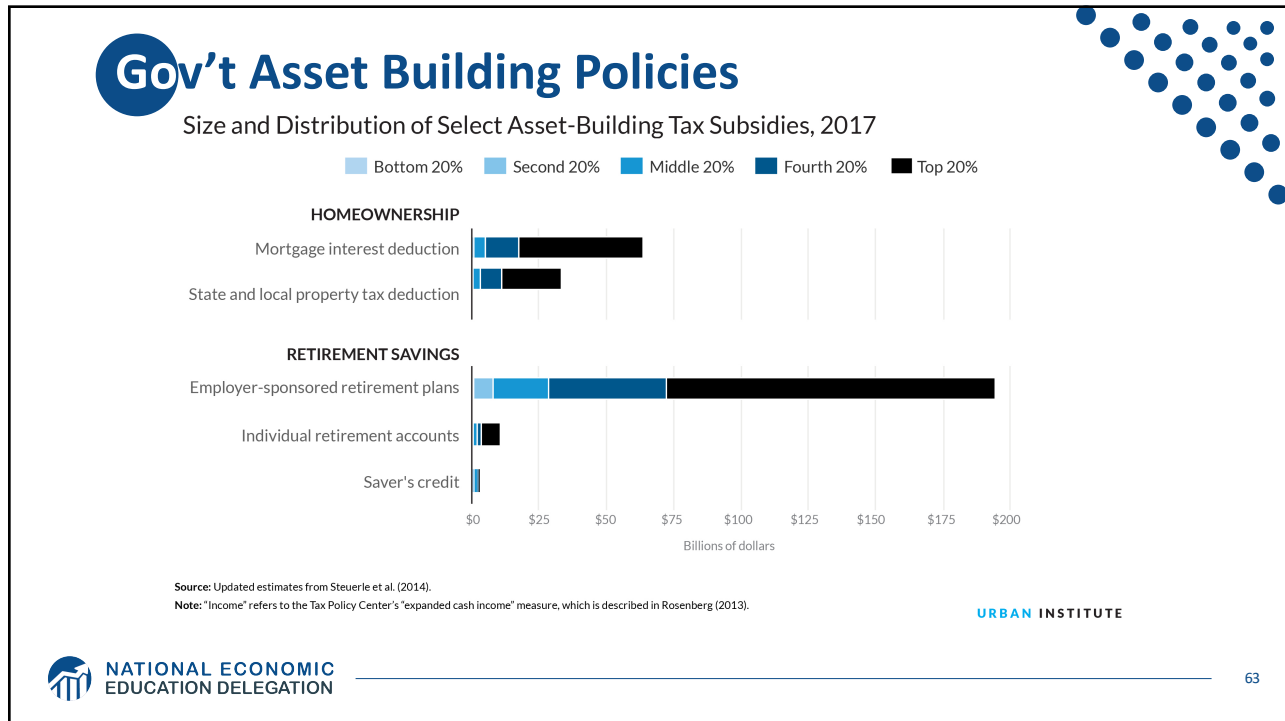
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Reform Criminal Justice System

- **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.
 - Provide subsidies to promote emergency savings, such as those linked to tax time.
- NATIONAL ECONOMIC EDUCATION DELEGATION 64
- Source: Urban Institute

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Suggestions, Not Really Policies



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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 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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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

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
 - o 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.



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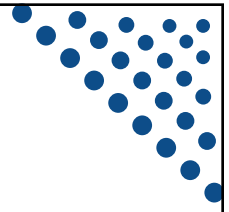
Summary

- **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?

www.NEEDelegation.org

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Jon@NEEDelegation.org

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