

Osher Lifelong Learning Institute, Spring 2022 **Contemporary Economic Policy**

University of Alabama-Huntsville
April-May, 2022

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



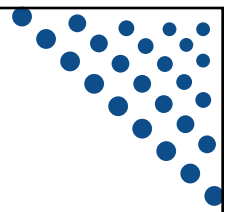
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Available NEED Topics Include:

- **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 (4/11): US Economy & Russia/Ukraine Conflict
- Week 2 (4/18): Trade and Globalization (Alan Deardorff, University of Michigan)
- **Week 3 (4/25): The Black-White Wealth Gap (Stephanie Seguino, Univ. of Vermont)**
- Week 4 (5/2): Economic Mobility (Kathryn Wilson, Kent State University)
- Week 5 (5/9): Cryptocurrencies and the Future of Money (G. Woglom)
- Week 6 (5/16): Autonomous Vehicles (Jon Haveman, NEED)

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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.

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The Black-White Wealth Gap

Stephanie Seguino, Ph.D.
University of Vermont

April 25, 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)...



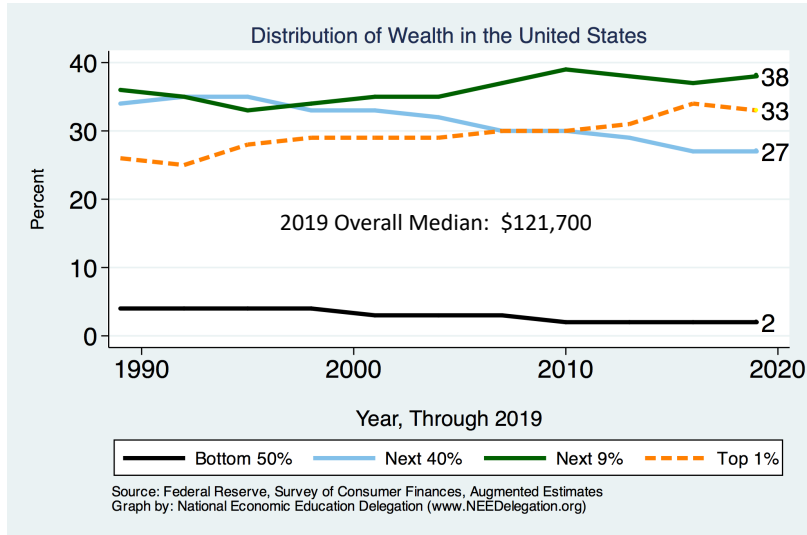
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Evidence



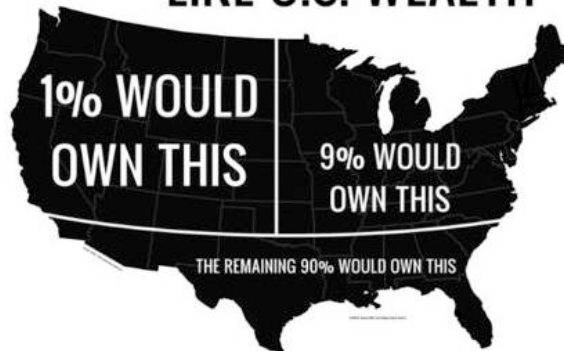
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Overall Wealth Distribution

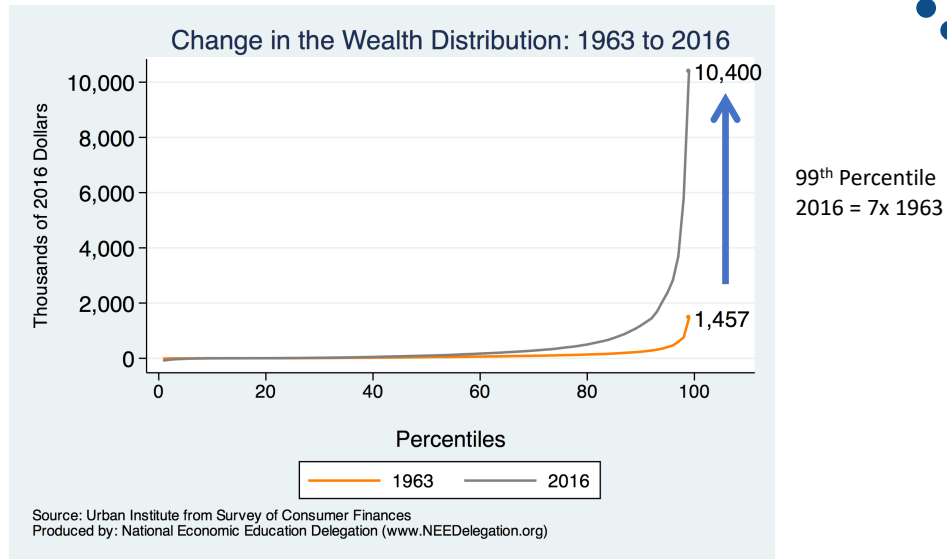


Wealth inequality in America

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



Wealth is More and More Concentrated



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How do we accumulate wealth?

- **Savings** from income.
- Earnings from the ownership of **financial assets** like stocks and bonds (interest).
- Appreciation of value of assets such as **housing** or stocks and bonds.
- **Inheritance.**

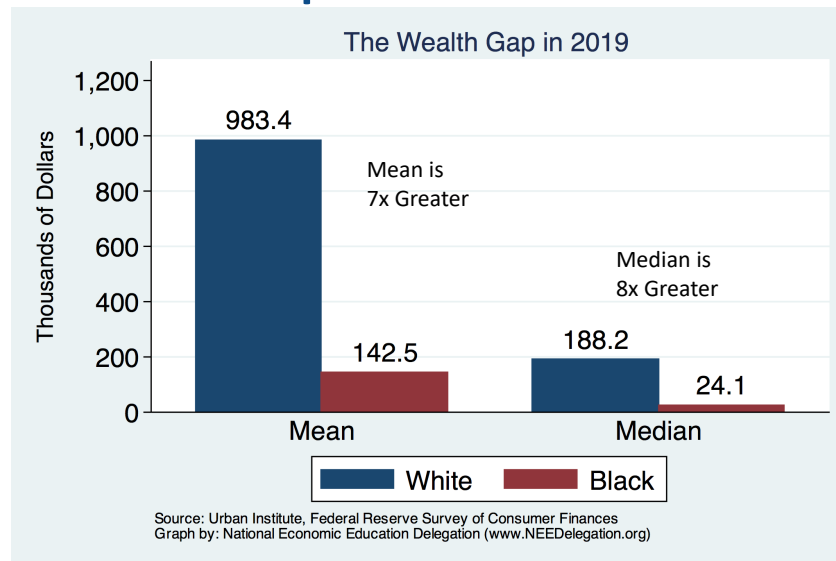
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Wealth Disparities, 2019

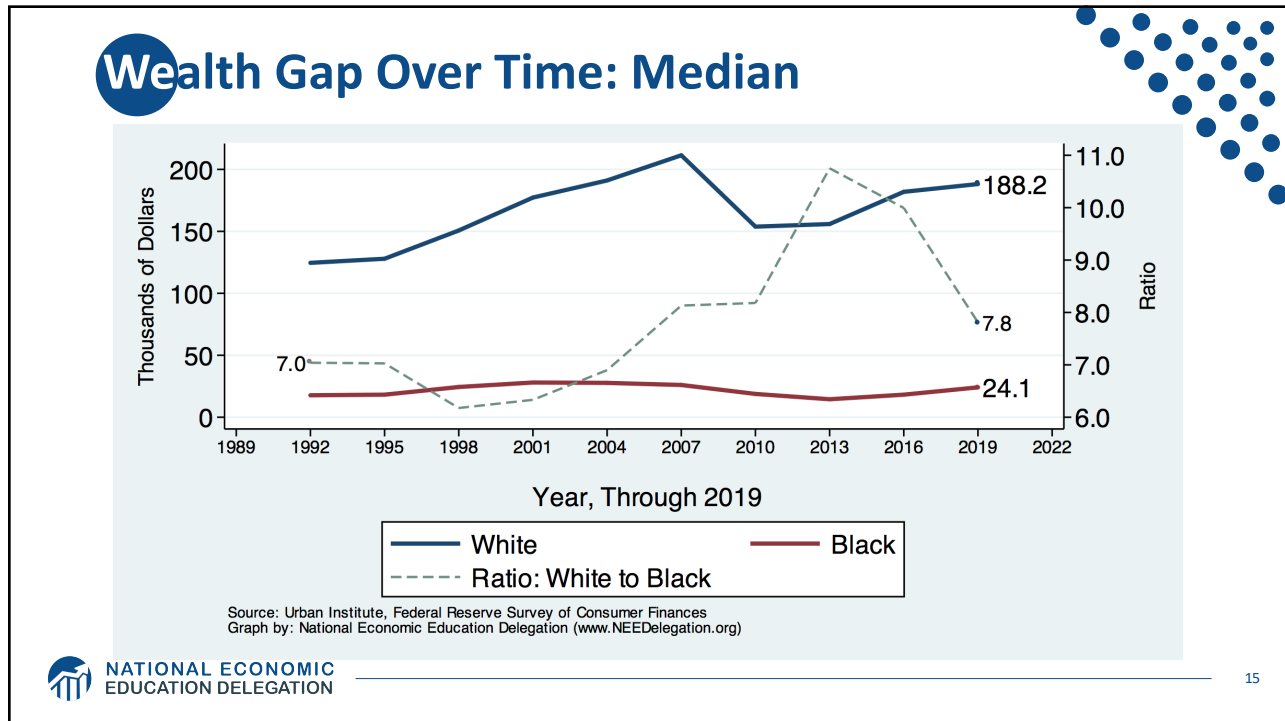
Race/Ethnicity	Mean Wealth	Share of Families	Share of Wealth	Ratio of Shares (Share of Wealth/Share of Families)
White, non-Hispanic	\$983,400	64.9	85.3	1.3
Black, non-Hispanic	\$142,500	14.2	2.7	0.2
Hispanic or Latino	\$165,500	9.6	2.1	0.2
Other or Multiple Race	\$657,200	11.3	9.9	0.9

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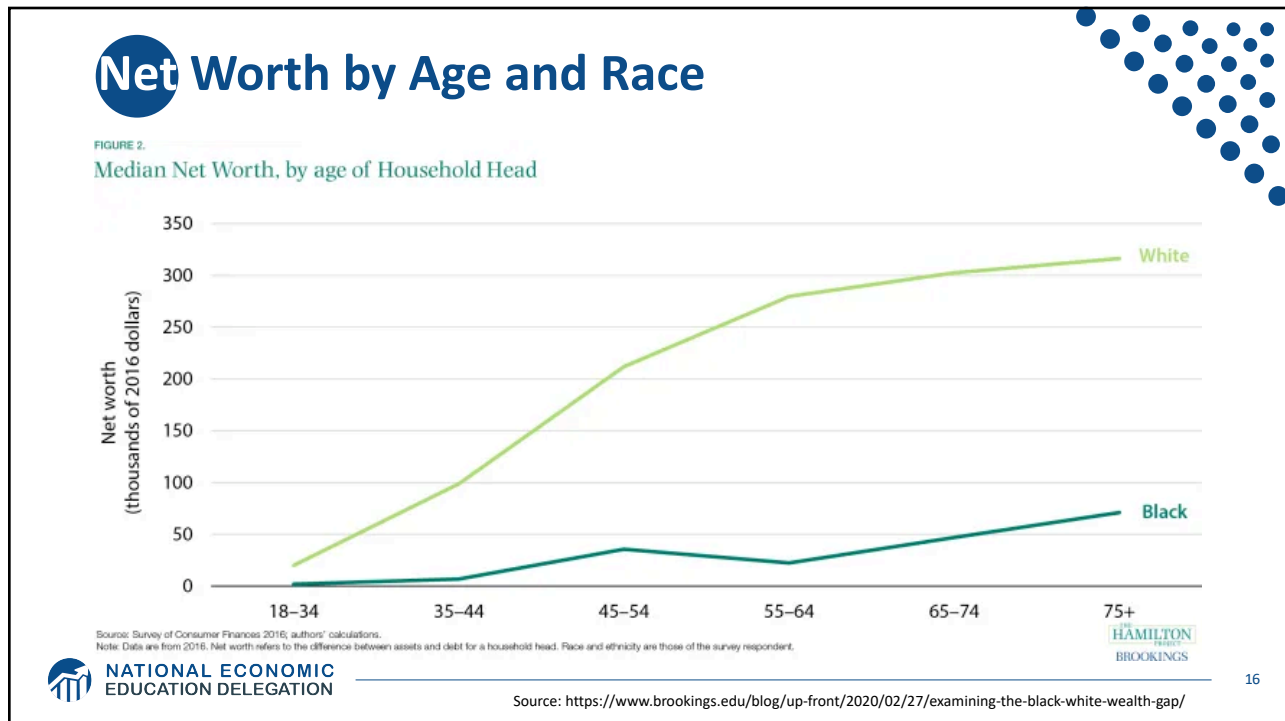
Evidence of the Gap



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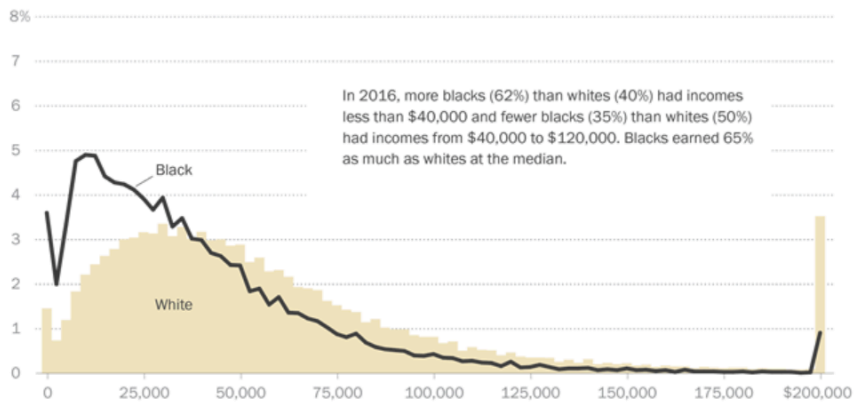
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Black Household Incomes Relative to White

Shares of whites and blacks with a given level of income, 2016

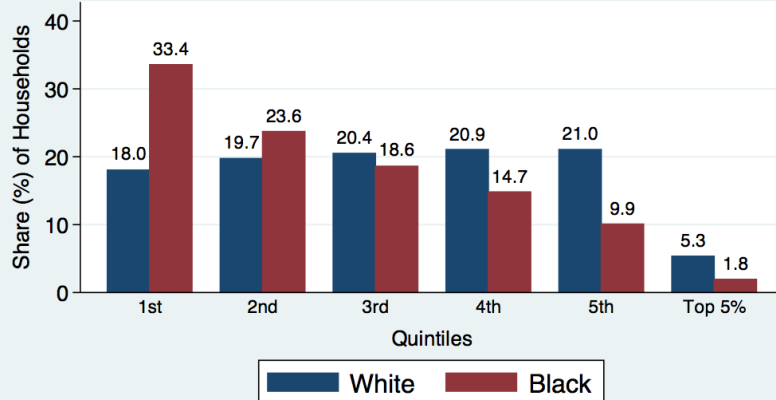


Note: Whites and blacks include only single-race non-Hispanics. Income is adjusted for household size and expressed in 2016 dollars. See Methodology for details.
 Source: Pew Research Center analysis of 2016 American Community Survey (IPUMS).
 "Income Inequality in the U.S. Is Rising Most Rapidly Among Asians"

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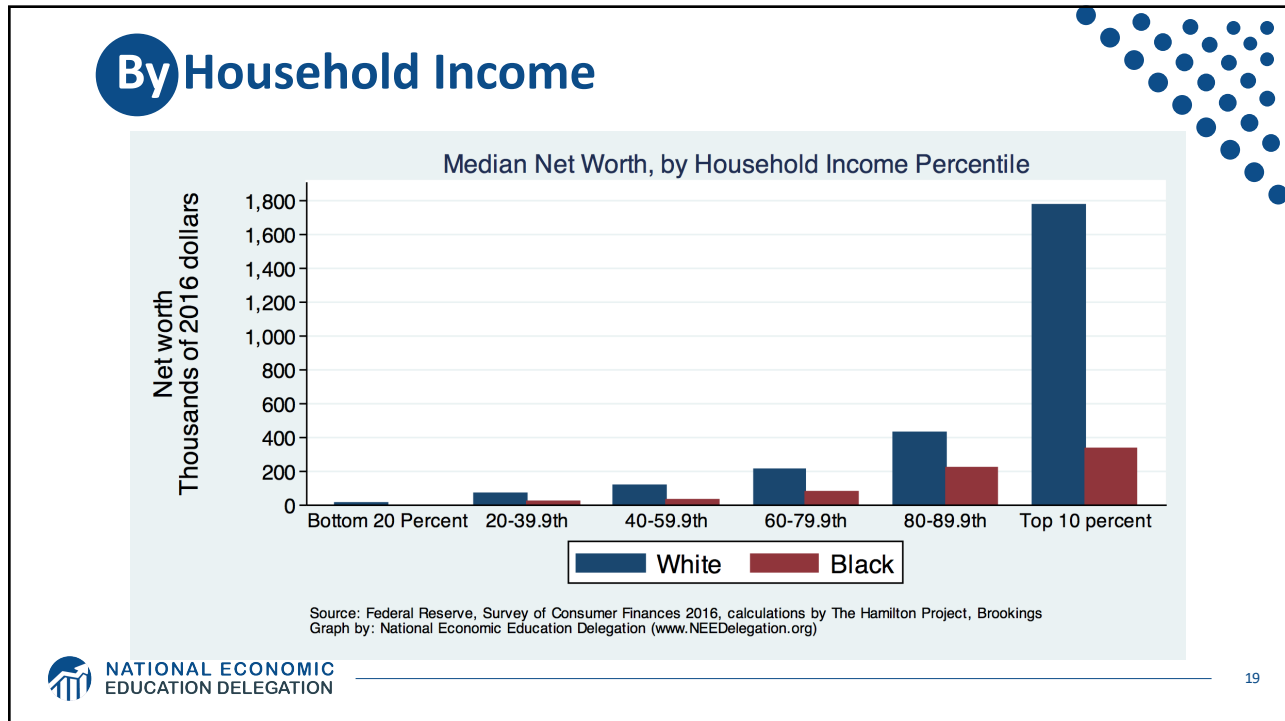
Black Household Incomes Relative to White

Distribution of Income, 2019
by Quintile and top 5%

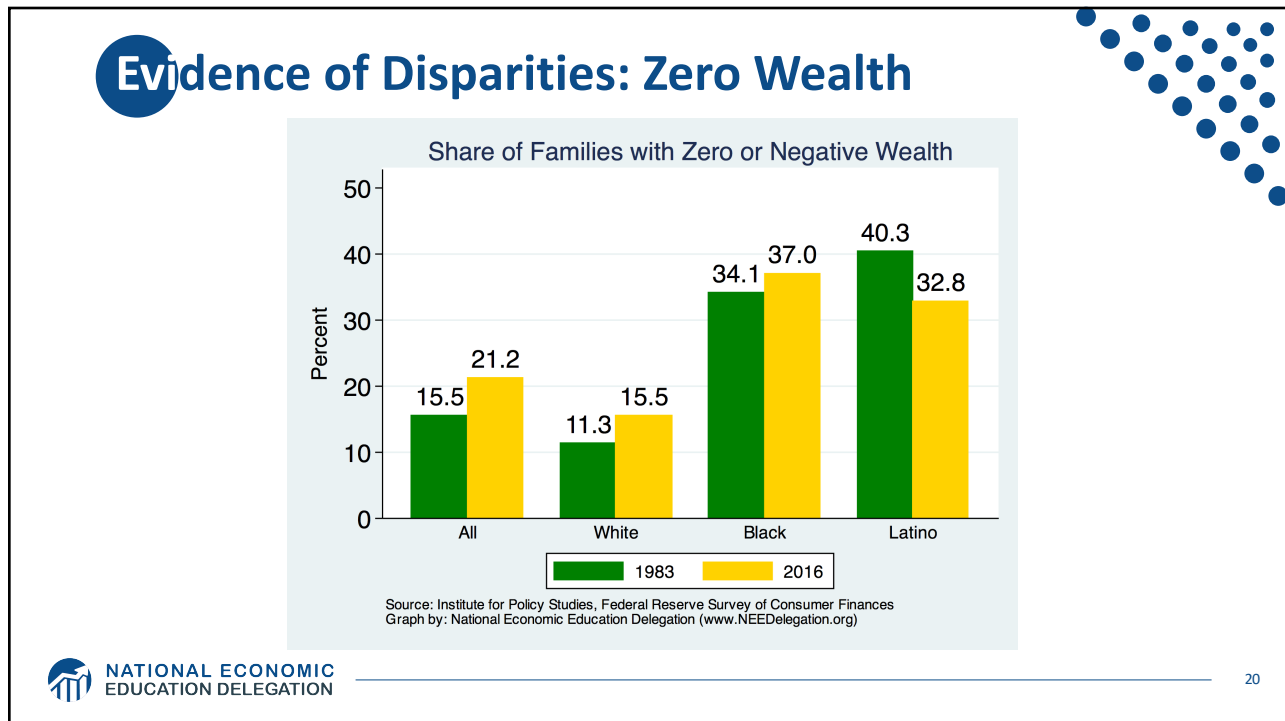


Source: U.S. Census Bureau, hinc05.xlsx
 Graph by: National Economic Education Delegation (www.NEEDelegation.org)

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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.



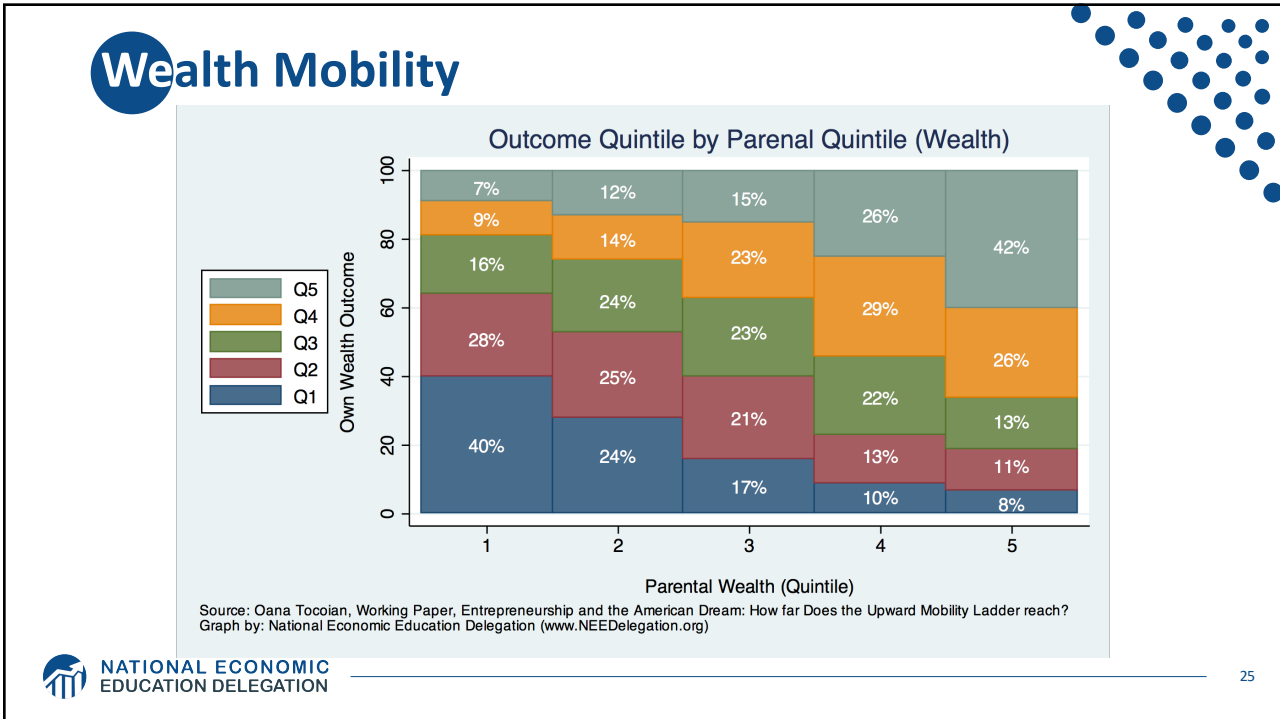
Parental Wealth is Important

- **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
- **Mortgage interest tax deductions**



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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.
 - Segregation tax
 - Less access to quality education.
 - *Disparities in availability of resources to build wealth.*



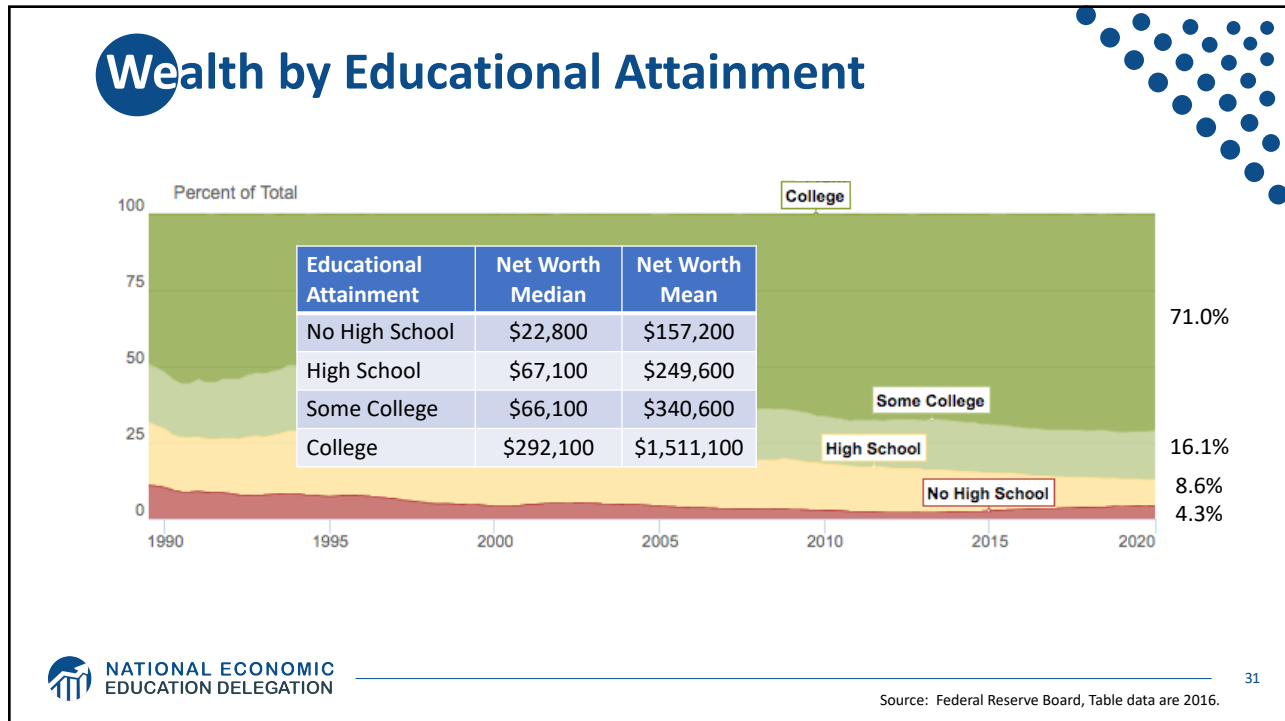
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Potential Explanations: Differences in...

- **Educational attainment**
- **Home ownership**
- **Increased savings**
- **Financial literacy**
- **Entrepreneurship**
- **Wages**
- **Family structure**
- **Initial endowment**



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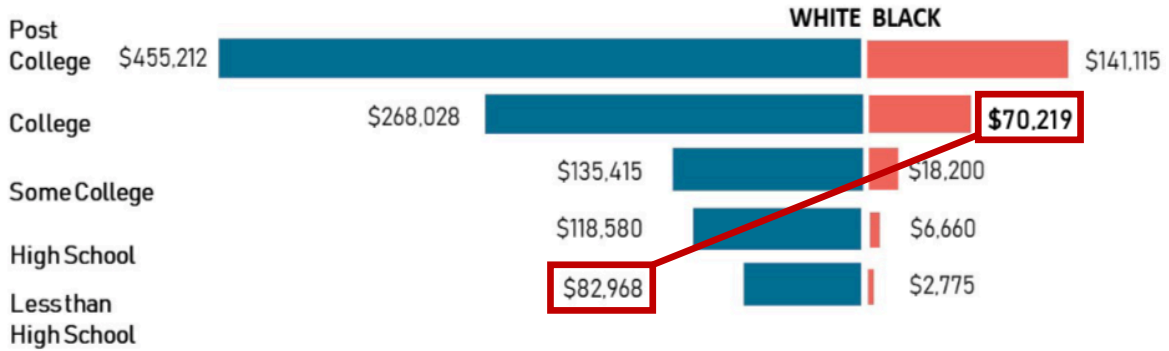
Educational Attainment: Policy

- **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.

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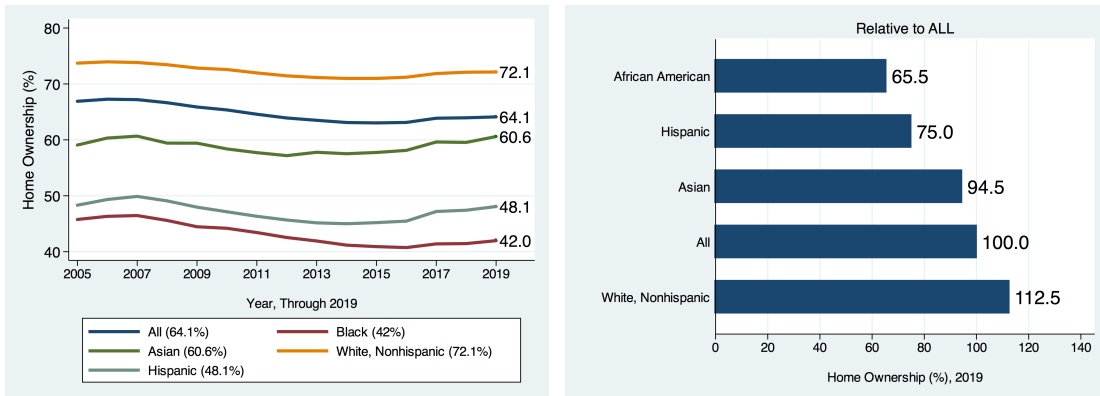
Educational Attainment

Median Household Net Worth by Race and Education



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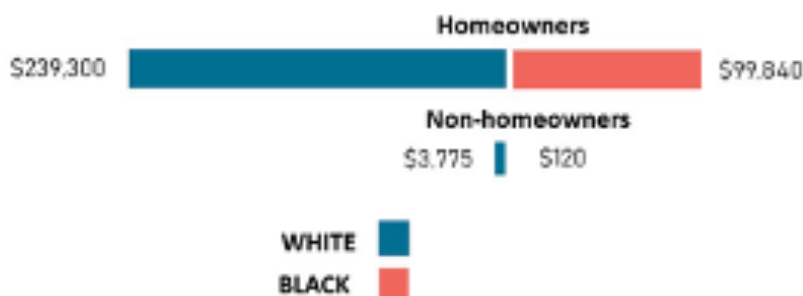
Home Ownership: Households



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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.
 - o Called the "segregation tax."

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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.



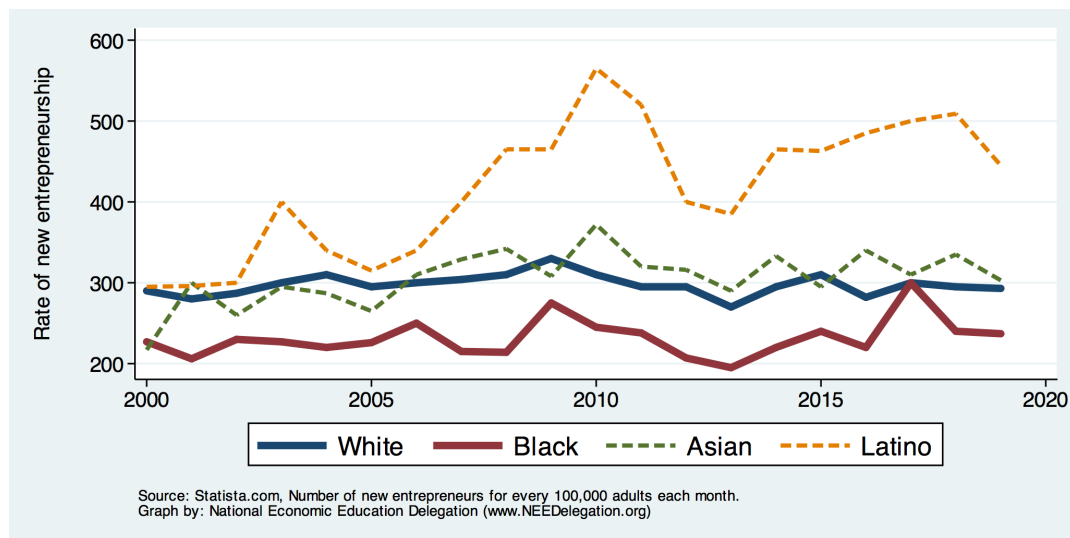
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Financial Literacy

- **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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Entrepreneurship: Rate of New Entrepreneurs



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Explaining Differences in Entrepreneurship

- **Disparities in access to capital:**

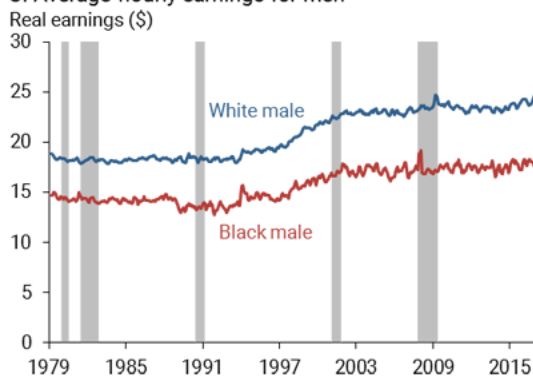
- Wealth disparities
 - o Specifically, differences in home equity.
 - o Differences in wealth levels of friends and family.
- Less likely to rely on banks and more likely to rely on credit cards.
- Loans have higher int rates and more likely to be declined.
- Less access to venture funds.

- **Previous business ownership by family.**

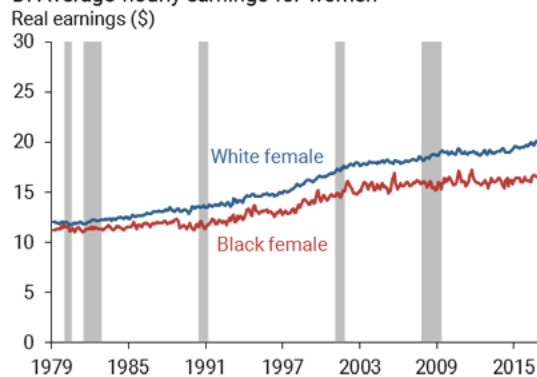
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Wage Gap: Controlling for education, age, job type.

C. Average hourly earnings for men

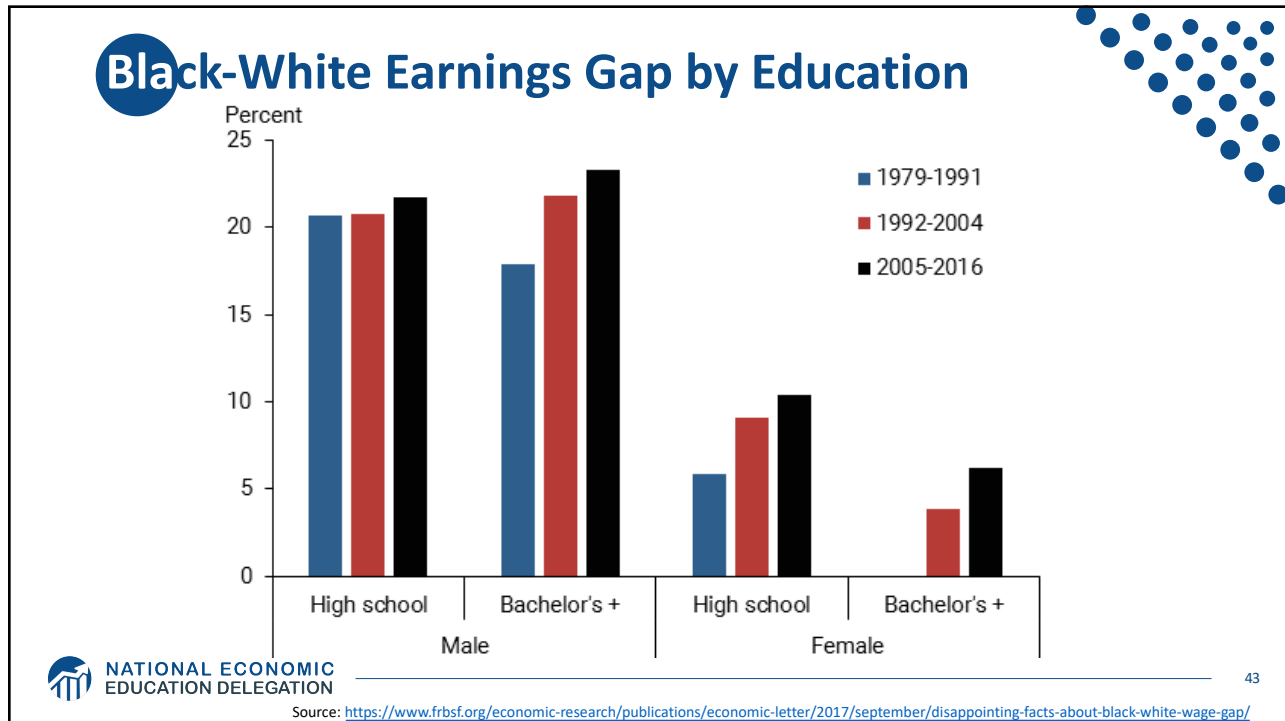


D. Average hourly earnings for women

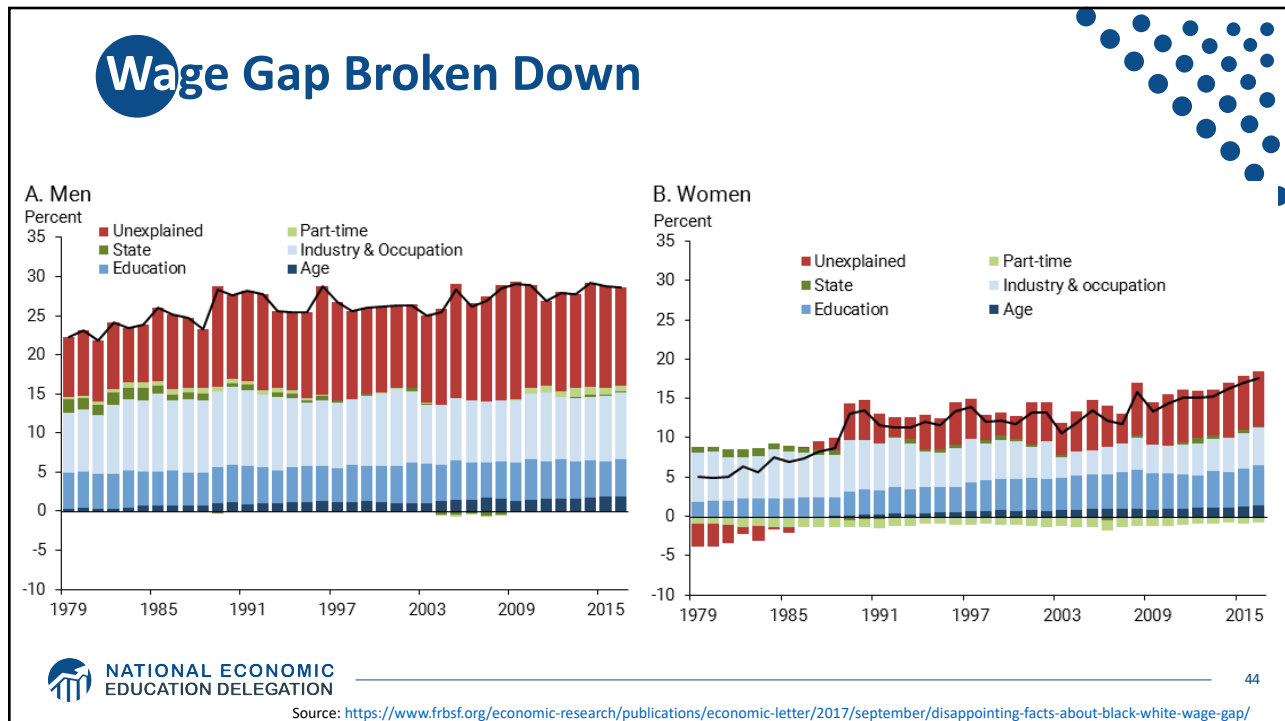


Source: <https://www.frbsf.org/economic-research/publications/economic-letter/2017/september/disappointing-facts-about-black-white-wage-gap/>

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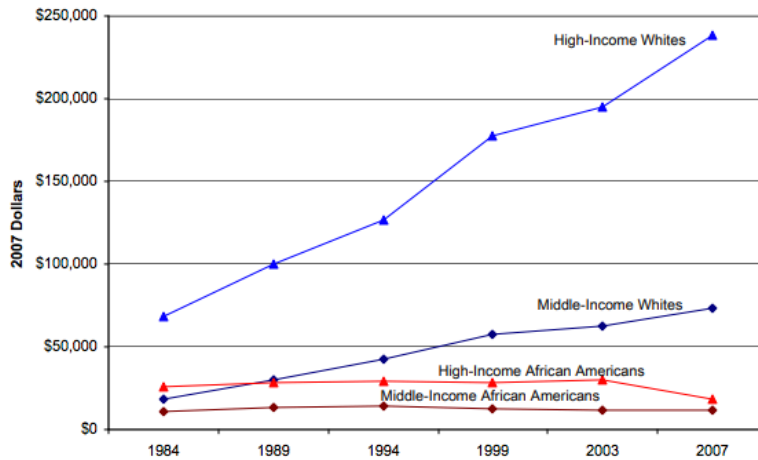
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Equality of Income ≠ Equality of Wealth

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



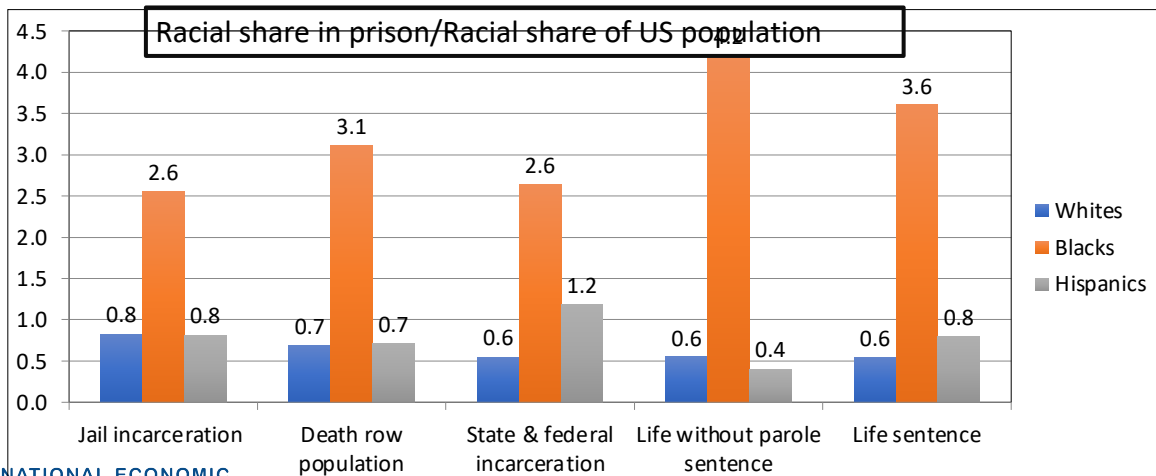
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Source: <http://hartfordinfo.org/issues/wsd/FamiliesandChildren/Racial-Wealth-Gap-Brief.pdf>

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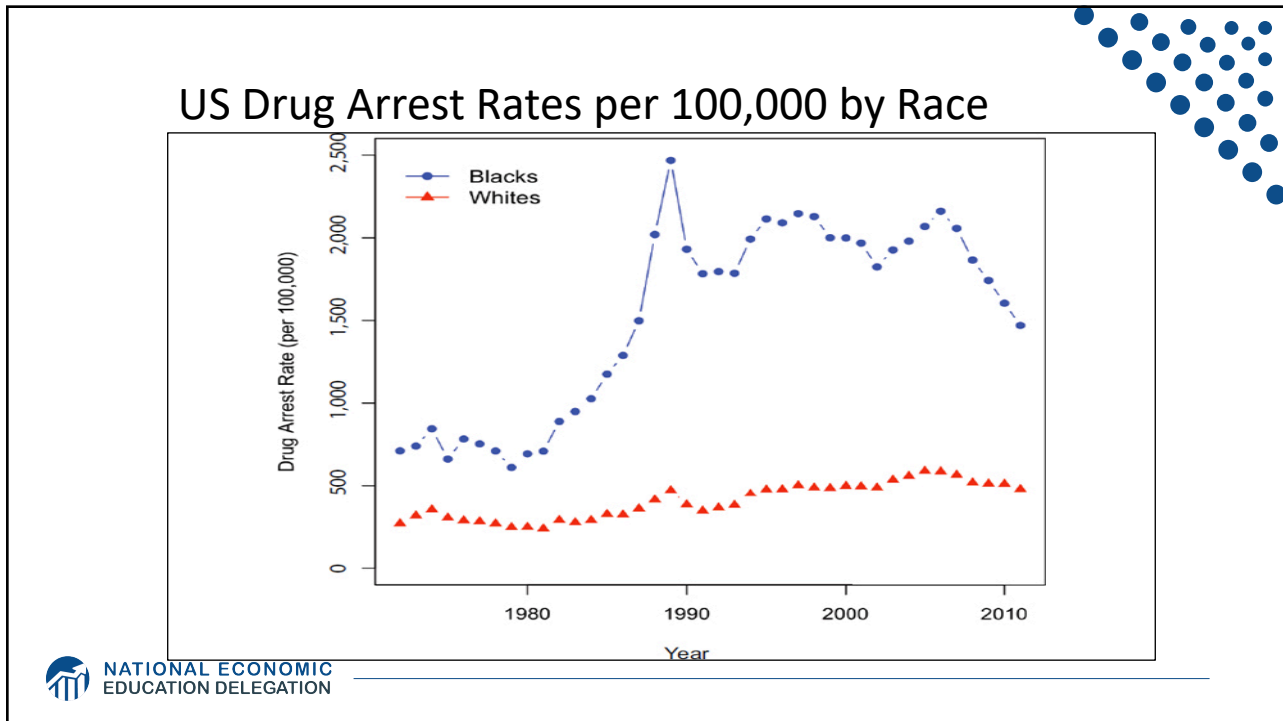
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Over (under) representation of racial groups in prison



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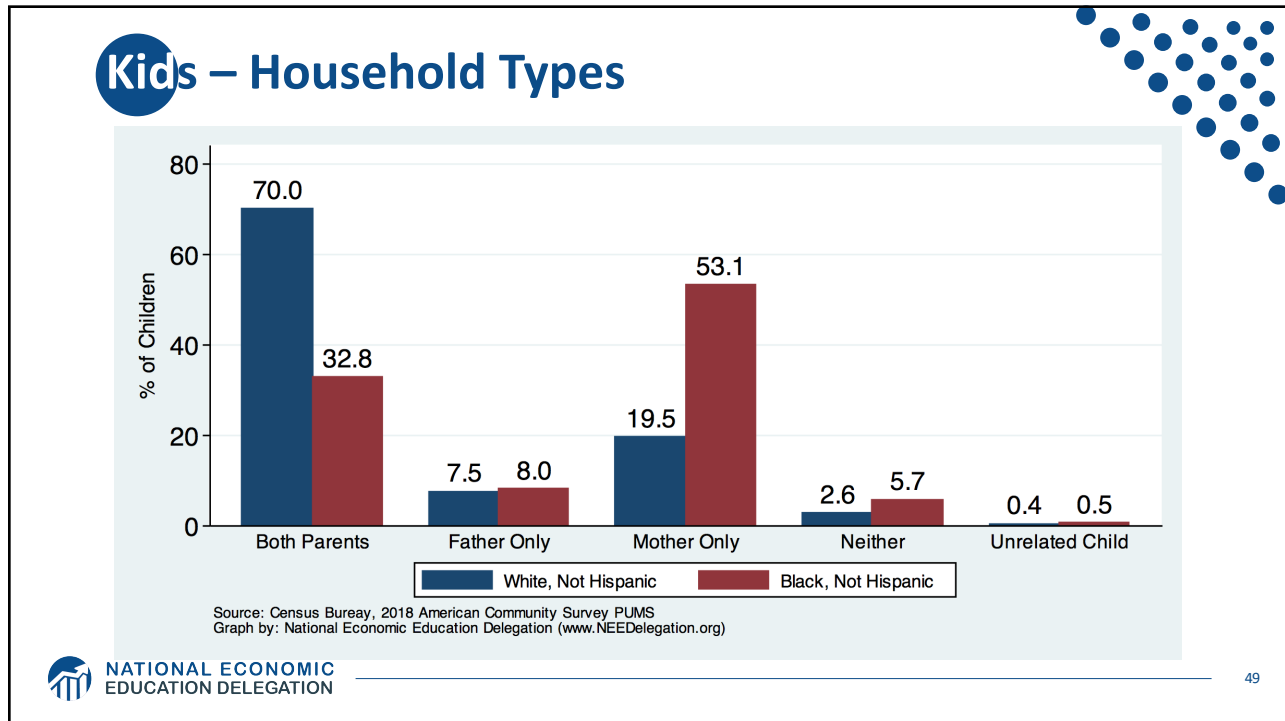
Family Structure

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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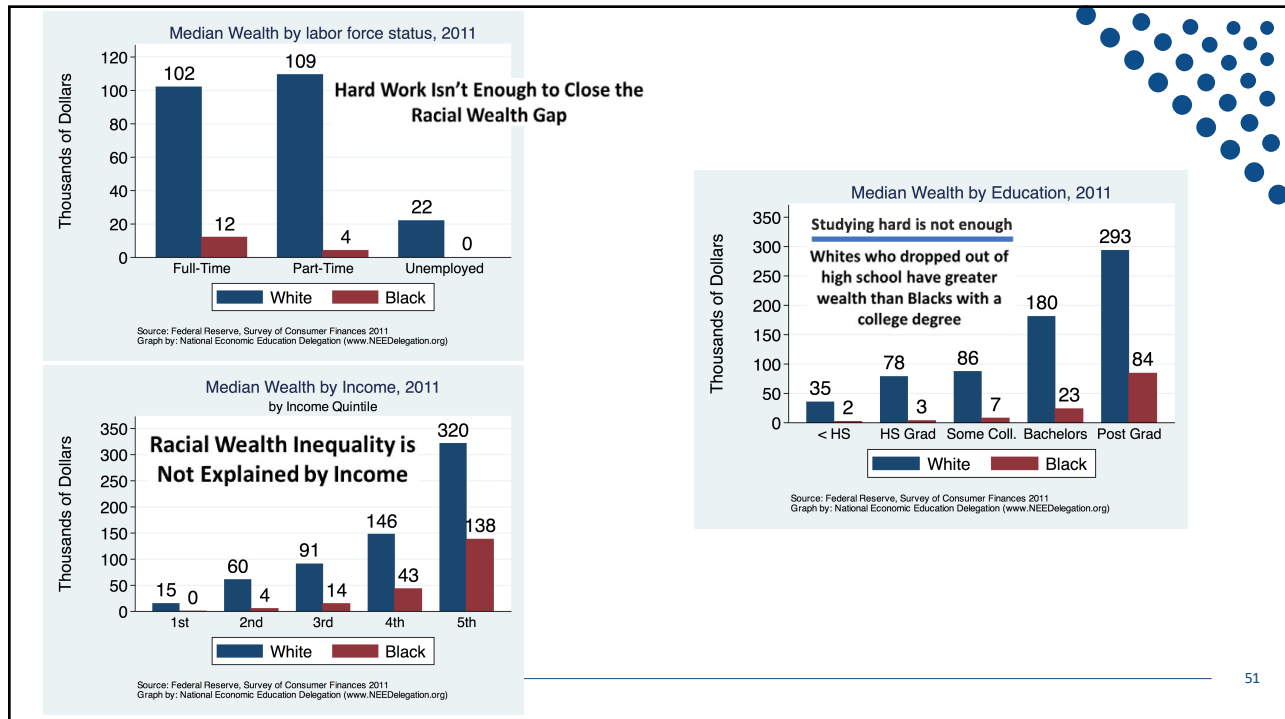
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What is Fundamentally Responsible?

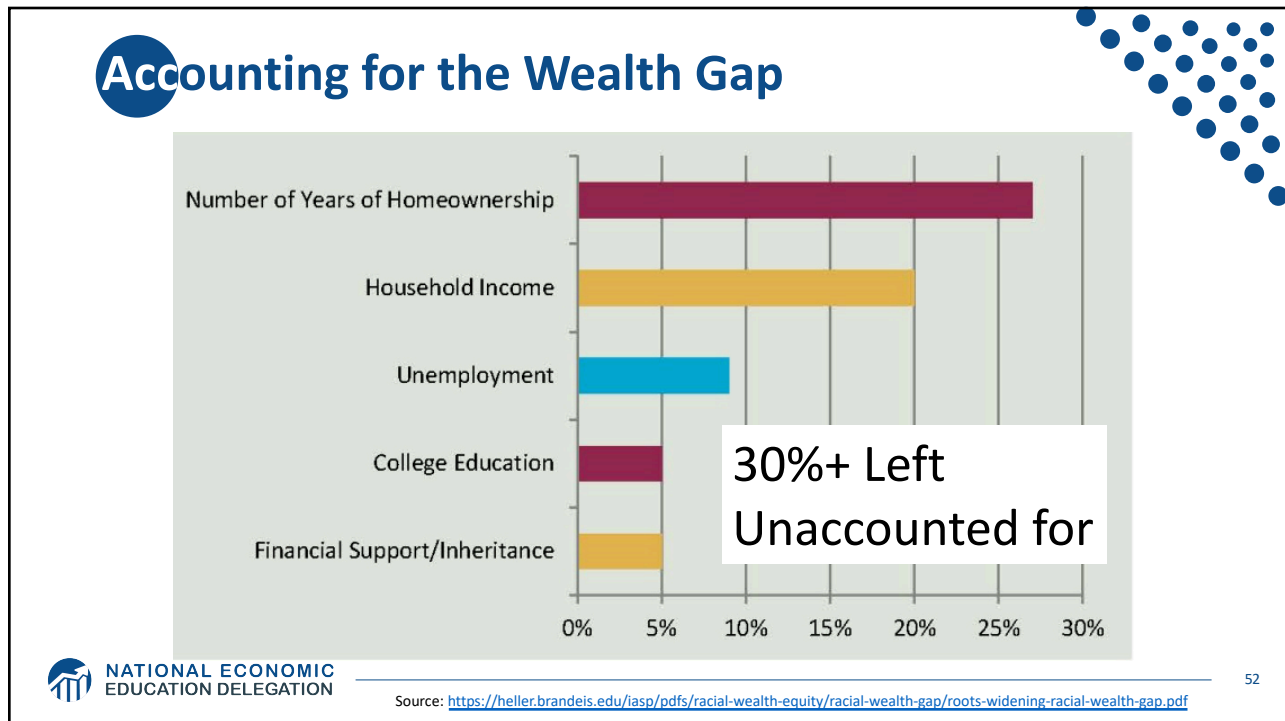
- Individual behaviors?
- Structural characteristics of the economy?
- History – policy and otherwise?

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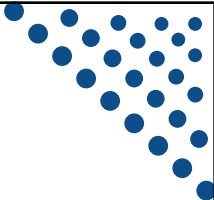
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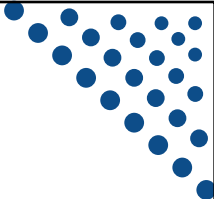


Policy Options

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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



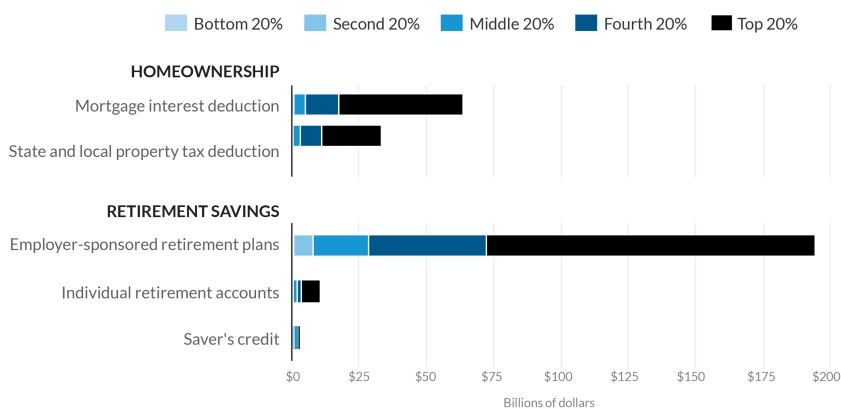
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Collateral consequences of contact with criminal justice system

- 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.



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?

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