



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

Olli – Washington University in St. Louis
May, 2023

Host: Jon Haveman
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 (5/5): US Economic Update (Geoffrey Woglom, Amherst College)
- Week 2 (5/12): Economic Inequality (Adina Ardelean)
- Week 3 (5/19): Economic Mobility (Kathryn Wilson, Kent State Univ.)
- **Week 4 (5/26): 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 after the talk.**
(https://NEEDEcon.org/delivered_presentations.php)



4



The Black-White Wealth Gap

May 26, 2023

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:**

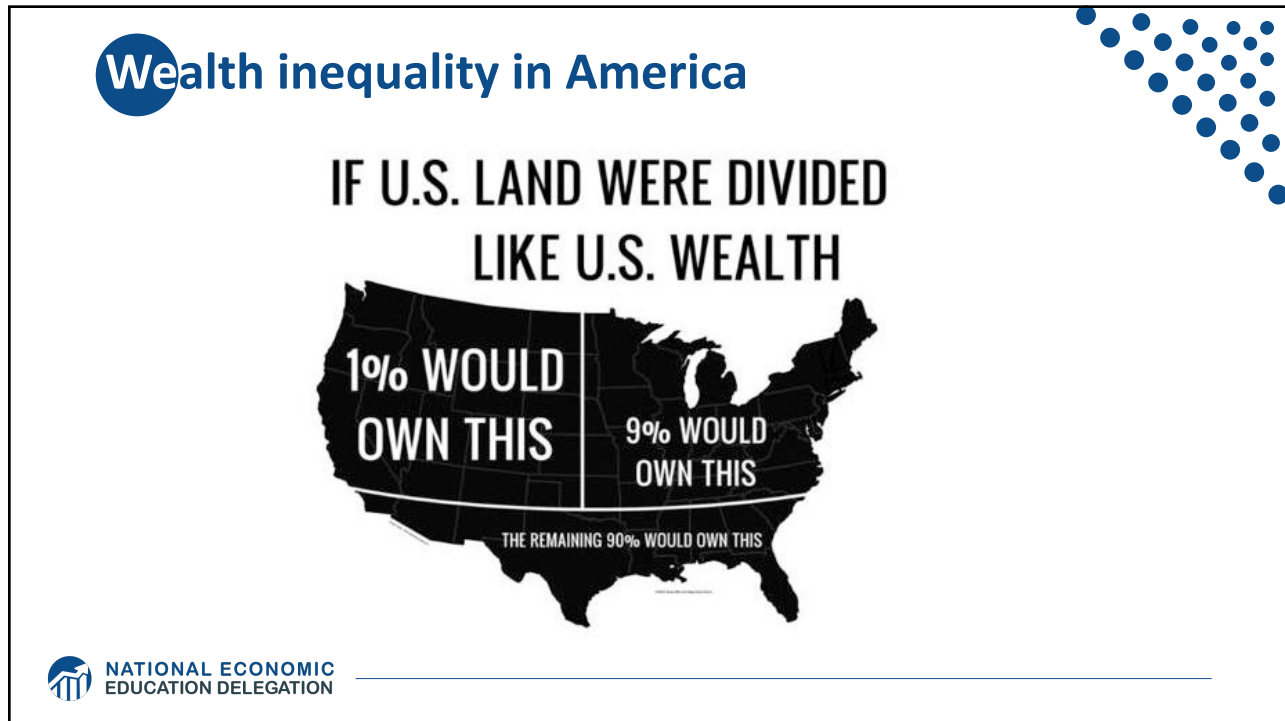
- Owned homes, cars, stocks, businesses, savings and checking accounts, pensions, life insurance...

- **Debts include:**

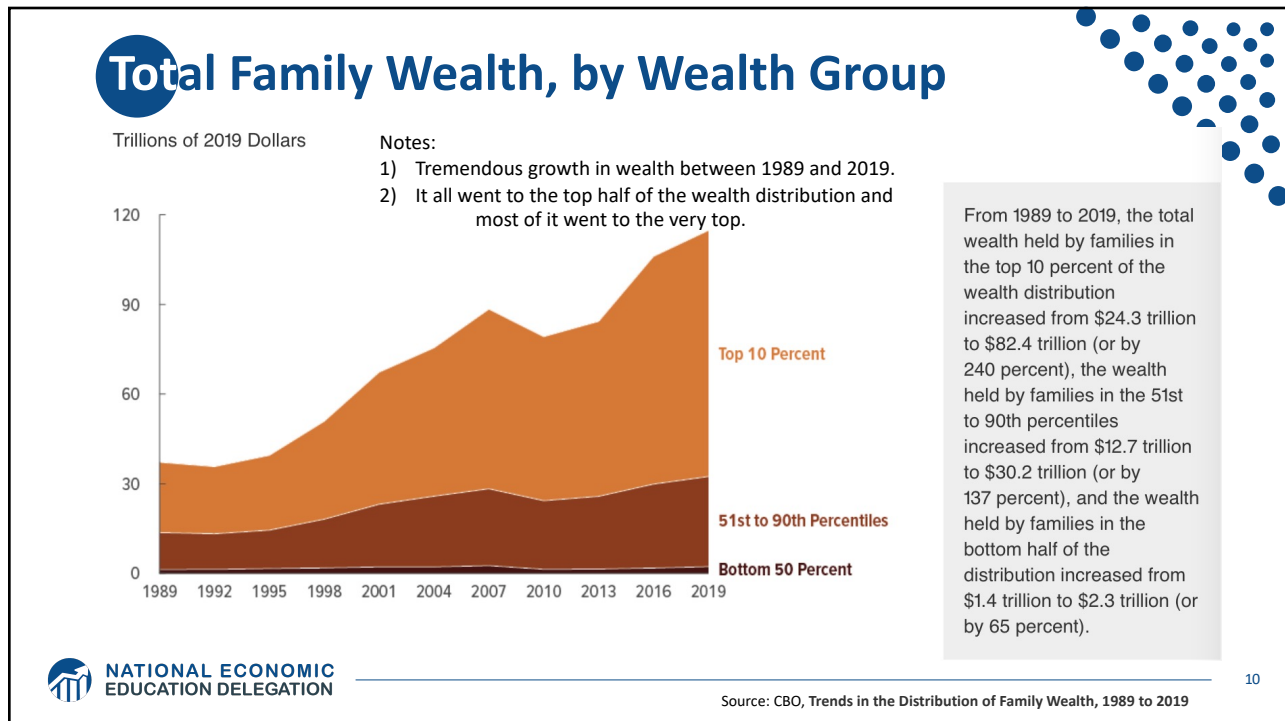
- Home mortgages, car loans, credit cards, and any other significant financial obligations (excl regular bills)...



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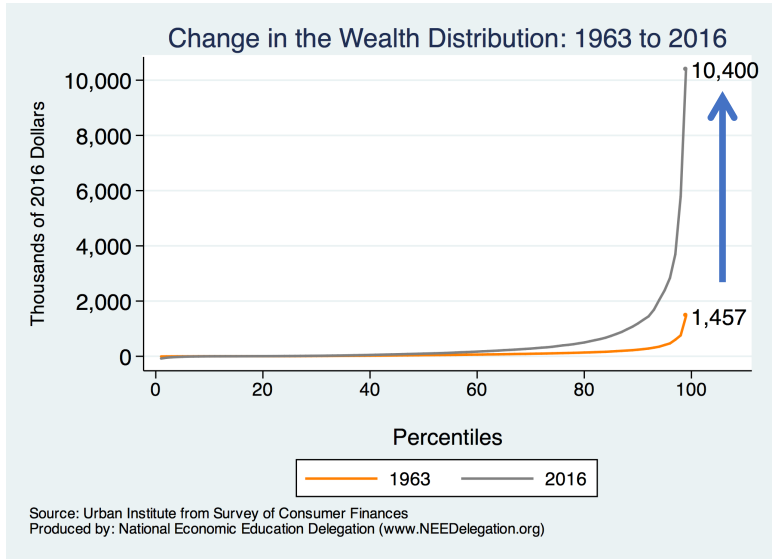


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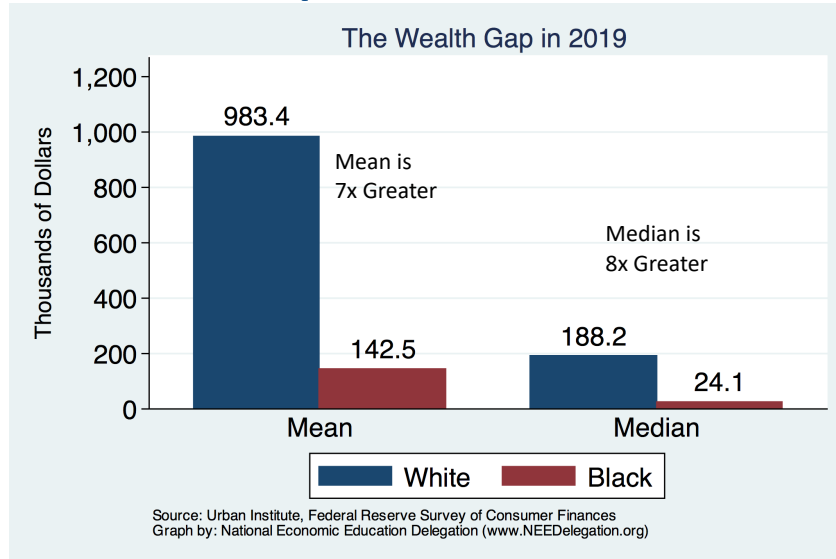
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Wealth is More and More Concentrated



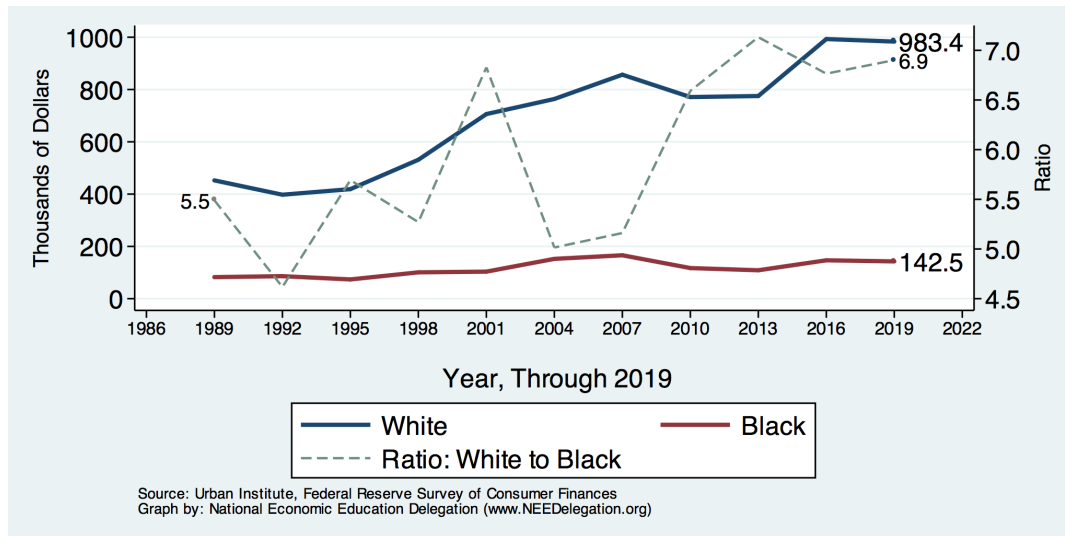
Black-White Wealth Gap

Evidence of the Gap



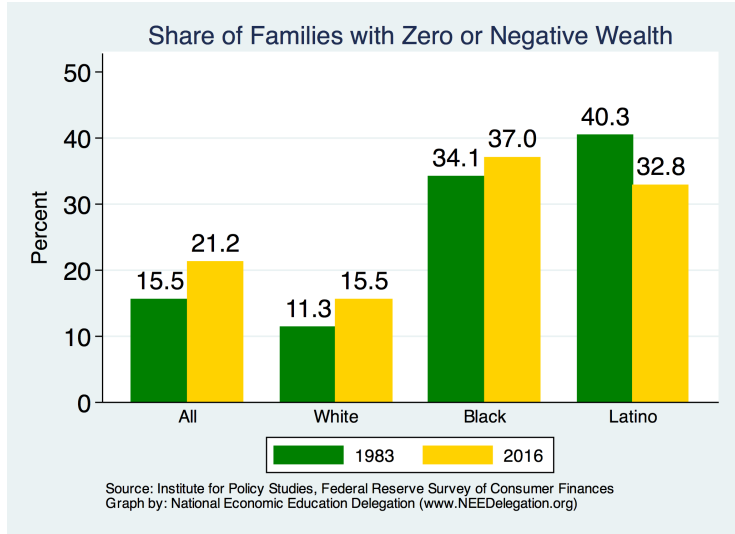
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Wealth Gap Over Time: Mean



14

Evidence of Disparities: Zero Wealth



15

Why Wealth is Important

16

Widespread Household Wealth Pays Dividends

- **To individuals in the household**
 - Choices/Life Agency
 - Wealth is iterative
- **And to broader society**
 - Human capital development
 - Entrepreneurship and innovation



17

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.



18

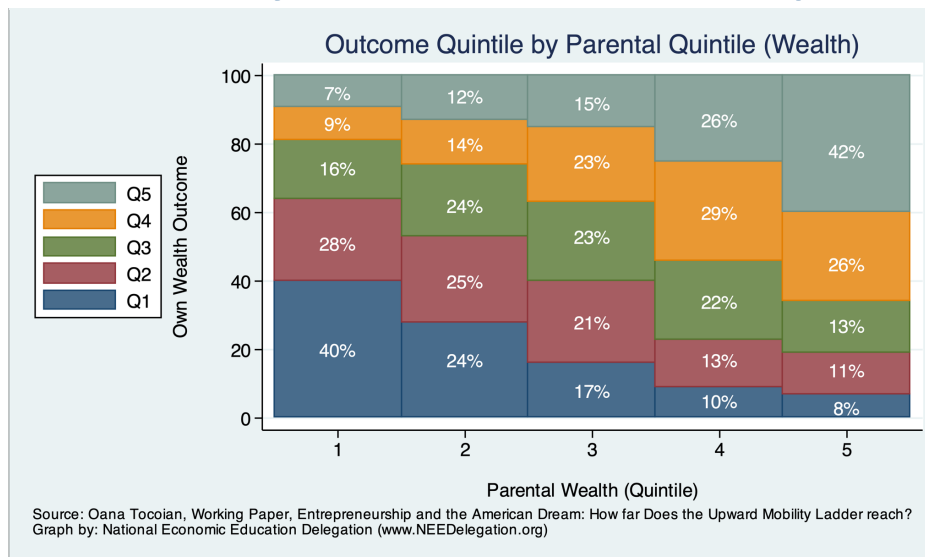
Parental Wealth is Important

- **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.**



19

Wealth Mobility: Parental Wealth is Important



20

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

21

Sources of Disparities

22

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.**



23

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.***

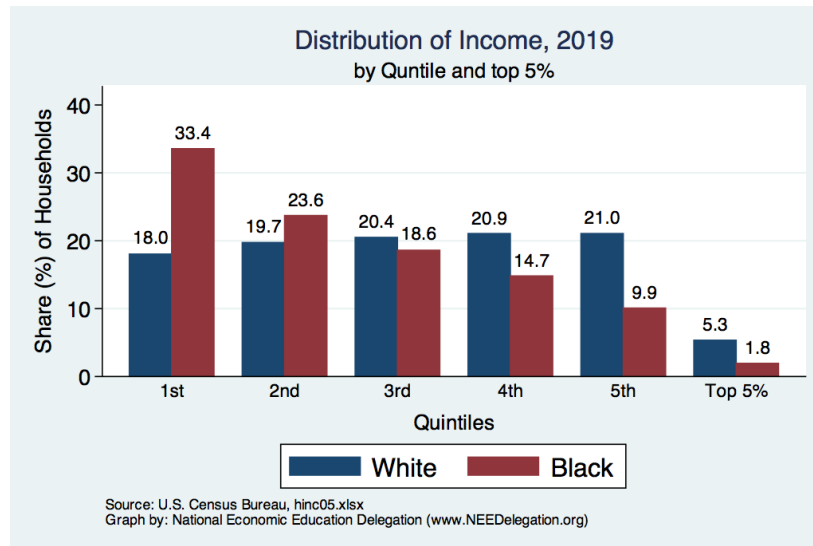


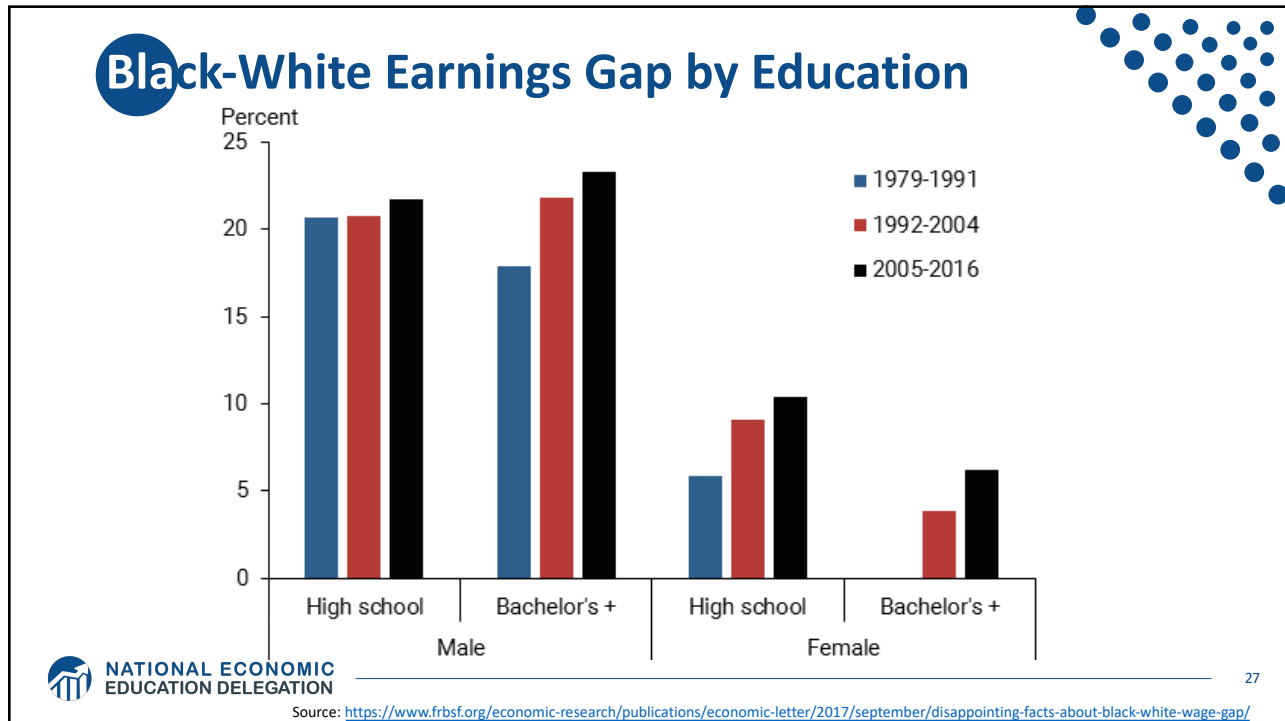
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Potential Explanations: Differences in...

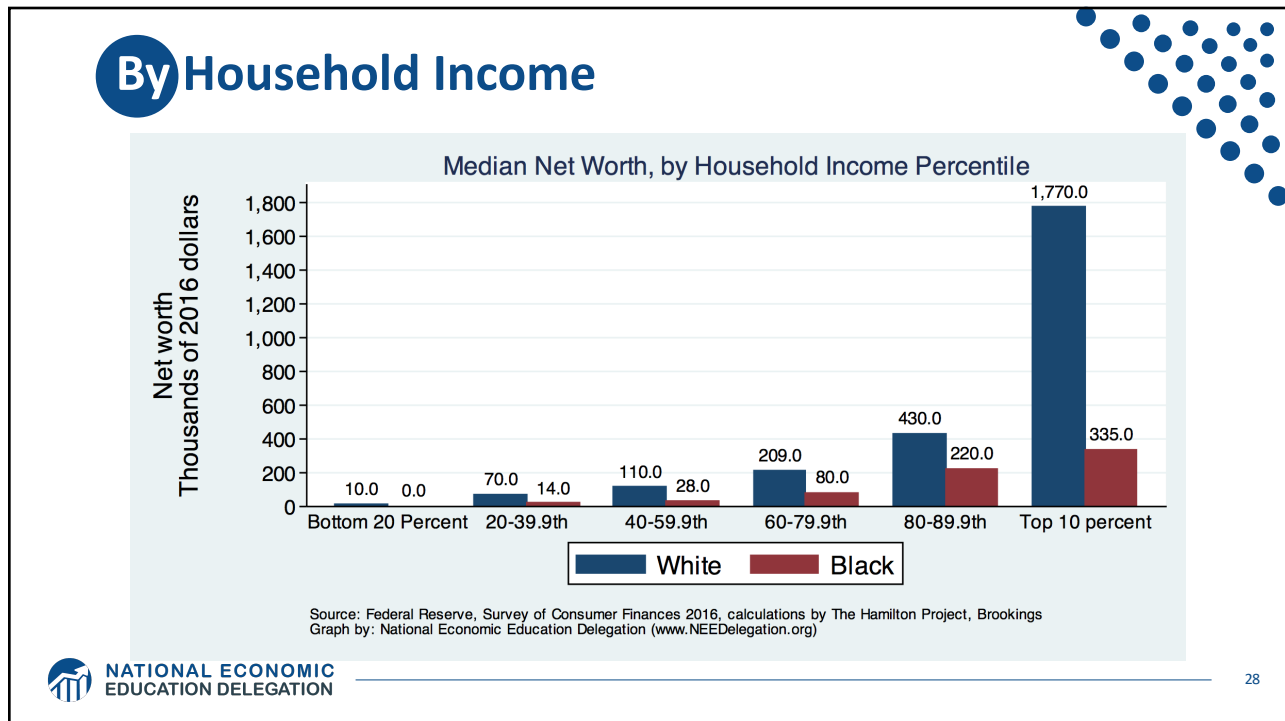
- Income/Wages
- Educational attainment
- Home ownership
- Savings & financial literacy
- Soft skills & personal responsibility
- Entrepreneurship
- Family structure
- Initial endowment
- Incarceration rates

Black Household Incomes Relative to White





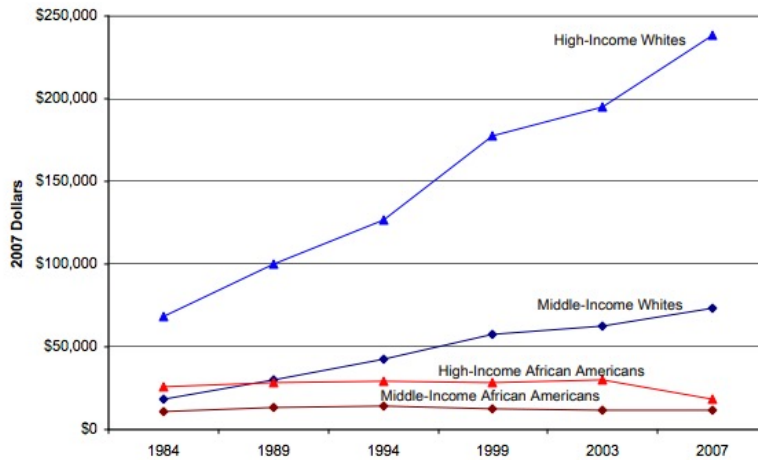
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28

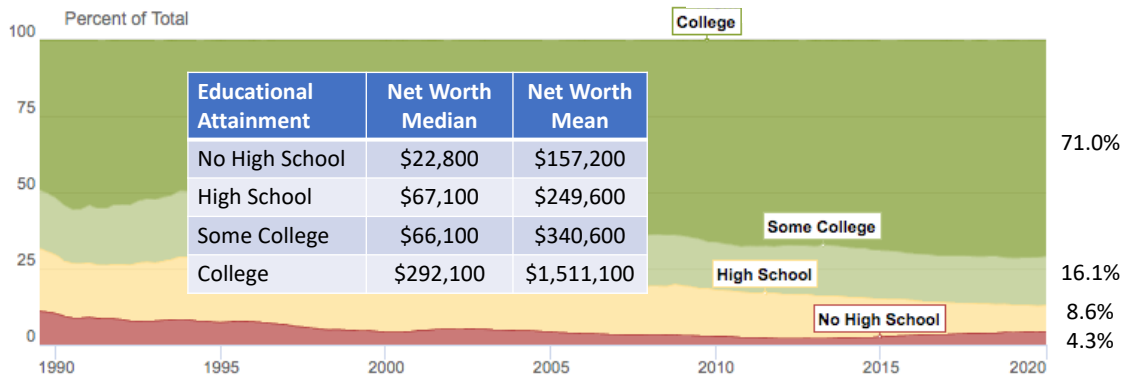
Equality of Income ≠ Equality of Wealth

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

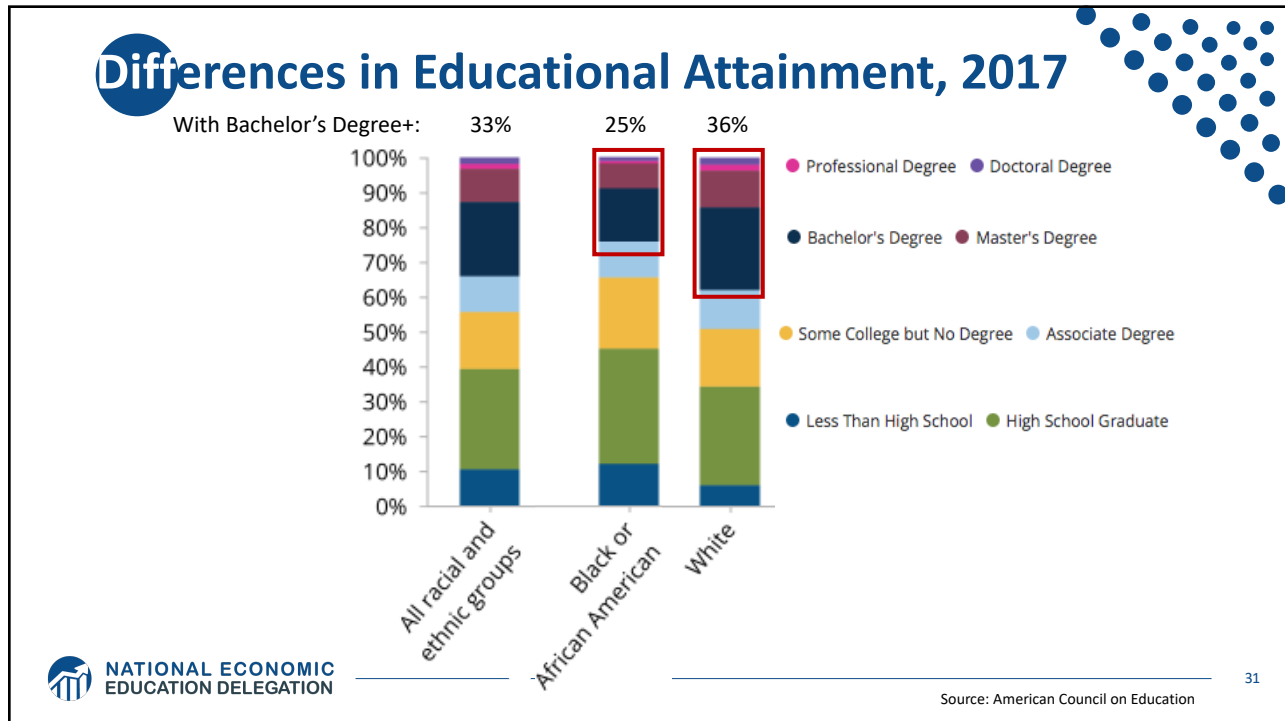


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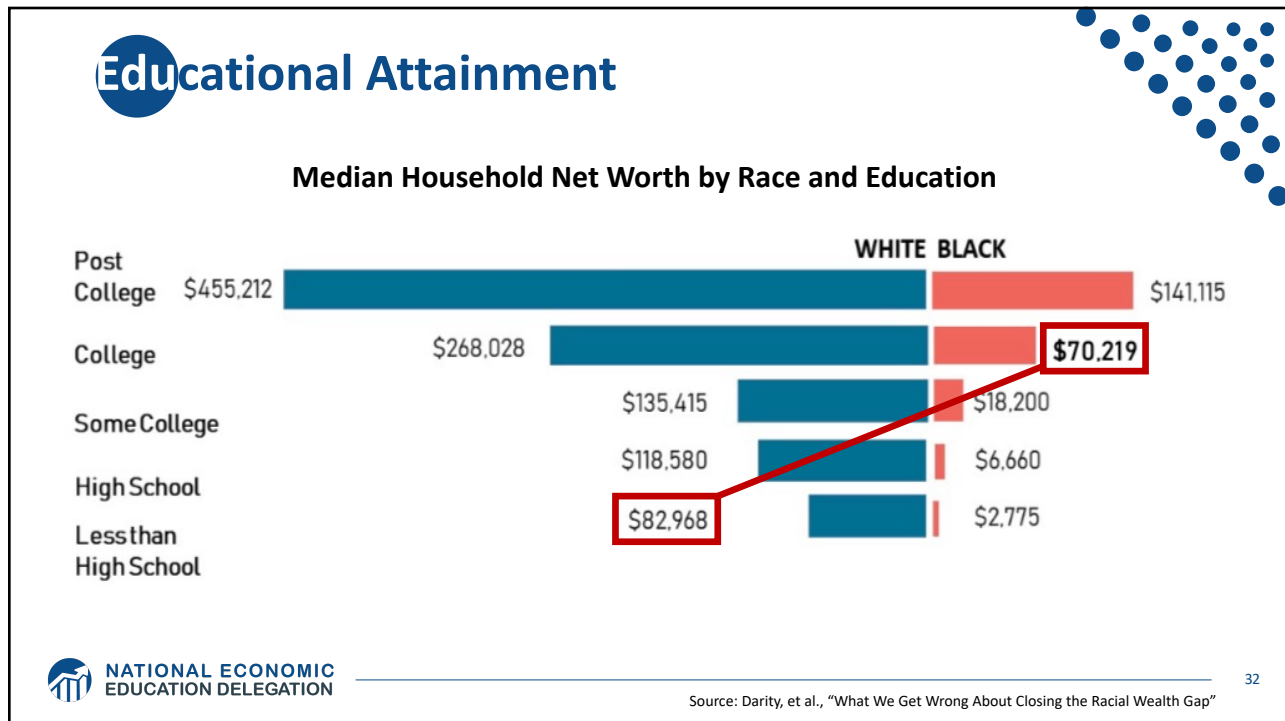
Wealth by Educational Attainment



30

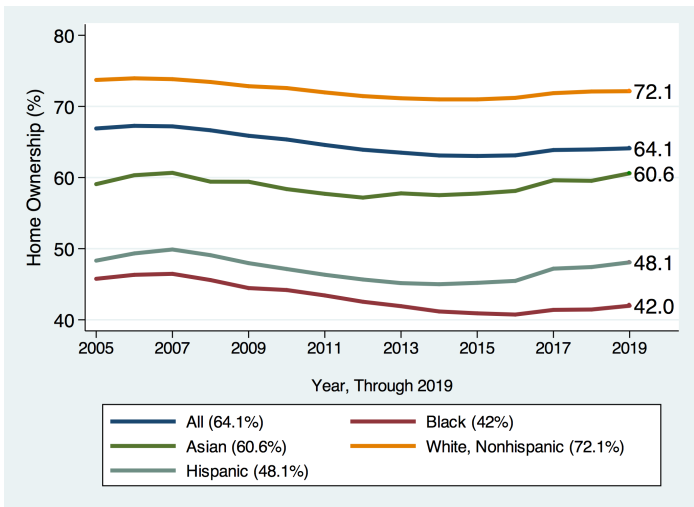


31



32

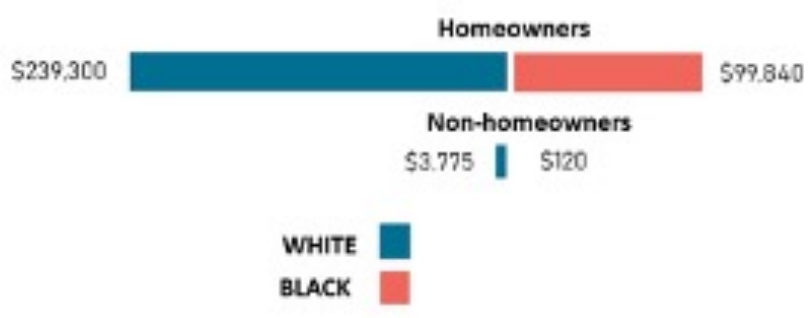
Home Ownership



33

Home Ownership

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



34

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.



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Source: Brookings, Home ownership while black

35

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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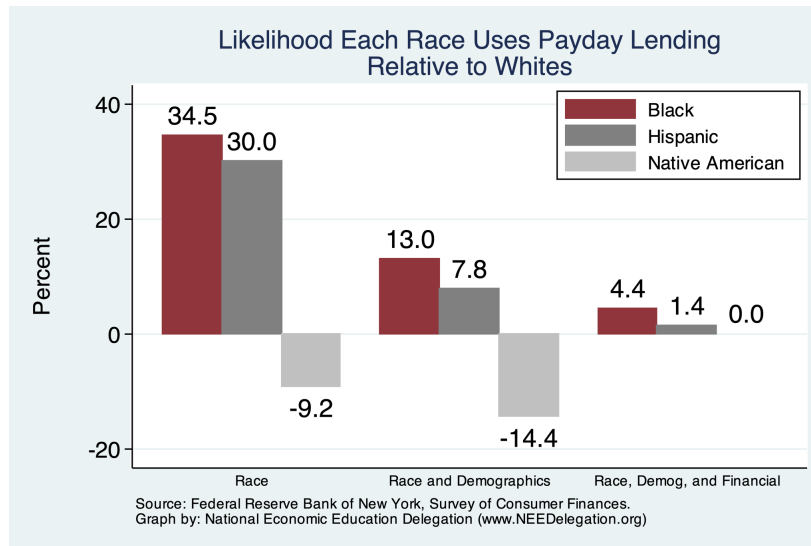
36

Savings & Financial Literacy

- **Historical evidence:**
 - All find that after accounting for household income, Blacks have a slightly higher savings rate than Whites.
- **Notion: 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.
- **Controlling for household income, there is no difference in rates of asset appreciation between Black and White households.**
 - No appreciable difference in financial literacy.

37

Use of Payday Lenders



38

Soft Skills and Personal Responsibility

• Employability

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

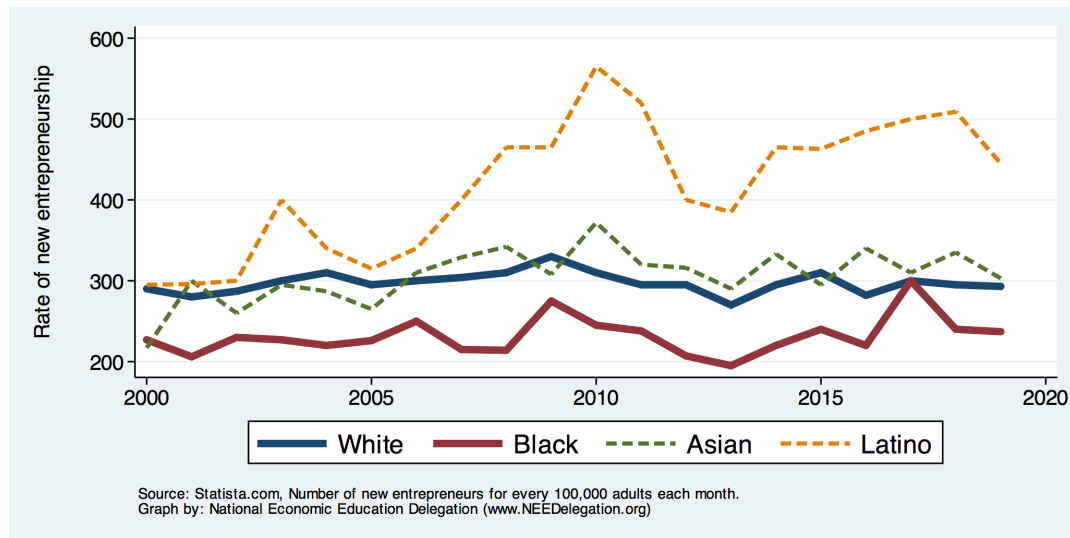
• Reality

- 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
 - Specifically, differences in home equity.
 - 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 interest rates and are more likely to be declined.
 - Less access to venture funds – affinity bias.
- **Generally lower levels of education.**
- **Previous business ownership by family – role models.**
 - Understanding history, it is easy to see why fewer Black role models.

41

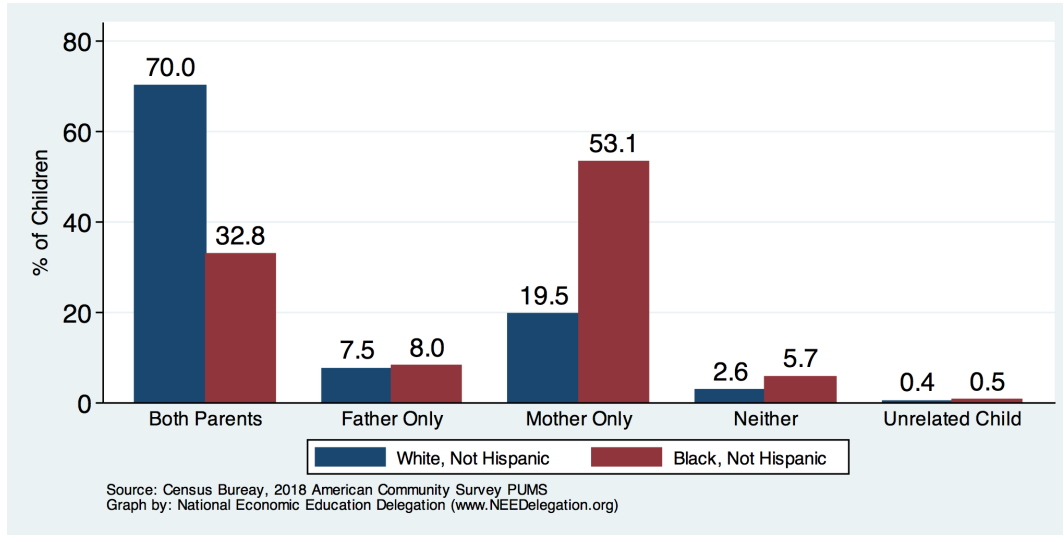
Family Structure

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.

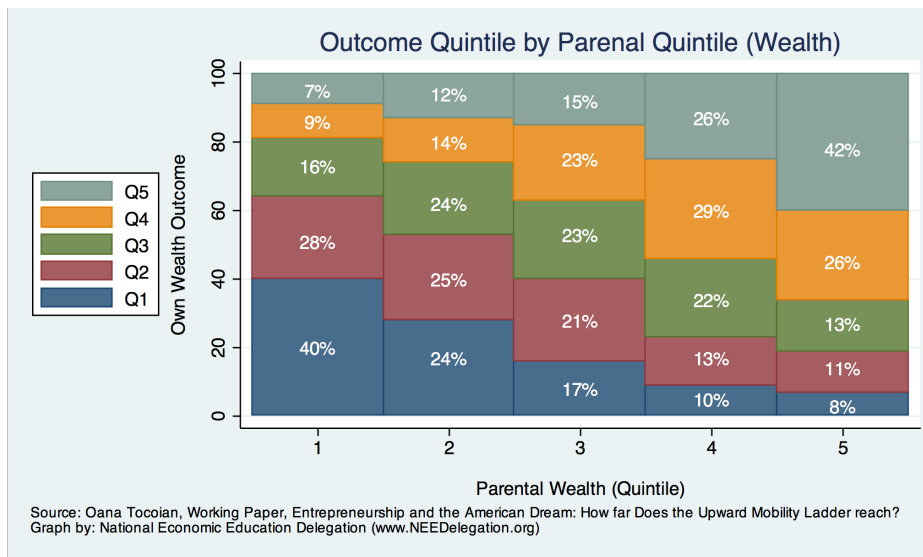
42

Kids – Household Types

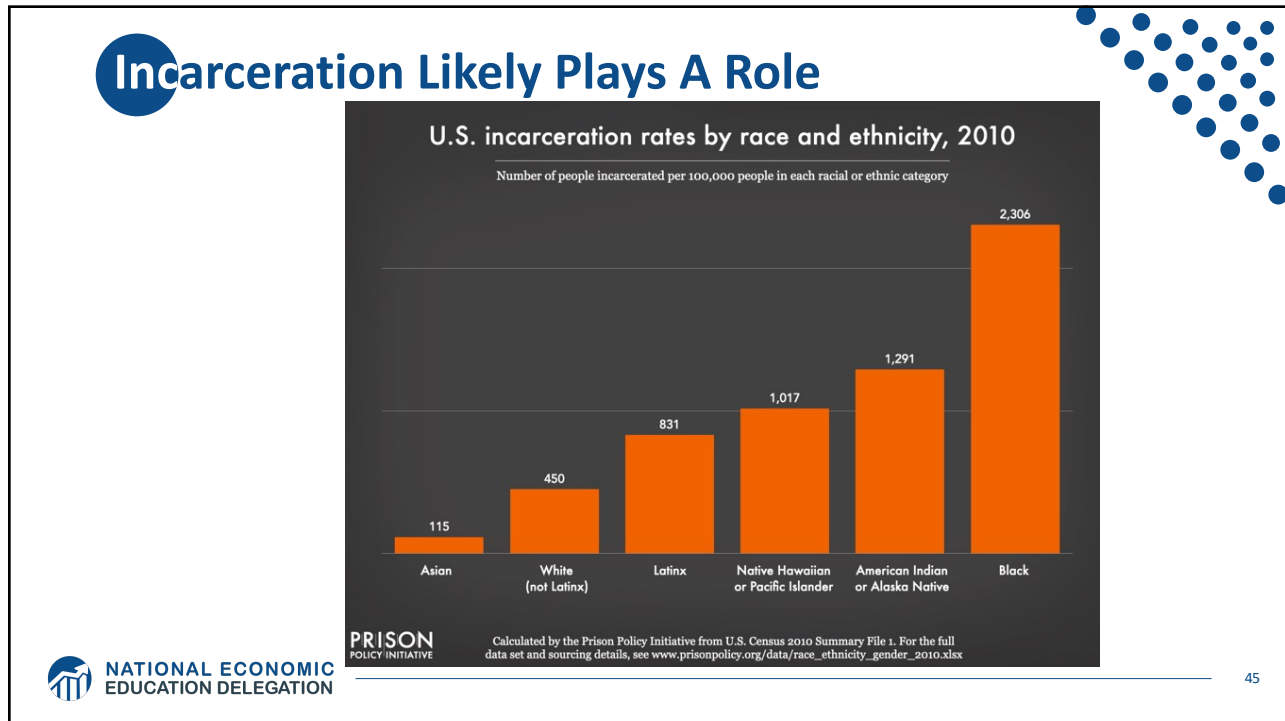


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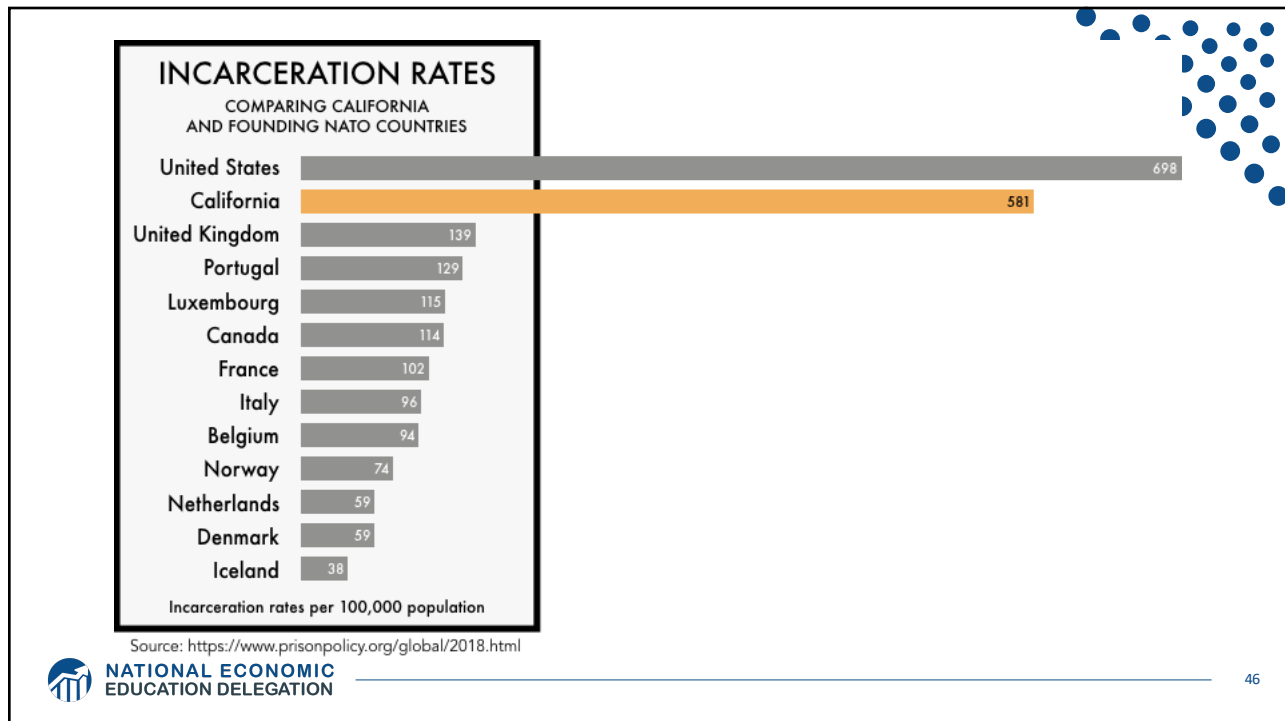
Wealth Mobility: Initial Endowment



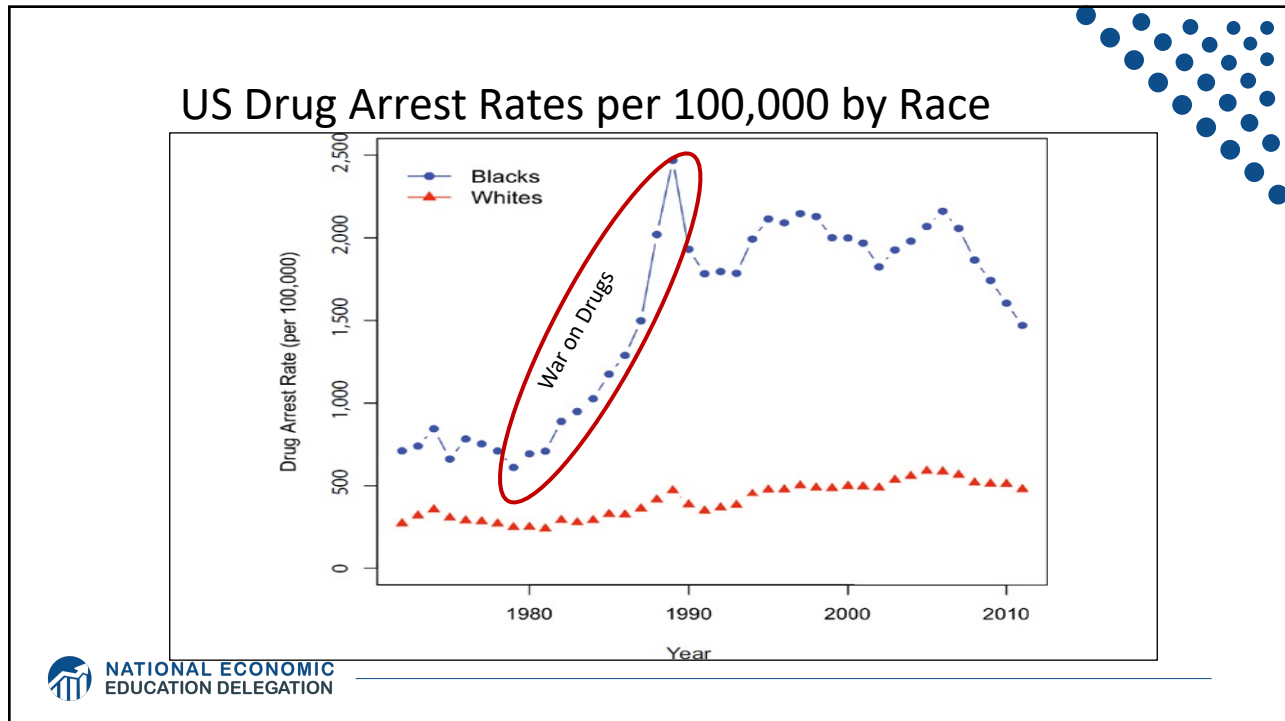
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46



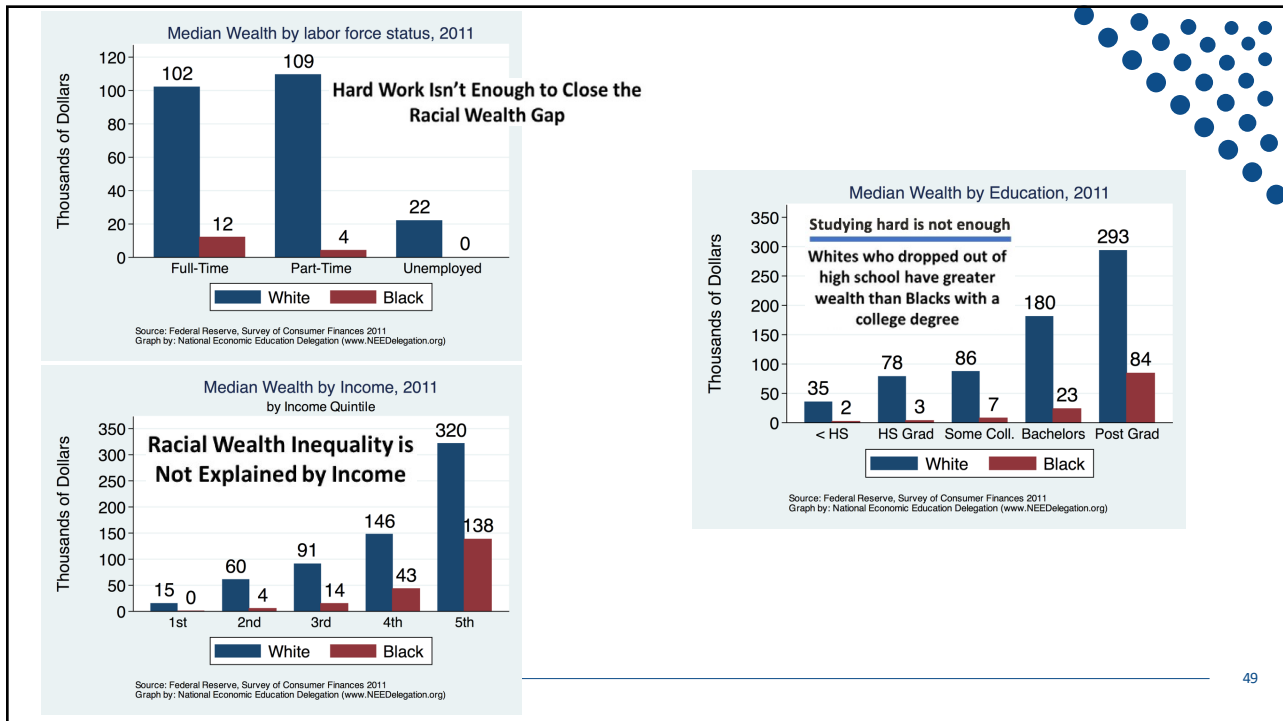
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What is Fundamentally Responsible?

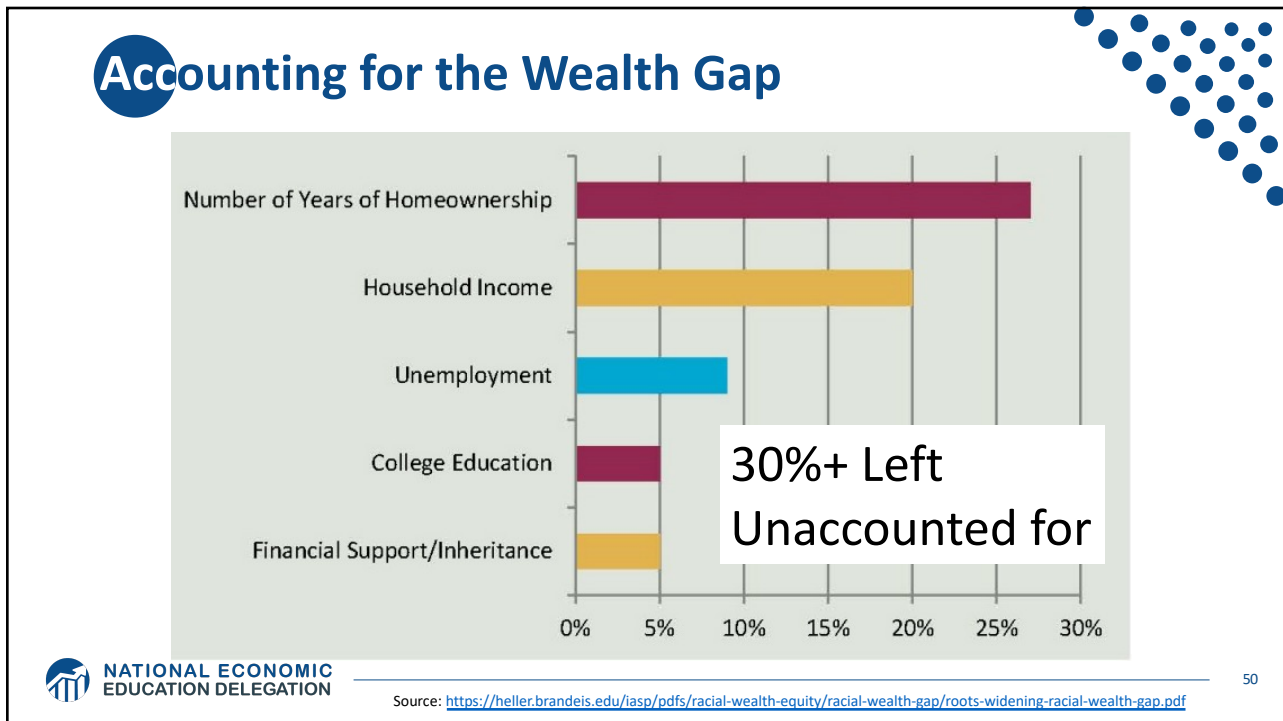
- Individual behaviors?
- Structural characteristics of the economy?
- History – policy and otherwise?

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48



49



50

Policy Options



51

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**



52

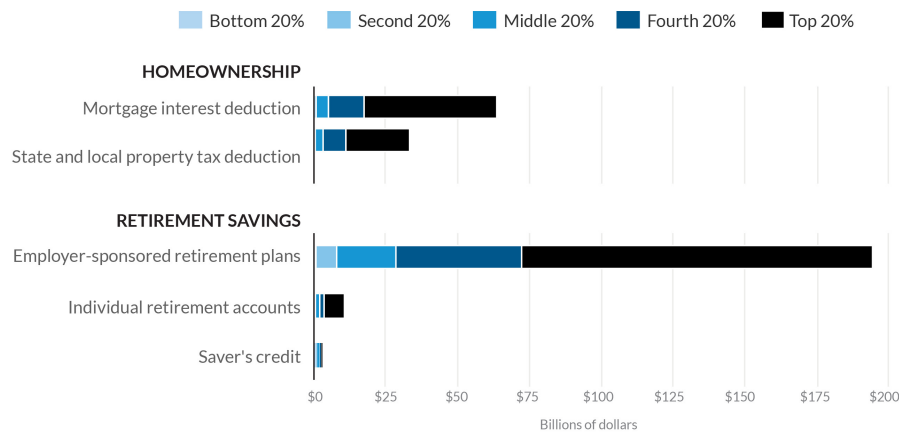
Specific Policy Options

- **Global solutions that affect all source areas**
 - Child Trust Accounts - "Baby Bonds"
 - Guaranteed minimum income
- **Addressing racial disparities directly**
 - Reparations
 - o Aggressive affirmative action.
 - o A new Homestead Act.
 - o Heavily investing in Black communities.
 - o Differential tax treatment.
 - Labor and other laws that address discrimination
 - o Enforce more aggressively and make adjustments where necessary to increase efficacy.
 - Fundamental reorientation of asset building agenda.

53

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).

54

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.**
 - 45,000 state and local laws and regulations.
- **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



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.
- Evaluate implicit bias in the U.S. tax laws.



Suggestions, Not Really Policies



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57

57

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>

58

58

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.



59

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).



60

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%)

• Black banks are very small:

- All Black owned: \$5.8 Billion
- JP Morgan Chase: \$2.8 TRILLION



61

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.



62

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.

In Order to Work....

- **Define working: Black wealth catches up to White wealth.**
- **Banking:**
 - Means that Black-owned banks must generate a HIGHER return than White-owned banks.
 - Unlikely – consumers will go to White-owned banks for better terms.
- **Buying:**
 - Means that Black-owned businesses must generate HIGHER profits than White-owned businesses.
 - Unlikely - consumers will go to White-owned businesses for better prices.
- **Both seem highly unlikely to “work”.**

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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67