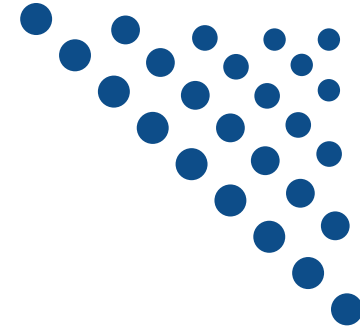


Osher Lifelong Learning Institute, Winter 2022
Contemporary Economic Policy

Oklahoma State University
February-March, 2022

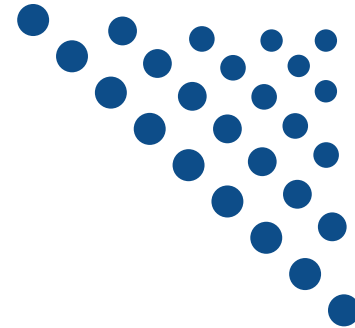
Jon Haveman, Ph.D.
National Economic Education Delegation

Available NEED Topics Include:



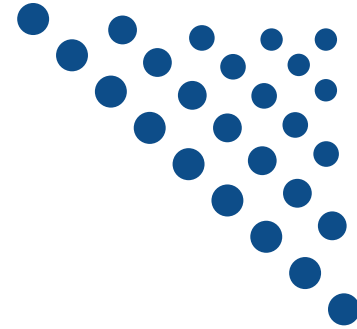
- Coronavirus Economics
- US Economy
- Climate Change
- Economic Inequality
- Economic Mobility
- Trade and Globalization
- Minimum Wages
- Immigration Economics
- Housing Policy
- Federal Budgets
- Federal Debt
- Black-White Wealth Gap
- Autonomous Vehicles
- US Social Policy

Course Outline



- **Contemporary Economic Policy**

- Week 1 (3/7): US Economic Update (Geoffrey Woglom, Amherst College)
- Week 2 (3/14): Climate Change Economics (Sarah Jacobson, Williams College)
- Week 3 (3/21): Federal Debt (Geoffrey Woglom, Amherst College)
- Week 4 (3/28): Trade and Globalization (Alan Deardorff, University of Michigan)
- **Week 5 (4/4): The Black-White Wealth Gap (Jon Haveman, NEED)**



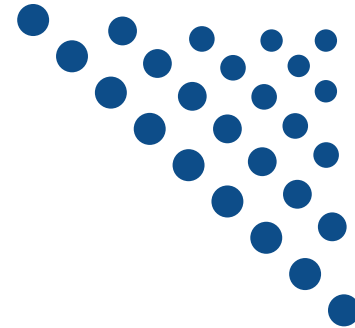
The Black-White Wealth Gap

Jon Haveman, Ph.D.

National Economic Education Delegation

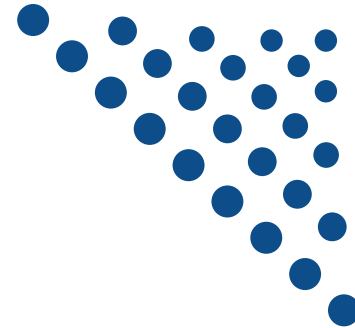


Credits and Disclaimer

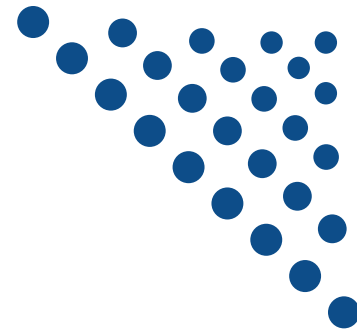


- **This slide deck was authored by:**
 - Darrick Hamilton, Ph.D., The New School
 - Jon Haveman, Ph.D., NEED
- **This slide deck was reviewed by:**
 - Patrick Mason, Florida State University
 - Steven Craig, University of Houston
- **Disclaimer**
 - NEED presentations are designed to be nonpartisan.
 - 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



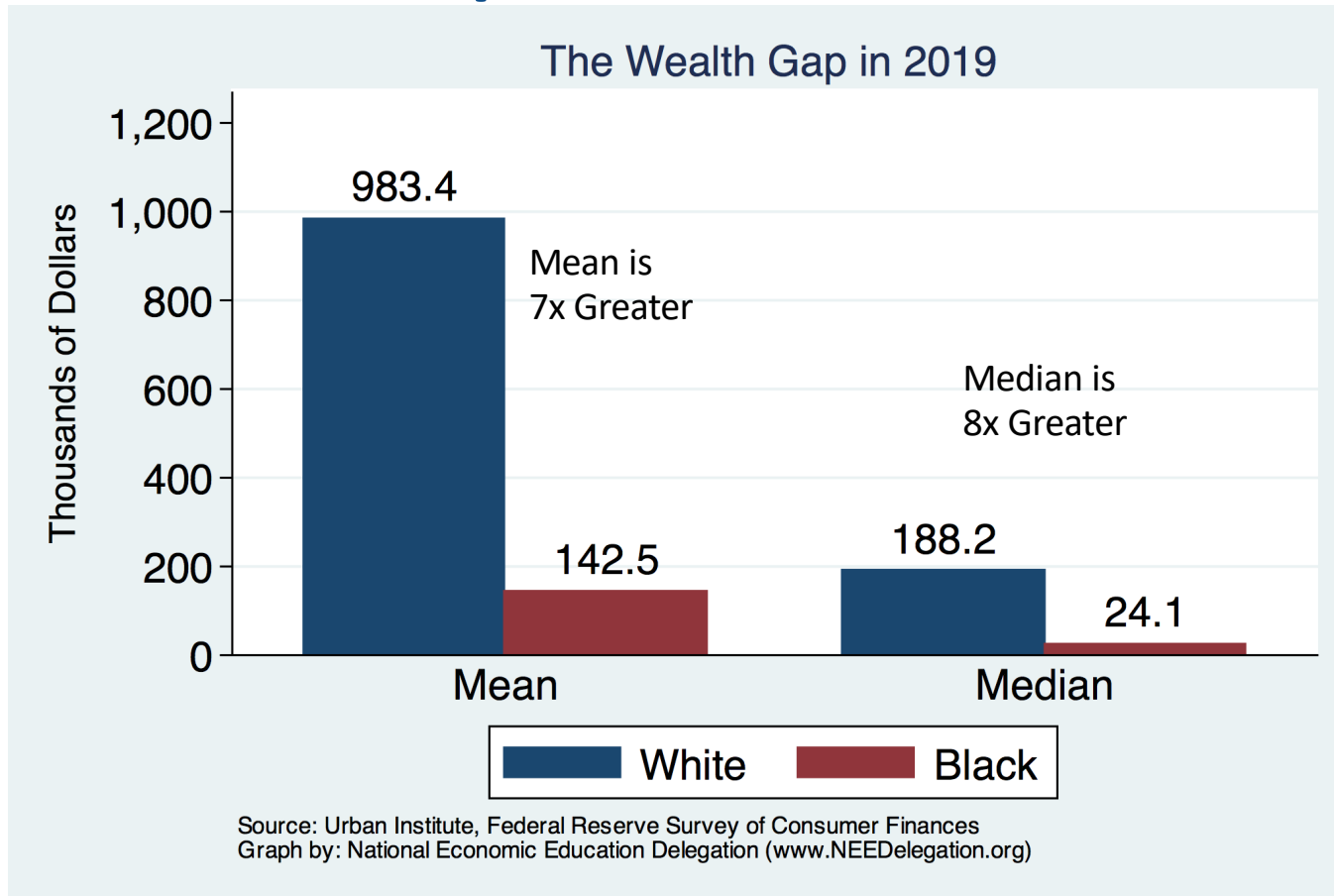
- **Evidence of disparities**
- **Why wealth is important**
- **Sources of disparities**
- **Policy solutions**



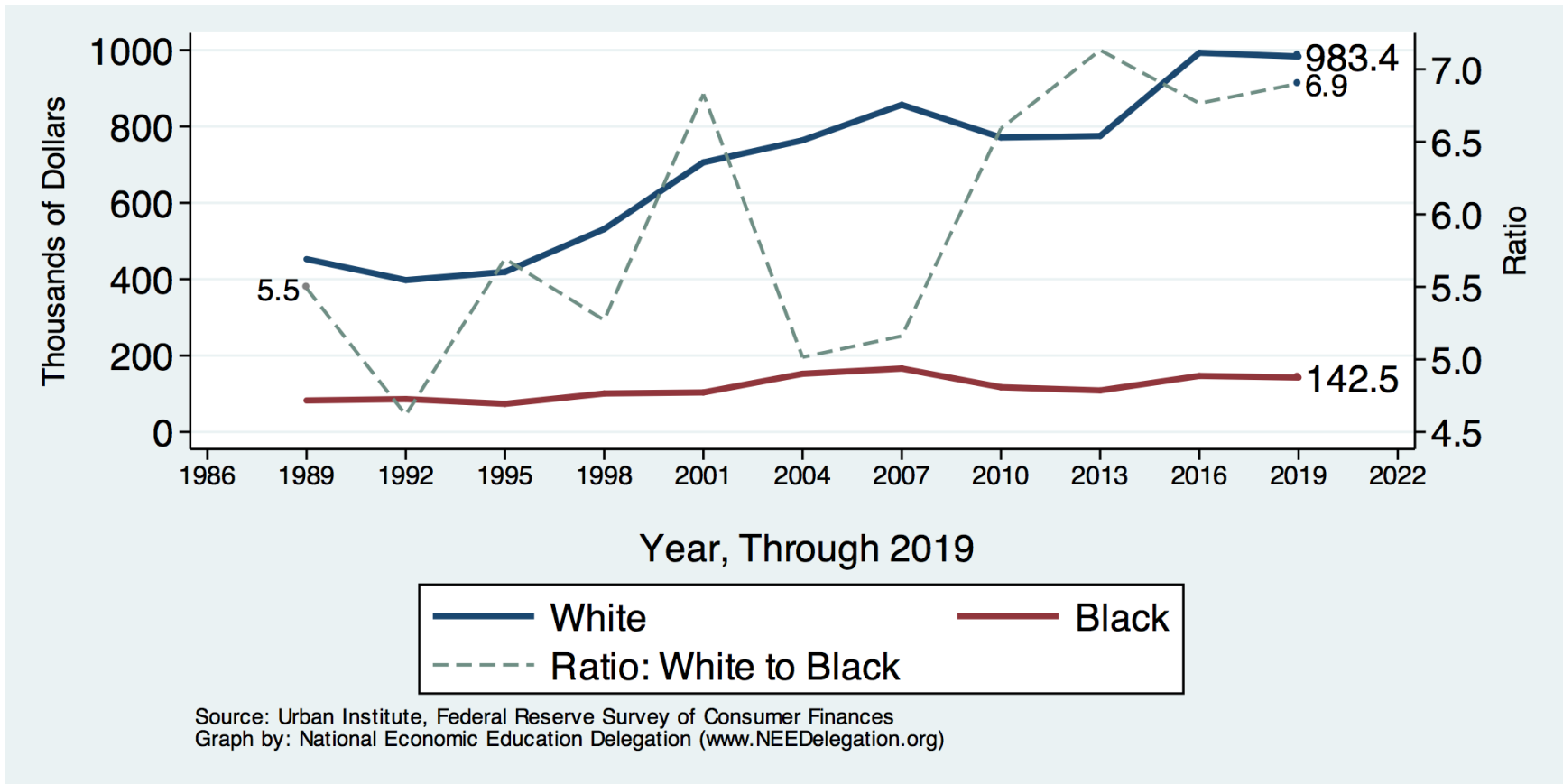
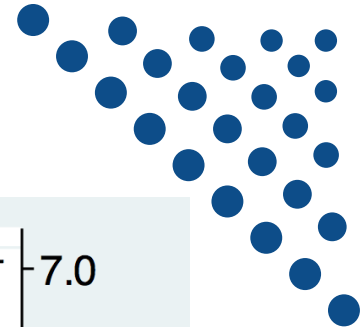
Evidence



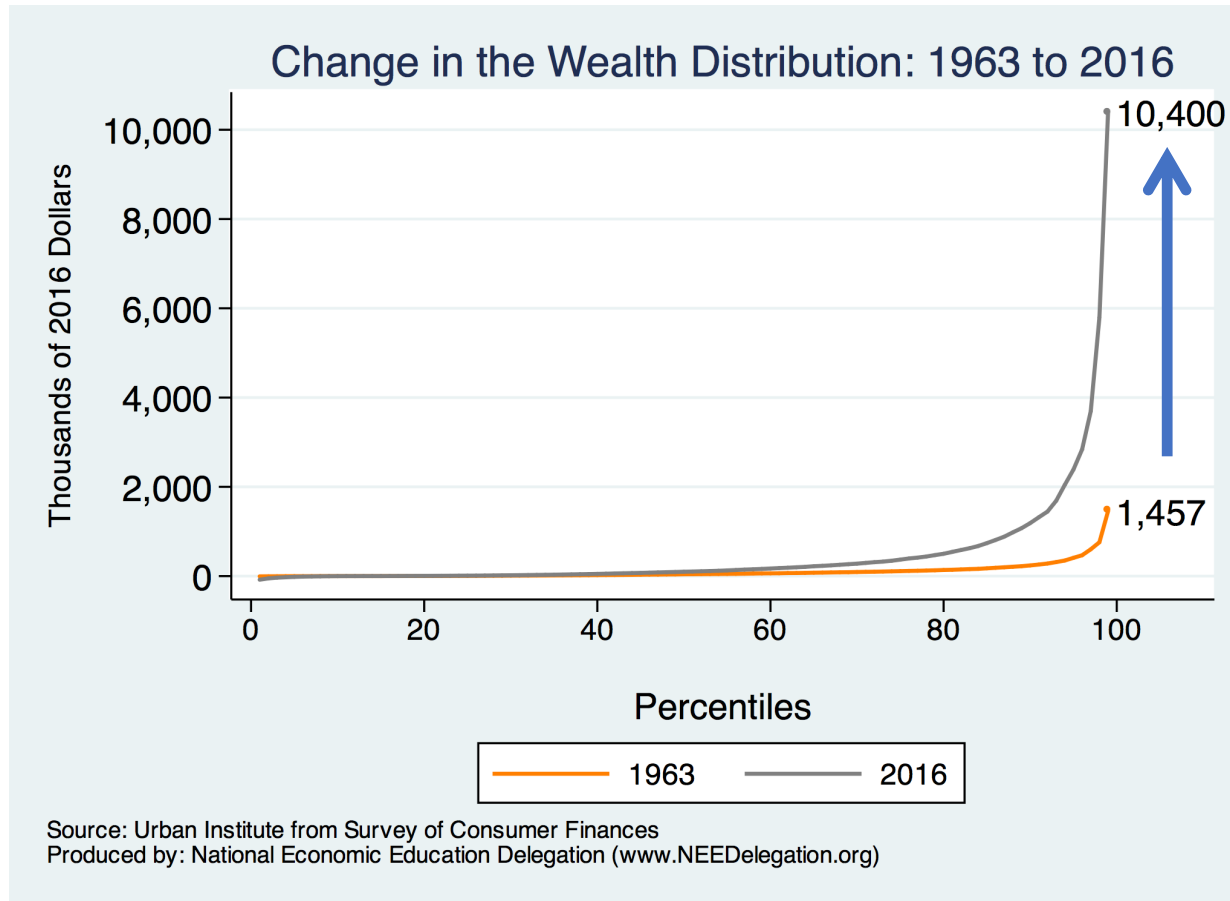
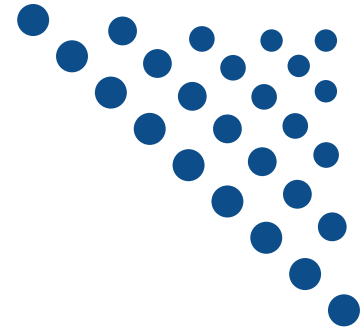
Evidence of the Gap



Wealth Gap Over Time: Mean

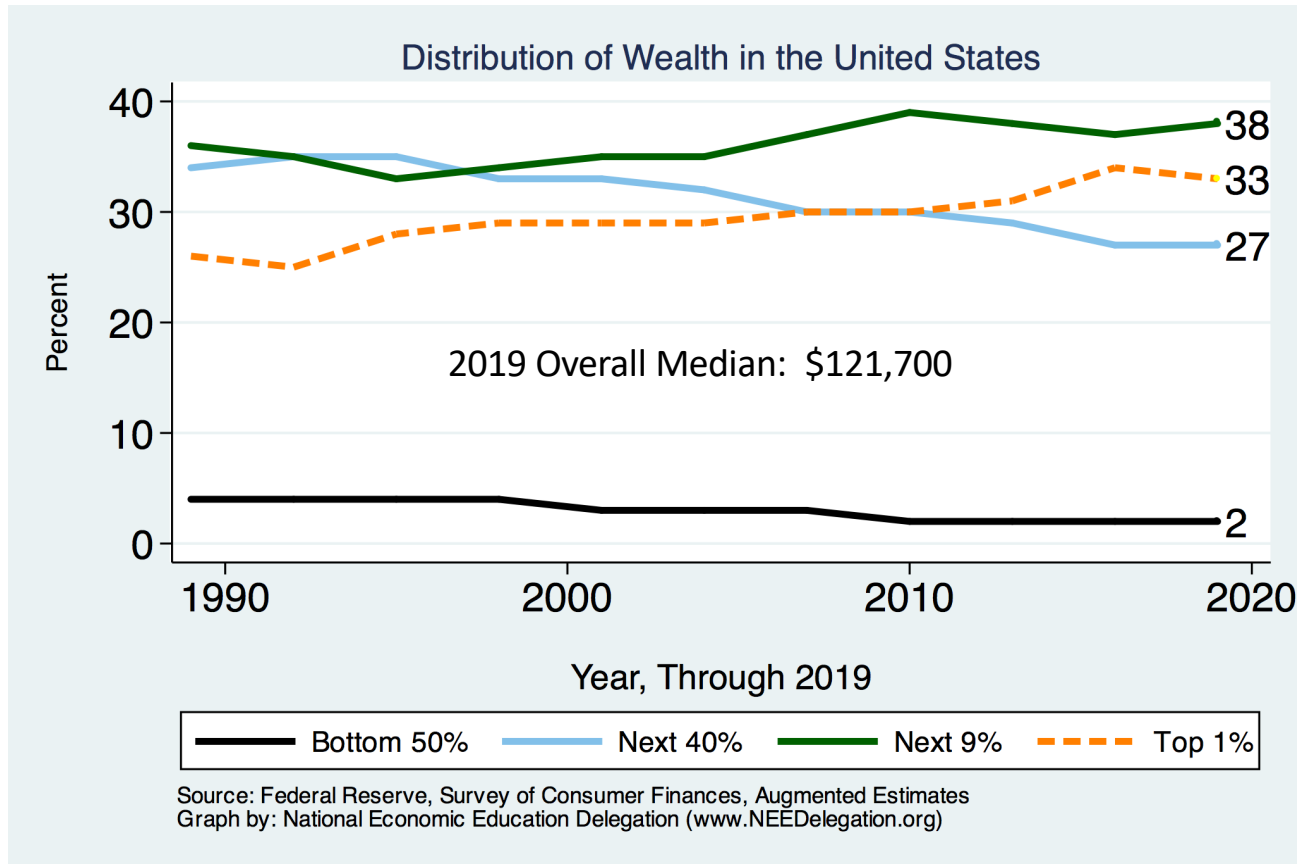


Wealth is More and More Concentrated



99th Percentile
2016 = 7x 1963

Overall Wealth Distribution



By Household Income

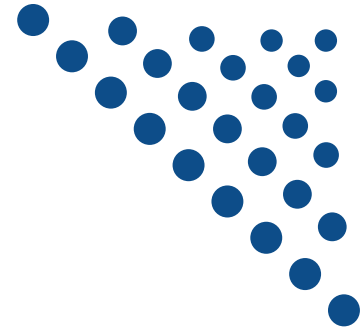
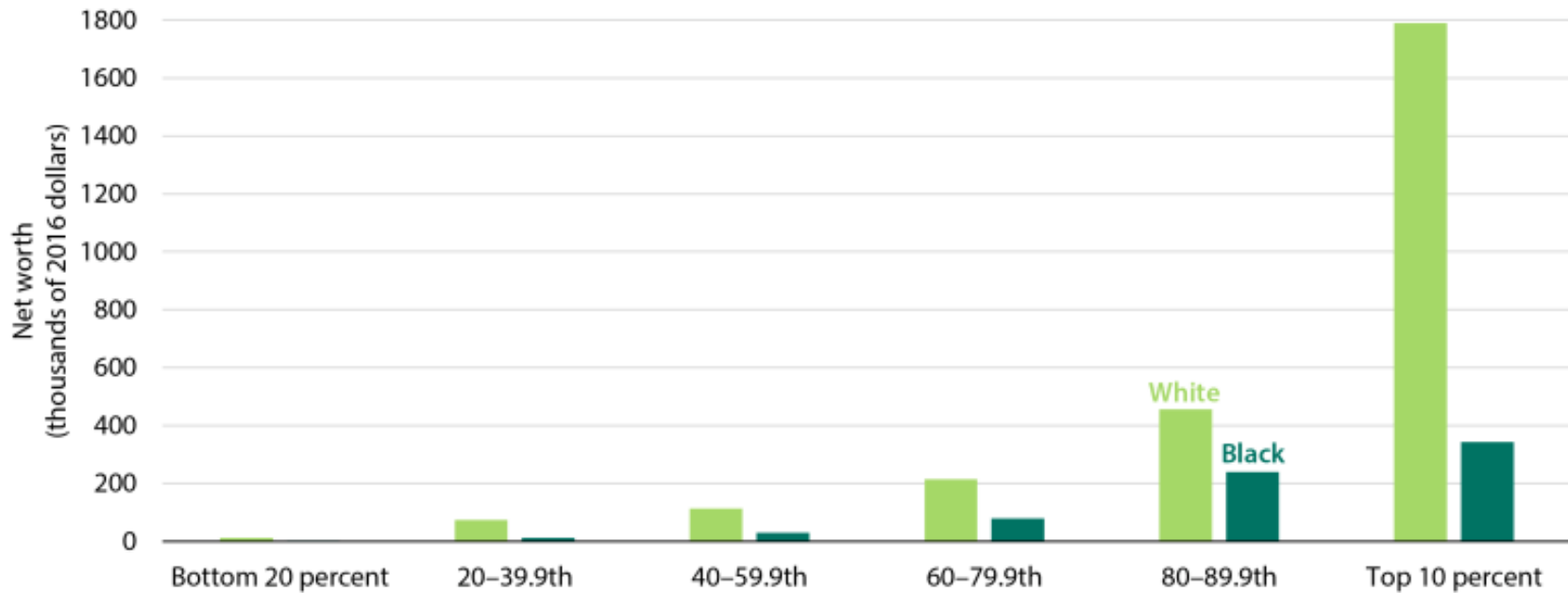


FIGURE 3.

Median Net Worth, by Household Income Percentile

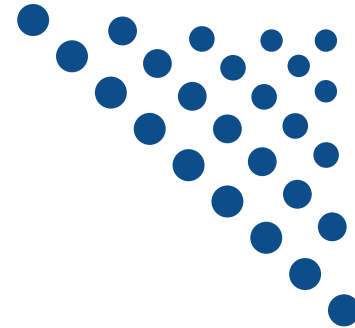


Source: Survey of Consumer Finances 2016; authors' calculations.

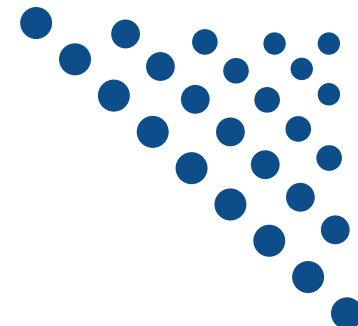
Note: Data are from 2016. Net worth refers to the difference between assets and debt for a household head. Race and ethnicity are those of the survey respondent.

THE HAMILTON PROJECT
BROOKINGS





Why Wealth is Important



Household Level Benefits

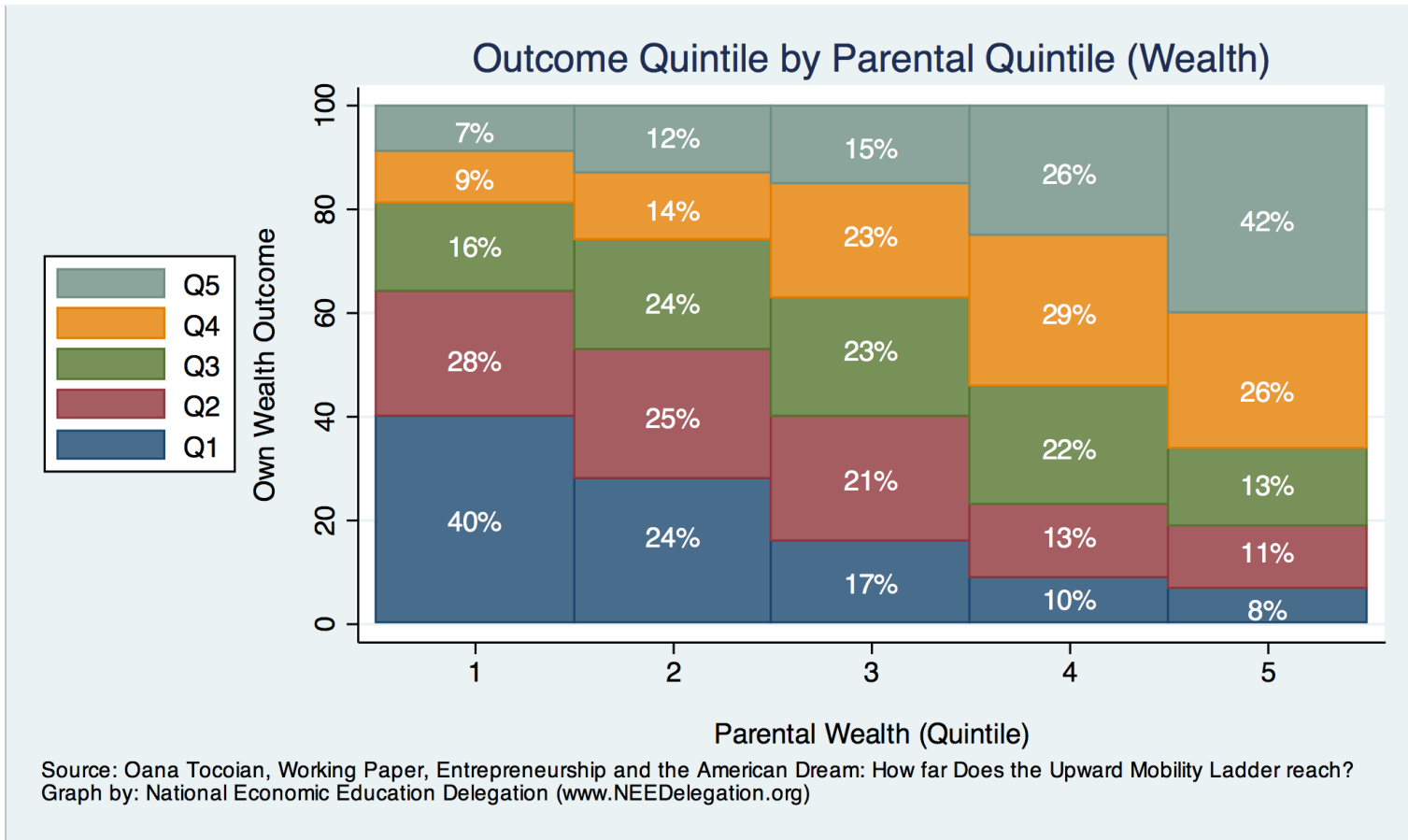
- **Choices/Life Agency**

- 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

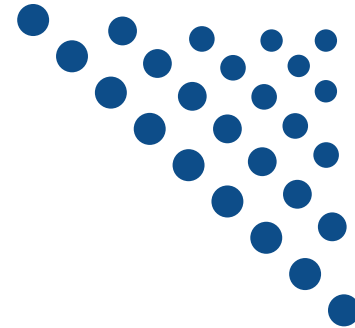
- **Wealth is iterative**

- Wealth begets more wealth.
 - Access to higher return investments.
- Wealth transfers across generations.
 - Wealth is sticky.

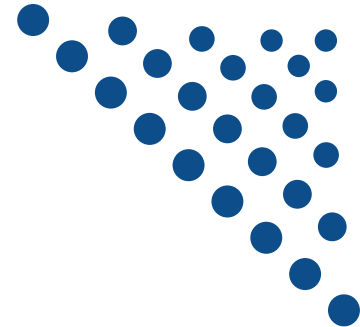
Wealth Mobility



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



Sources of Disparities

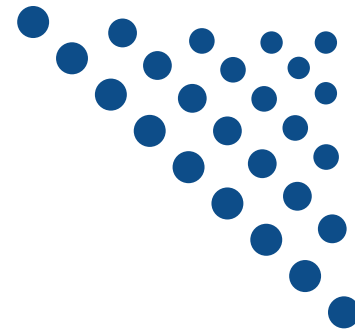
Events/Policies with Direct Wealth Implications



- **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.**

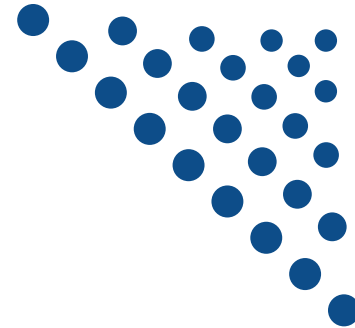


Results for Black Families



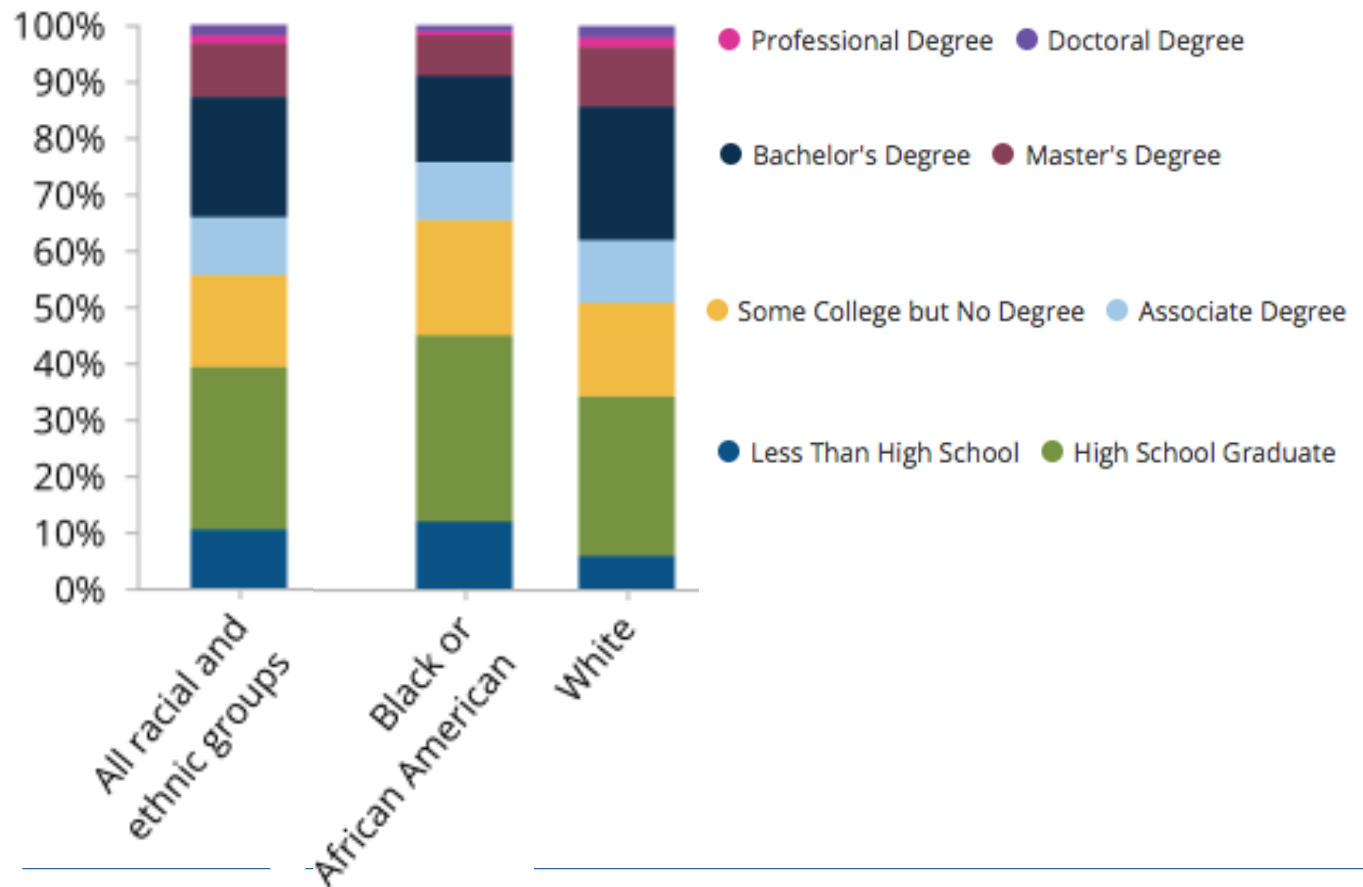
- **Much lower accumulation of wealth than among White families.**
- **Implications:**
 - Less financial contribution from parents to children.
 - More difficult access to higher education.
 - Less access to capital for business formation.
 - More likely to live in disadvantaged neighborhoods
 - Fewer role models.
 - Less access to quality education.
 - ***Disparities in the capacity – availability of resources - to build wealth.***

Potential Explanations: Differences in...

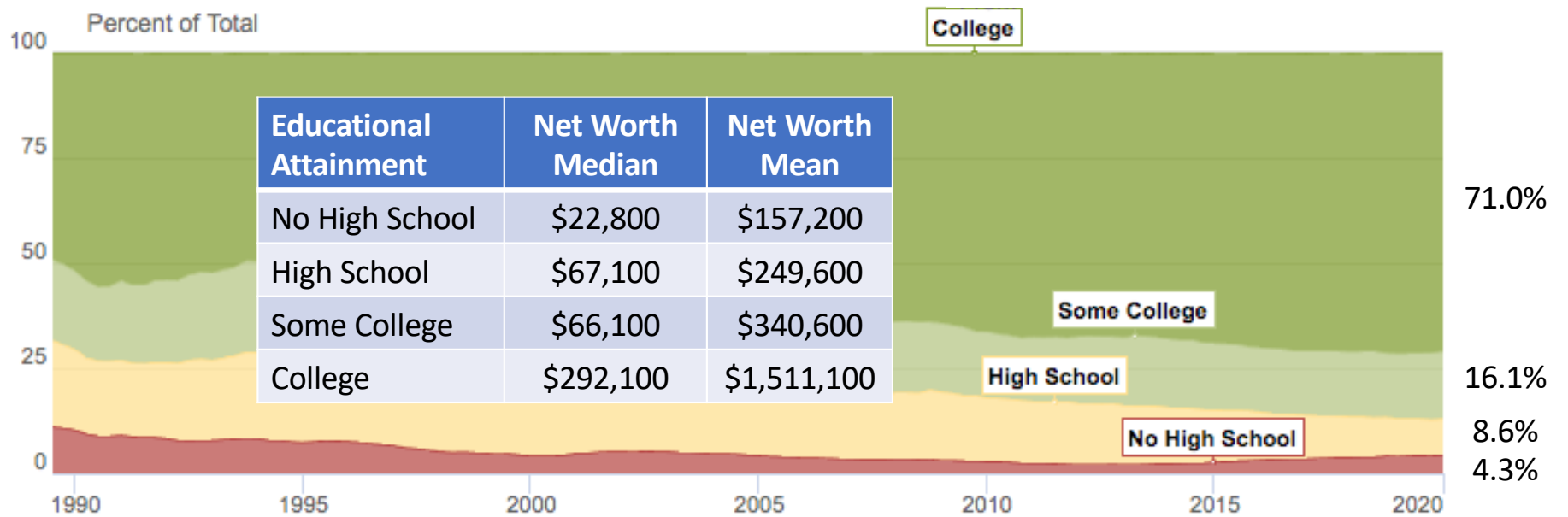
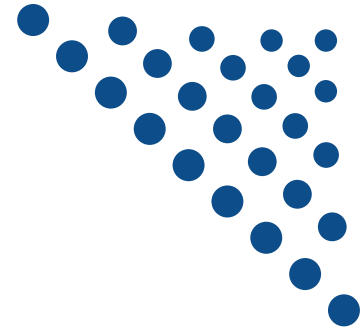


- Educational attainment
- Home ownership
- Increased savings
- Financial literacy
- Soft skills & personal responsibility
- Entrepreneurship
- Wages
- Labor force participation
- Incarceration rates
- Family structure
- Initial endowment

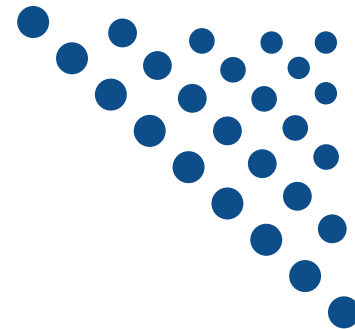
Differences in Educational Attainment, 2017



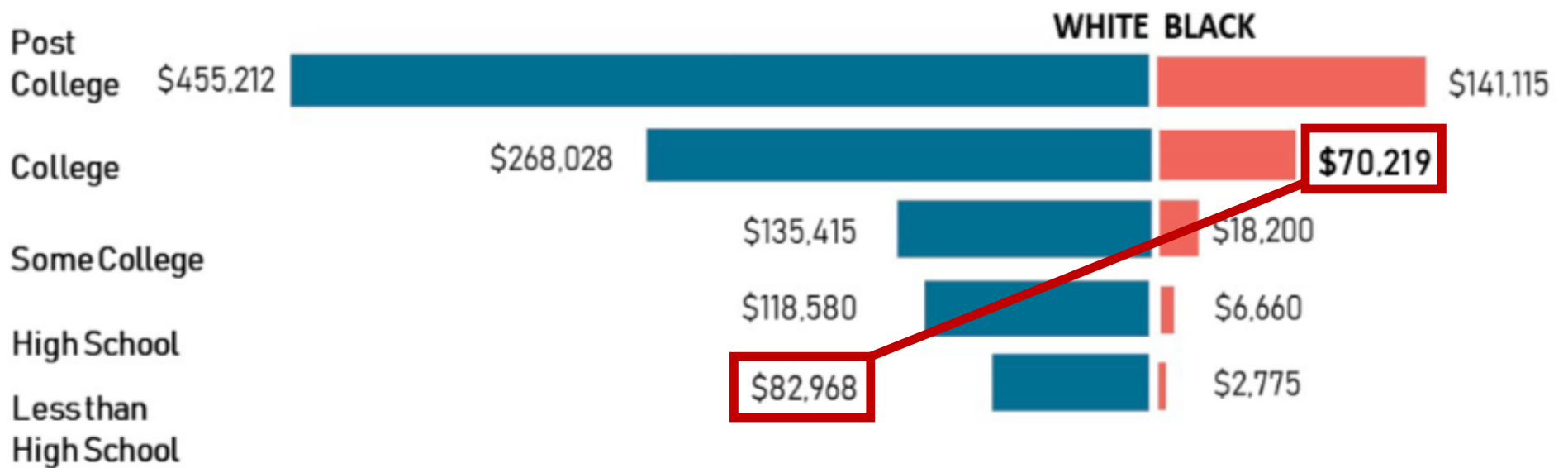
Wealth by Educational Attainment

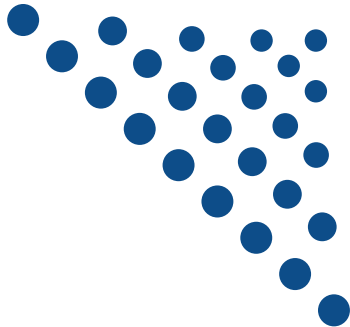


Educational Attainment

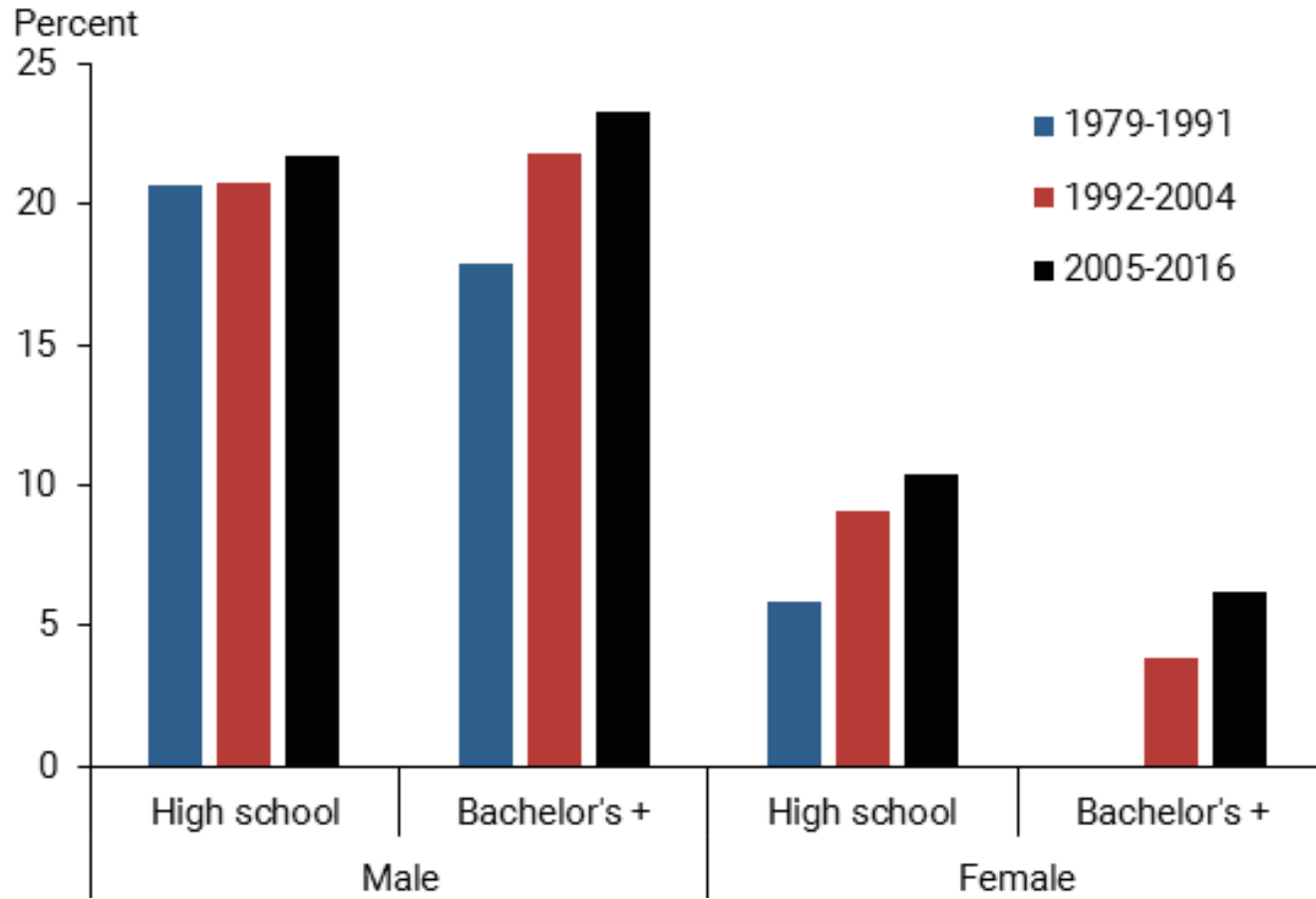


Median Household Net Worth by Race and Education

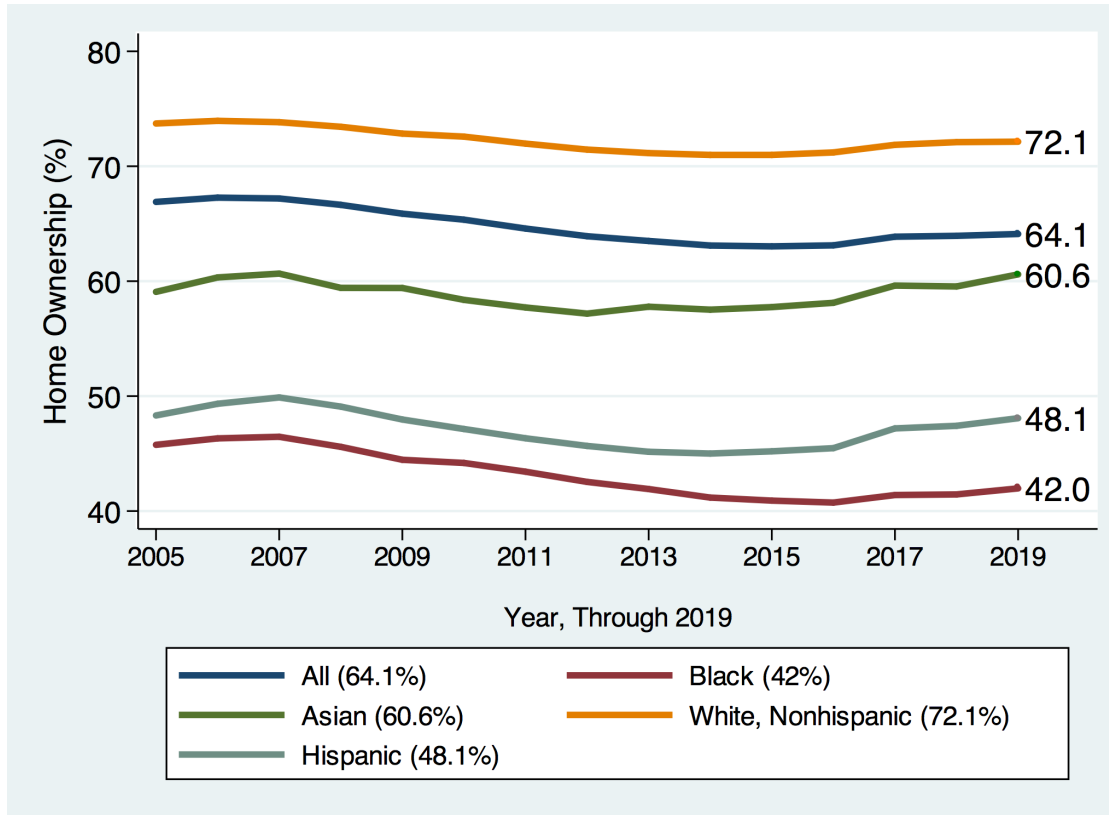


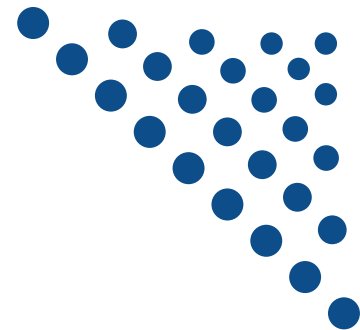


Black-White Earnings Gap by Education



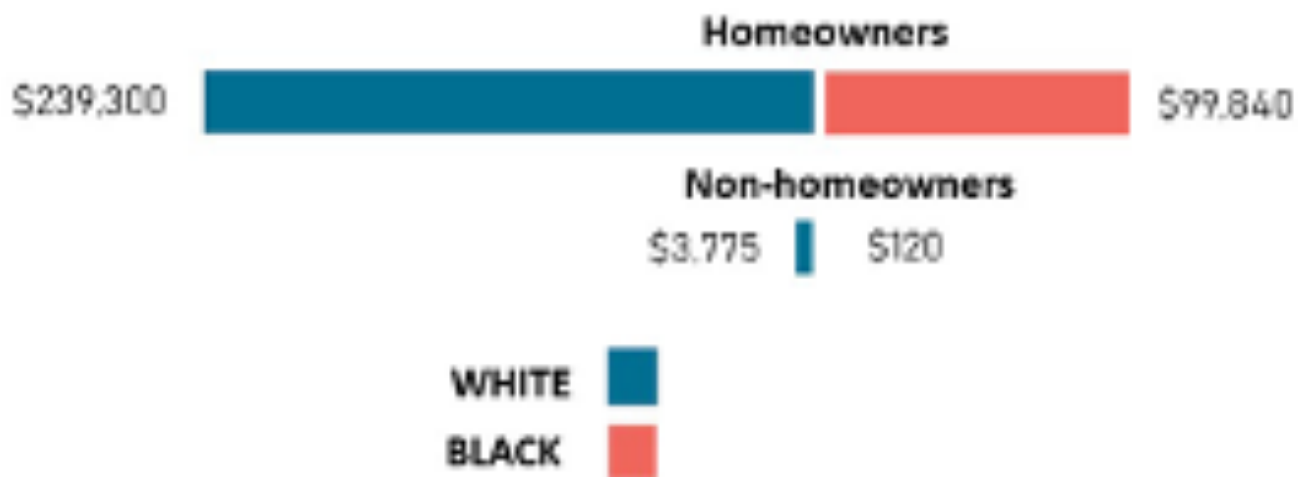
Home Ownership



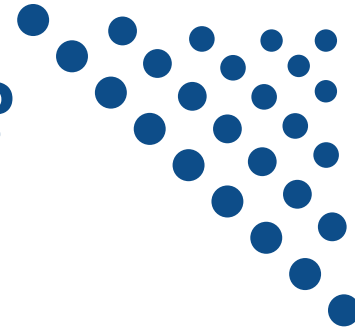


Home Ownership

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

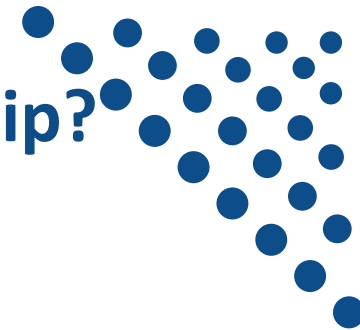


Wealth Equality Through Home Ownership?



- **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.

What Determines Differences in Home Ownership?



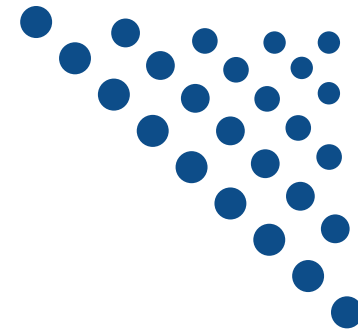
- **Wealth of parents**
- **Ability to borrow – lending discrimination**
 - At all
 - On equivalent terms to white borrowers
- **Local ordinances – housing discrimination**
- **Lower appreciation rates of homes in majority Black communities**



Increased Savings

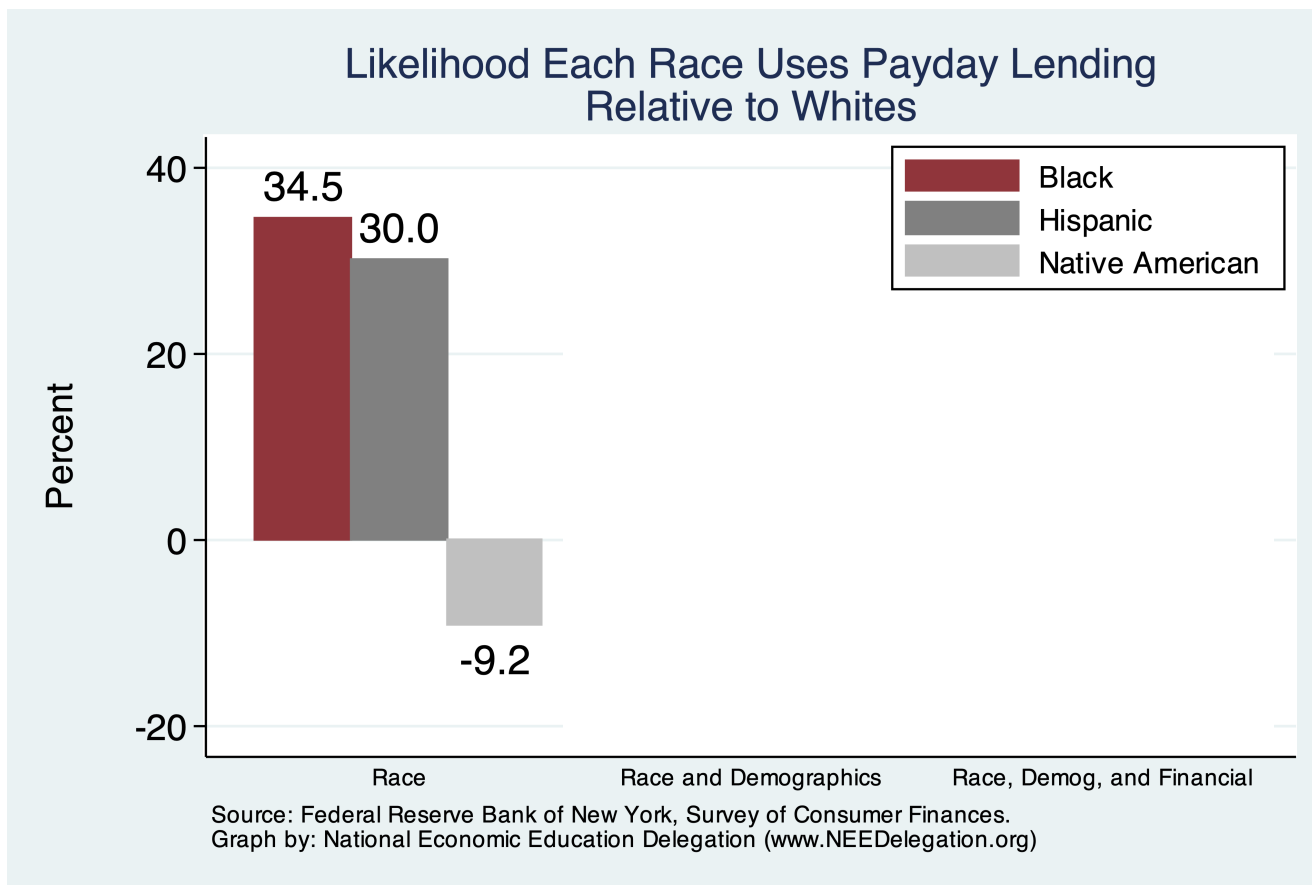
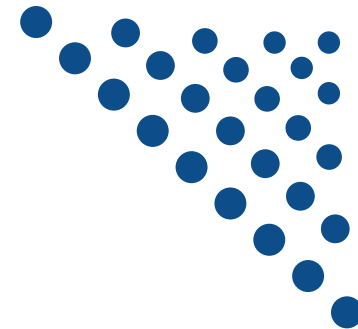
- **Historical evidence generated by economists ranging from Milton Friedman (1957) to Marjorie Galenson (1972) to Marcus Alexis (1971) to Gittelman and Wolff (2004).....**
 - All find that after accounting for household income, Blacks have a slightly higher savings rate than Whites.
- **Risk and reward 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.

Financial Literacy

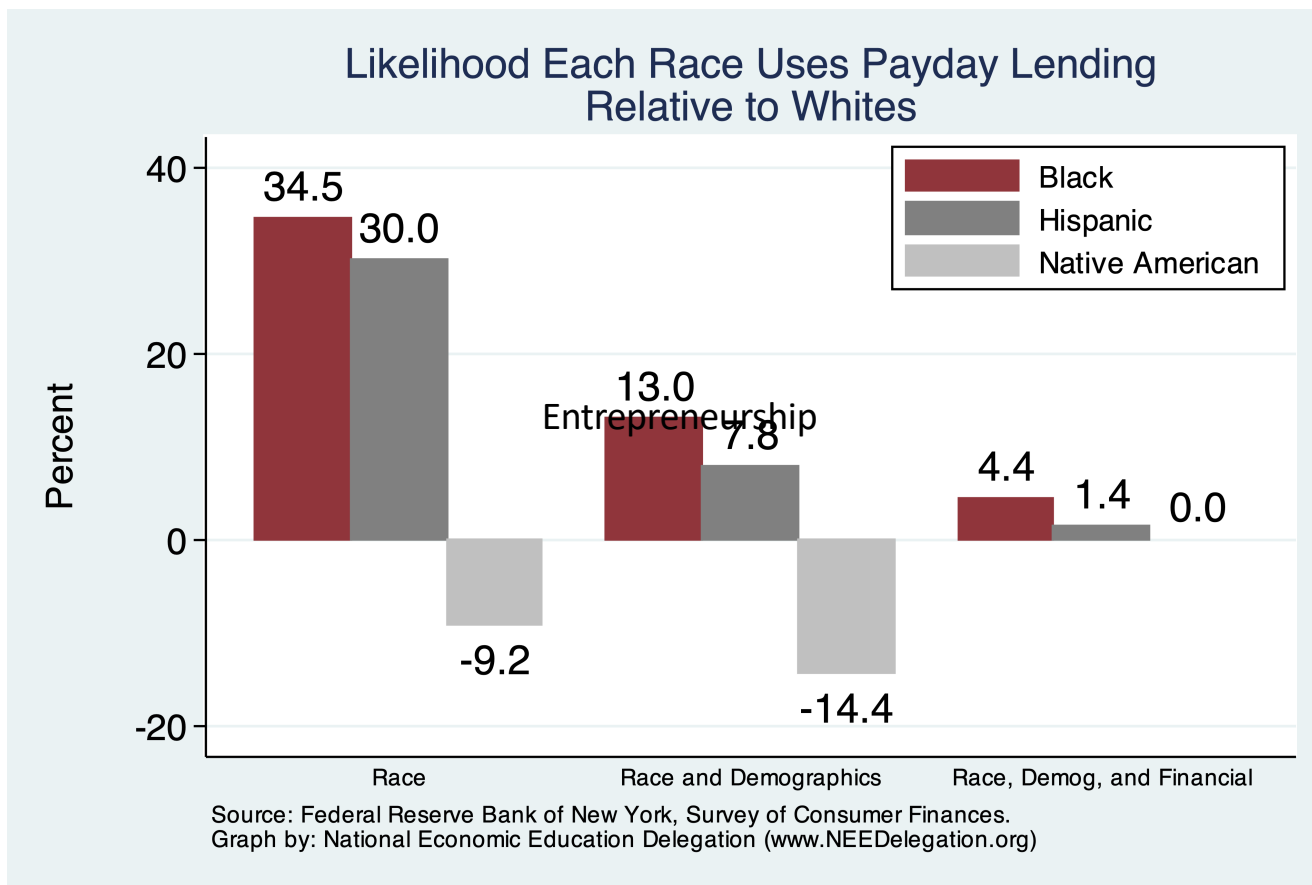
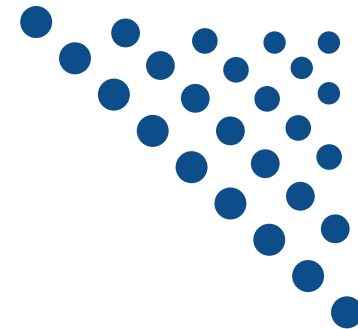


- **Financial literacy doesn't matter that much when you don't have any finances to manage.**
- **Controlling for household income, there is no difference in rates of asset appreciation between Black and White households.**

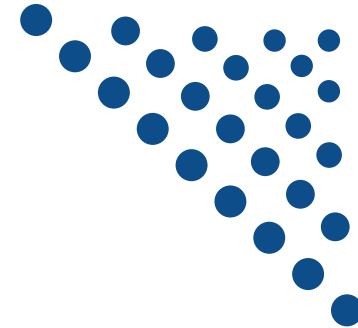
Use of Payday Lenders



Use of Payday Lenders



Soft Skills and Personal Responsibility



- **Employability**

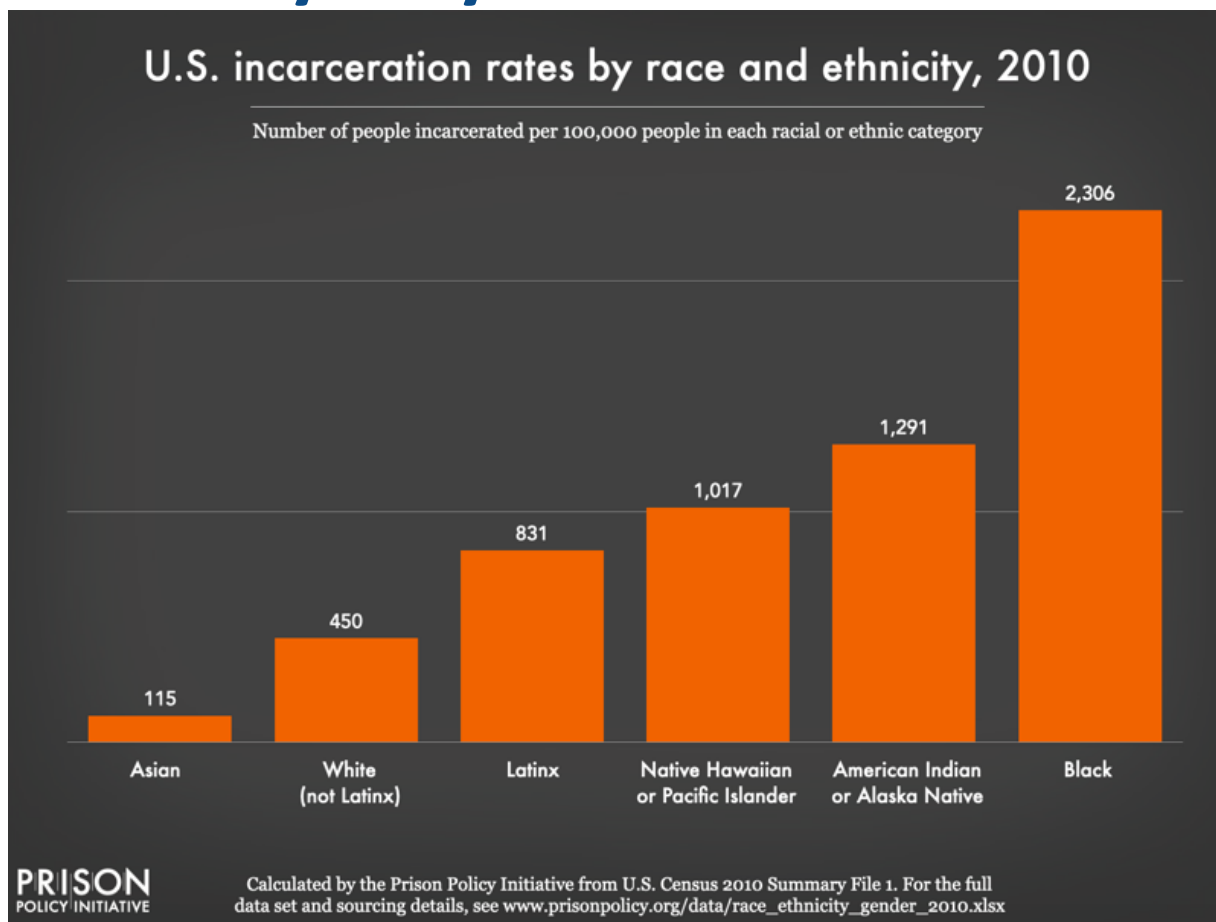
- Show up on time
- Eye contact with customers
- Dress well
- Collaborative skills

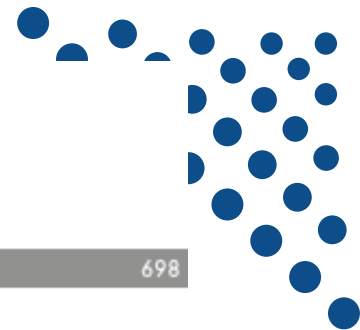
- **Reality**

- 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.



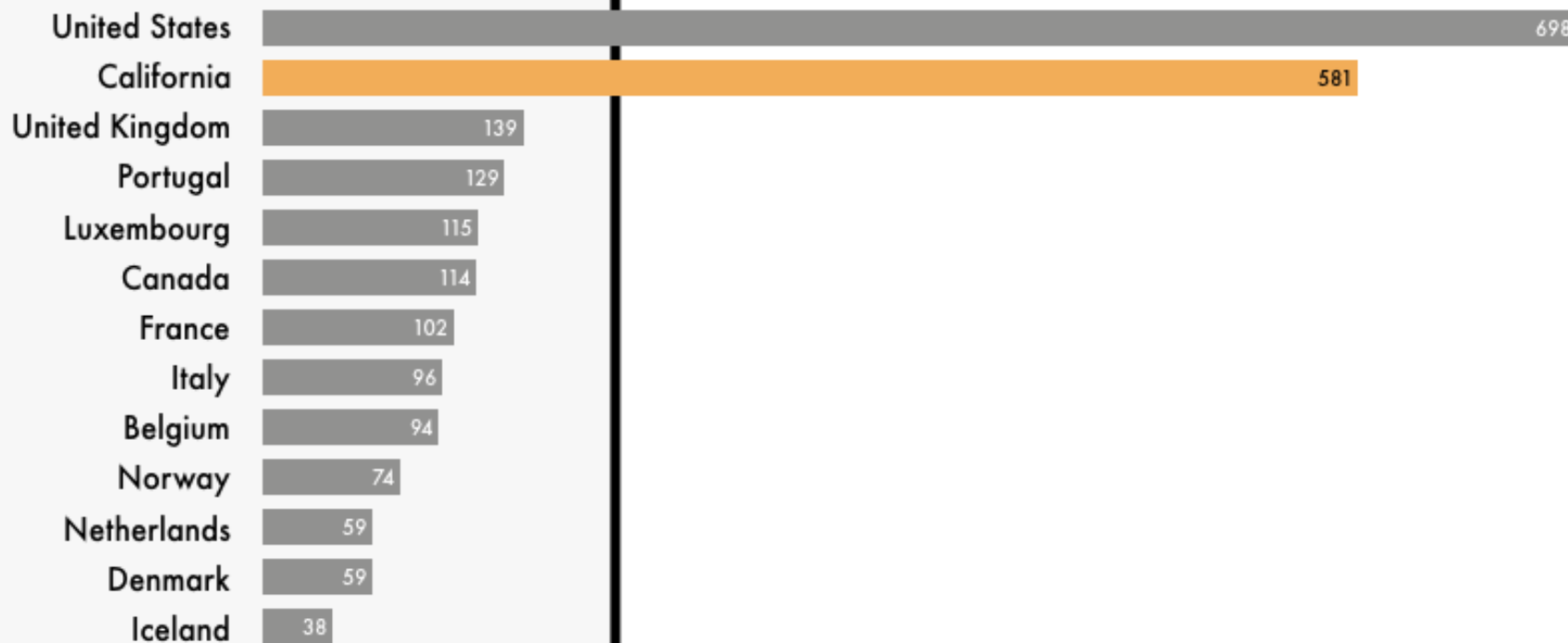
Incarceration Likely Plays A Role





INCARCERATION RATES

COMPARING CALIFORNIA
AND FOUNDING NATO COUNTRIES



Incarceration rates per 100,000 population

Source: <https://www.prisonpolicy.org/global/2018.html>



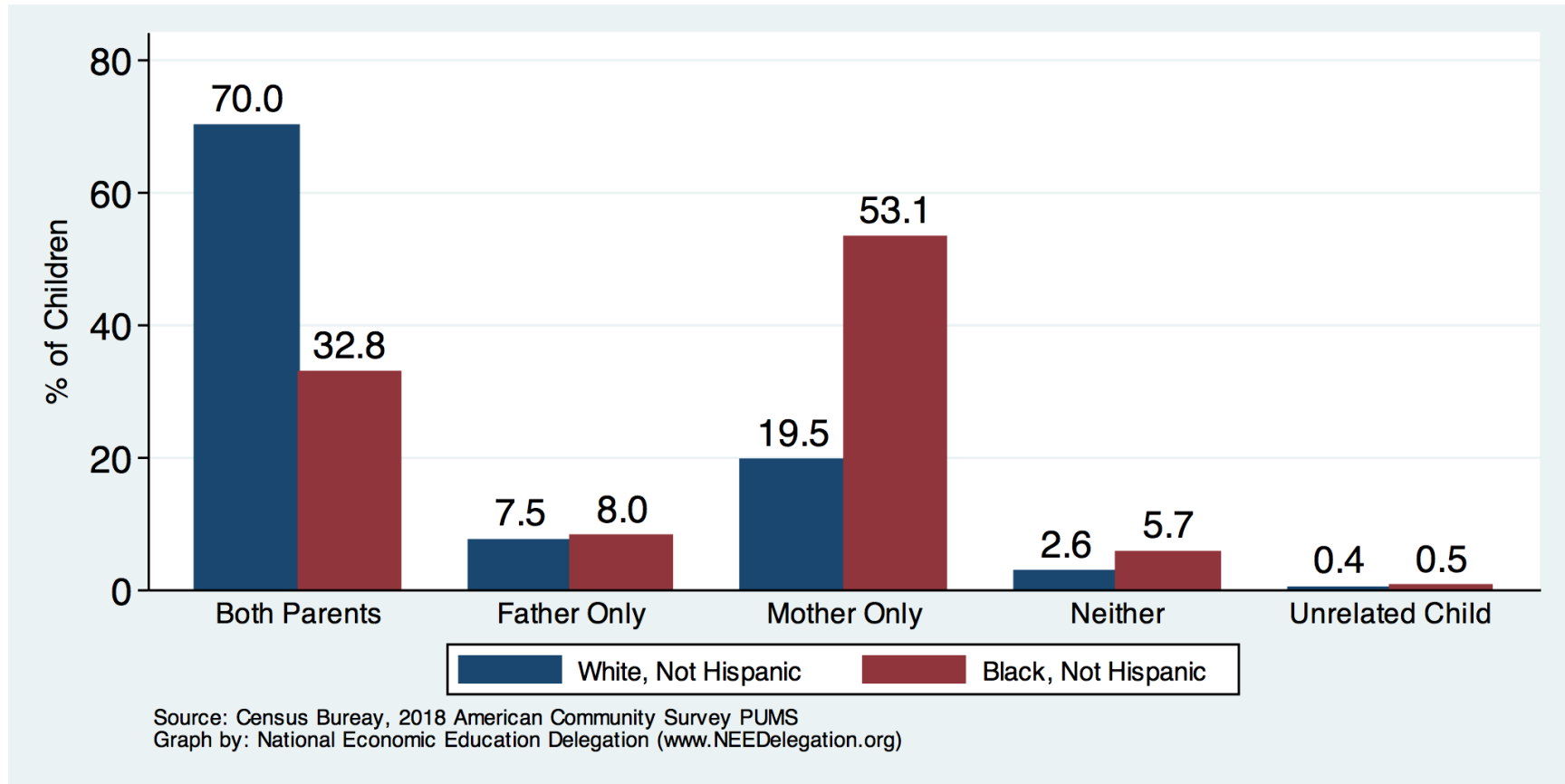
Family Structure



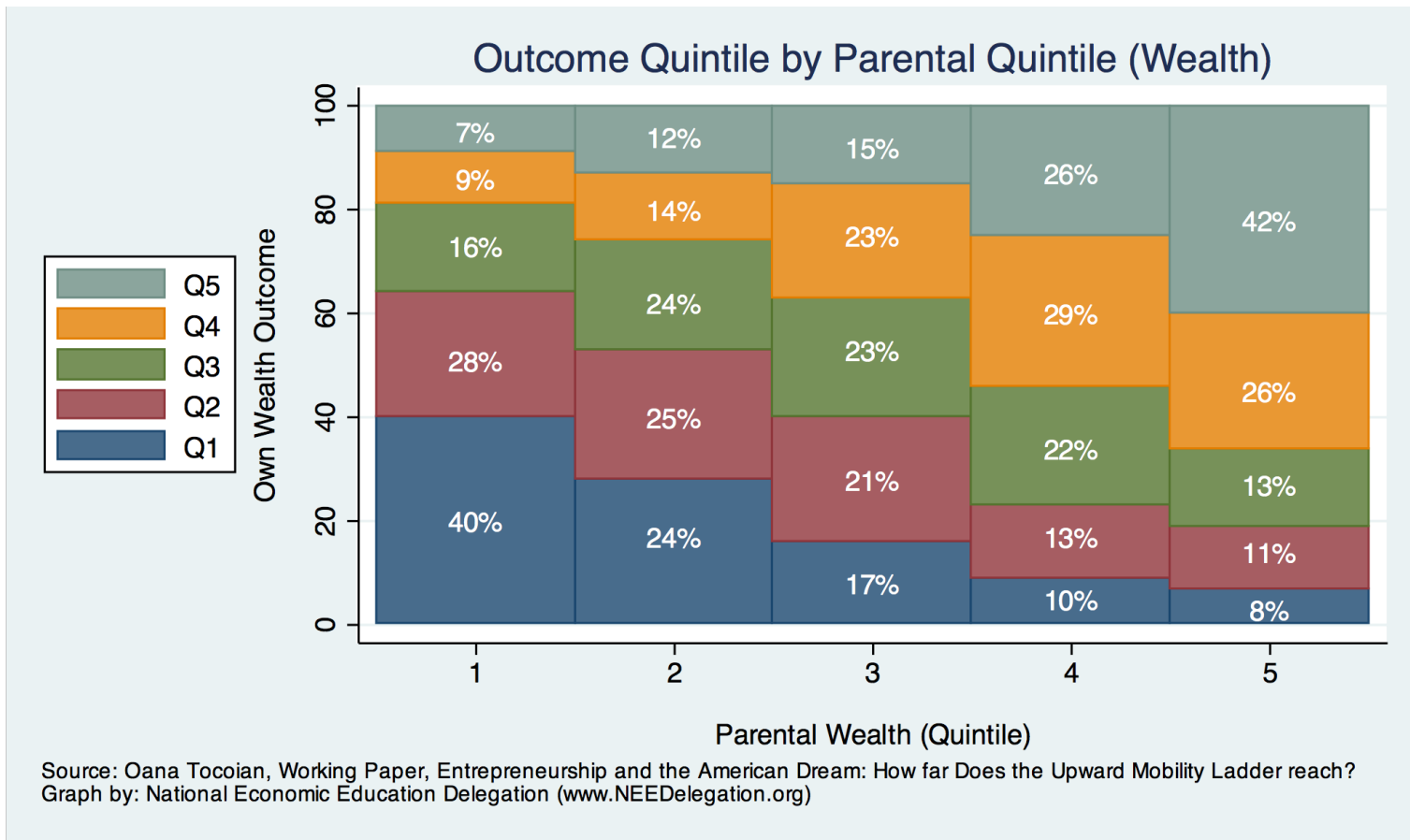
AGE	No Bachelor's Degree				With Bachelor's Degree			
	MARRIED		SINGLE		MARRIED		SINGLE	
	BLACK	WHITE	BLACK	WHITE	BLACK	WHITE	BLACK	WHITE
20-29	\$4,000	\$13,000	\$0	\$2,000	\$7,700	\$18,700	\$-11,000	\$3,400
30-39	\$12,000	\$33,450	\$0	\$0	\$-20,500	\$97,000	\$0	\$7,500
40-49	\$22,501	\$60,000	\$1,000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

Kids – Household Types



Initial Endowment



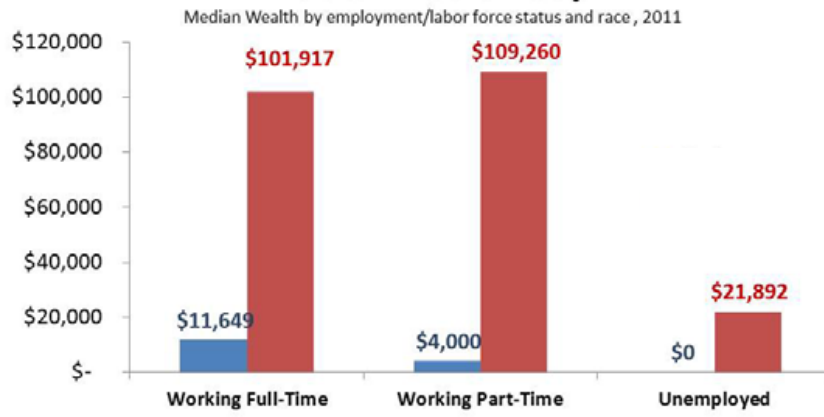
What is Fundamentally Responsible?



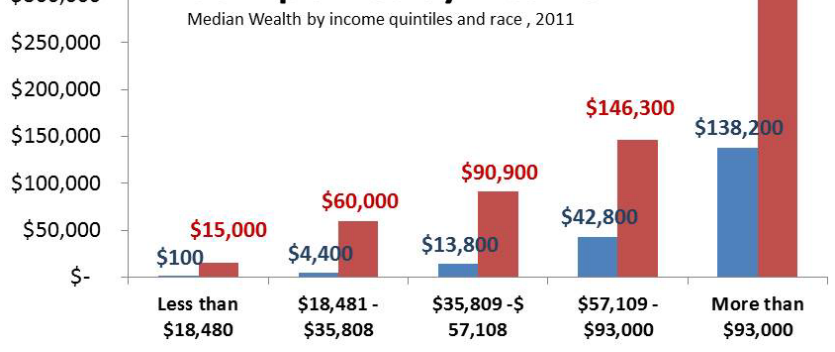
- Individual behaviors?
- Structural characteristics of the economy?
- History – policy and otherwise?



Hard Work Isn't Enough to Close the Racial Wealth Gap

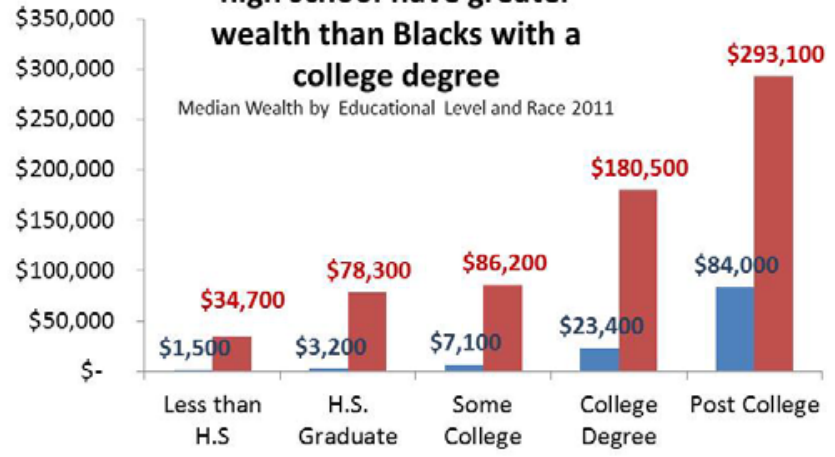


Racial Wealth Inequality is Not Explained by Income



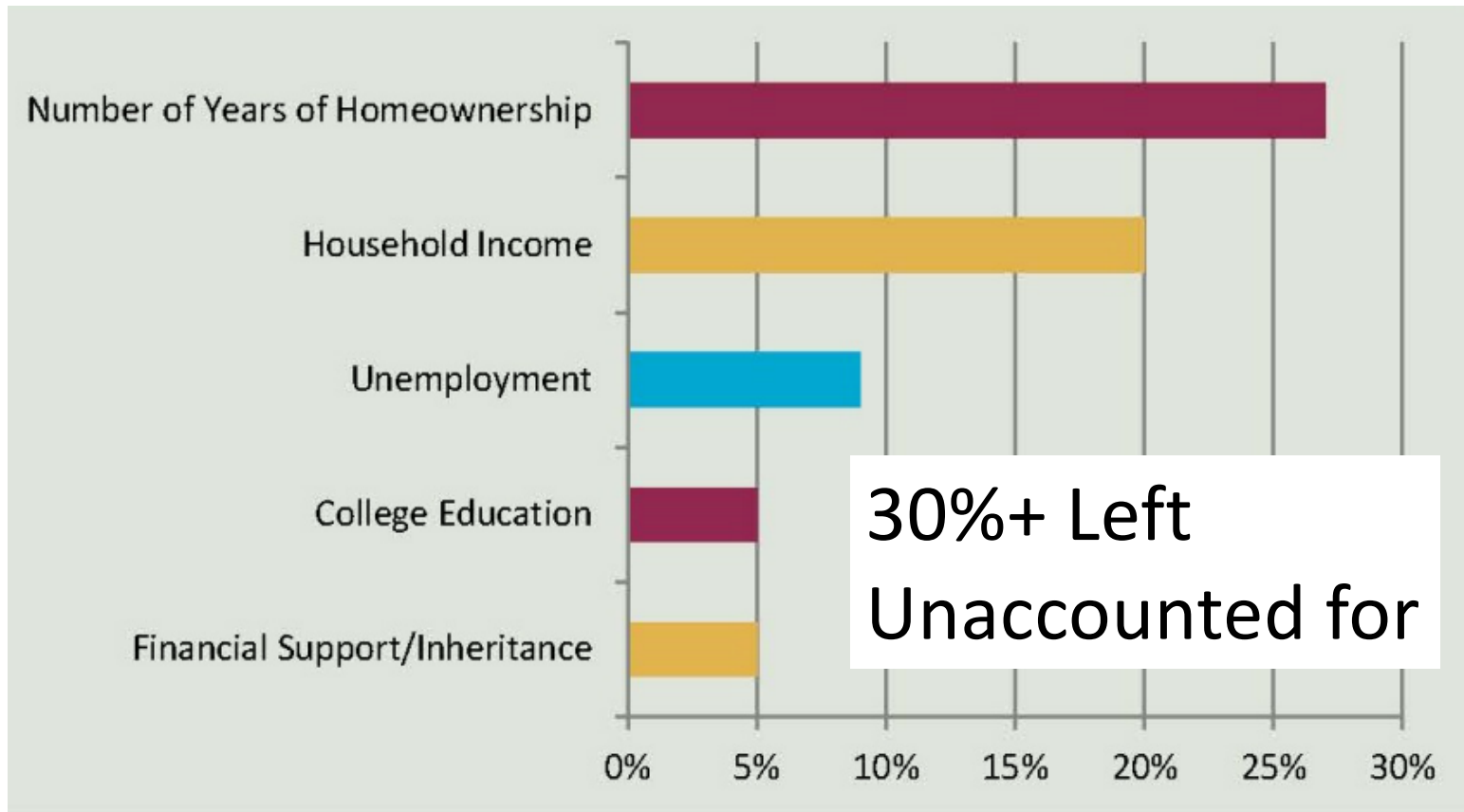
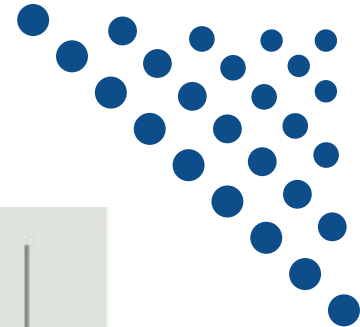
Studying hard is not enough

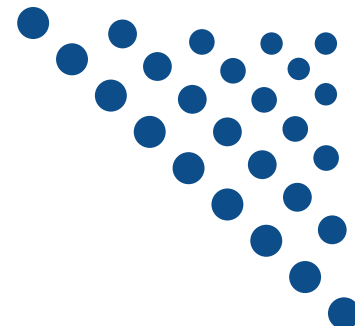
Whites who dropped out of high school have greater wealth than Blacks with a college degree



■ Black
■ White

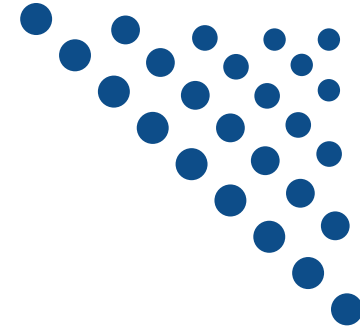
Accounting for the Wealth Gap





Policy Options

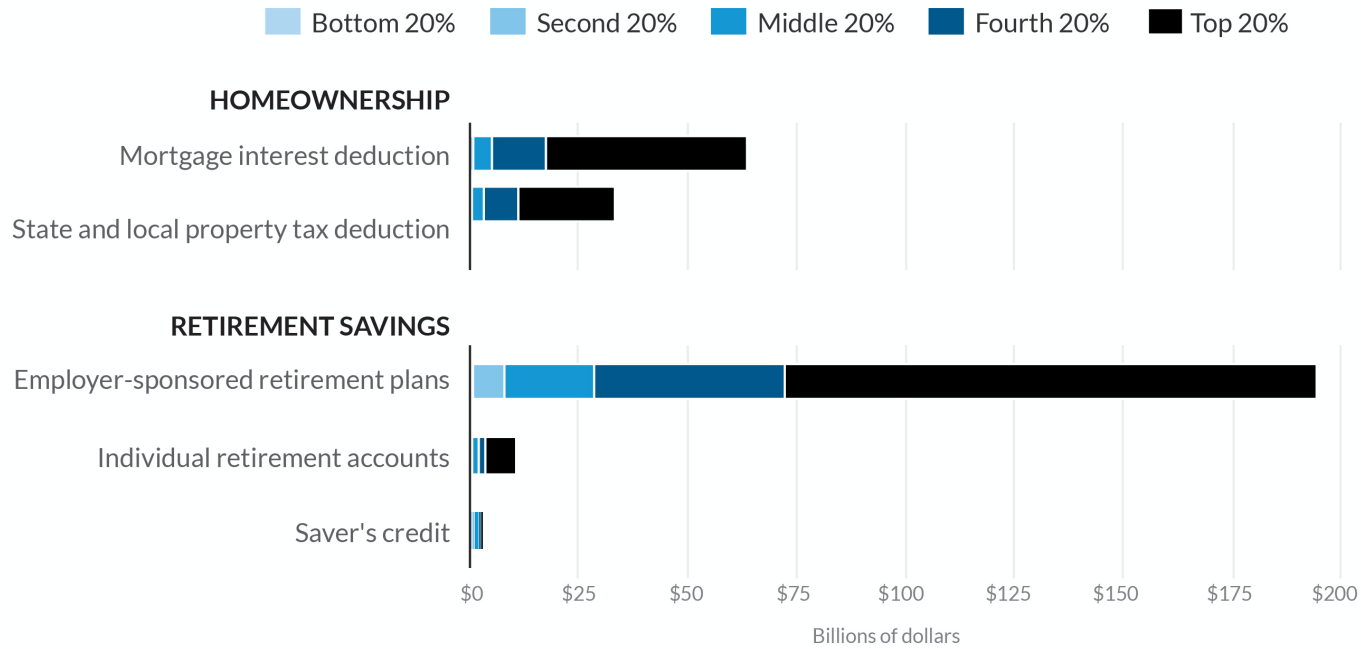
Categories of Policy Areas



- **Housing**
 - FHA and redlining
- **Health Care**
- **Incarceration**
 - Black incarceration rates are very high.
- **Transportation**
 - Interstate system
- **Broadband**
 - Access is inversely related to regional income
- **Education**
- **Workforce**
- **Income support and stability**
- **Asset accumulation**

Gov't Asset Building Policies

Size and Distribution of Select Asset-Building Tax Subsidies, 2017

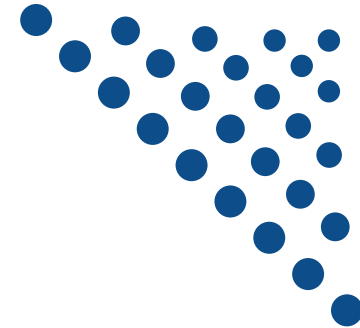


Source: Updated estimates from Steuerle et al. (2014).

Note: "Income" refers to the Tax Policy Center's "expanded cash income" measure, which is described in Rosenberg (2013).

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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.

Other Concrete Policy Options



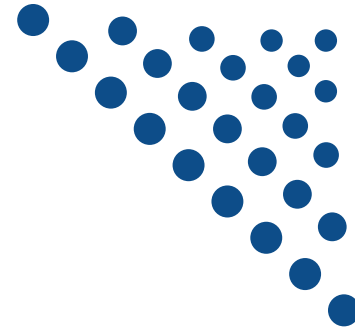
- Limit the mortgage interest tax deduction and use the revenues to provide a credit for first-time homebuyers.
- Establish automatic savings and retirement plans.
- Reduce reliance on student loans while supporting success in postsecondary education.
- Offer universal children's savings accounts.
- 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.

Buying and Banking Black



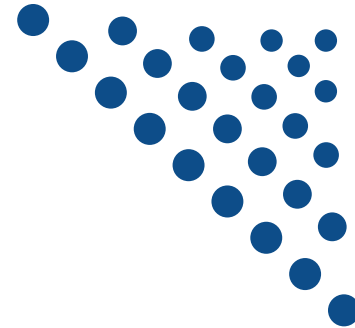
- ***Common Assertion: Marshalling the enormous purchasing power of the Black community will drive progress.***
 - More than \$1.3 trillion in buying power.*
- ***Common Assertion: Banking is a source of wealth creation.***
 - Combining the wealth of Black Americans in Black banks could be a source of wealth creation.

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.

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).

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

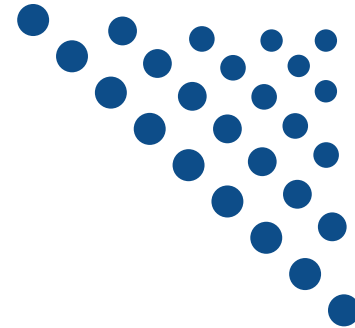
- **Numbers of banks & credit unions**

- Total: 10,655
- Black owned: 43 (0.4%)

- **They are very small**

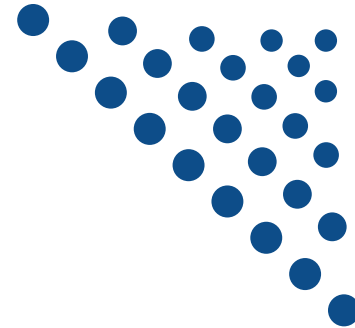
- All Black owned: \$5.8 Billion
- JP Morgan Chase: \$2.8 TRILLION

The Multiplier Economy – Spanner in the Works



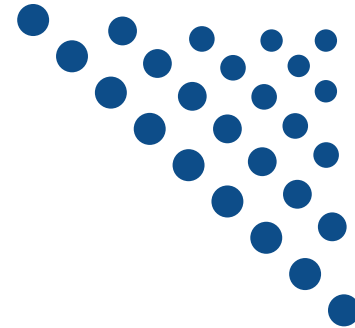
- **Banking – money goes where money is.**
- **Buying – money goes to buy intermediate inputs, into the White community.**
 - There is a similar multiplier for consumer spending.
 - Money is spent – goes to a Black business
 - That Black business then keeps some of the money, but some leaves the Black 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?



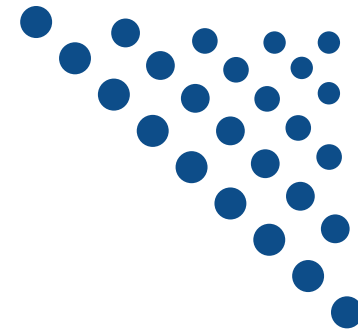
- **Both approaches to closing the wealth gap are severely limited unless the Black banking sector and economies are walled off from the rest of the country.**
- **Walling off isn't enough. Also need to:**
 - Capitalize the Black banking sector and economy.
 - Offer fair protections from predatory market forces.
 - Larger White banks start off with more economic power.

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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