



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

Auburn University  
March-April, 2022

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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 (3/31): US Economy & Russia/Ukraine Conflict
- Week 2 (4/7): Minimum Wages (Veronika Dolar, SUNY-Old Westbury)
- Week 3 (4/14): Climate Change Economics (Sarah Jacobson, Williams College)
- Week 4 (4/21): Economics of Immigration (Roger White, Whittier College)
- **Week 5 (4/28): The Black-White Wealth Gap (Mike Shor, University of Connecticut)**
- Week 6 (5/5): Healthcare Economics (Veronika Dolar, SUNY-Old Westbury)



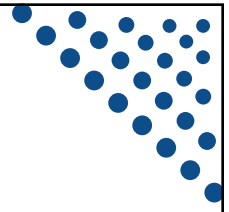
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## Submitting Questions

- **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.
- **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  
April 28, 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.**
  - 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)...

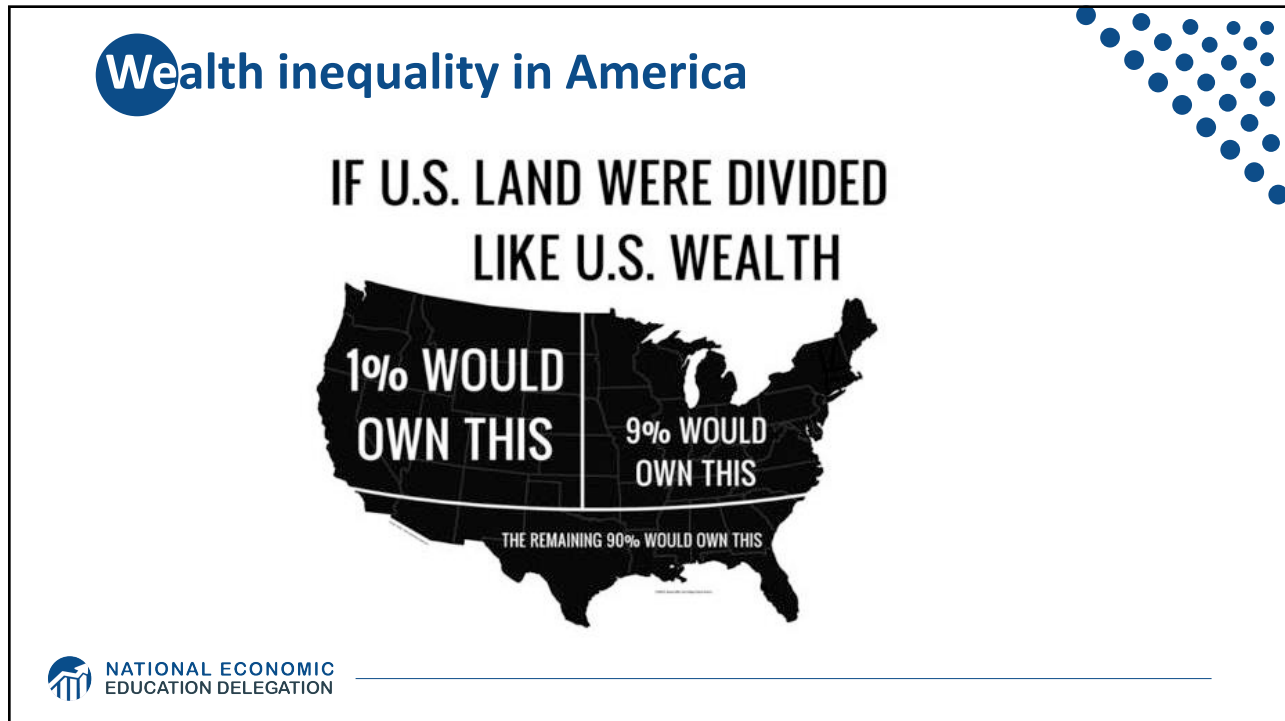


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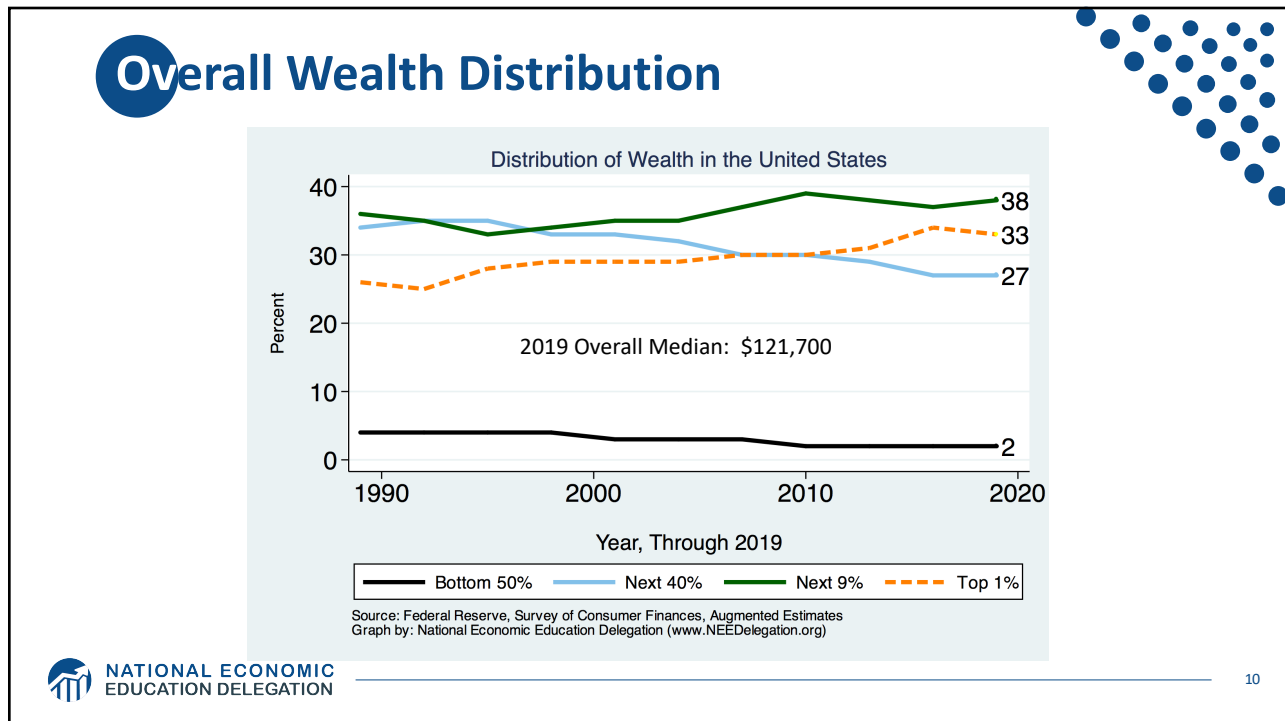
## Evidence



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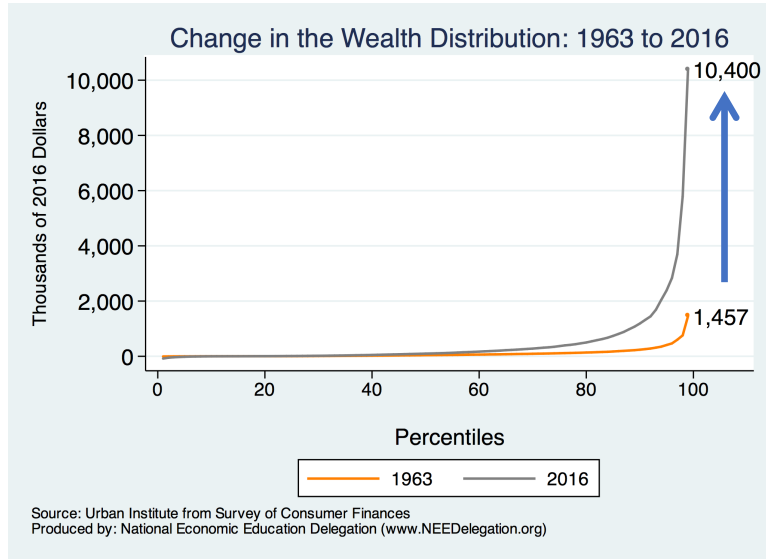


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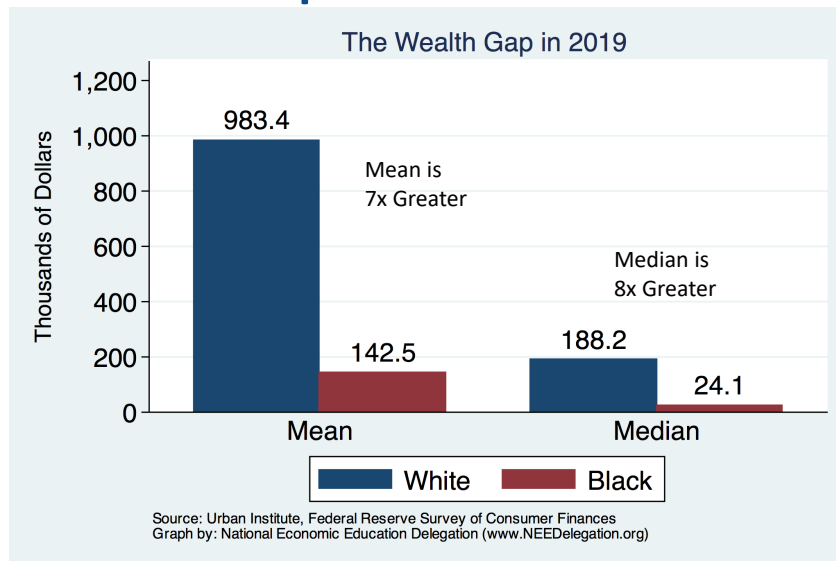
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# Wealth is More and More Concentrated



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# Evidence of the Gap



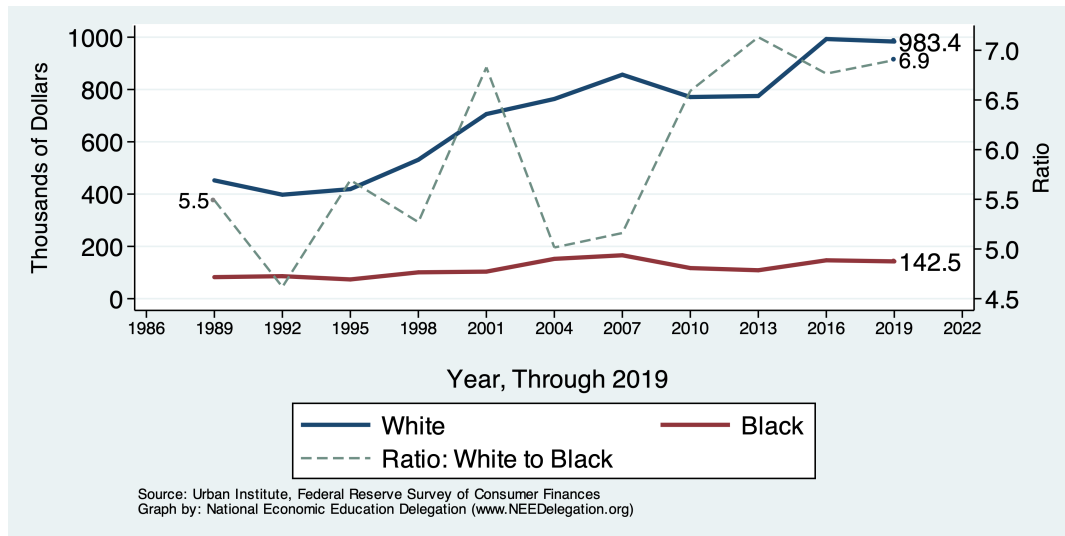
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## Wealth Disparities, 2019

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

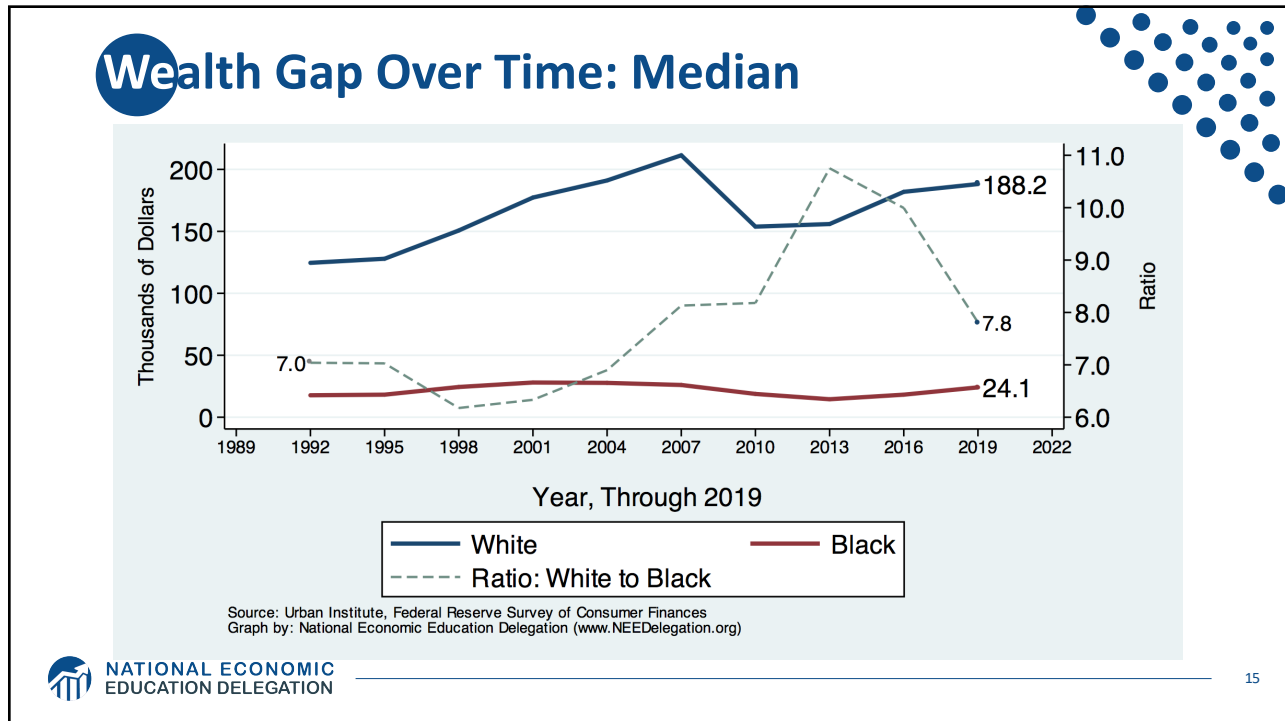
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## Wealth Gap Over Time: Mean

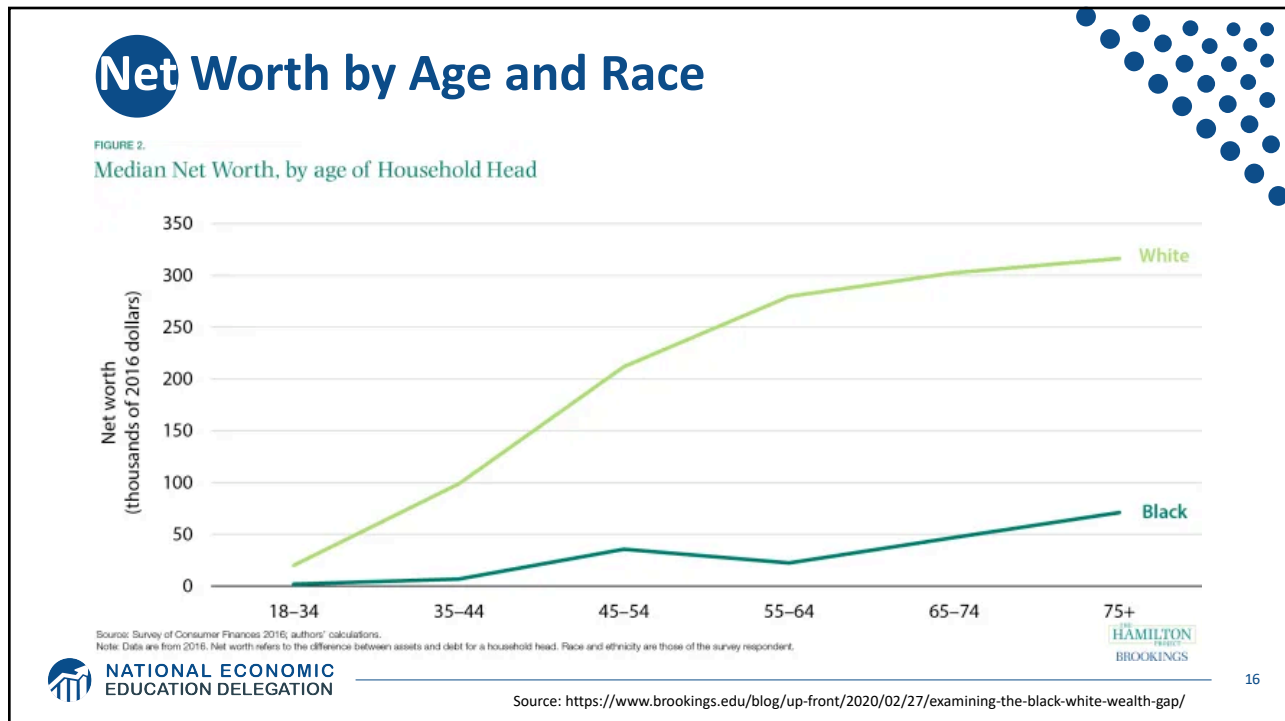


Source: Urban Institute, Federal Reserve Survey of Consumer Finances  
Graph by: National Economic Education Delegation (www.NEEDelegation.org)

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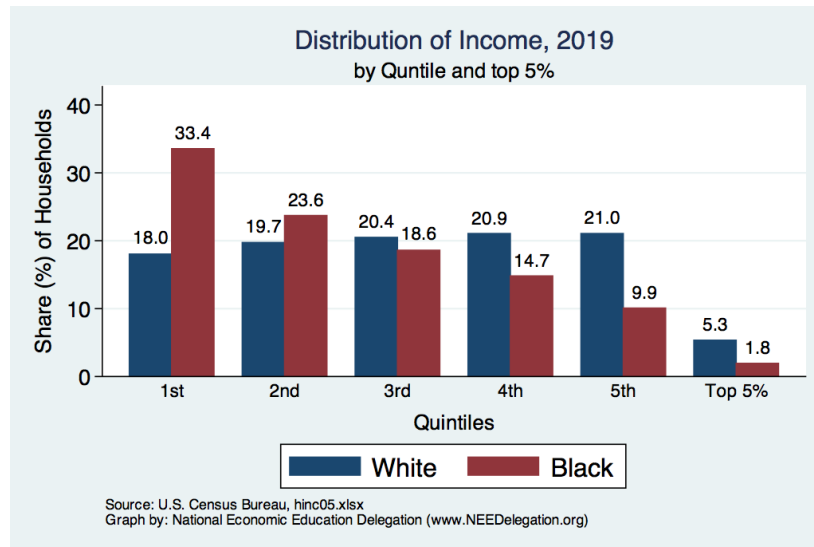
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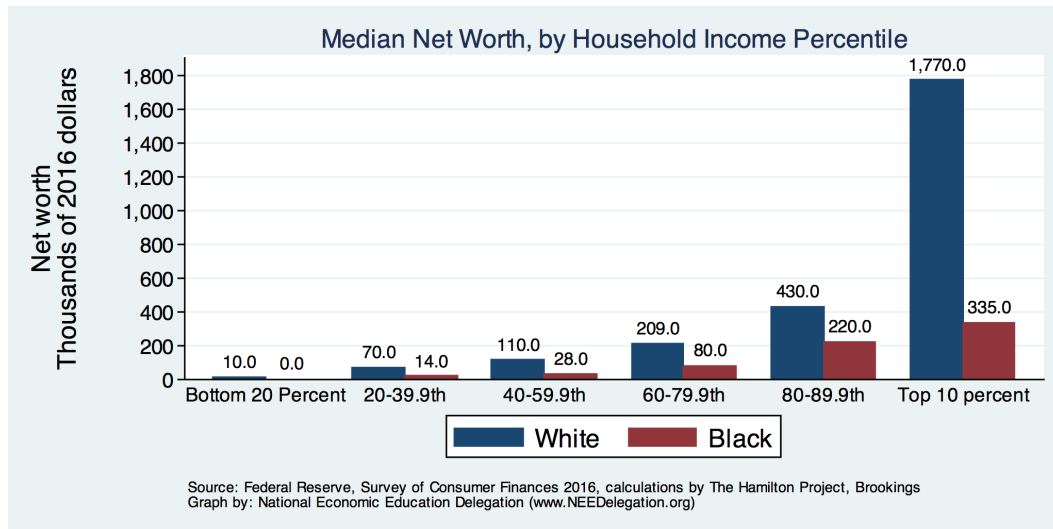


## Black Household Incomes Relative to White



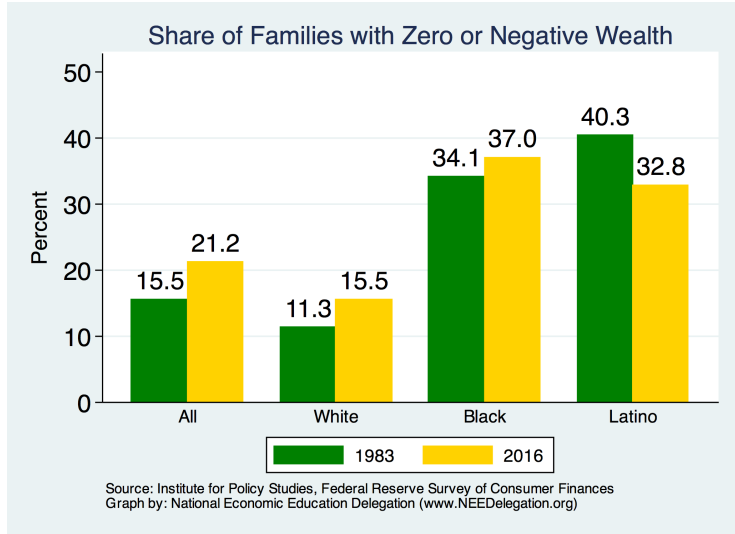
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## By Household Income



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## Evidence of Disparities: Zero Wealth



## Why Wealth is Important

## 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.



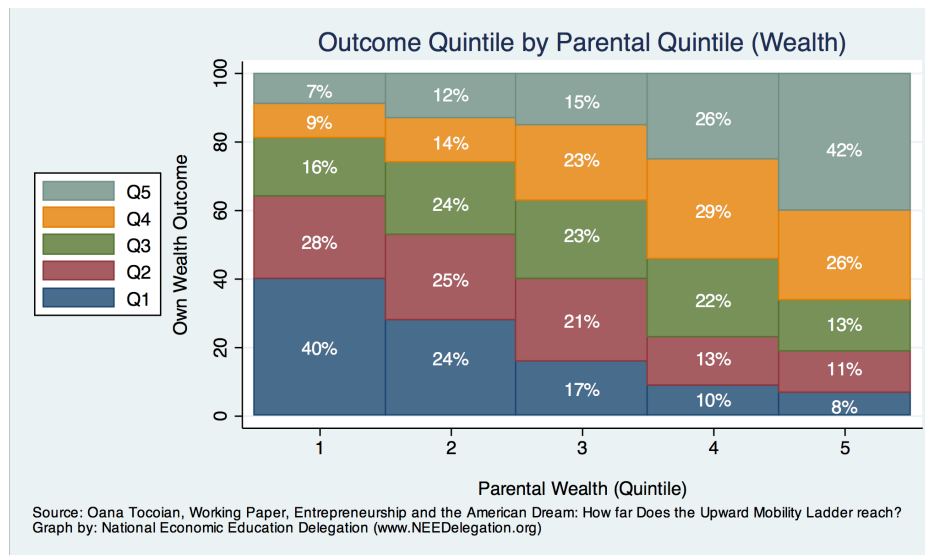
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# Parental Wealth is Important

- **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.**

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# Wealth Mobility



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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...

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

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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

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## Educational Attainment: Policy

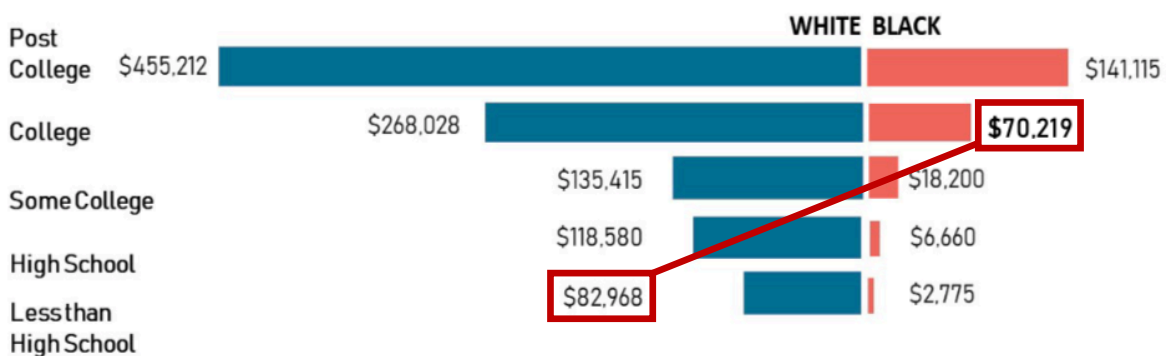
### • How do we increase educational attainment?

- 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

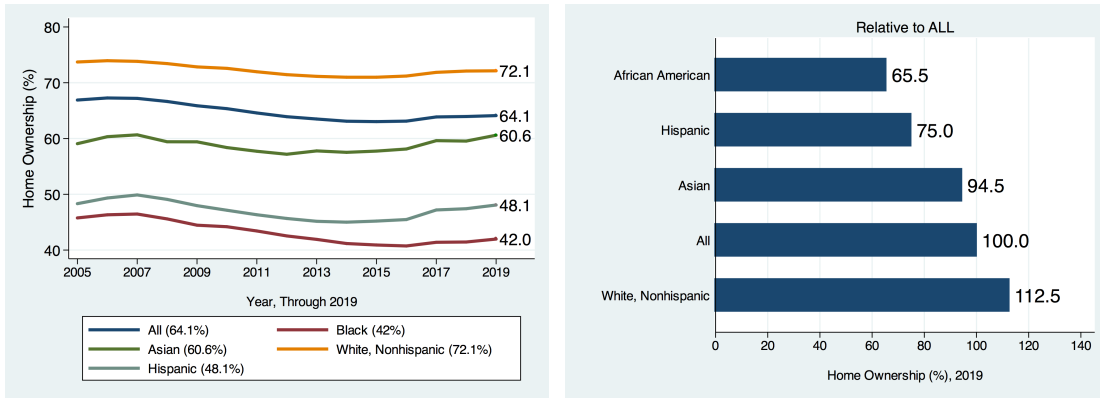
Median Household Net Worth by Race and Education



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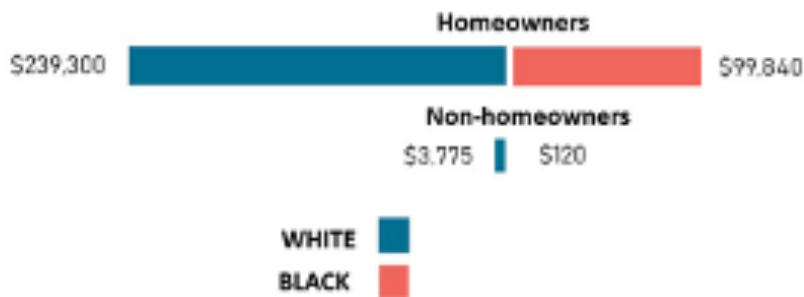
# Home Ownership: Households



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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.



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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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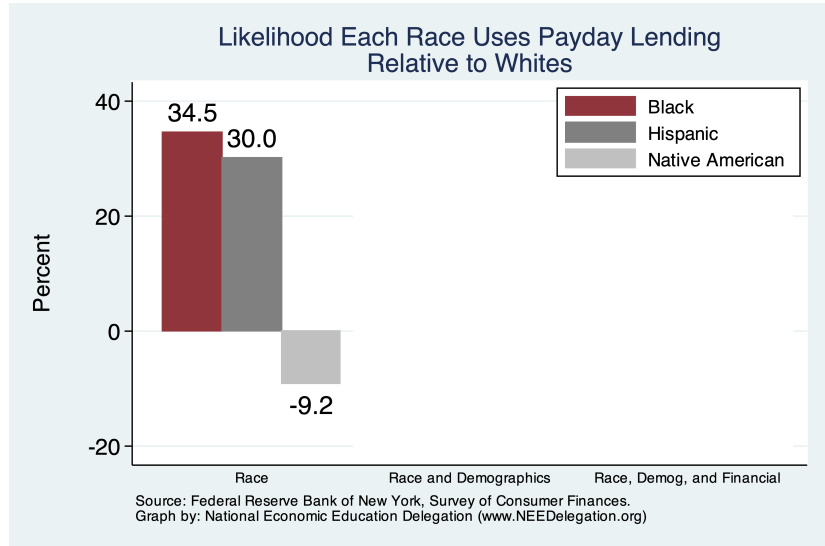
## Financial Literacy

- **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.
    - o 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.**

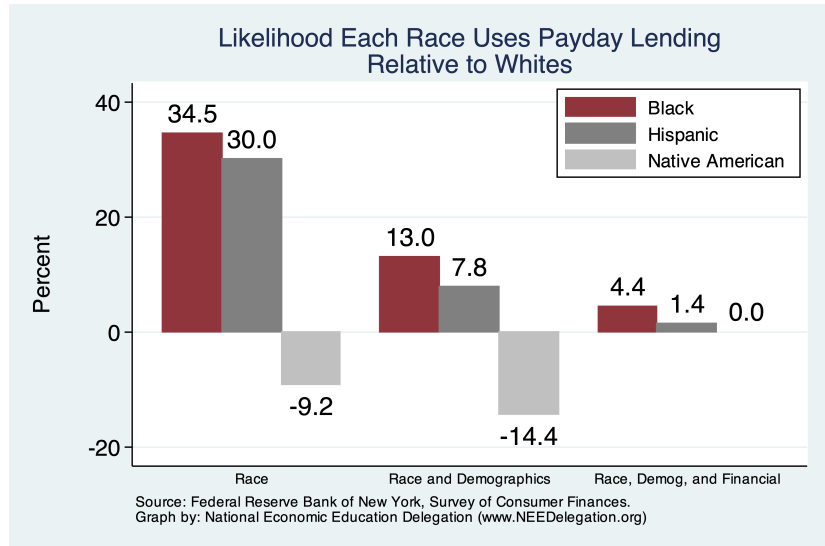


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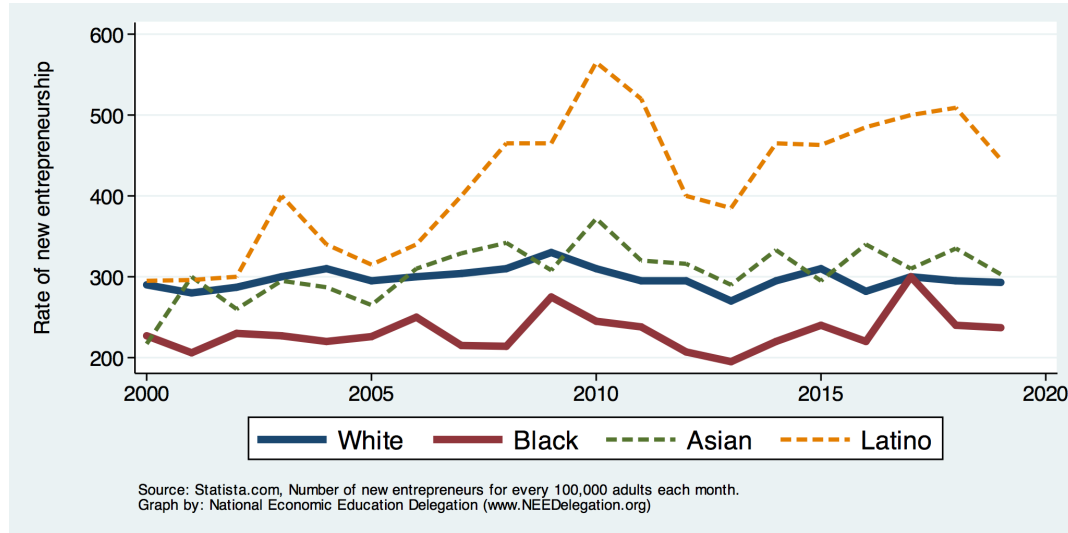
# Use of Payday Lenders



# Use of Payday Lenders



## Entrepreneurship: Rate of New Entrepreneurs



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Source: Statistica

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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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# Soft Skills and Personal Responsibility?

## • Employability

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

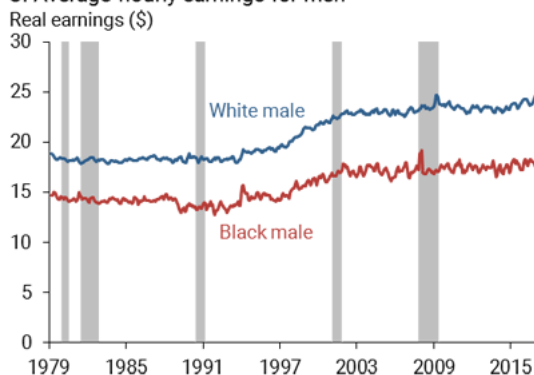
## • Reality

- 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.

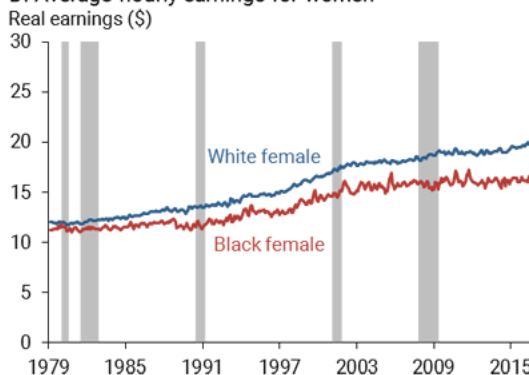
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# Wage Gap: Controlling for education, age, job type.

C. Average hourly earnings for men

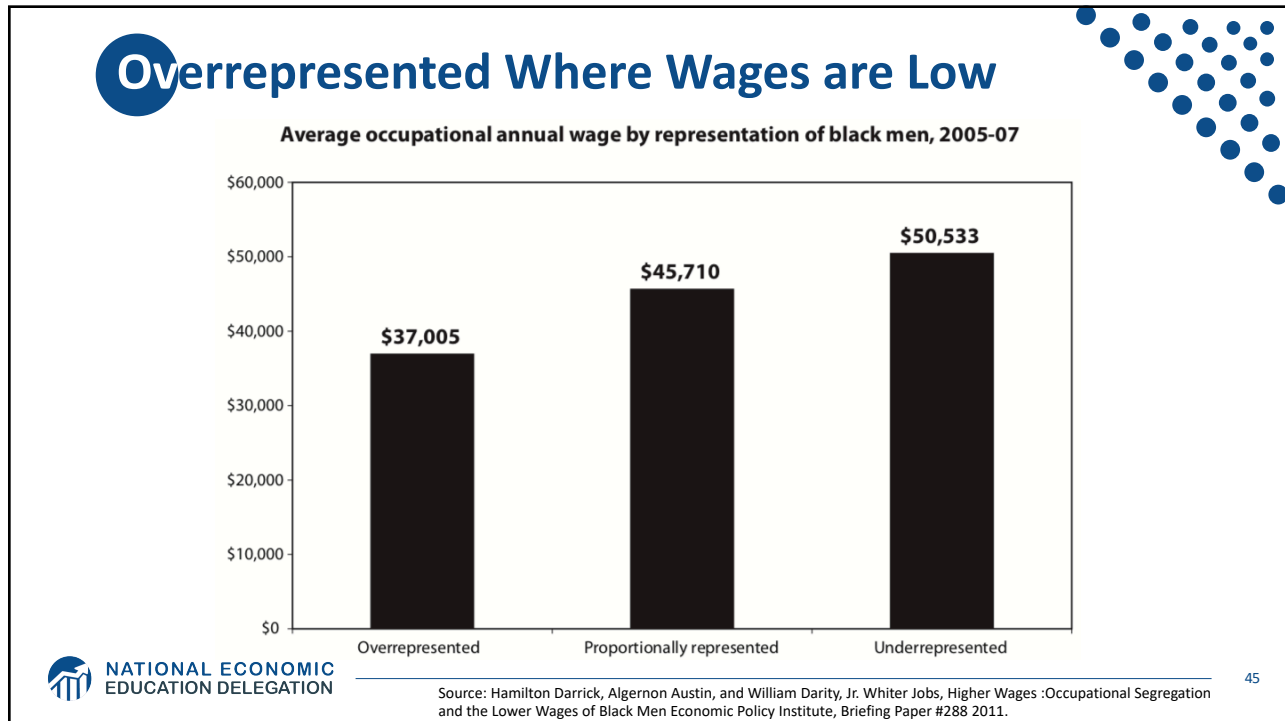


D. Average hourly earnings for women

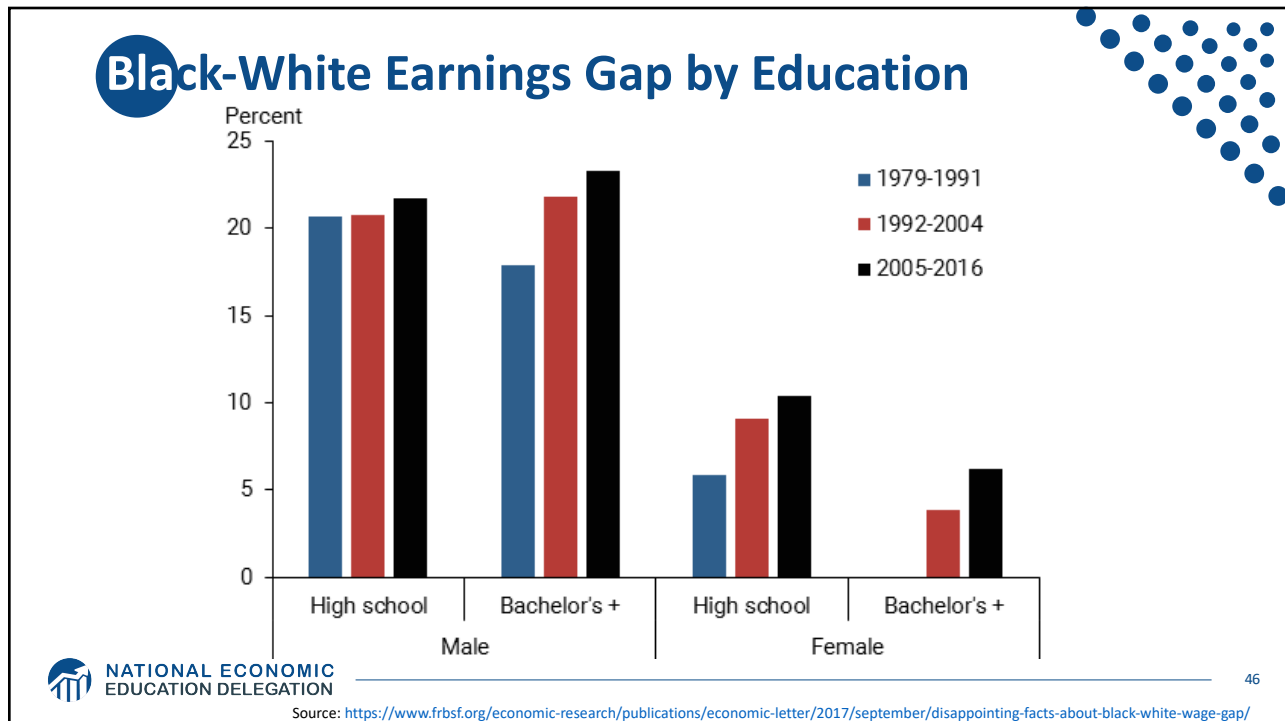


Source: <https://www.frbsf.org/economic-research/publications/economic-letter/2017/september/disappointing-facts-about-black-white-wage-gap/>

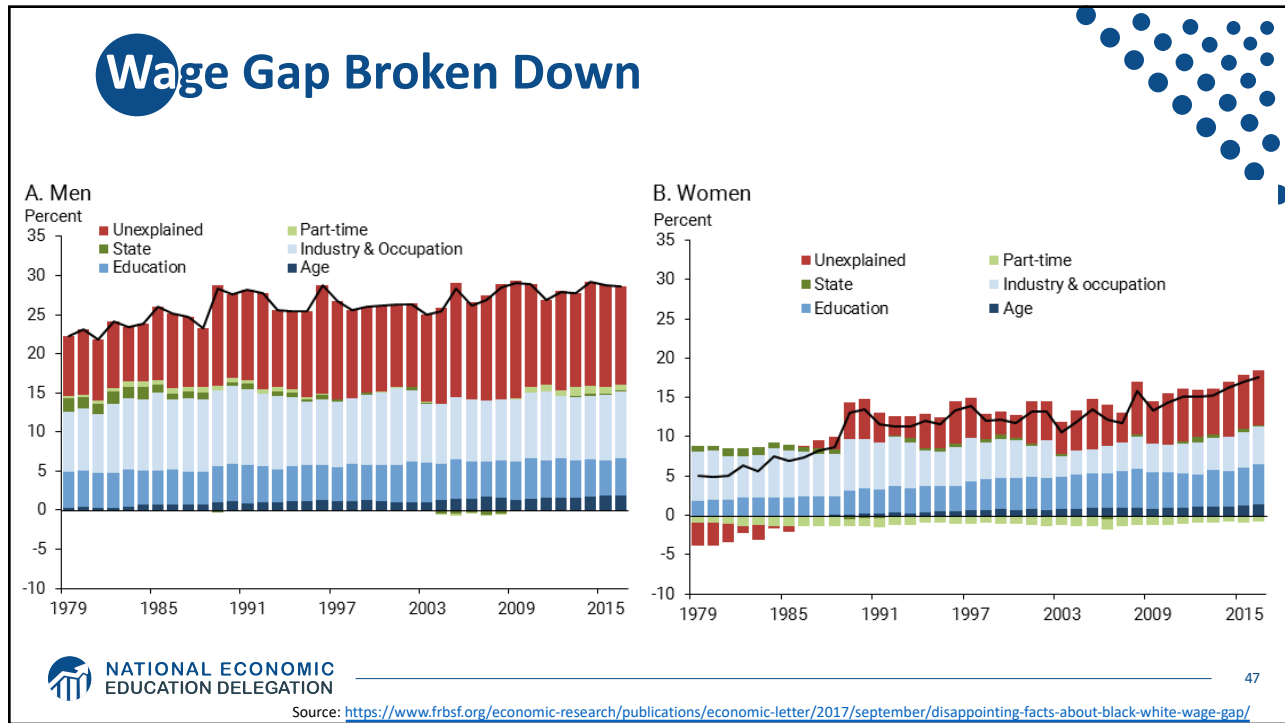
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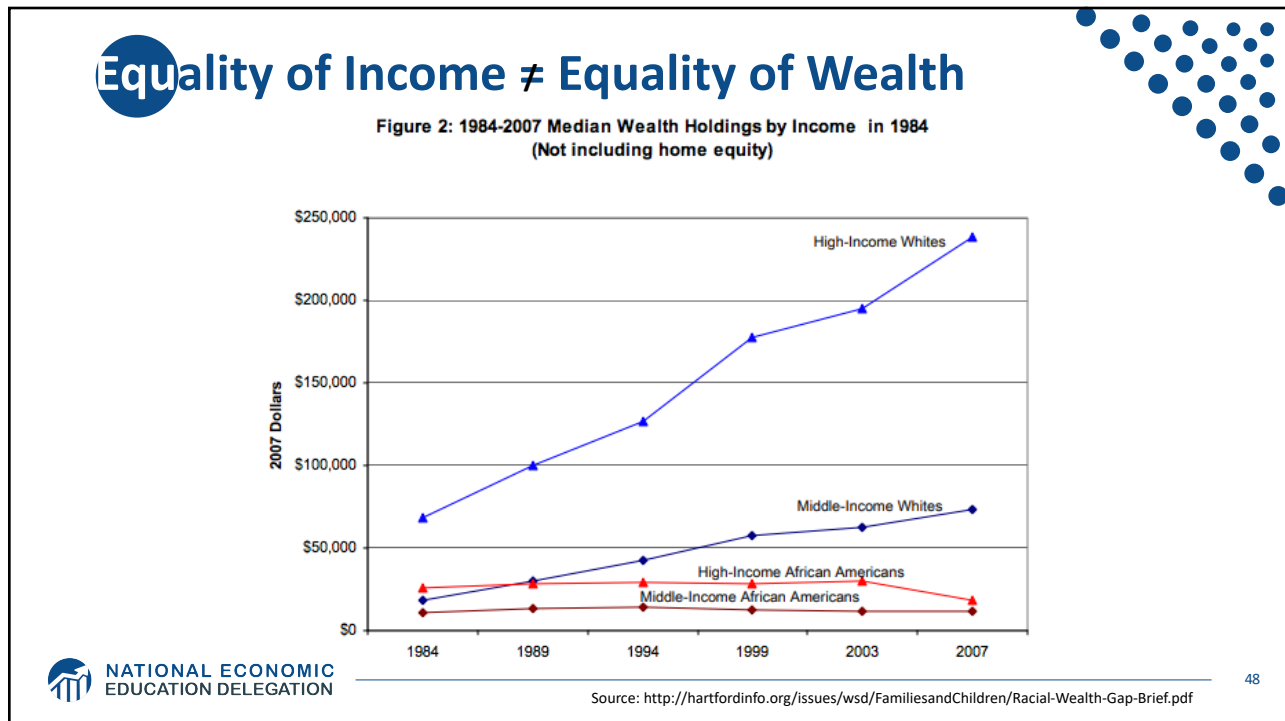
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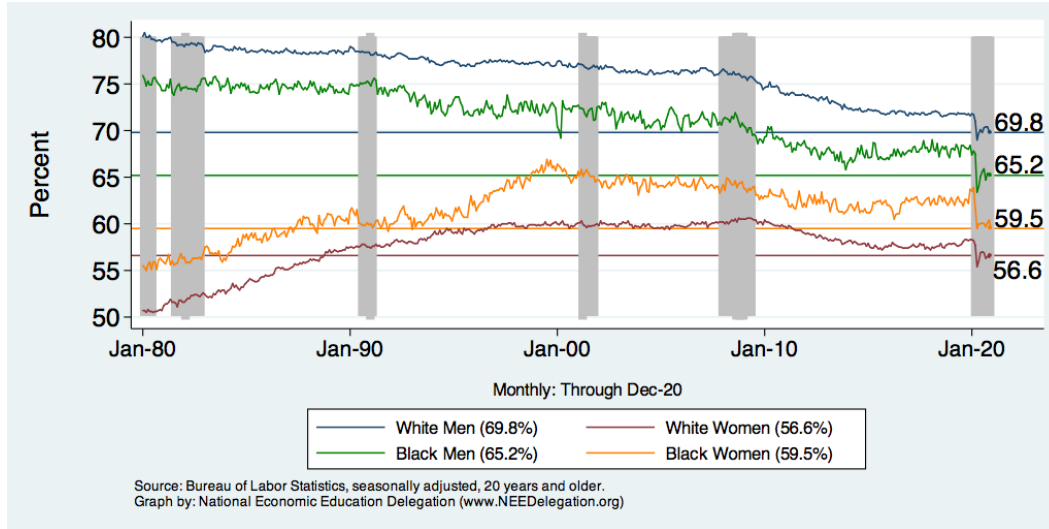
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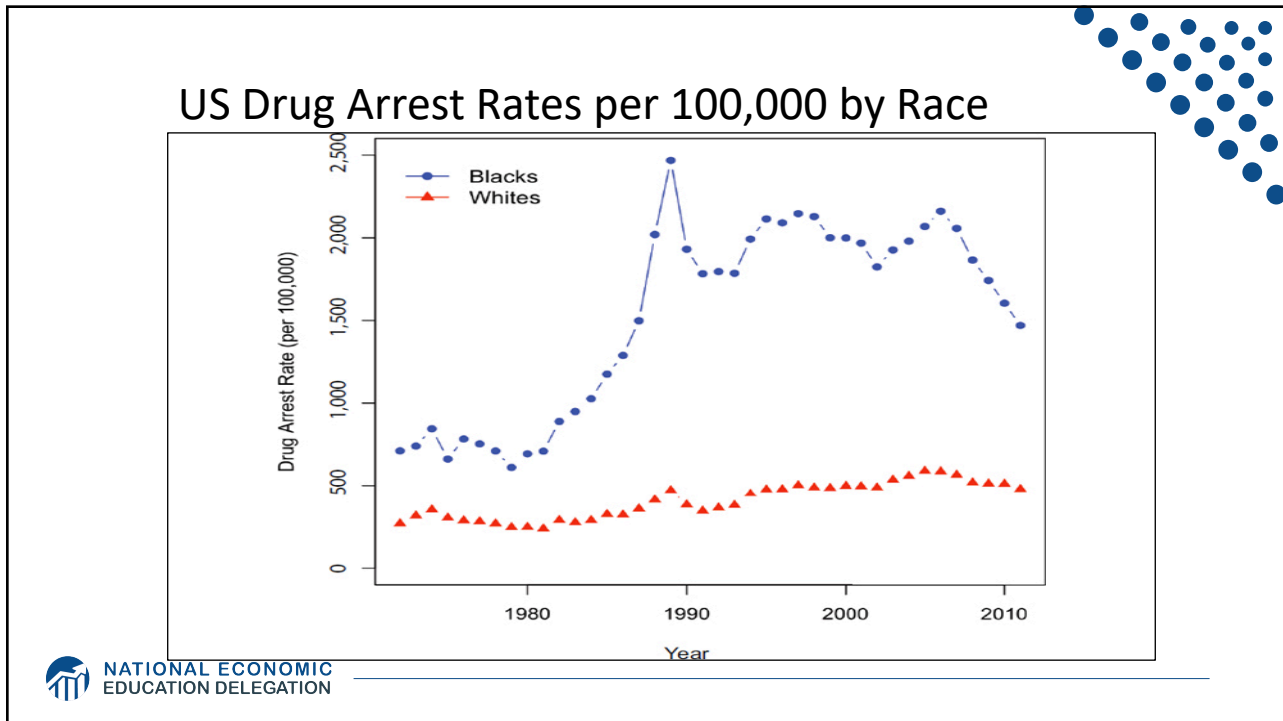


## Labor Force Participation



## Incarceration Likely Plays A Role





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## Family Structure

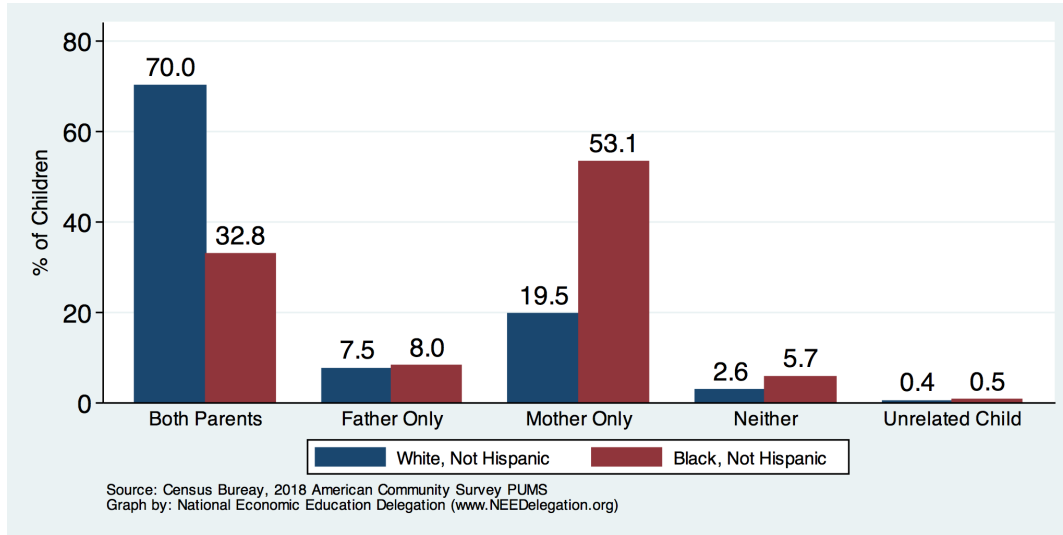
AGE	No Bachelor's Degree				With Bachelor's Degree			
	MARRIED		SINGLE		MARRIED		SINGLE	
	BLACK	WHITE	BLACK	WHITE	BLACK	WHITE	BLACK	WHITE
20-29	\$4,000	\$13,000	\$0	\$2,000	\$7,700	\$18,700	\$-11,000	\$3,400
30-39	\$12,000	\$33,450	\$0	\$0	\$-20,500	\$97,000	\$0	\$7,500
40-49	\$22,501	\$60,000	\$1,000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

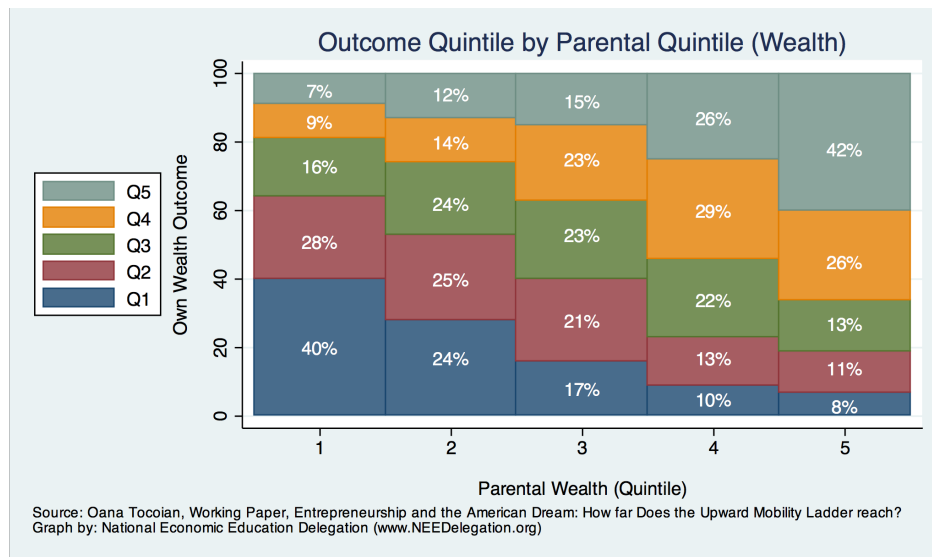
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## Kids – Household Types



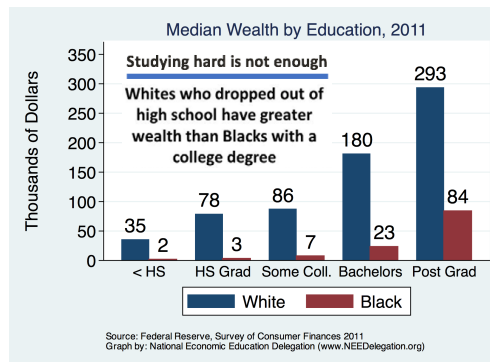
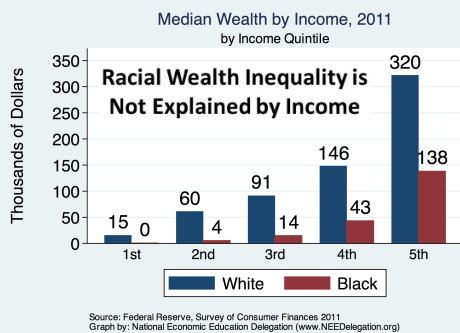
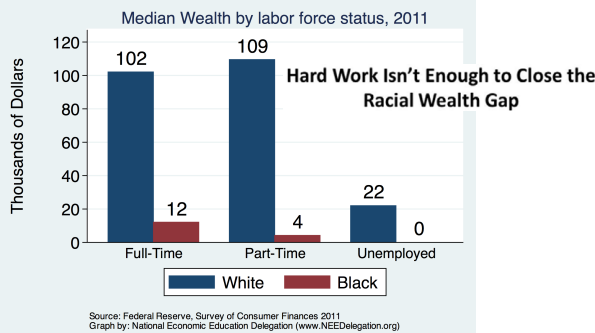
## Initial Endowment



# What is Fundamentally Responsible?

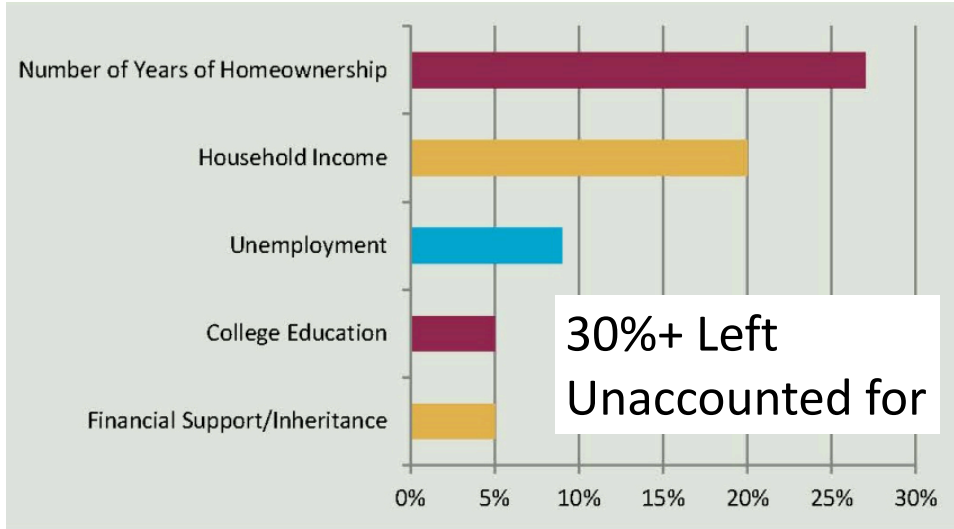
- Individual behaviors?
- Structural characteristics of the economy?
- History – policy and otherwise?

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## Accounting for the Wealth Gap



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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**



## 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.



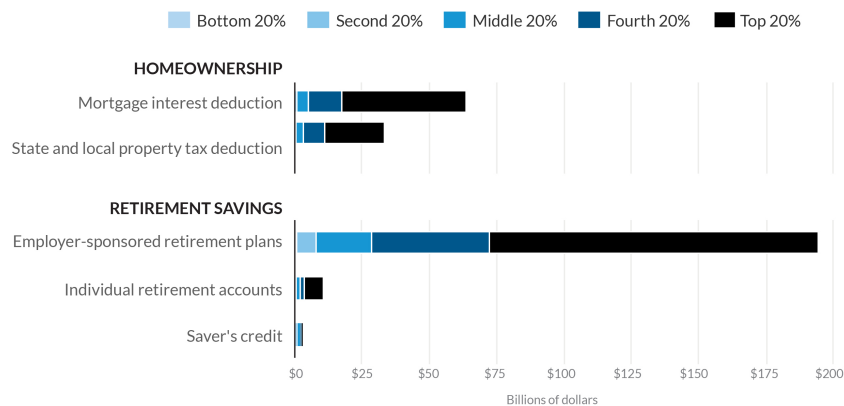
## Reform Criminal Justice System

- 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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## 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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## 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.**

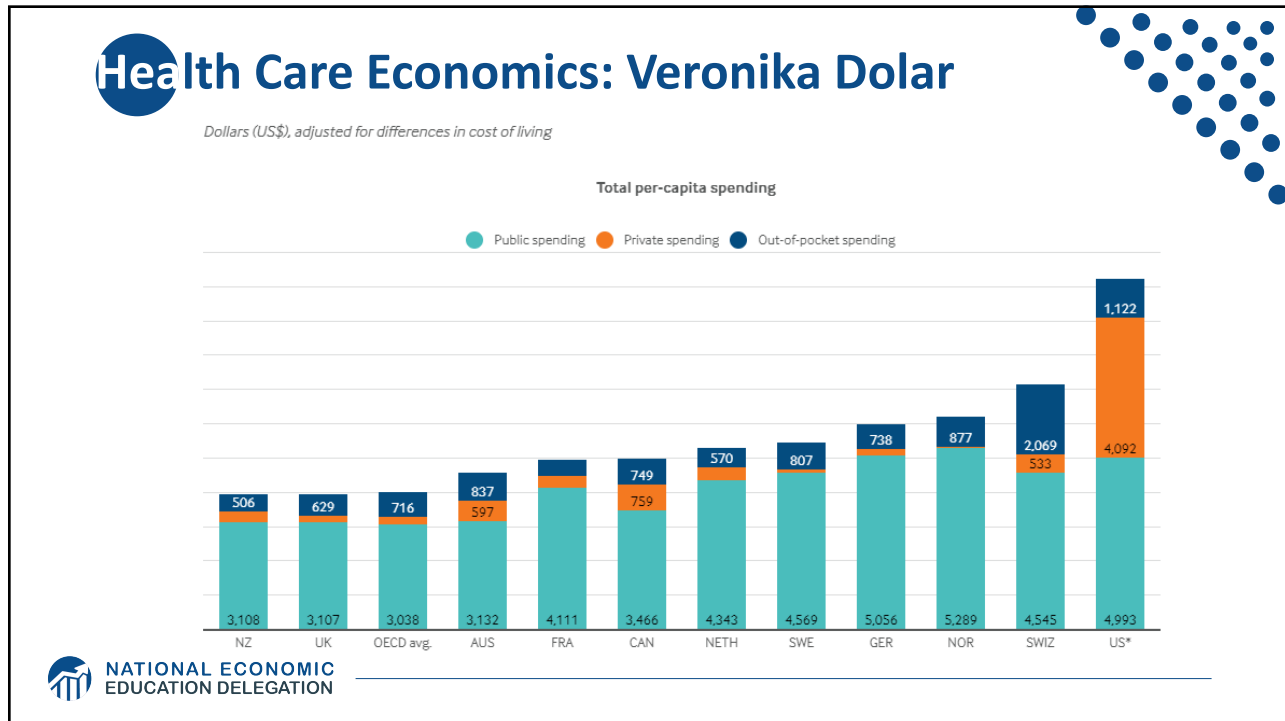


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# Thank you!

## Any Questions?

[www.NEEDelegation.org](http://www.NEEDelegation.org)  
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 Mike.Shor@UConn.edu

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