

The Black-White Wealth Gap

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

University of Pittsburgh OLLI

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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



Course Outline

- **Contemporary Economic Policy**

- Week 1 (2/2): Trade and Globalization (Alan Deardorff, University of Michigan)
- Week 2 (2/9): US Economy & Coronavirus Economics (Me)
- **Week 3 (2/16): The Black-White Wealth Gap (Stephanie Seguino, Ph.D. University of Vermont)**
- Week 4 (2/23): Health Economics (Veronika Dolar, Ph.D., SUNY, Old Westbury)
- Week 5 (3/2): Economic Inequality (Me)



3

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 until 445pm to have further discussion.**



4

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.
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5

Outline

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



6

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)...



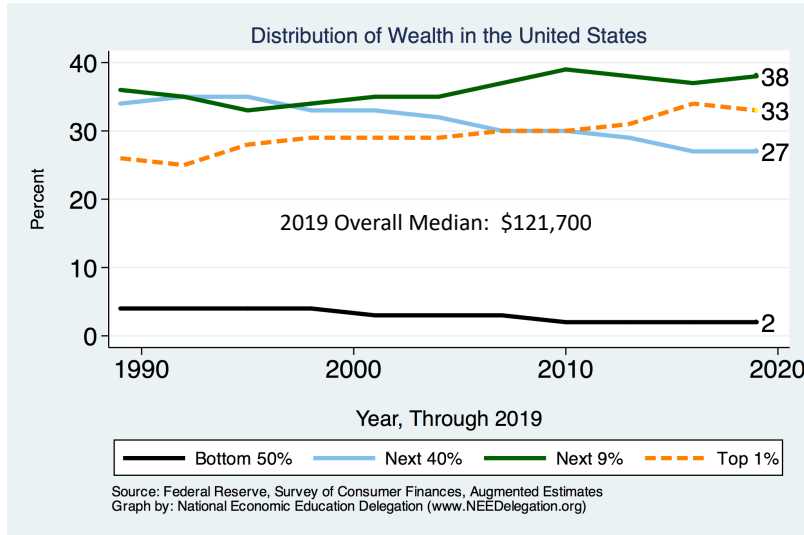
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Evidence



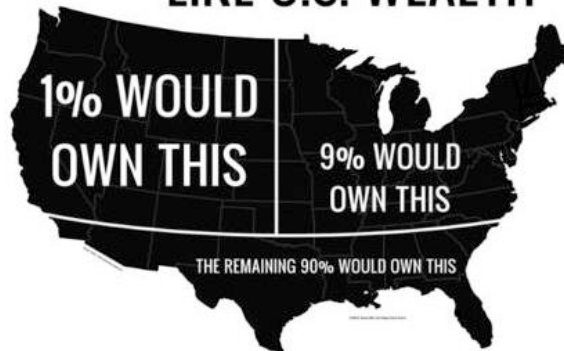
8

Overall Wealth Distribution

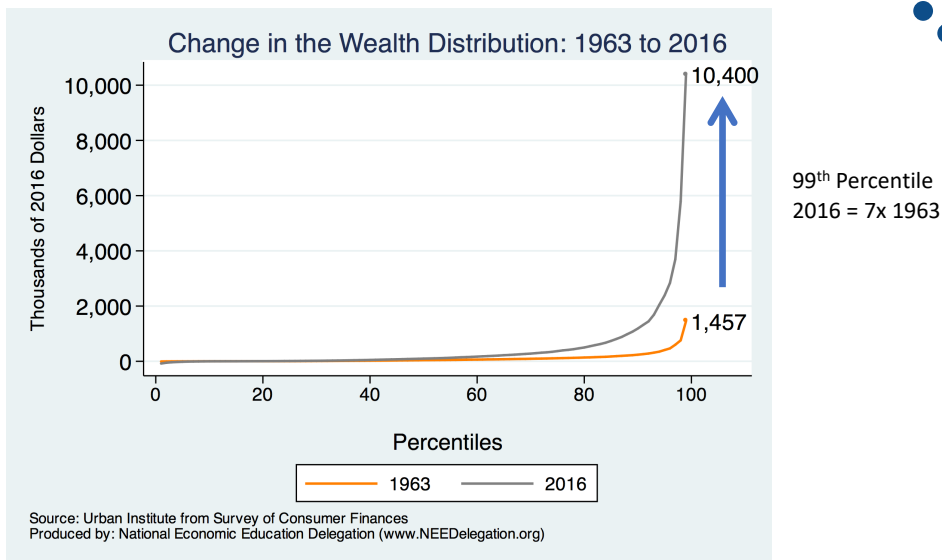


Wealth inequality in America

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



Wealth is More and More Concentrated



11

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**.

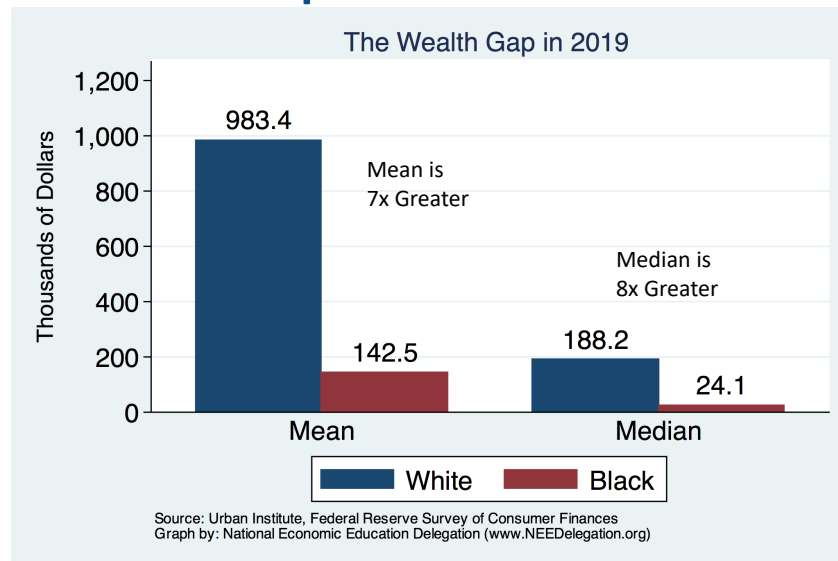
12

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

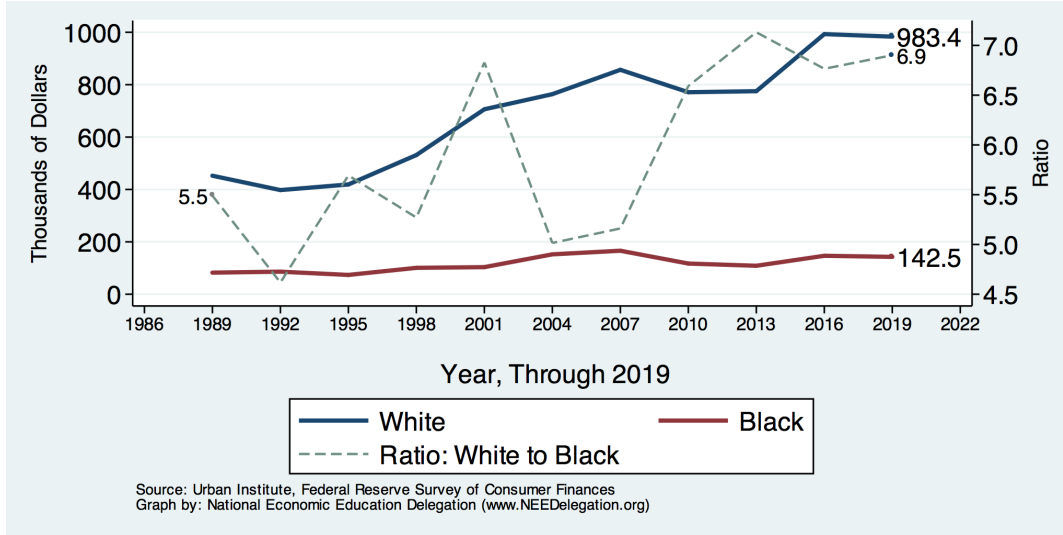
13

Evidence of the Gap



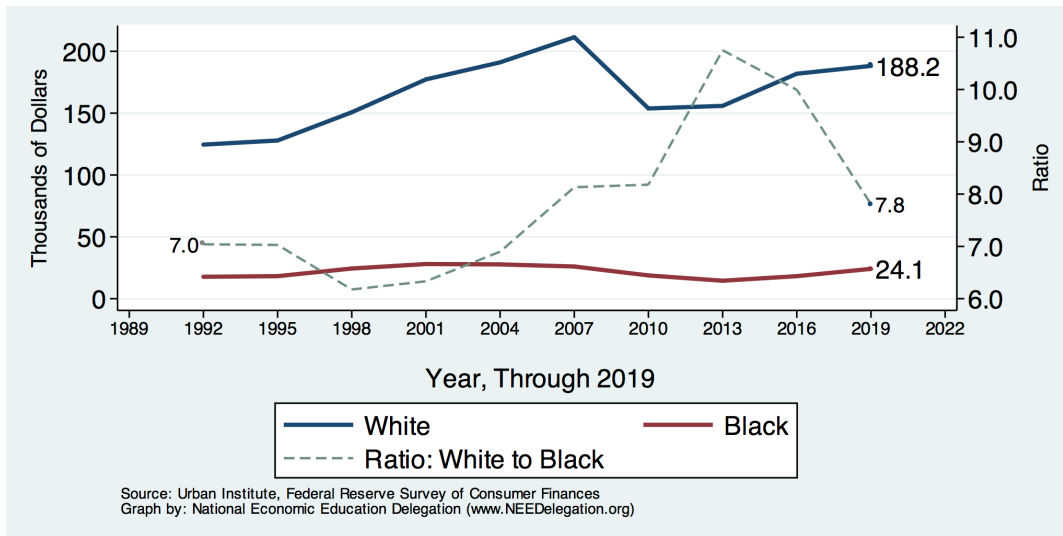
14

Wealth Gap Over Time: Mean



15

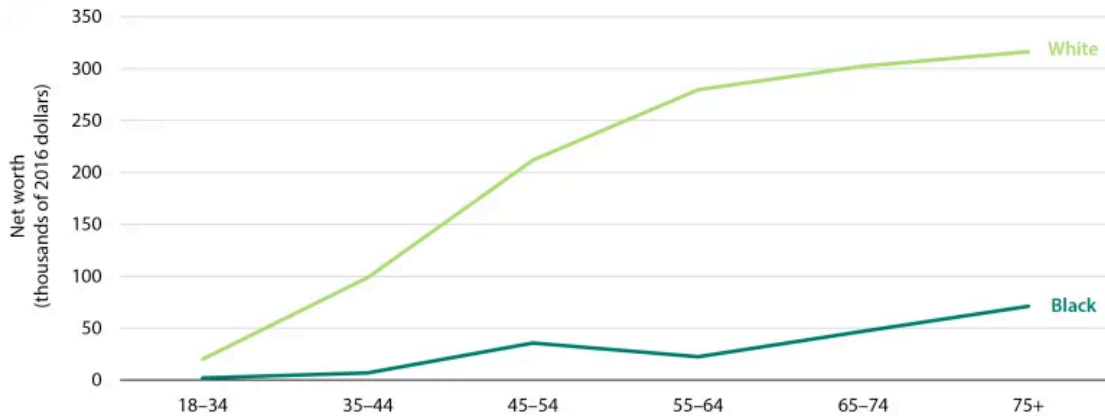
Wealth Gap Over Time: Median



16

Net Worth by Age and Race

FIGURE 2.
Median Net Worth, by age of Household Head



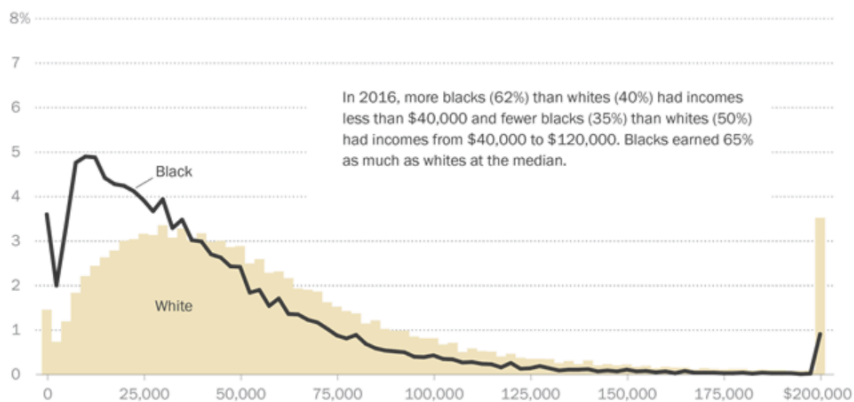
Source: Survey of Consumer Finances 2016; authors' calculations.
Note: Data are from 2016. Net worth refers to the difference between assets and debt for a household head. Race and ethnicity are those of the survey respondent.



Source: <https://www.brookings.edu/blog/up-front/2020/02/27/examining-the-black-white-wealth-gap/>

Black Household Incomes Relative to White

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



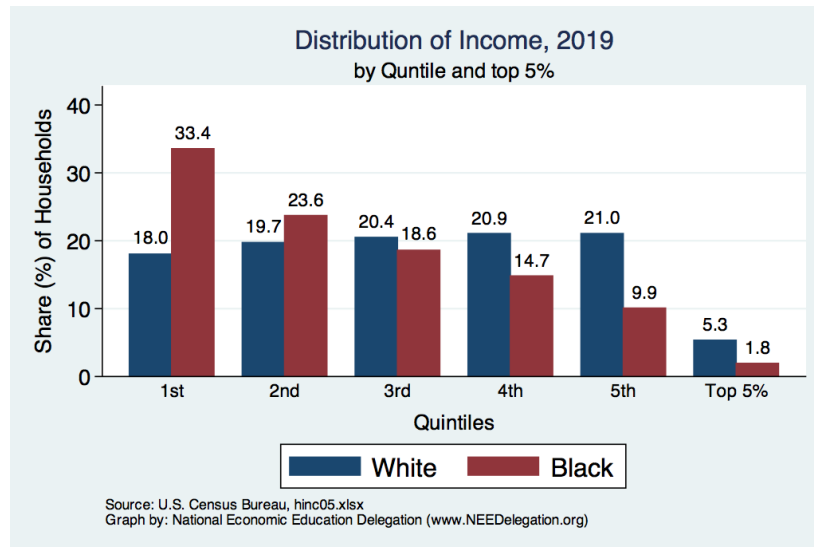
Note: Whites and blacks include only single-race non-Hispanics. Income is adjusted for household size and expressed in 2016 dollars. See Methodology for details.

Source: Pew Research Center analysis of 2016 American Community Survey (IPUMS).
"Income Inequality in the U.S. Is Rising Most Rapidly Among Asians"



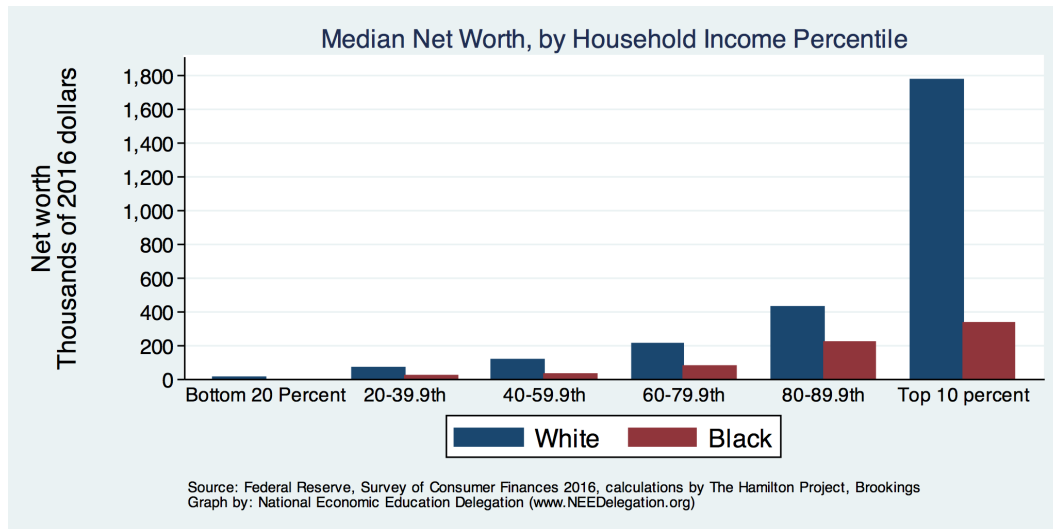
Source: pewsocialtrends.org

Black Household Incomes Relative to White



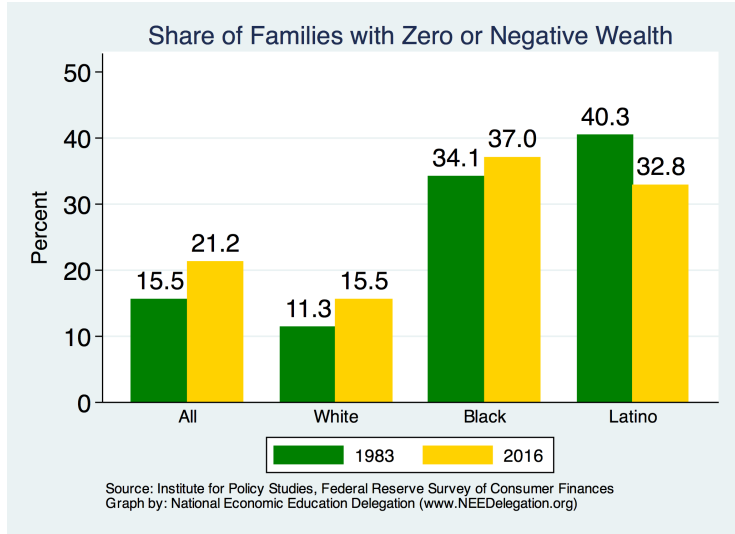
19

By Household Income



20

Evidence of Disparities: Zero Wealth



21

Why Wealth is Important

22

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



23

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.

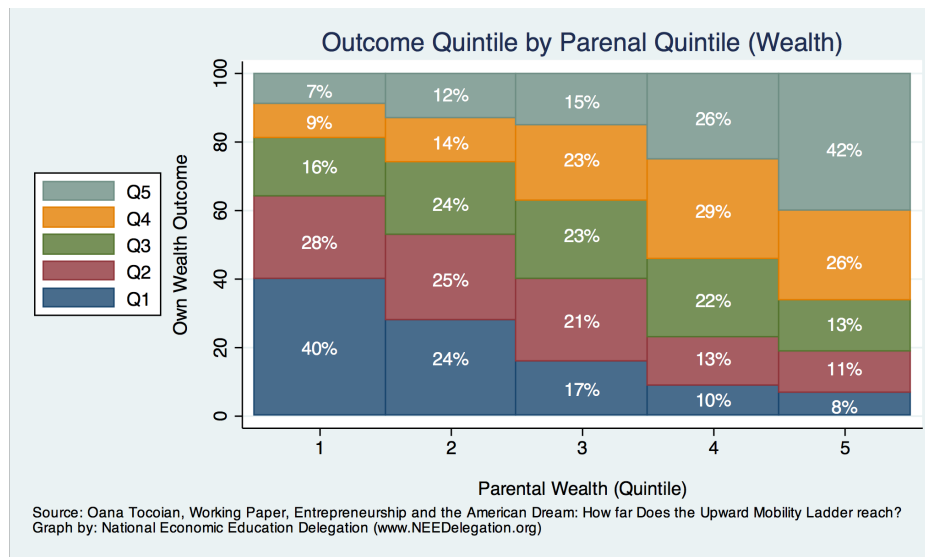


24

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.**

Wealth Mobility



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

27

Sources of Disparities

28

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.***

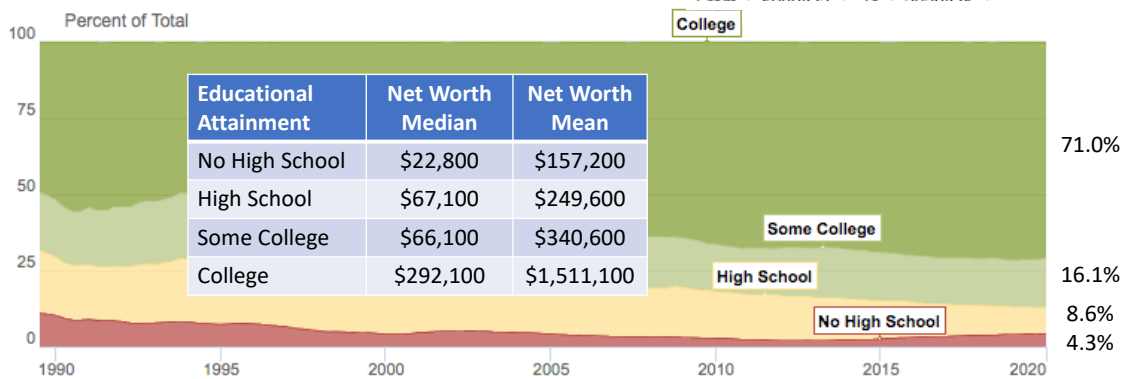


Potential Explanations: Differences in...

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

31

Wealth by Educational Attainment



32

Educational Attainment: Policy

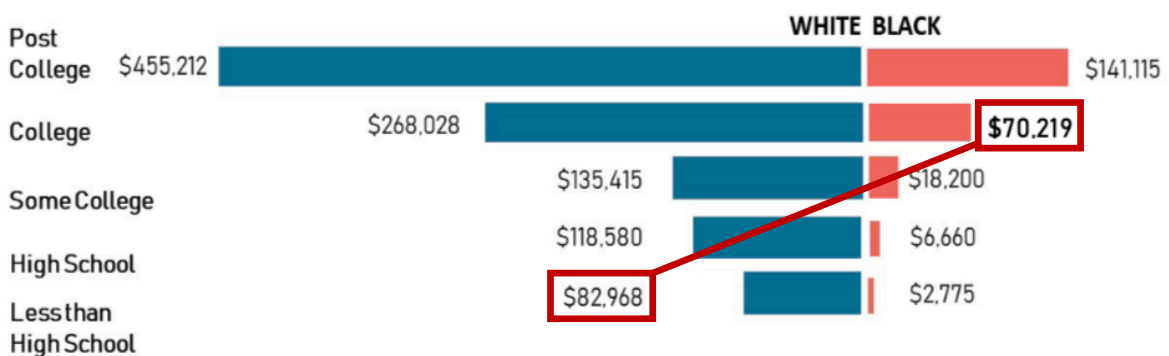
• How do we increase educational attainment?

- 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.

33

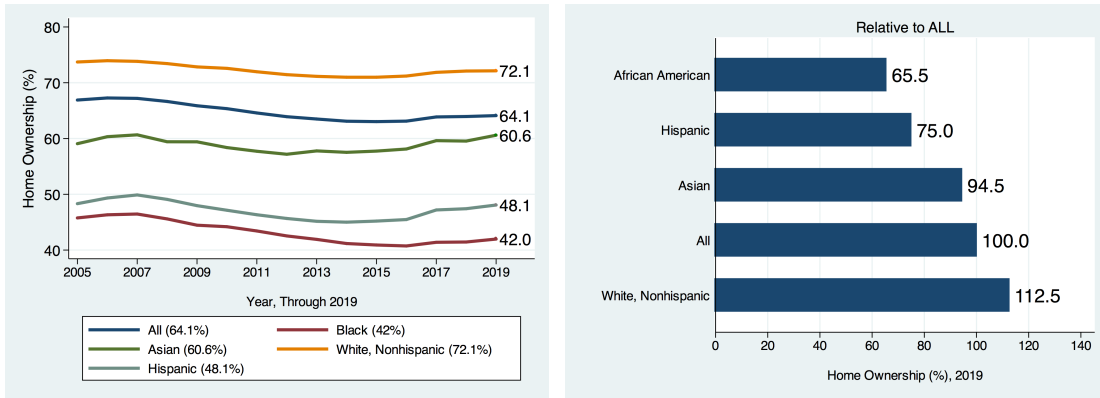
Educational Attainment

Median Household Net Worth by Race and Education



34

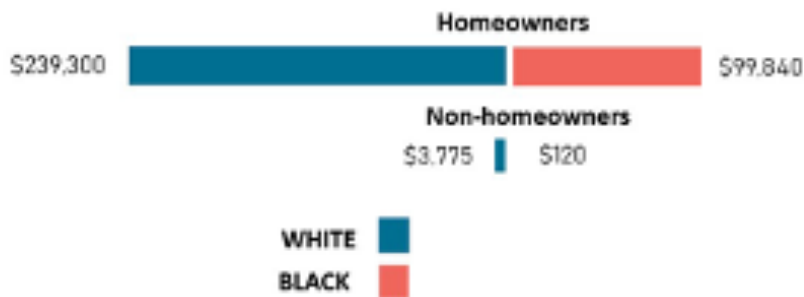
Home Ownership: Households



35

Home Ownership

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



36

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.
 - 23% after adjusting for quality and amenities.
 - Called the "segregation tax."



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Source: Brookings, Home ownership while black

37

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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38

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.



39

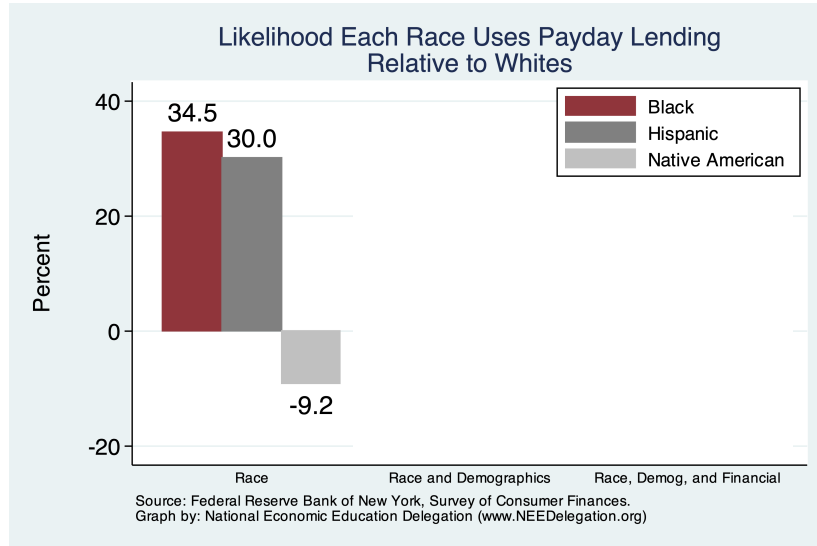
Financial Literacy

- **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.**



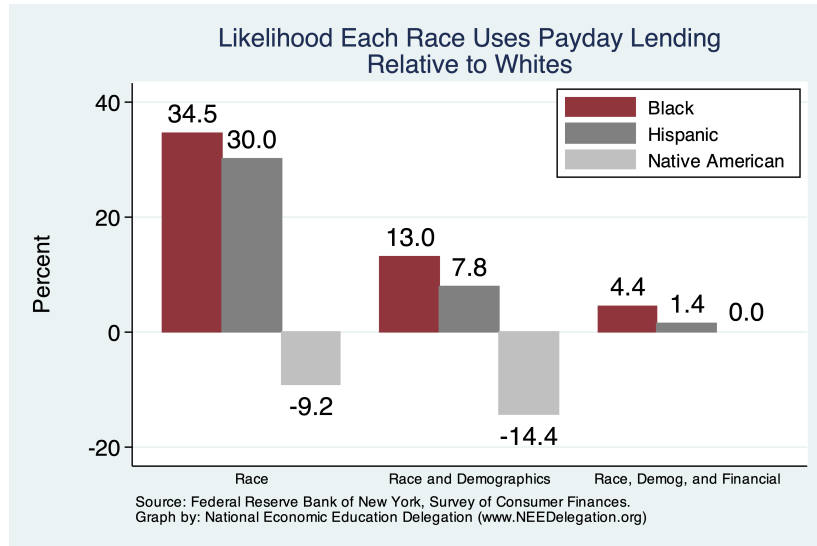
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Use of Payday Lenders



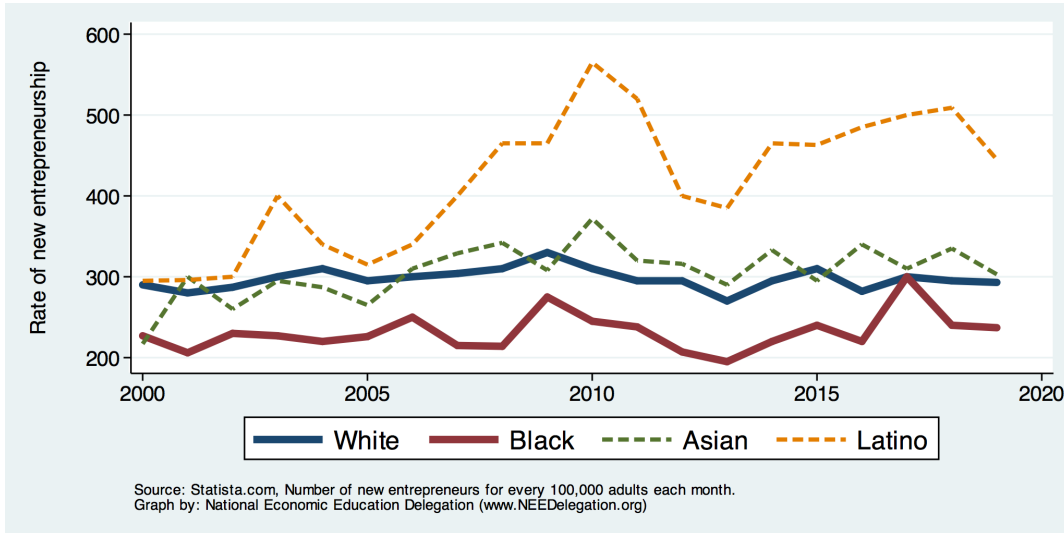
Source: Federal Reserve Bank of New York; Survey of Consumer Finances

Use of Payday Lenders



Source: Federal Reserve Bank of New York; Survey of Consumer Finances

Entrepreneurship: Rate of New Entrepreneurs



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Source: Statistica

43

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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44

Soft Skills and Personal Responsibility?

• Employability

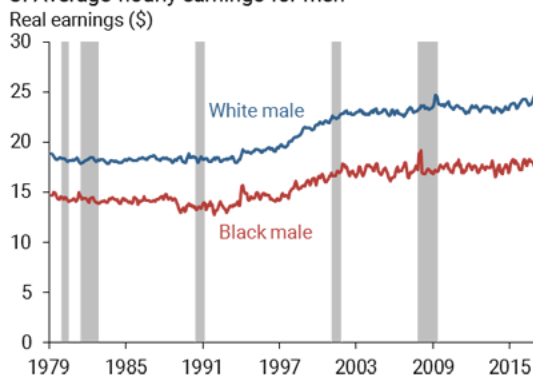
- Show up on time
- Eye contact with customers
- Dress well
- Collaborative skills

• Reality

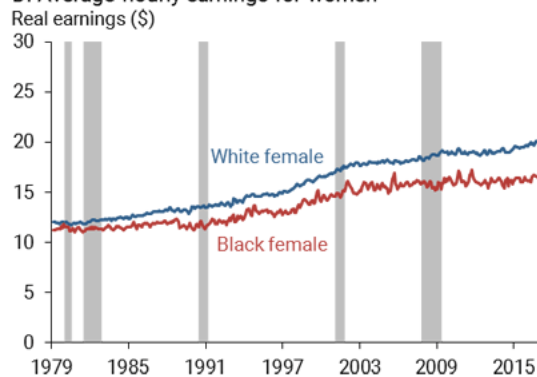
- Black workers are crowded into service sector jobs.
- Well represented in service, sales and office, and production, transportation, and material moving
- Relatively less well represented in construction, extraction, and maintenance.

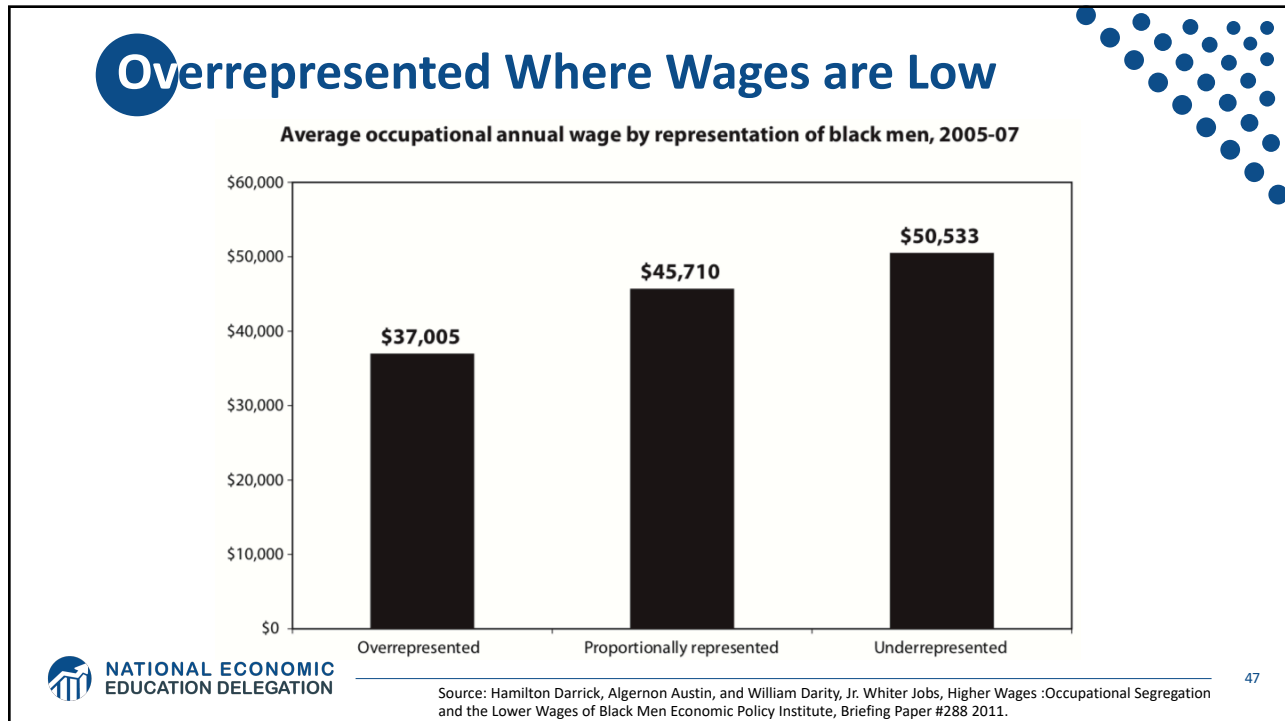
Wage Gap: Controlling for education, age, job type.

C. Average hourly earnings for men

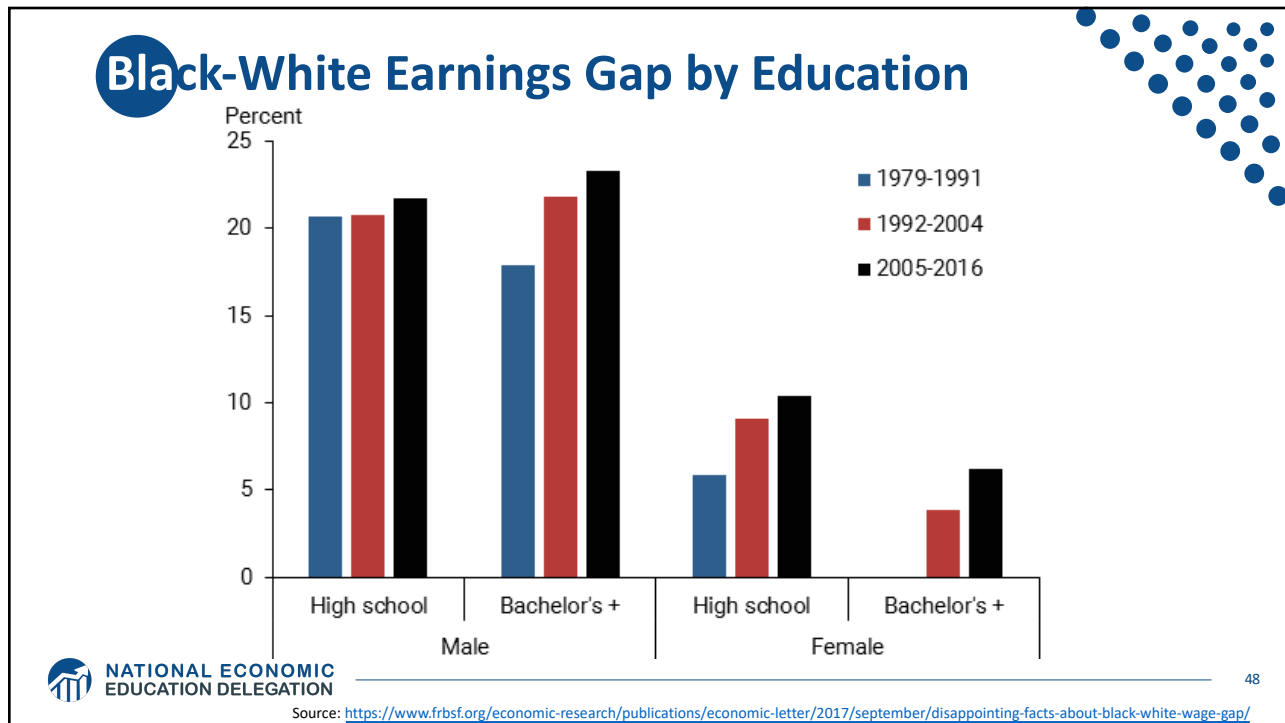


D. Average hourly earnings for women

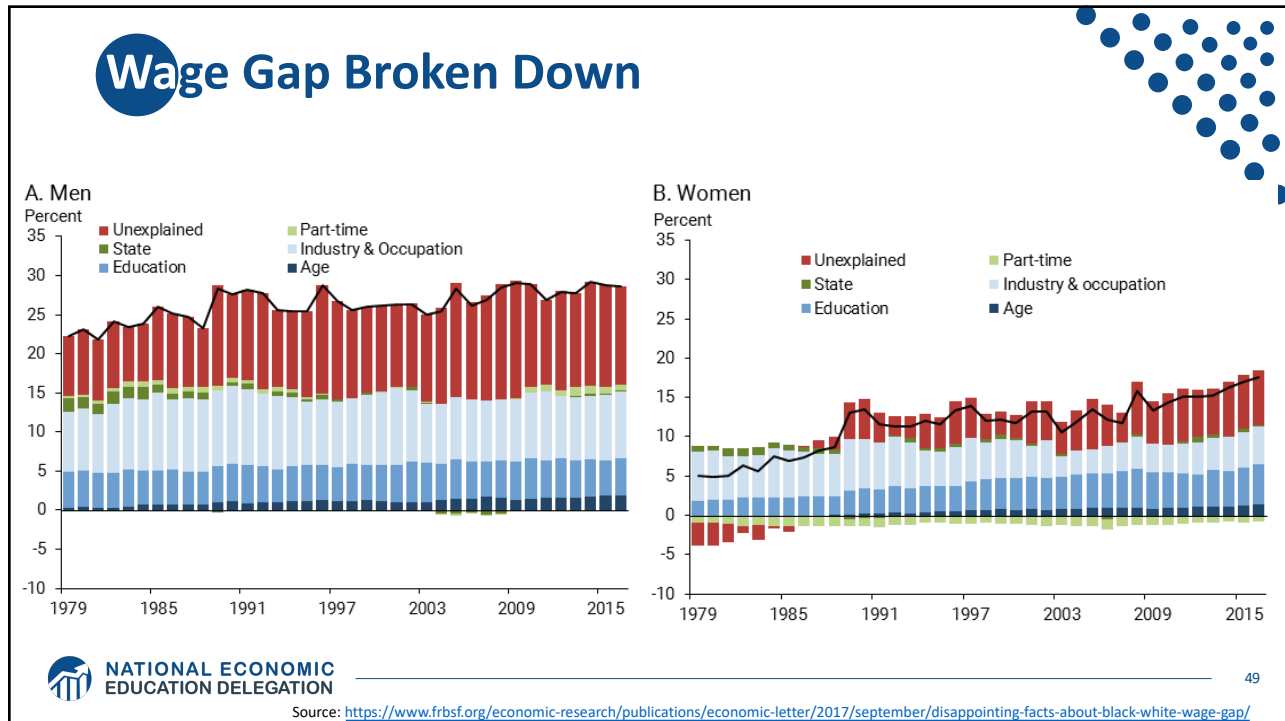




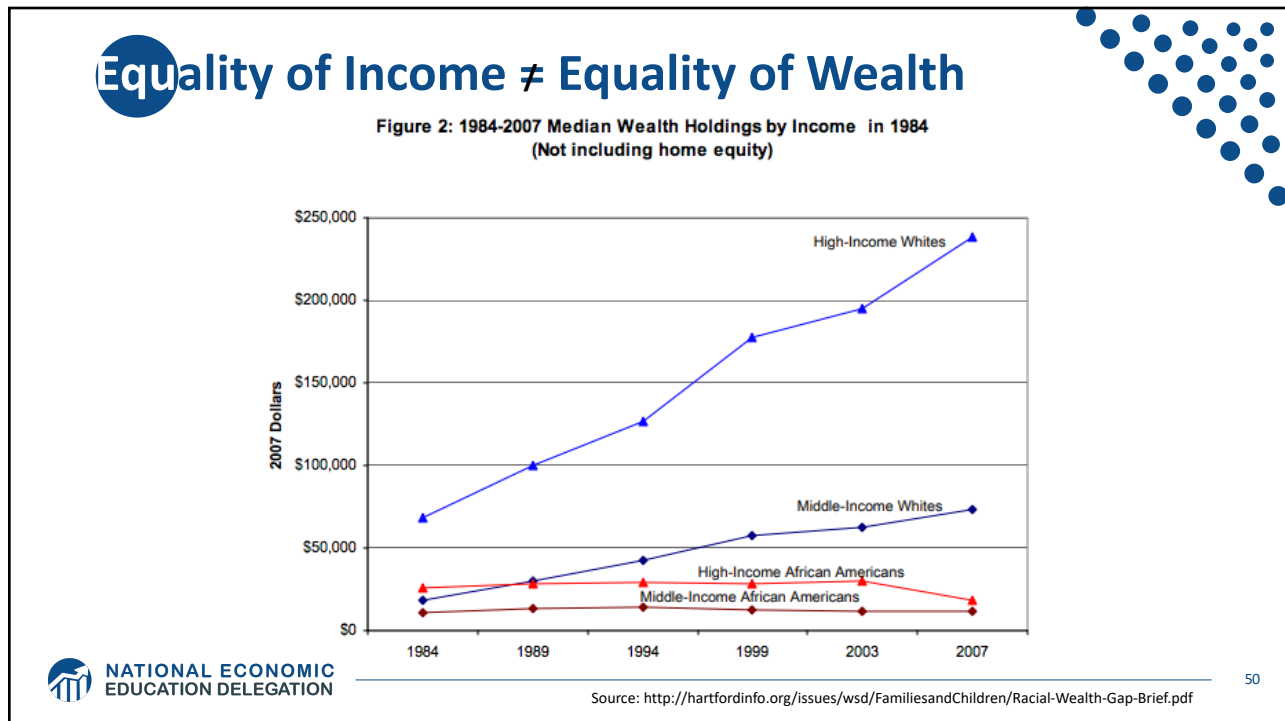
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48

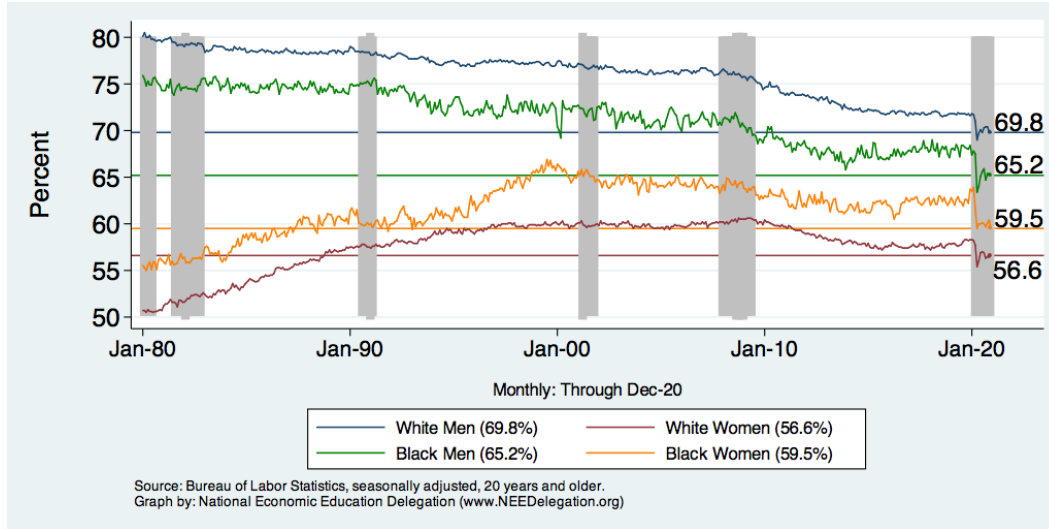


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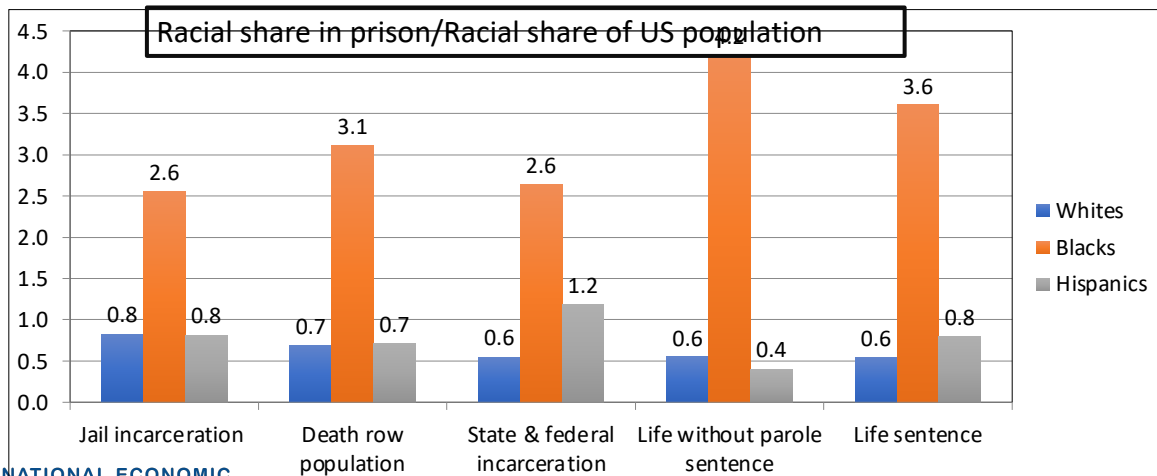
50

Labor Force Participation

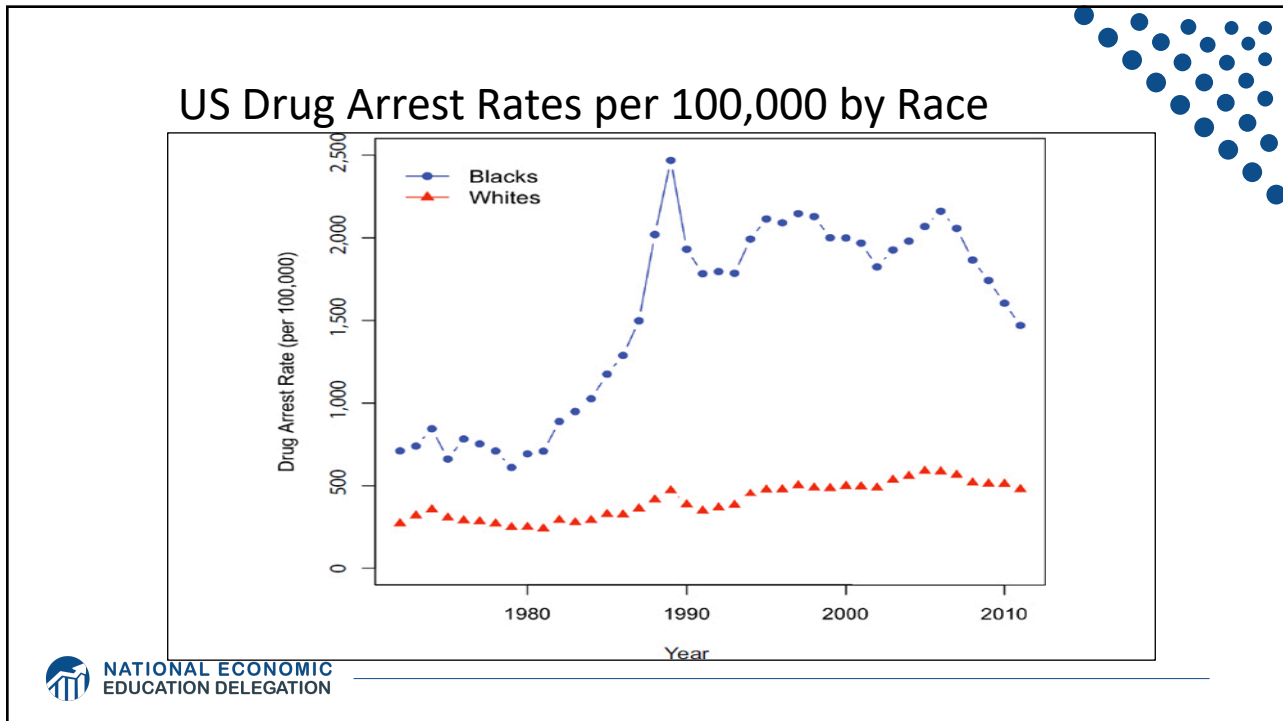


51

Over (under) representation of racial groups in prison



52



53

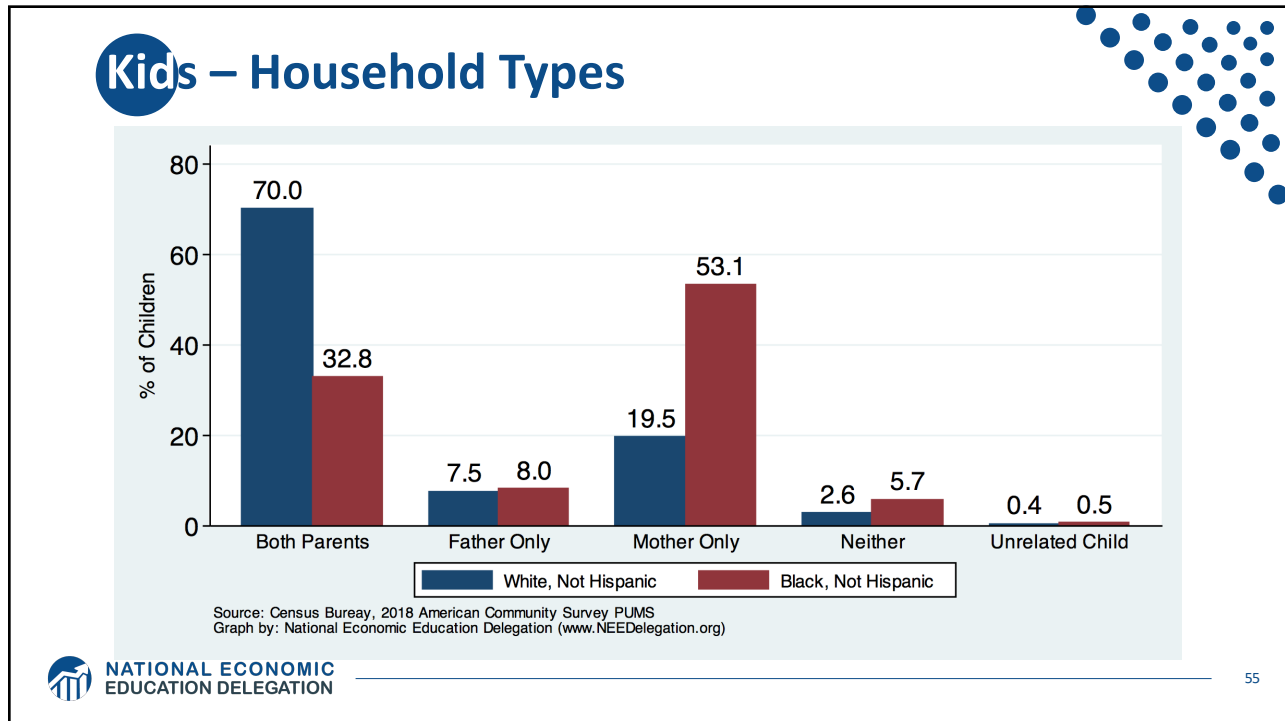
Family Structure

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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54



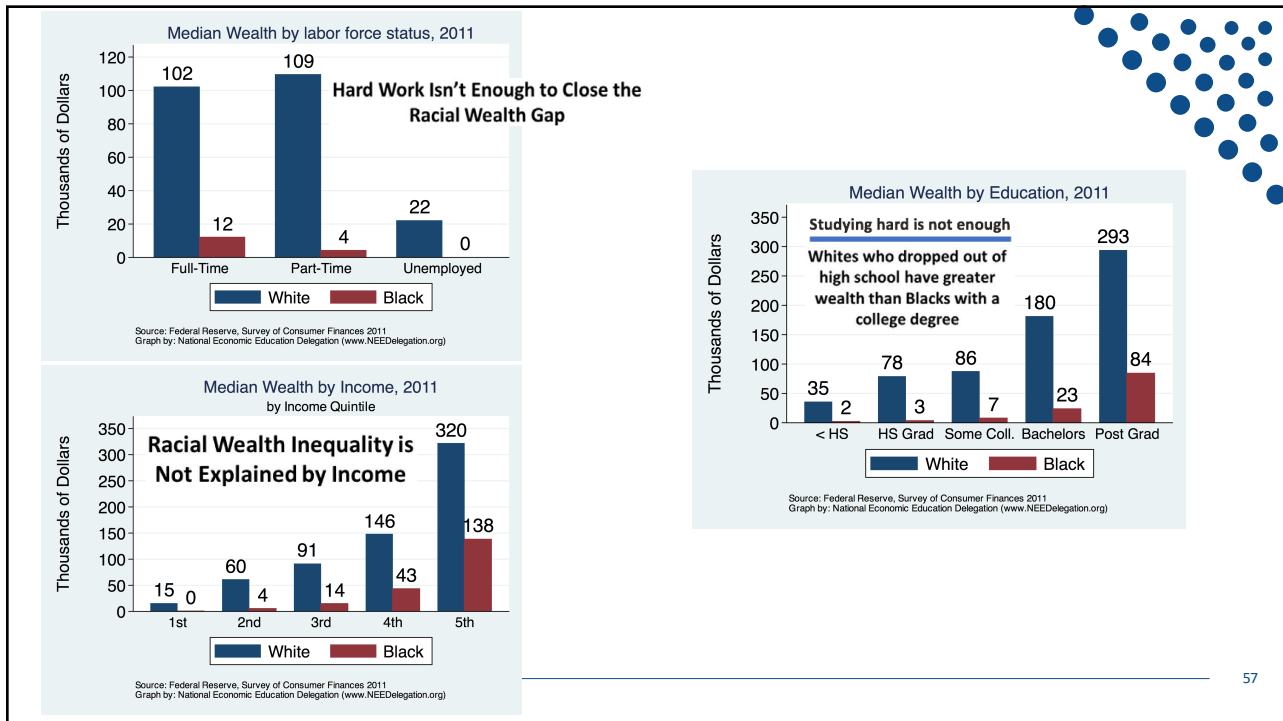
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What is Fundamentally Responsible?

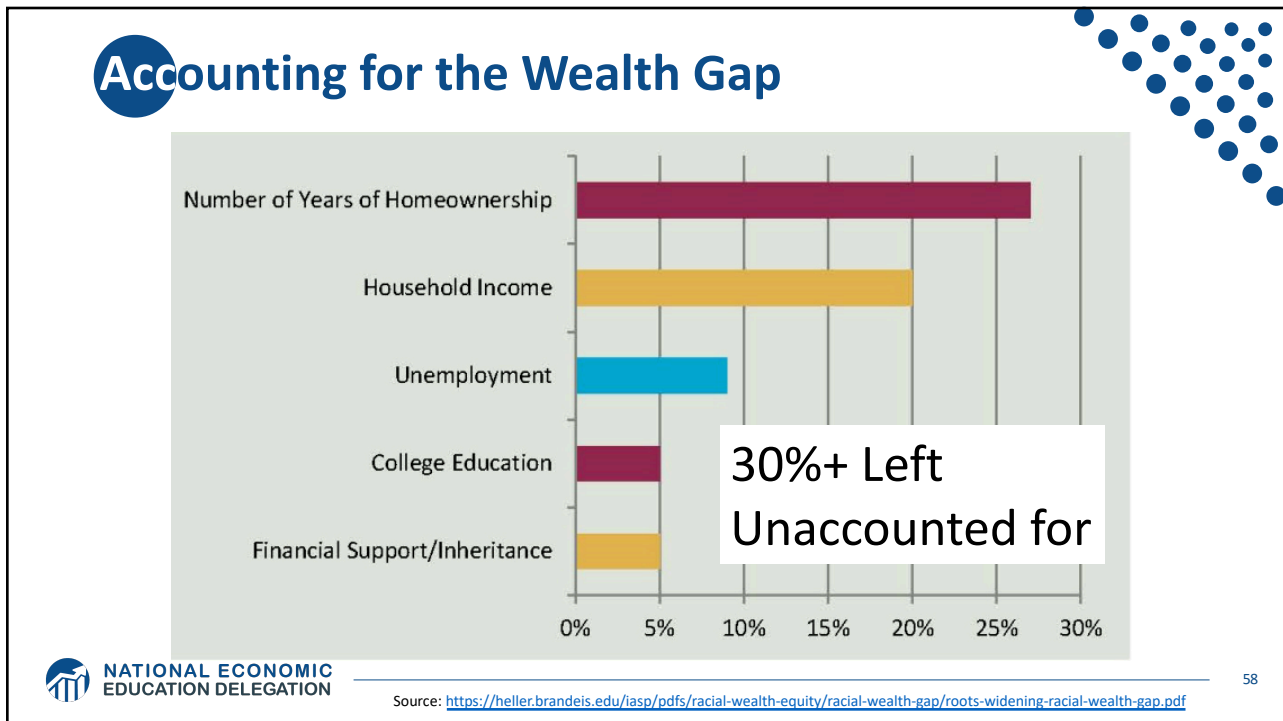
- Individual behaviors?
- Structural characteristics of the economy?
- History – policy and otherwise?

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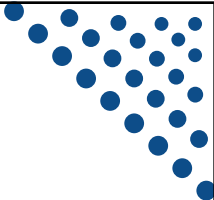
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57



58

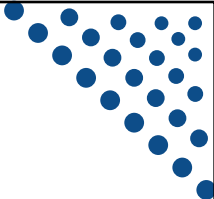


Policy Options

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59

59



Categories of Policy Areas

- **Housing**
 - FHA and redlining
- **Health Care**
- **Incarceration**
 - Black incarceration rates are very high.
- **Transportation**
 - Interstate system
- **Education**
- **Workforce**
- **Income support and stability**
- **Asset accumulation**

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60

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.



61

Reform Criminal Justice System



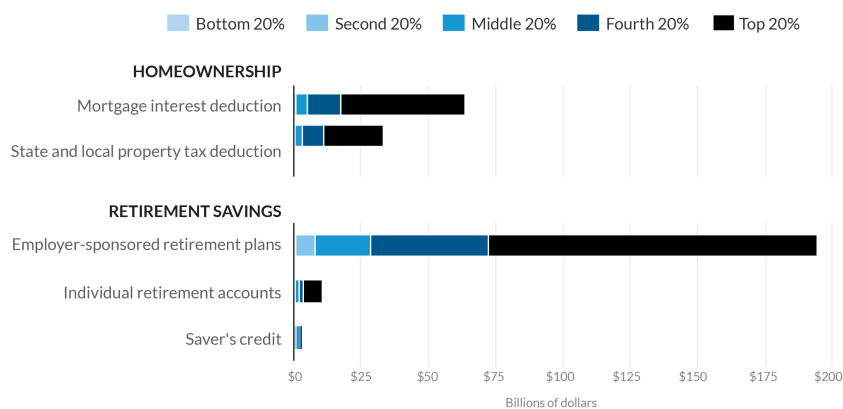
62

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



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

65

65

Summary

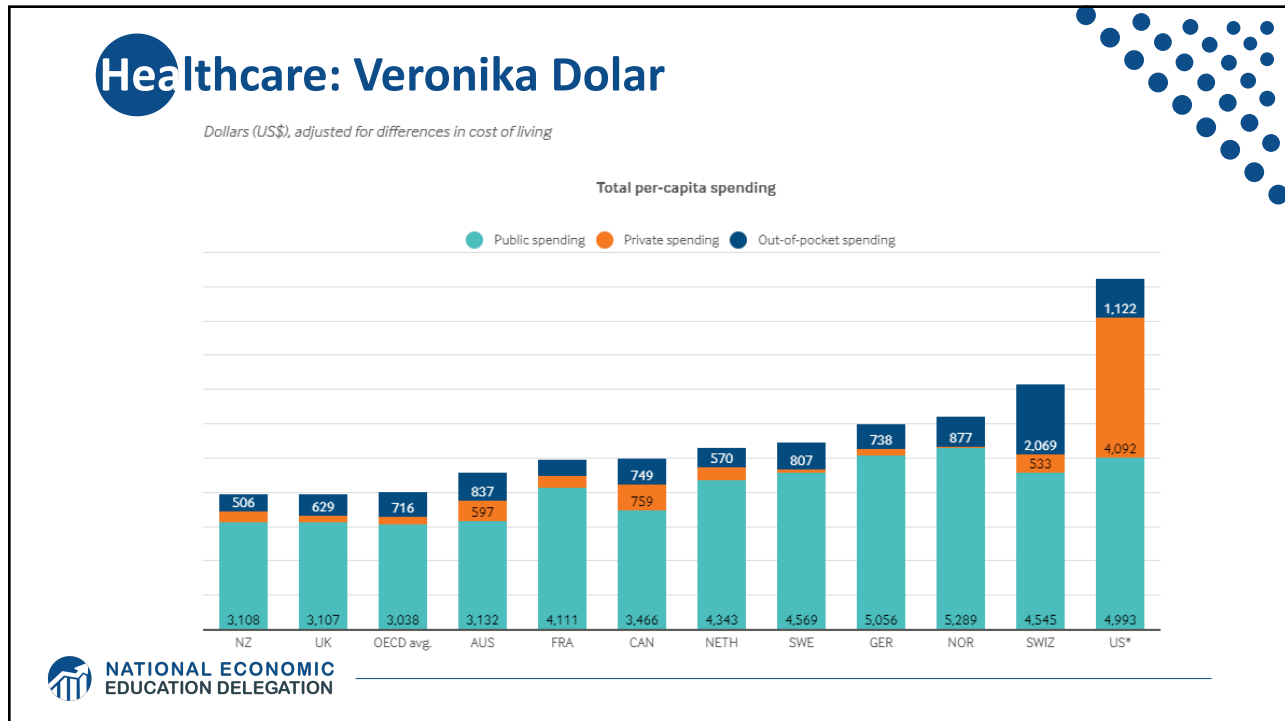
- **The Black White wealth gap is enormous (2019)**
 - Mean: White wealth is 6.9x Black wealth.
 - Median: White wealth is 7.8x Black wealth.
- **There are many explanations in the common narrative.**
 - Many do not stand up to scrutiny.
- **Government policies have contributed enormously this gap.**
 - 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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66



67

Thank you!

Any Questions?

www.NEEDelegation.org
 Stephanie Seguino, Ph.D.
Stephanie.Seguino@uvm.edu

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68