



# The Black-White Wealth Gap

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Moderated by:  
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## National Economic Education Delegation

### • Vision

- One day, the public discussion of policy issues will be grounded in an accurate perception of the underlying economic principles and data.

### • Mission

- NEED unites the skills and knowledge of a vast network of professional economists to promote understanding of the economics of policy issues in the United States.

### • NEED Presentations

- Are **nonpartisan** and intended to reflect the consensus of the economics profession.

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- 2 Fed Chairs: Janet Yellen, Ben Bernanke
- 6 Chairs Council of Economic Advisers
  - o Furman (D), Rosen (R), Bernanke (R), Yellen (D), Tyson (D), Goolsbee (D)
- 3 Nobel Prize Winners
  - o Akerlof, Smith, Maskin

- **Delegates: 585+ members**

- At all levels of academia and some in government service
- All have a Ph.D. in economics
- Crowdsource slide decks
- Give presentations

- **Global Partners: 45 Ph.D. Economists**

- Aid in slide deck development



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- **This slide deck was authored by:**

- Darrick Hamilton, Ph.D., The New School
- Jon Haveman, Ph.D., NEED

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- 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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## Outline

- What is wealth?
- 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 household each period (year/month).
- **Wealth is a household's NET asset holdings (net worth).**
  - o The value of all assets minus the value of all debts.

### • 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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## Wealth Disparities, 2019

Race/Ethnicity	Mean Wealth (\$)	Share of Families	Share of Wealth	Ratio of Shares
White, non-Hispanic	983.4	64.9	85.3	1.5
<b>Black, non-Hispanic</b>	<b>142.5</b>	<b>14.2</b>	<b>2.7</b>	<b>0.2</b>
Hispanic or Latino	165.5	9.6	2.1	0.2
Other or Multiple Race	657.2	11.3	9.9	0.9

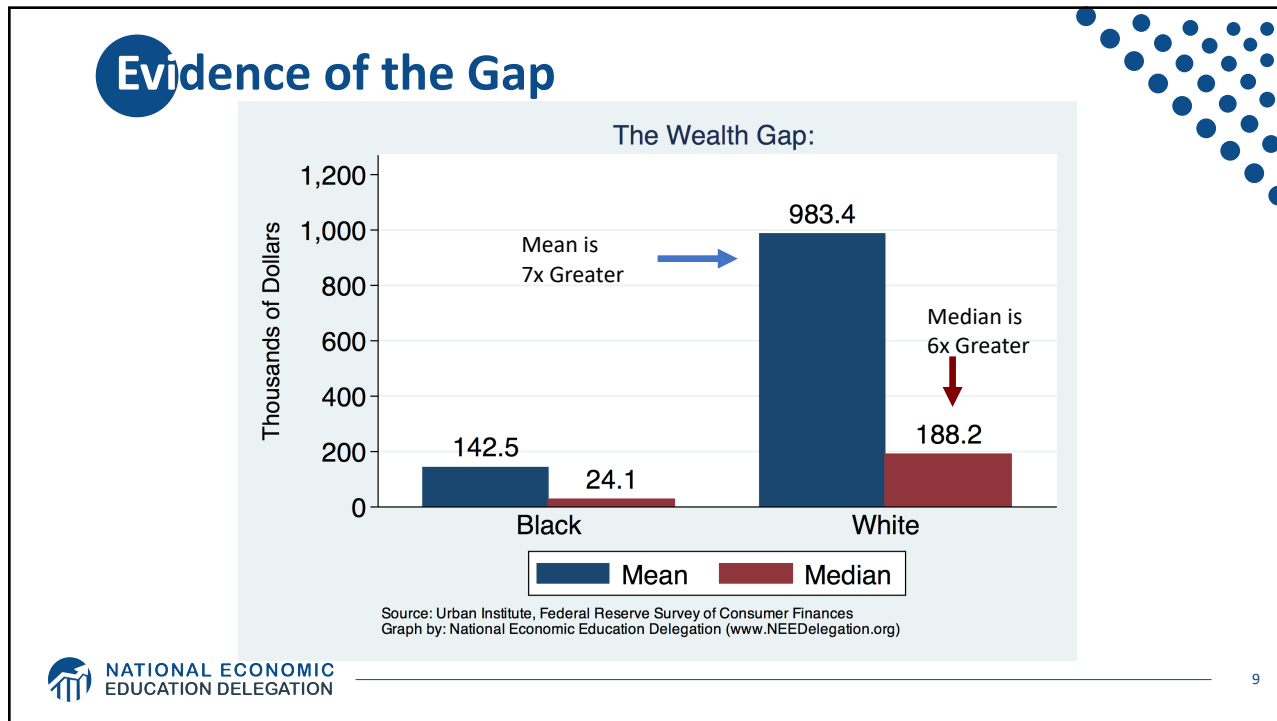


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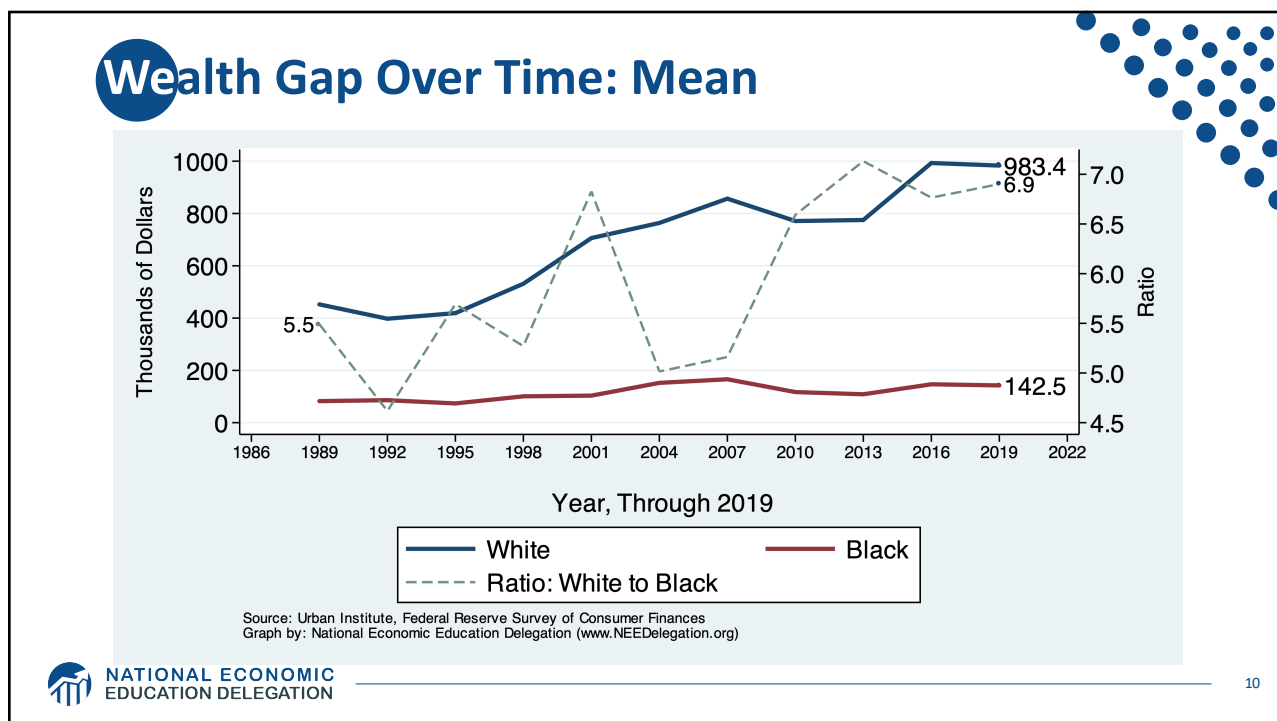
Source: Federal Reserve, Survey of Consumer Finances

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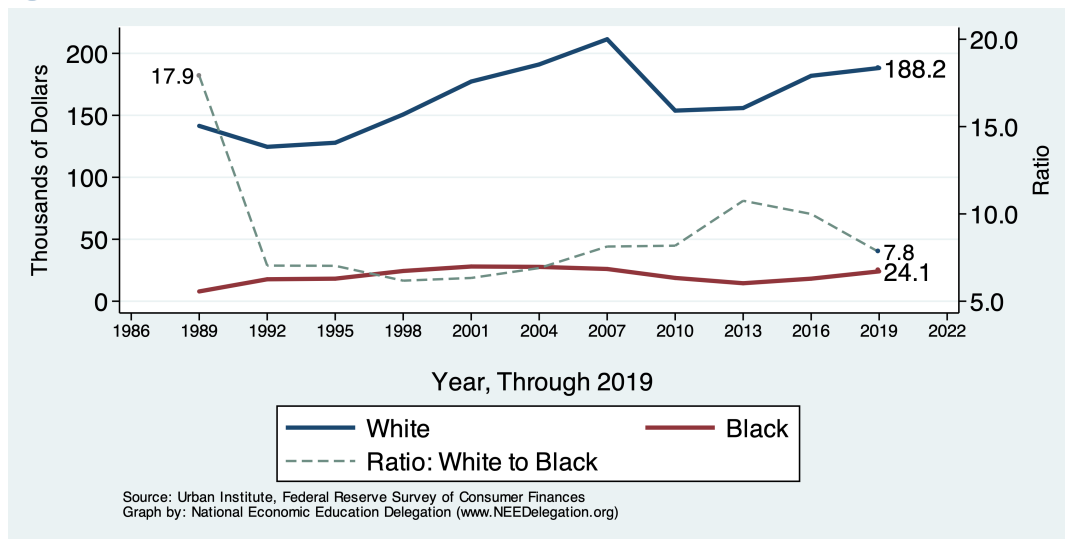


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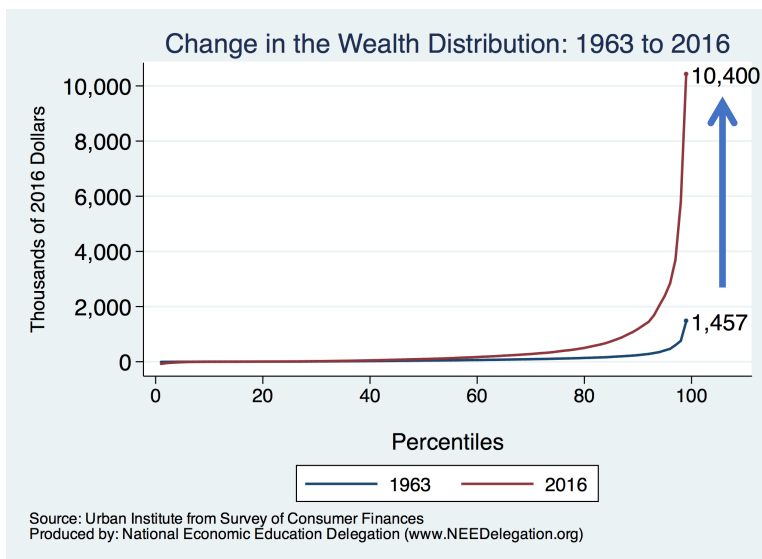
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## Wealth Gap Over Time: Median



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## Wealth is More and More Concentrated

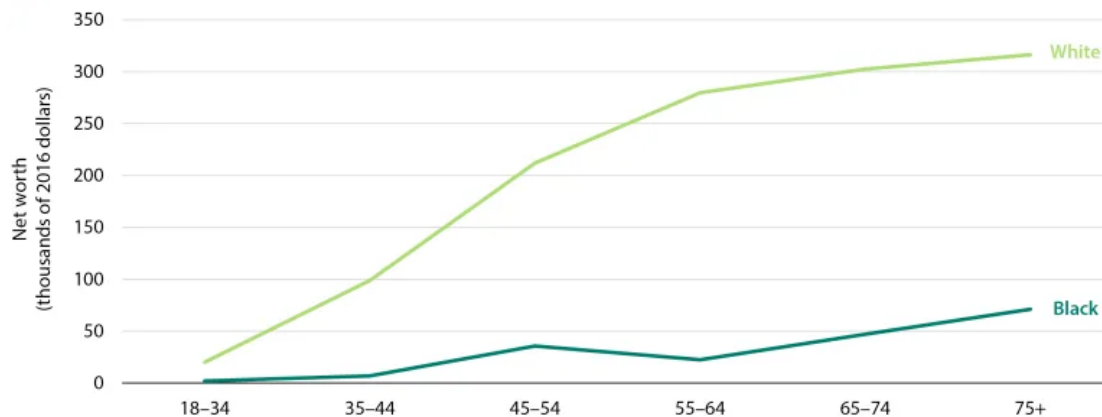


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Source: Urban Institute

# 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.



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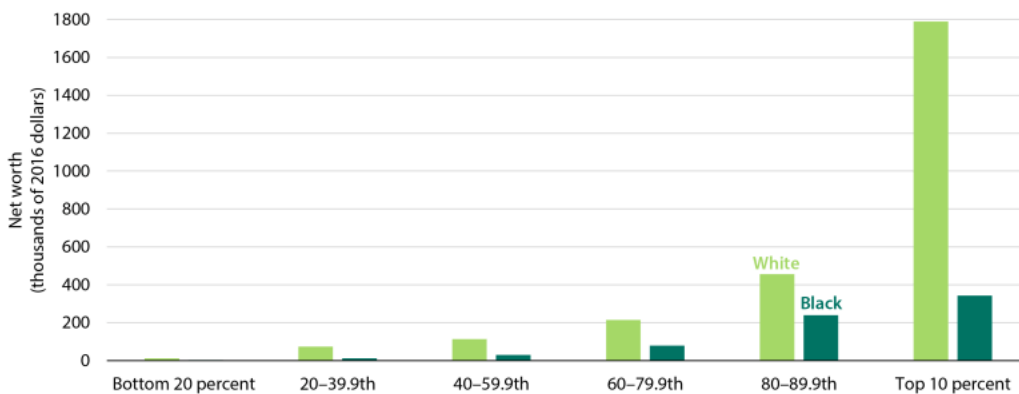
Source: <https://www.brookings.edu/blog/up-front/2020/02/27/examining-the-black-white-wealth-gap/>

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# 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.



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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.
  - o Access to higher return investments.
- Wealth transfers across generations.
  - o Wealth is sticky.



## Parental Wealth is Important

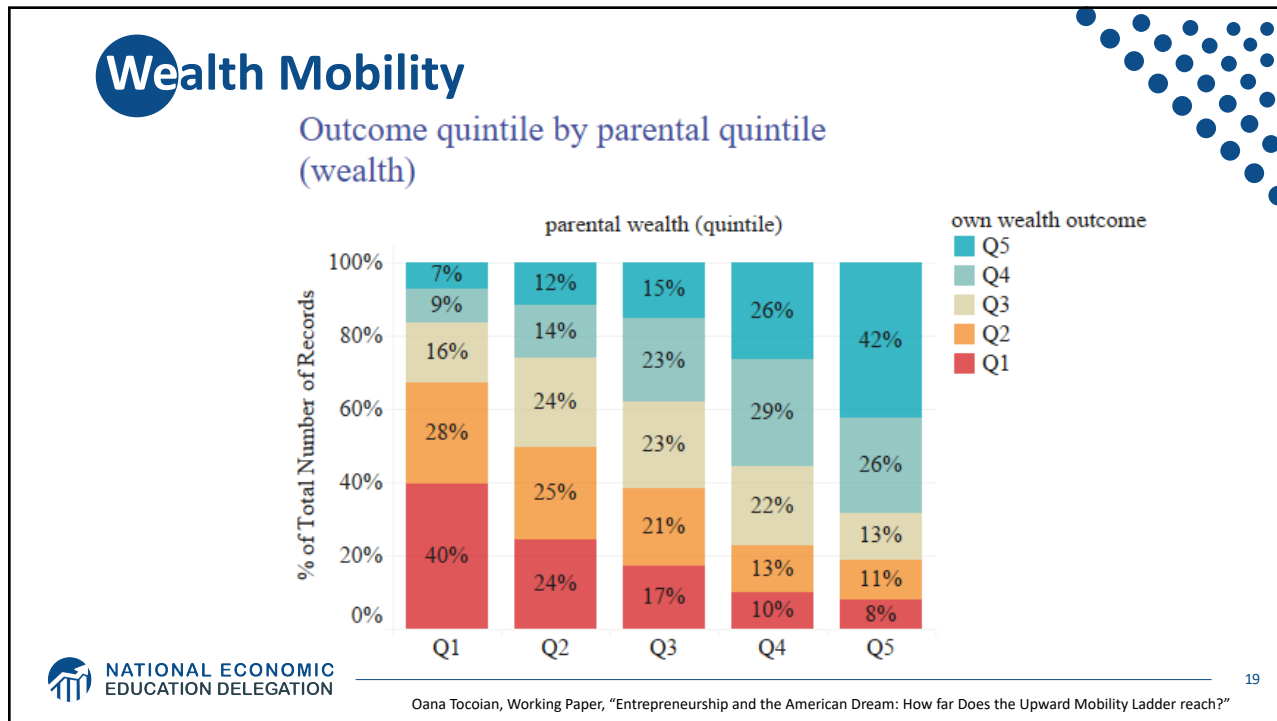
- **Important pre-estate transfer effects on kids:**

- 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.**

- **And it's clear that nurture plays a big roll.**





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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**
- **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

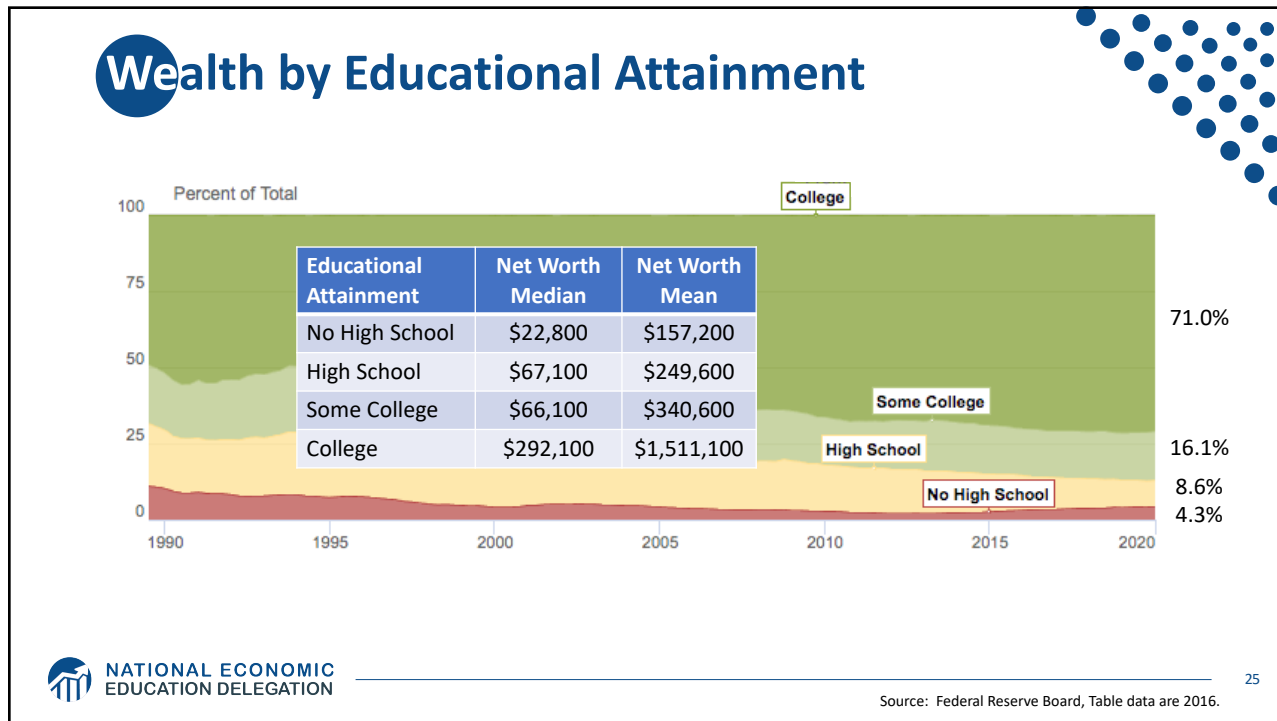
- **Much lower accumulation of wealth than among White families.**
- **Implications:**
  - Less financial contribution from parents to children.
    - More difficult access to higher education.
    - Less access to capital for business formation.
  - More likely to live in disadvantaged neighborhoods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

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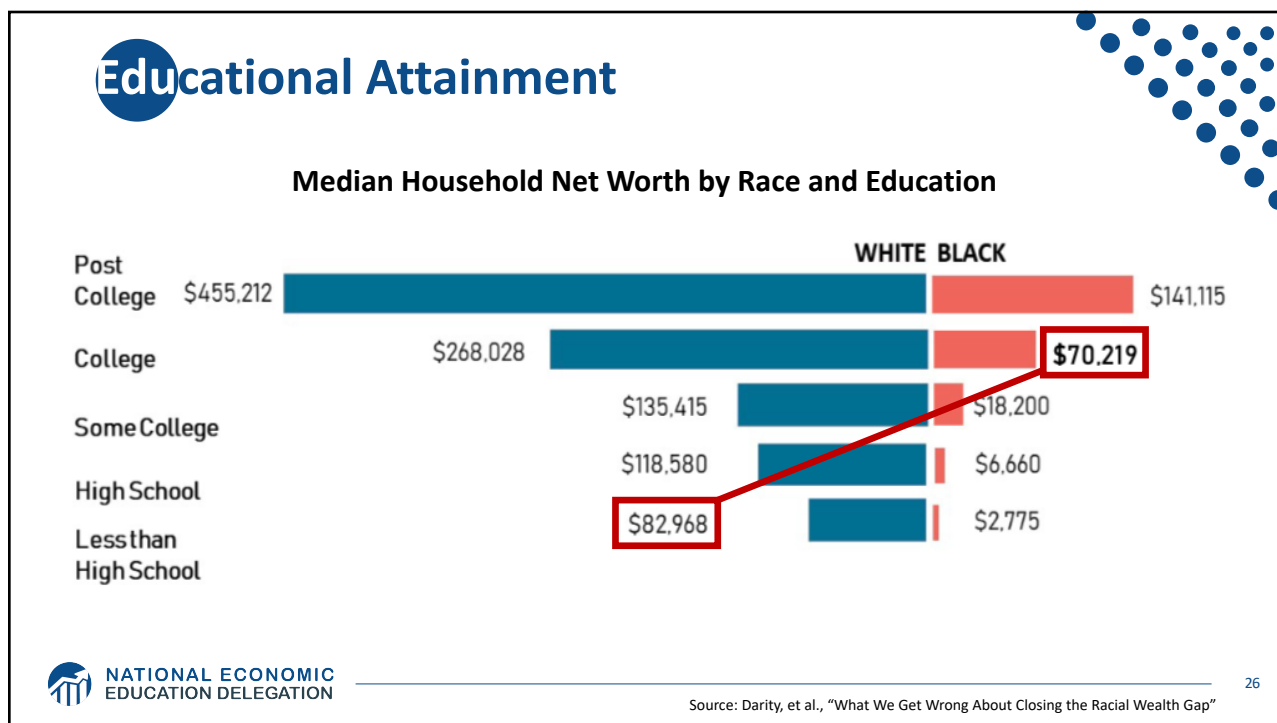
## Potential Explanations: Differences in...

- |                                 |  |
|---------------------------------|--|
| • <b>Educational attainment</b> | • <b>Soft skills and personal responsibility</b> |
| • <b>Home ownership</b>         | • <b>Wages</b>                                   |
| • <b>Increased savings</b>      | • <b>Labor force participation</b>               |
| • <b>Financial literacy</b>     | • <b>Family disorganization</b>                  |
| • <b>Entrepreneurship</b>       | • <b>Initial endowment</b>                       |

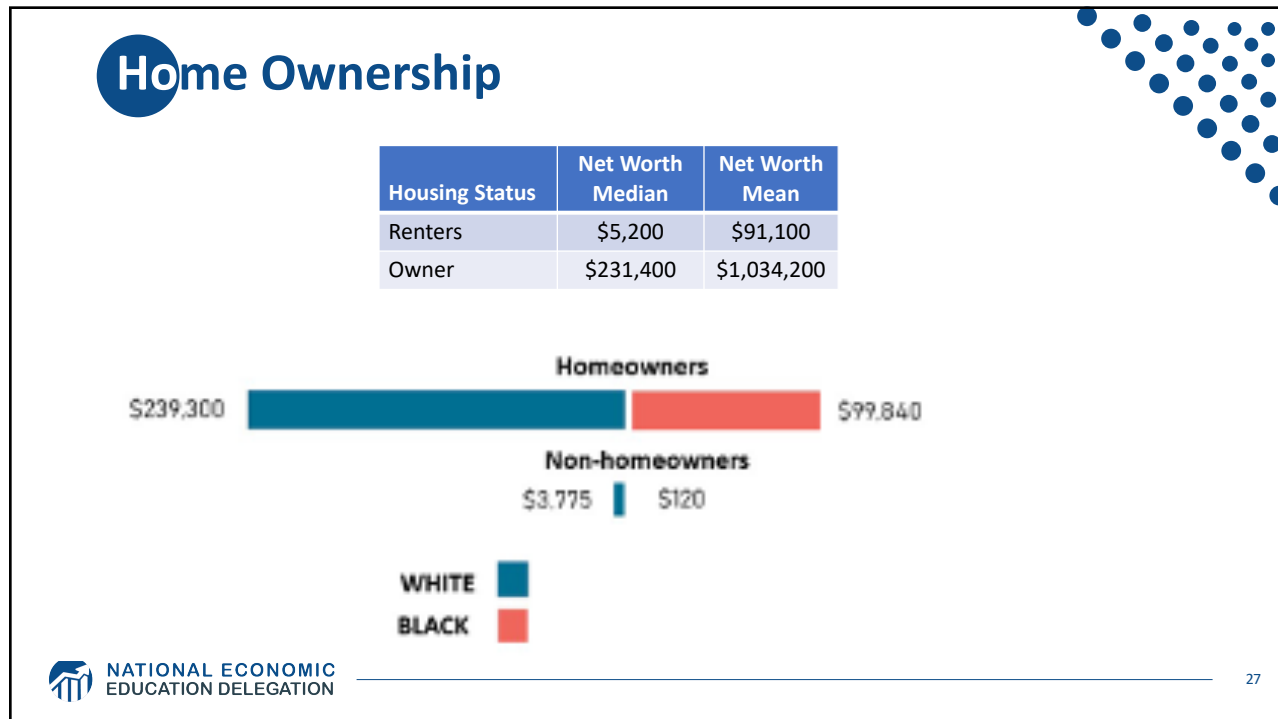
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## Wealth Equality Through Home Ownership?

- 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.
    - o 23% after adjusting for quality and amenities.

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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**

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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.
- **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.

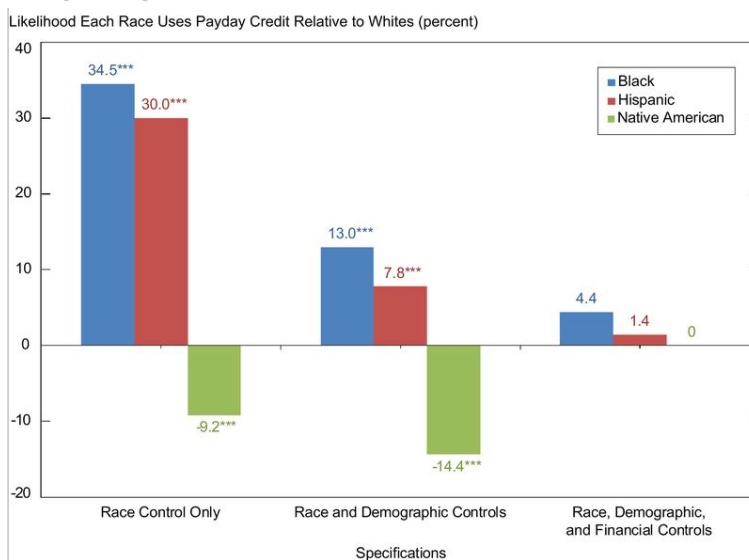
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# Financial Literacy

- **Financial literacy doesn't matter that much when you don't have any finances to manage.**
  - The insufficient financial literacy argument is often leveled specifically at Black households.
    - The argument holds equally with regard to **ALL** households of comparable incomes.

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# Use of Payday Lenders

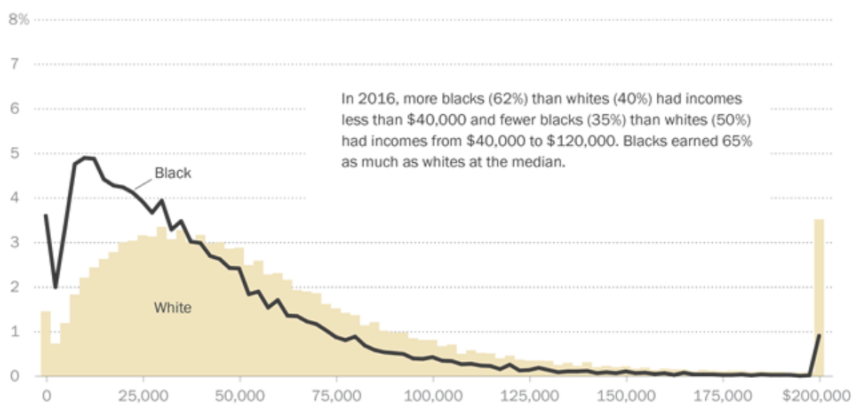


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## Black Household Incomes Relative to White

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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Source: pewsocialtrends.org

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## 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.

### • Education levels

### • Previous business ownership by family

### • Social capital



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# Soft Skills and Personal Responsibility

## • Employability

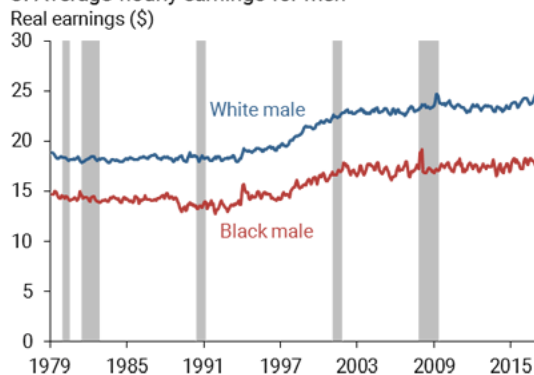
- Show up on time
- Eye contact with customers
- Dress well
- Collaborative skills

## • Reality

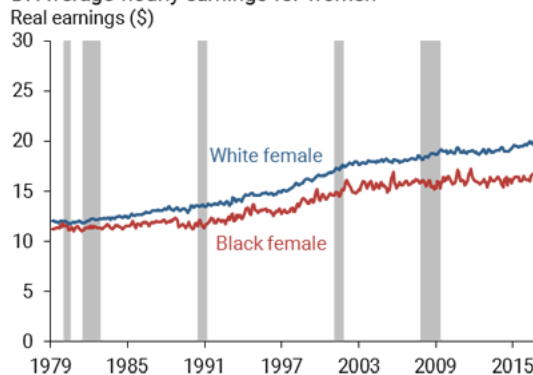
- Black workers are crowded into service sector jobs.
- Well represented in service, sales and office, and production, transportation, and material moving
- Relatively less well represented in construction, extraction, and maintenance.

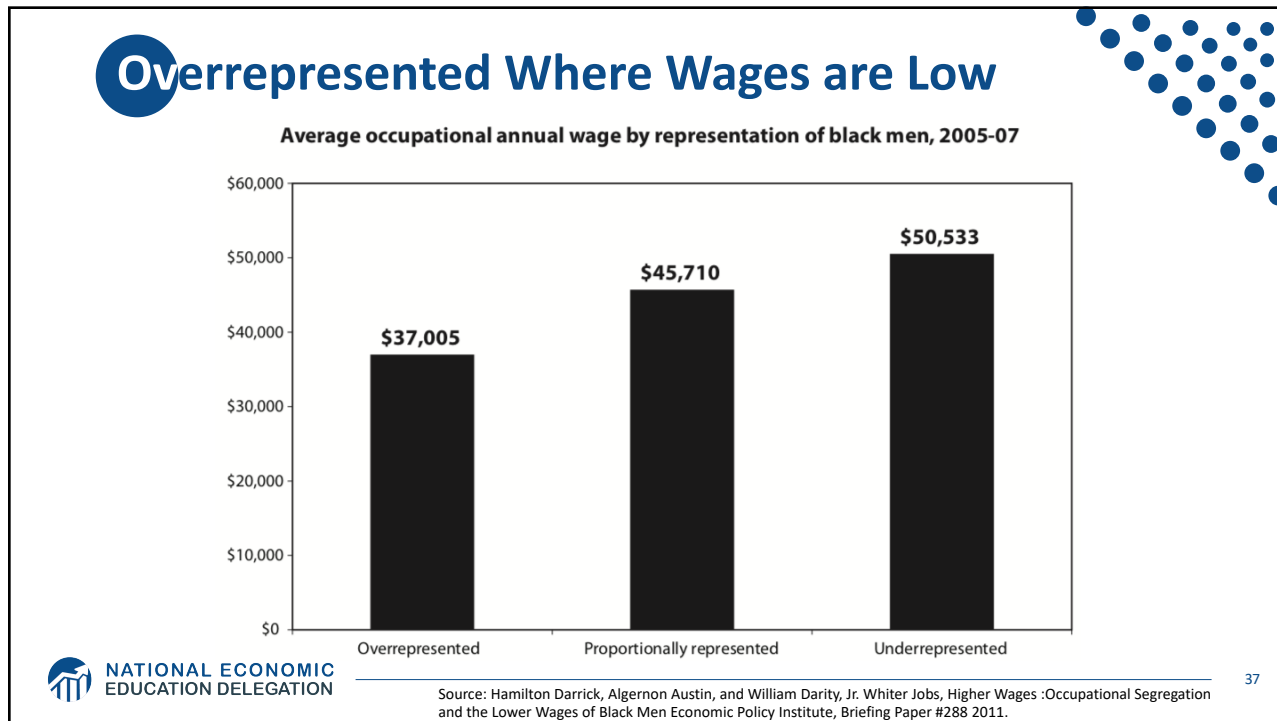
# Wage Gap

C. Average hourly earnings for men

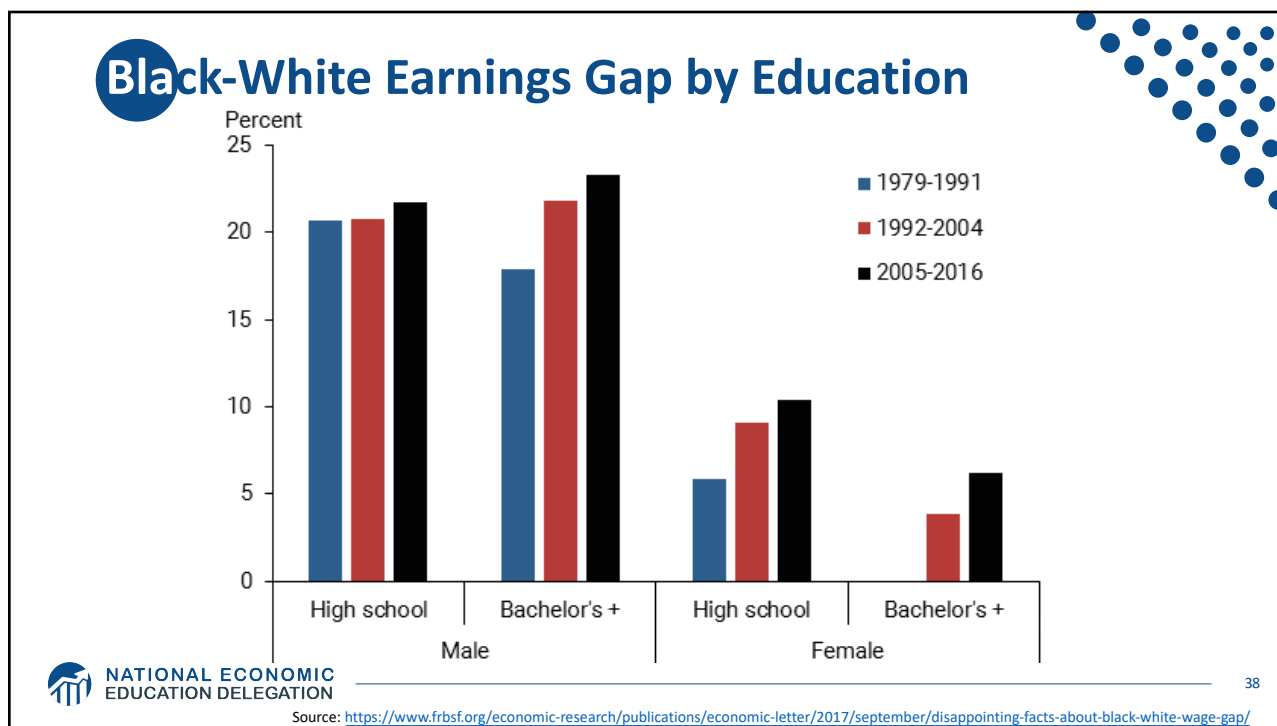


D. Average hourly earnings for women

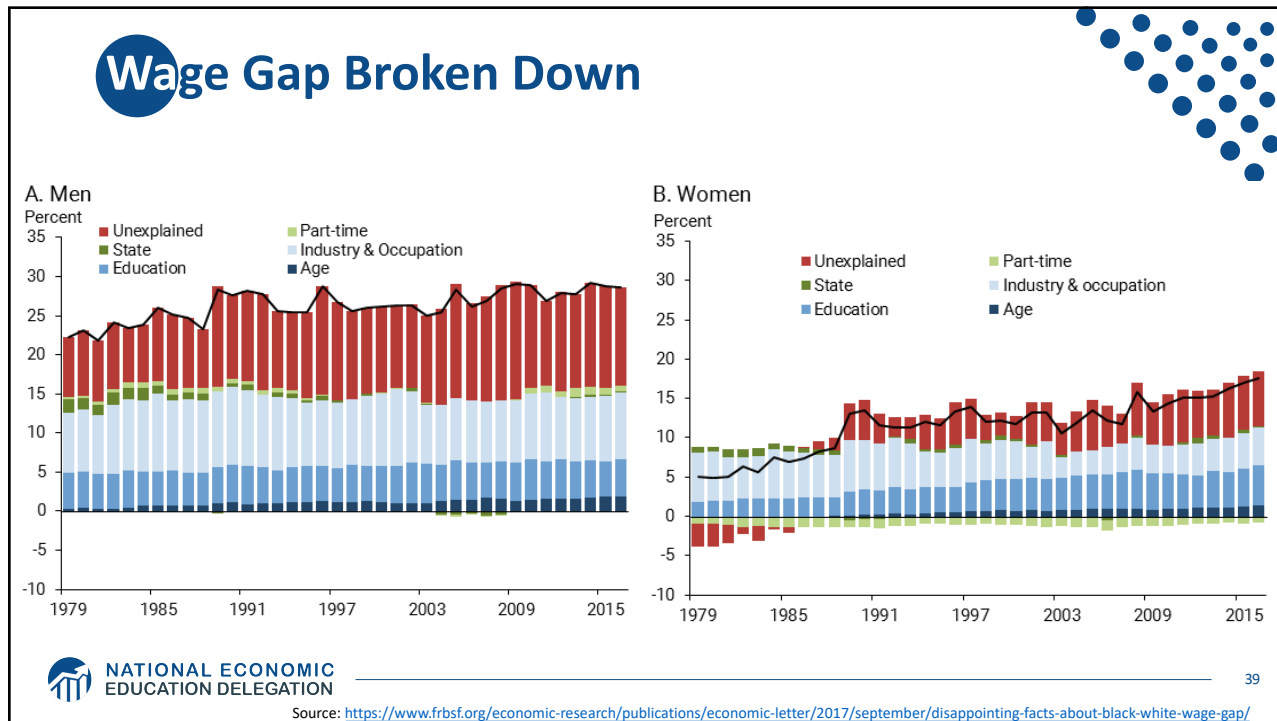




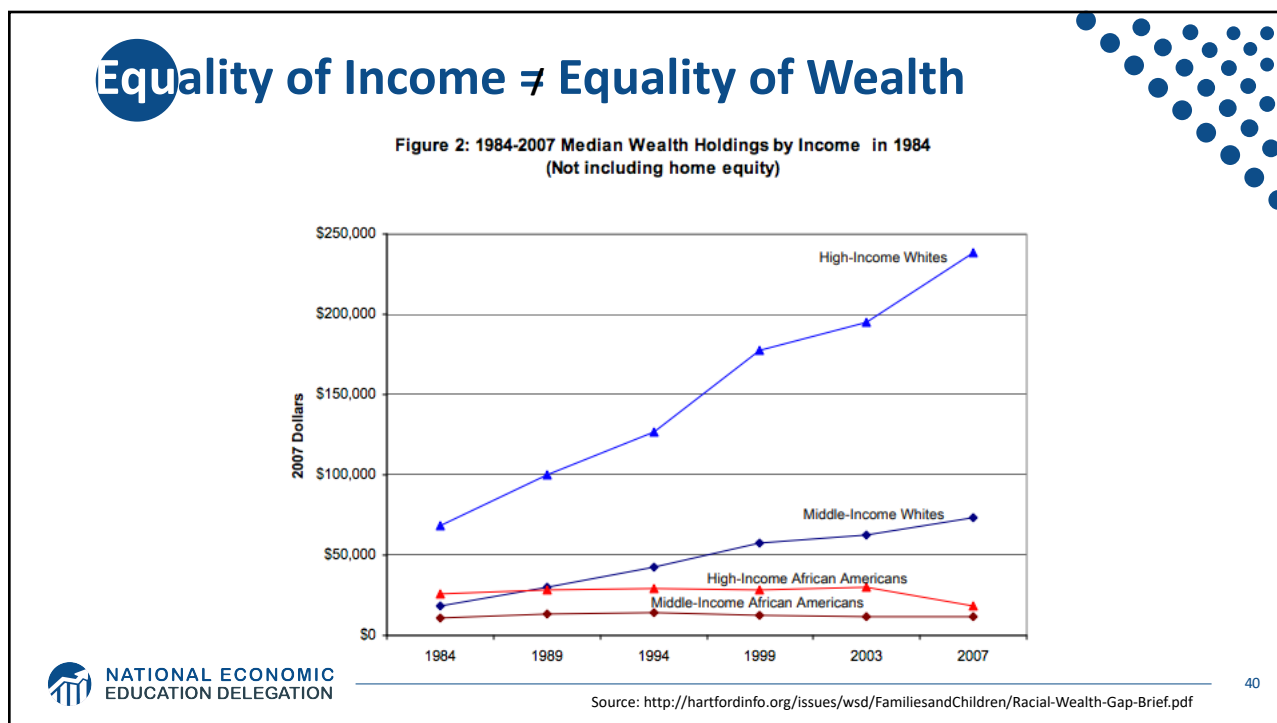
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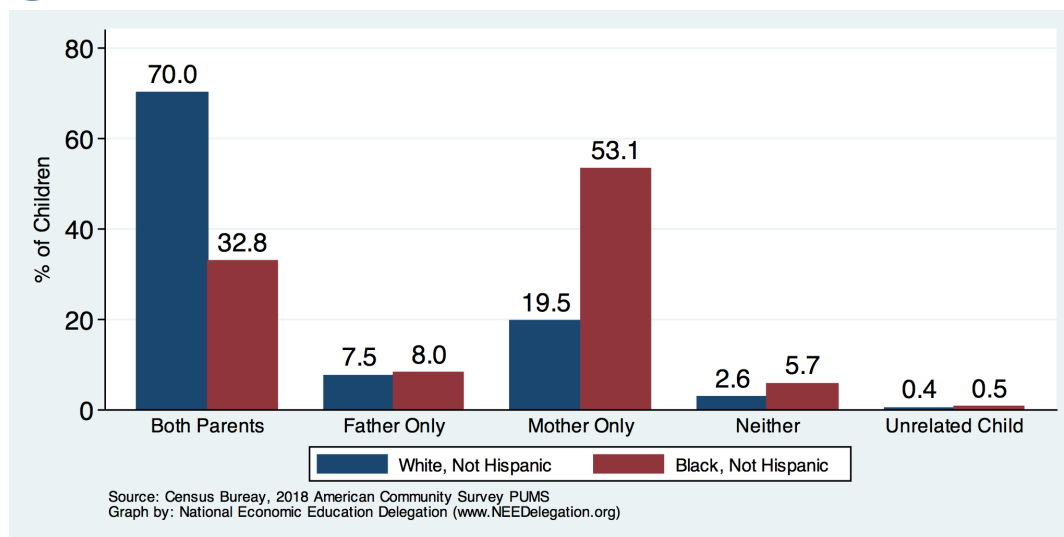
## Family Disorganization and Wealth

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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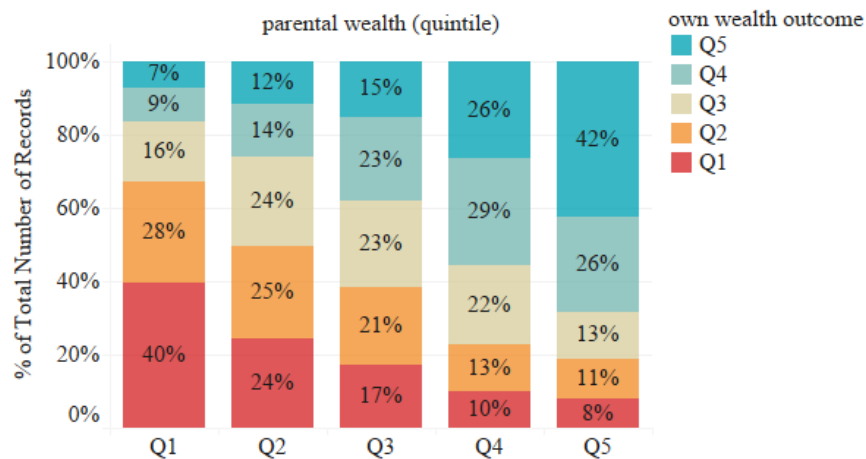
## Kids – Household Types



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## Initial Endowment

Outcome quintile by parental quintile  
(wealth)



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## What is Fundamentally Responsible?

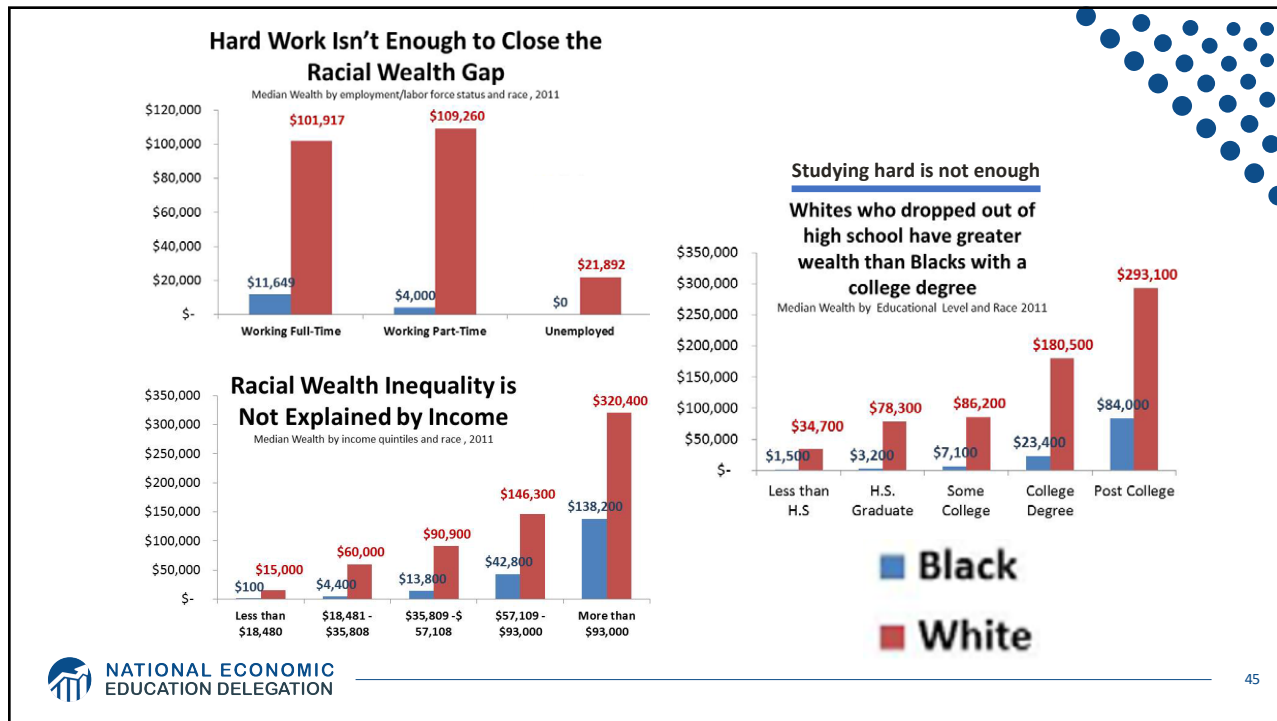
- Individual behaviors?
- Structural characteristics of the economy?
- History – policy and otherwise?



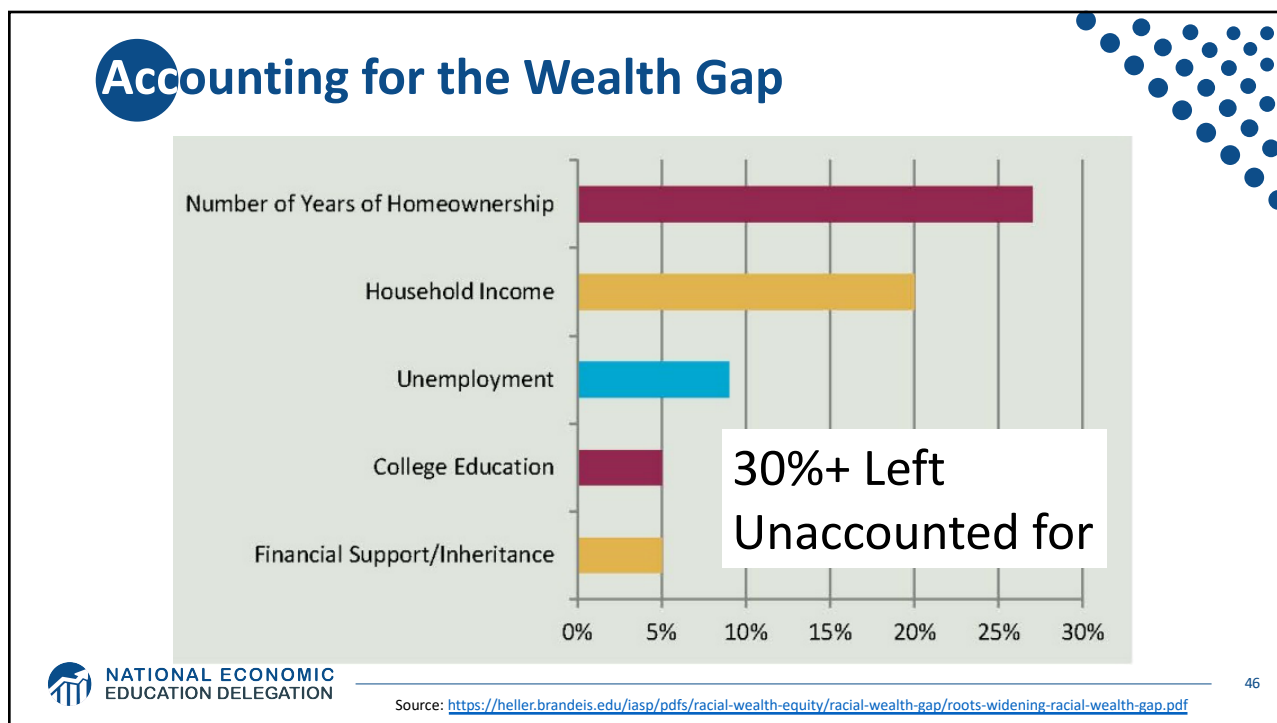
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# Policy Options



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## Categories of Policy Areas

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

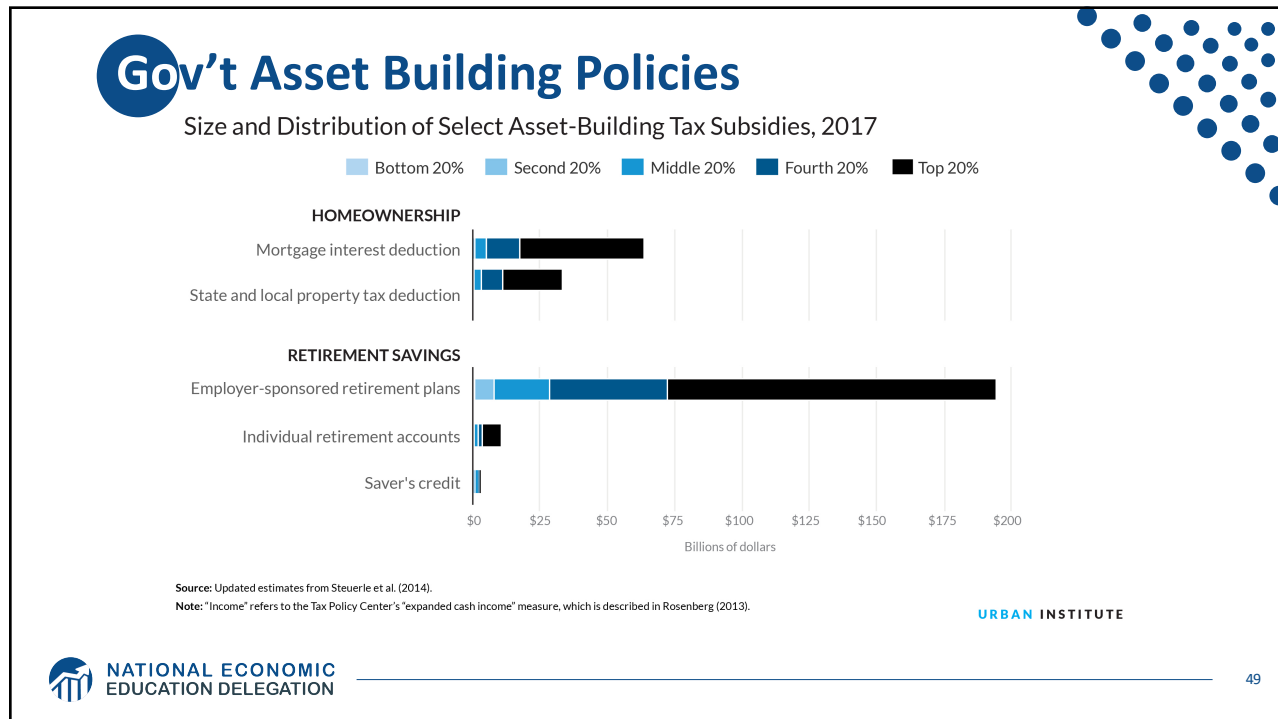


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## Specific Policy Options

- **Global solutions that affect all source areas**
  - Child Trust Accounts - "Baby Bonds"
  - Guaranteed minimum income
- **Addressing racial disparities directly**
  - Reparations
    - o Aggressive affirmative action.
    - o A new Homestead Act.
    - o Heavily investing in Black communities.
  - 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.

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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.
- 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.

## 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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