



Government Policies with Racial Implications

OLLI – San Francisco State Univ.
March 16, 2021

Jon Haveman, Ph.D.
Executive Director, NEED



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.

Who Are We?

- **Honorary Board: 53 members**

- 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



NATIONAL ECONOMIC
EDUCATION DELEGATION

3

3

Available NEED Topics Include:

- **Coronavirus Economics**
- **Climate Change**
- **Economic Inequality**
- **Economic Mobility**
- **US Social Policy**
- **Trade and Globalization**
- **Trade Wars**
- **The U.S. Economy**
- **Immigration Economics**
- **Housing Policy**
- **Federal Budgets**
- **Federal Debt**
- **2017 Tax Law**
- **Autonomous Vehicles**



NATIONAL ECONOMIC
EDUCATION DELEGATION

4

4

U.S. Policy History and Discrimination

5

Credits and Disclaimer

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

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

- **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).

6

Outline

- Evidence of Racial Disparities
- History of Policies
 - Discriminatory
 - Anti-discrimination
- Economic consequences

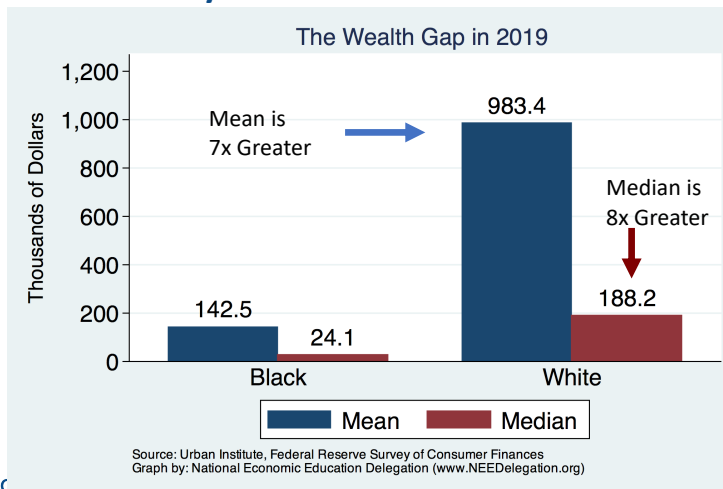
7

Evidence of Racial Disparities

8

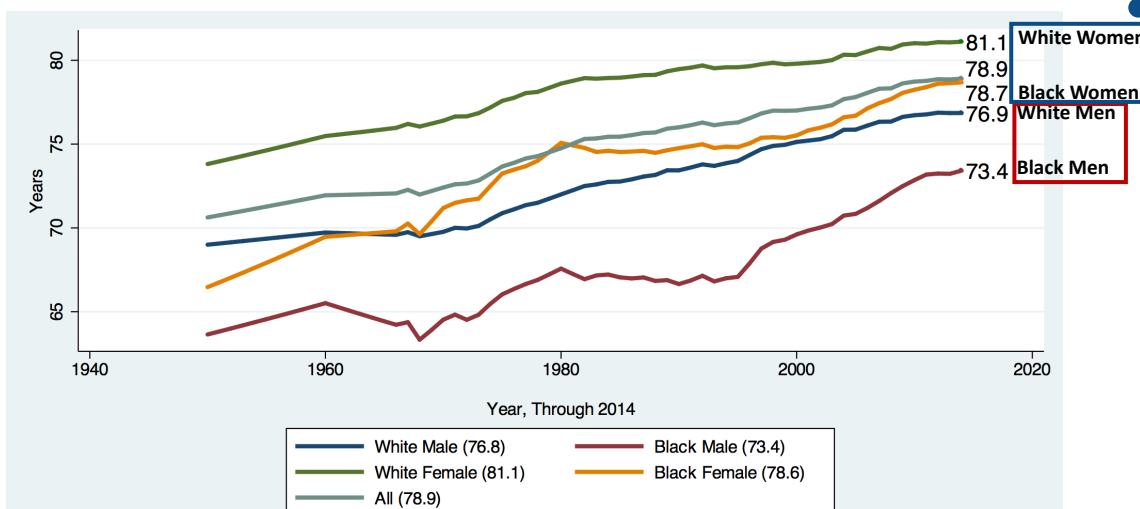
Enormous Disparity of Outcomes

- Perhaps best illustrated by the difference in wealth accumulation.



9

Life Expectancy



10

Overview of Policies

- Policies with discriminatory intent
- Policies with discriminatory effect
- Anti-discrimination policies

11

Policies w/Discriminatory Intent

12

Policies: Discriminatory Intent

- Slave trade
- Slavery
- Reconstruction and 40 acres
- Black Codes & Vagrancy Laws
- Jim Crow
- Federal Housing Policy

13

Slave Trade – by the Numbers

- **1619 – date marked as arrival of first African slaves – Jamestown, VA**
 - African slavery was in existence prior to this date, likely beginning with Christopher Columbus in 1490s.
- **Between 1525 and 1808:**
 - 12.5 million slaves departed for the New World
 - 10.7 million survived the Middle Passage
 - Only 388,000 arrived directly on North American shores.
- **Federal government banned the importation of slaves in 1808.**
 - There was already a population of more than 4 million slaves at the time.
- **Worth considering as the first deprivation of wealth.**

14

Slavery

• 1860:

- More millionaires in the Mississippi Valley than anywhere else in the United States – slaveholders all.
- 4 million slaves, worth an estimated \$3.5 billion at the time.
 - Single largest “financial asset” at the time.
 - Worth more than all manufacturing and railroads combined.
 - Approximately equal to contemporary GDP.
- More than 45% of the population in:
 - Alabama (45%), Louisiana (47%), Mississippi (55%), S. Carolina (57%)
 - Overall in the south: 32.3%



Slavery

• Slave Codes

- Legally considered property.
- Not allowed to assemble without the presence of a white person.
- Slaves that lived off the plantation had a curfew.
- A slave accused of any crime against a white person was doomed.
- Illegal to teach a slave to read/write.
- Slave marriages were not acknowledged in law.

• Implications for period of reconstruction/economic independence.



Value of Slaves

Figure 1
The Value of the Stock of Slaves in the United States, 1805-1860

Source: Roger Ransom and Richard Sutch (1988: Table 3)

Figure 2
Cotton Exports from the United States, 1815-1860

Source: Douglass North (1961: 233; Table A-VIII)

NATIONAL ECONOMIC EDUCATION DELEGATION

17
Source: <https://eh.net/encyclopedia/the-economics-of-the-civil-war/>

17

Slavery's Contribution to Southern Income

The Fraction of Whites' Incomes from Slavery

State	Percent of the Population That Were Slaves	Per Capita Earnings of Free Whites (in dollars)	Slave Earnings per Free White (in dollars)	Fraction of Earnings Due to Slavery
Alabama	45	120	50	41.7
South Carolina	57	159	57	35.8
Florida	44	143	48	33.6
Georgia	44	136	40	29.4
Mississippi	55	253	74	29.2
Louisiana	47	229	54	23.6
Texas	30	134	26	19.4
Seven Cotton States	46	163	50	30.6
North Carolina	33	108	21	19.4
Tennessee	25	93	17	18.3
Arkansas	26	121	21	17.4
Virginia	32	121	21	17.4
All 11 States	38	135	35	25.9

Entire U.S. economy benefitted from cheap cotton.

New York's share of cotton revenue: ~40%.

NATIONAL ECONOMIC EDUCATION DELEGATION

18
Source: <https://eh.net/encyclopedia/the-economics-of-the-civil-war/>

18

Why Slavery?

- **Opportunity and familiarity.**
 - Slavery had been practiced in Europe for 100 years by the time it came to the Colonies.
- **Cotton was a major crop in the antebellum South.**
 - Very labor intensive.
 - Cheaper than paying free labor.
 - Seasonal.
 - Could not rely on free labor to wait around between the Spring planting and Fall harvest.

Slave Trade – Some Economics

- **Why Slavery?**
 - Could have used free or indentured servitude.
 - Slavery won the price/productivity competition:
 - Free/indentured: $10-12 \text{ £} * 4 \text{ years} = 3 \text{ £ per year.}$
 - Slaves: $16 \text{ £} * 20 \text{ years} = 1 \text{ £ per year.}$
 - Higher productivity of free/indentured did not make up for the difference.
 - Availability given seasonal nature of agricultural labor demand.

Amendments Ending Slavery

- **13th Amendment - 1865**
 - Nearly abolished slavery.
- **14th Amendment - 1867**
 - Citizenship for those born in or naturalized in the United States.
- **15th Amendment - 1870**
 - Sought to eliminate discrimination in voting.



Reconstruction & 40 Acres: 1865-1877

- **Freedmen's Bureau, 1865-72, shortly before the end of the war.**
 - Food and medical aid to former slaves.
 - Tried to redistribute land to freedmen.
 - Established schools for freedmen.
 - 1870: A quarter million attended more than 4,000 schools in the south.
 - Howard University et al.
 - Tried to establish labor rights of freed slaves.
 - Fair wages and free choice of employers.
- **Free public education in the South**
 - Excluded black children.
- **40 Acres**
- **Black codes.**
- **Northern soldiers had all left by 1877.**



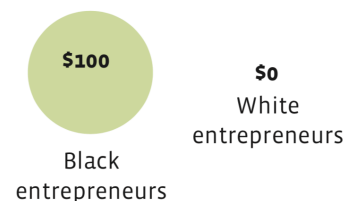
40 Acres (but no Mule)

- **General Sherman, Jan. 16, 1865: Special Field Order No. 15**
 - Granted some freed families land in plots no larger than 40 acres.
 - Implemented at the behest of Black leaders.
 - Some 400,000 acres were redistributed from Confederate landowners to former Black slaves.
 - Also:
 - Established black settlements to be governed entirely by Black people themselves.
- **Sherman later ordered that the army could lend new settlers mules.**
- **Overtaken by Andrew Johnson in the Fall of 1865.**
 - Land returned to former slave owners.
- **Imagine the implications for Black wealth.**
 - By some estimates valued at \$6.4 trillion today (7% of total U.S. wealth in 2018)

Black Codes: 1865-1877

- **Special laws that applied only to Black persons.**
 - Both progressive and restrictive.
 - Acknowledged: Black ownership of property and marriage. Right to sue and be sued.
 - Included restrictive labor contracts, apprenticeships, and vagrancy laws.
 - Business licensing fees
 - Separate Black courts
 - Harsh penalties (death) for rebellion, arson, burglary, assaulting a White woman.
 - Broadly concerned with controlling former slaves.

BUSINESS LICENSING FEES *Under Black Codes in 1870*



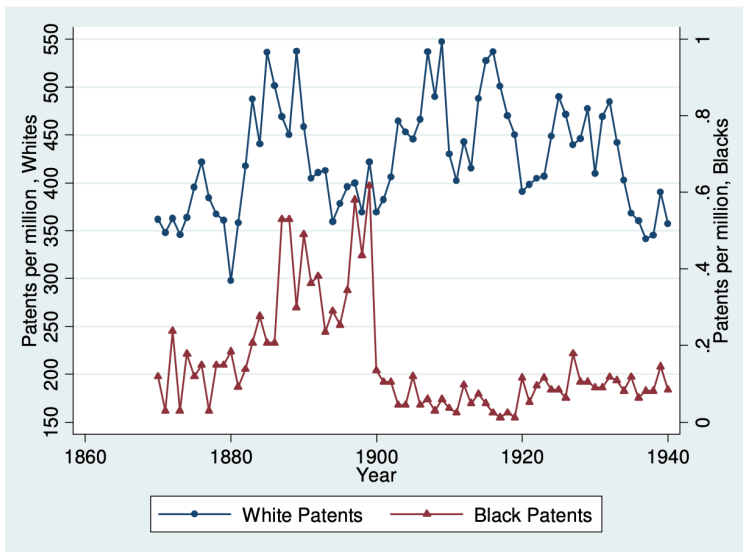
Jim Crow (1877-1964)

- **Set of laws**
 - Segregation, restrictions on:
 - Voting, education, work, public office, juries, justice system, bathrooms.
- **Set of customs**
 - Defining interactions between Black and Whites.
- **Exploited a loophole in the 13th Amendment.**
 - Provision allowed slavery as a punishment for a crime.
- **Really took root after Plessy v. Ferguson (1896).**

The Second Slavery

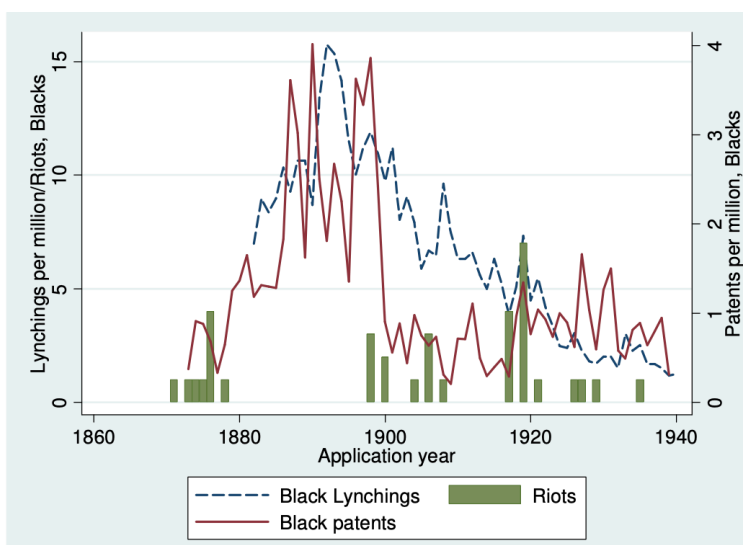
- **Black men, women, and sometimes children were arrested and convicted of crimes under the Black Codes/Jim Crow.**
 - Vagrancy, unemployment were crimes.
 - Subsequently leased to private companies.
 - 200,000 Black Americans were forced into such labor arrangements.
 - Leasing turned into chain gangs in the early 20th century.
- **Lynching**
 - Another form of controlling Black Americans was common.
 - More than 4,400 lynchings occurred during the Jim Crow years.
- **Land takings**
 - Fraud, deception, and theft.
 - An estimated 11 million acres.

Jim Crow & Black Patenting



27

Conflict and Black Patenting



28

The New Deal

- **FHA Policy – Redlining**
 - Explicitly discriminatory
- **Social Security**
 - Implicitly discriminatory
- **Unemployment**
 - Implicitly discriminatory
- **Minimum wages**
 - Implicitly discriminatory

Misguided Past Policies: Redlining

- **For example, the government “redlined” heavily minority neighborhoods.**
 - Redlining occurred when maps were drawn to show how risky investment in certain areas would be. The “riskiest” areas usually had the highest concentrations of black people.
 - Some argue that the government merely drew these maps, and did not discriminate in their own lending practices, but others say private and public lenders relied on these maps to deny investment or loans in those areas.
 - Some relationships between redlined areas and outcomes still hold today in peer-reviewed economics research.

HOLC Appraisal Manual Grading System

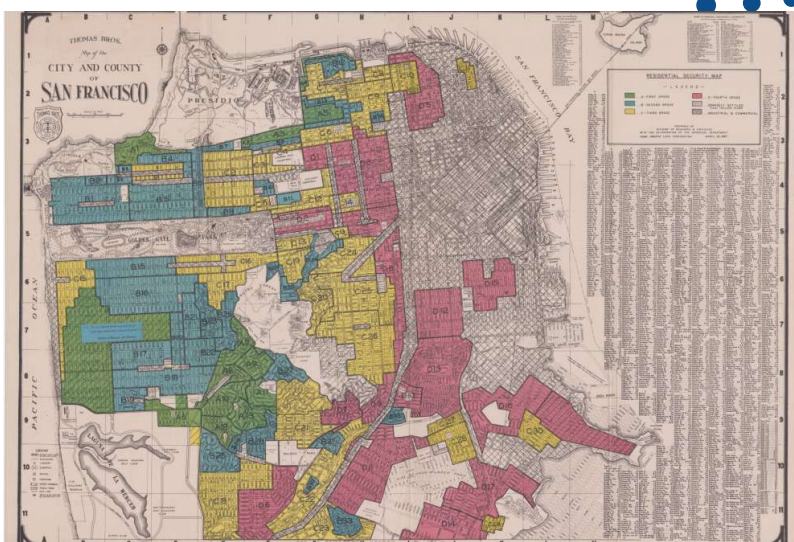
- Grade A = “homogeneous,” in demand during “good times or bad.”
- Grade B = “like a 1935 automobile-still good, but not what the people are buying today who can afford a new one”
- Grade C = becoming obsolete, “expiring restrictions or lack of them” and “infiltration of a lower grade population.”
- Grade D = “those neighborhoods in which the things that are now taking place in the C neighborhoods, have already happened.”

31

Misguided Past Policies: Redlining

Red areas were largely Black communities, and considered to be too risky for new home loans.

Yellow areas also suffered from discrimination resulting from FHA guidelines.



32

FHA Discrimination

- **Between 1934 and 1962, the federal government backed \$120 billion of home loans.**
- **More than 98% went to whites.**
 - Of the 350,000 new homes built with federal support in northern California between 1946 and 1960, fewer than 100 went to African Americans.
- **Government officials argued that Black occupancy of homes in White neighborhoods would reduce property values.**
 - This would put their loans at risk.



NATIONAL ECONOMIC
EDUCATION DELEGATION

33

33

Clear Impact on Not Only D, but Also C Areas

- **Higher residential segregation**
 - Concentration of Black families in C and D.
- **Lower home ownership rates in C and D**
- **Lower home values in C and D**
- **Lower rents and credit scores**
- **Trends mostly reversed themselves in the wake of housing and lending legislation in the 1960s and 70s.**



NATIONAL ECONOMIC
EDUCATION DELEGATION

34

34

Housing Post-WWII

- **Residential covenants and discriminatory zoning.**
 - Single family vs multifamily zoning was an effort to segregate housing.
- **Redlining**
- **GI Bill – for Whites only**
- **Discrimination at every step of the way.**
 - Appraisals, realtors, mortgage receipt and terms.
 - Very recent evidence exists – esp. loans during housing bubble, appraisals.

35

Policies w/Discriminatory EFFECT

36

Effect: Often Intended, But Not Overt

• How?

- Allow local officials to administer the program.
- Exclude specific occupations where Black workers are overrepresented.



NATIONAL ECONOMIC
EDUCATION DELEGATION

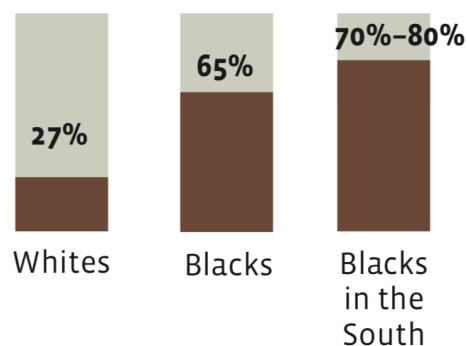
37

37

The New Deal

- **FHA Policy – Redlining**
 - Explicitly discriminatory
- **Social Security**
 - Implicitly discriminatory
- **Unemployment**
 - Implicitly discriminatory
- **Minimum wages**
 - Implicitly discriminatory

INELIGIBLE FOR SOCIAL SECURITY IN 1935



NATIONAL ECONOMIC
EDUCATION DELEGATION

38

38

Policies: Discriminatory Effect

- **Homestead Act**
- **The New Deal**
 - Wagner Act – Unions
 - Minimum Wages
 - Social Security
- **Federal Asset Building Policies**
- **Local zoning ordinances**
- **Incarceration**

39

Homestead Acts

- **Original Homestead Act (1868-1934)**
 - Granted 246 million acres of western land (size of CA & TX combined)
 - To receive 160 acres of land:
 - o File an application, improve the land for 5 years, file for deed of ownership.
 - 1.5 million White families, 3,500 Black families.
 - o Excluded Black Americans in practice, not letter.
- **Southern Homestead Act (1866-1876)**
 - 28,000 individuals, of which 4,000-5,500 were emancipated slaves.
 - Most were locked into year-long contracts following the war. Could not break to homestead until after special provisions for freed slaves had ended.
 - Land was often unfarmable – swamp or heavily wooded.

40

New Deal Programs

- **Unemployment Insurance**
 - Because a state run program – different levels of protection, White/Black
- **Social Security (1935)**
 - Exempted self employed, field hands, and domestic workers. All were heavily black. Changed in the 1950s.
 - 65% of Black workers did not qualify.
- **Wagner Act (1935)**
 - Established rights of workers to unionize, except for farm, domestic, and independent workers.
 - Also permitted unions to exclude workers.
- **Minimum Wage**



What Is The Minimum Wage?

- **The minimum wage sets a wage floor.**
 - It is unlawful for businesses in **covered industries** to pay a wage below the minimum.
- **The Federal minimum wage is currently \$7.25.**
 - This is the highest that it has ever been.
 - Adjusting for inflation:
 - It is no higher than it was in the late 1950s.
 - It is nearly \$5.00 lower than it was in the late 1960s.
- **Many states and local governments have implemented minimum wages that are significantly higher than the Federal level.**

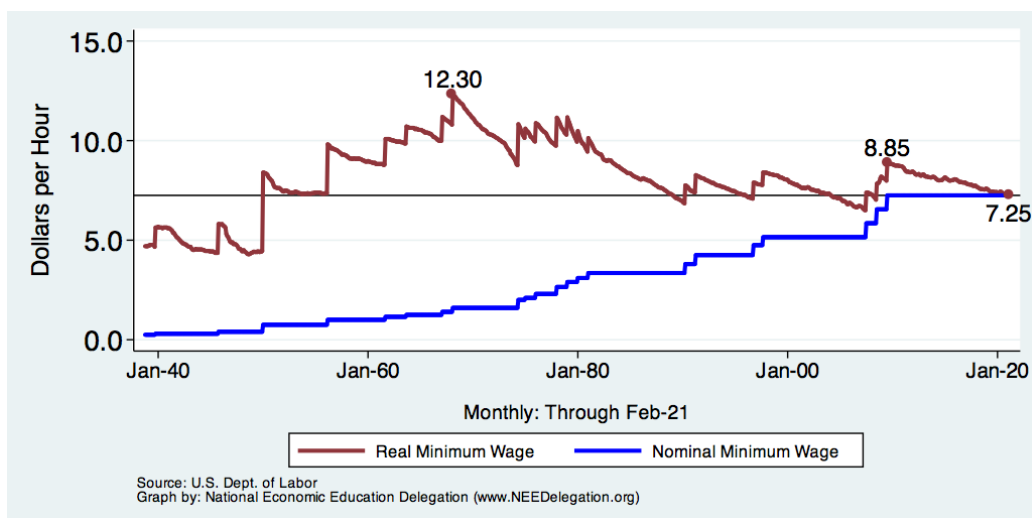


Minimum Wages

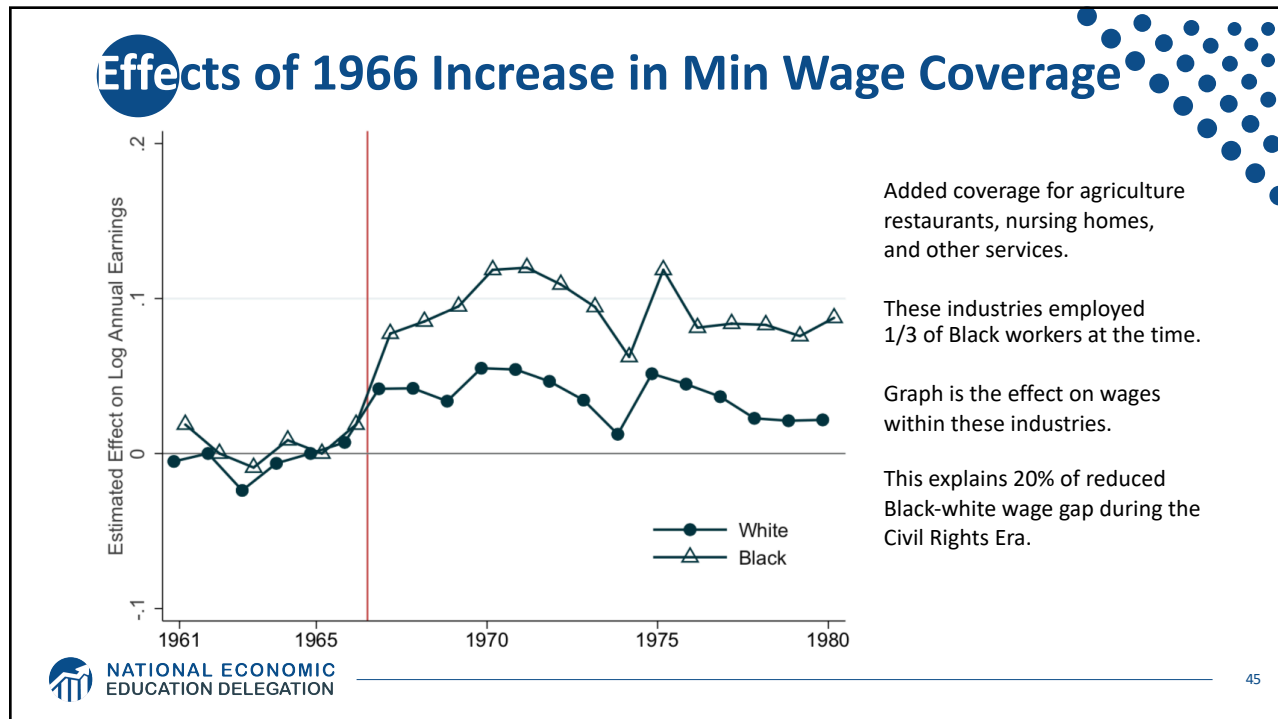
- Early on, they did not apply to farmworkers or domestic help.
- 1960s – great equalizer - MW increased in real terms 37% (8.9 to 12.24)
 - The 1966 Fair Labor Standards Act extended federal minimum wage coverage to agriculture, restaurants, nursing homes, and other services which were previously uncovered and where nearly a third of black workers were employed.
- Since 1968 – has fallen 41% (12.24 to 7.25)
 - Or in 1968, was 69% higher than it is today.
 - Exacerbating the Black-White wage gap.

43

History of the Minimum Wage



44



45

GI Bill

- **Reintegrating 16 million veterans**
 - 1.2 million were Black
- **Loans: homes, farms, or business**
 - Levittown – explicitly banned
 - Couldn't get loans regardless of guaranty - covenants
- **Education**
 - Steered toward vocational training, not college
 - HBCUs – were overcrowded and nonexistent in the north
- **Unemployment**
- **Instead – a provocation for Black men to wear the uniform.**
 - Lynchings and other violence in the wake of WWII – Red Summer after WWI

NATIONAL ECONOMIC EDUCATION DELEGATION

46

46

GI Bill: By the Numbers

- **Federal spending between 1944 and 1971: \$95 billion (15% of budget)**
 - 200,000 small business loans
 - Mortgages for 5 million new houses
 - 2,250,000 participated in higher education
 - 5,600,000 enrolled in vocational institutions

GI Bill: Education

- **Of vets born between 1923 and 1928:**
 - 23% of Whites received GI Bill educational assistance. 12% of Blacks.
 - Big difference in take up rates for southern vs non-southern Black veterans.
 - Not for south vs non-nonsouthern White veterans.
- **Differences in hours of education Black v White.**
- **Differences in quality of educational institution.**
 - White colleges and universities actively increased enrollment.
 - HBCUs did not have the resources to do so.
 - Black veterans often pushed toward vocational training.

GI Bill: Housing

- **In 1947:**

- **2 of 3,200 VA loans in Mississippi went to Black veterans.**

- **100 of 67,000 loans in NY and Northern NJ went to Black veterans.**

Anti-Discrimination

Note About Legislation and Other Efforts

- **There is always a tradeoff inherent in policies.**
 - Equity vs efficiency
 - It is possible, but not necessarily true, that anti-discrimination laws will reduce efficiency.
 - However, there may be equity considerations and offsetting externalities that cause them to be in the public interest.



1954 Brown v. Board of Education

- **1896: Plessy v. Ferguson**
 - Ruled that segregated public facilities were legal, so long as of equal quality.
 - Applied to buses, school, and other public facilities
 - o Sanctioned Jim Crow laws.
- **Brown: helped to establish that separate-but-equal is not equal at all.**
 - Lower court ruled:
 - o “[D]etrimental effect on colored children”
 - o Contributed to “a sense of inferiority”
 - o But upheld separate but equal doctrine.
 - Supreme Court: “Separate but equal” has no place – inherently unequal.



Brown Impact

- **Was steadfastly resisted in much of the south.**
- **Helped to fuel the civil rights movement.**
- **Did not desegregate schools.**
 - Schools remain highly segregated today.
 - Racial inequities abound.
 - Washington DC, a school with 11% low-income students is 1 mile from a school with primarily low-income students.

Economic Impact of Equalization

- **If southern-born Black men had attended white schools:**
 - 1920s cohort: would have earned 6 to 9% more than they actually did in 1970.
 - 1930s cohort: gap was just 2 to 5%
 - o Because of increasing litigation, local officials were taking the “equal” part of “separate but equal” more seriously.
 - Also clear that quality affects extent of education.
 - o Parental education is important for child’s level of education.
 - o Lack of equality spilled over across generations.
- **Legal action and Brown did help to narrow the wage and education gap between Black and White workers.**
 - Brown and desegregation narrowed southern-born and nonsouthern-born Black wage gap by 10 percentage points.

1957 Civil Rights

- For decades after Reconstruction, the U.S. Congress did not pass a single civil rights act.
- In 1957, it established within the Justice Department:
 - A civil rights section, and
 - a Commission on Civil Rights to investigate discriminatory conditions.



Anti-Discrimination Legislation of the 1960s

- **1964 – Civil Rights Act**
 - Ended Jim Crow and legal separation.
- **1965 – Voting Rights Act**
 - Enforced the 15th Amendment.
- **1968 – Fair Housing Act**
 - Addresses widespread discrimination in home sales, realtor services and rent.



Civil Rights Movement and Legislation

- **Dismantled de jure segregation and discrimination in:**
 - Labor markets
 - Education voting rights
 - Health care
 - Public accommodations
 - Housing
- **Significant gains in Black men's wages relative to White men...**
 - Until 1980. Very little ground gained since then.

Civil Rights Act of 1964

- **Segregation** on the grounds of race, religion or national origin was **banned** at all places of public accommodation, including courthouses, parks, restaurants, theaters, sports arenas and hotels.
- Barred race, religious, national origin and gender discrimination by **employers and labor unions**, and created an Equal Employment Opportunity Commission with the power to file lawsuits on behalf of aggrieved workers.
- **Forbade the use of federal funds for any discriminatory program**, authorized the Office of Education (now the Department of Education) to assist with school desegregation, gave extra clout to the Commission on Civil Rights and prohibited the unequal application of voting requirements.
- **Martin Luther King Jr.: Nothing less than a 2nd emancipation.**

Affirmative Action

- Education
- Employment
- Government Contracting

59

Affirmative Action – Costs and Benefits

- **Costs:**
 - Potential to displace those of other races/ethnicities.
 - Education, employment, government contracts
 - Potential to raise costs of doing business, both private and public.
- **Benefits:**
 - Education: potential to lift Black and Latino students in terms of post-secondary education.
 - Impact Black and Latino .

60

Affirmative Action – Costs and Benefits

- **Some evidence specific to prop 209 (1996):**

- Benefits:
 - Government contracts fell in cost by 5.6% after prop 209.
- Costs:
 - Measurable impact of prop 209 on educational quality for Black and Latino students.
 - Black and Latinos had discernable increases in lifetime earnings from affirmative action.
 - Measurable drop in Black and Latino employment.



61

Summary

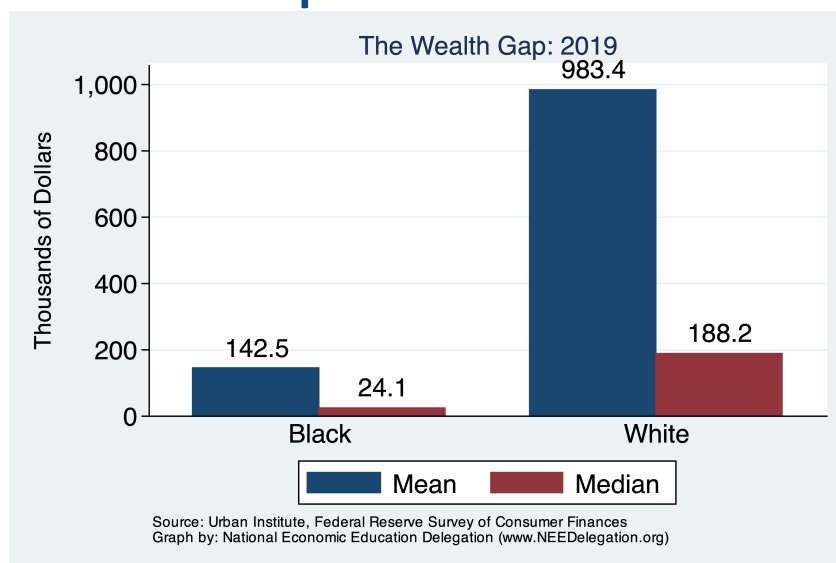
- **Discrimination in U.S. policy has been common through the post slavery years.**
 - Overt laws were on the books until the 1960s.
 - Effectively discriminatory laws played a massive role in the distribution of wealth across races.
- **The Civil Rights Era has reduced statutory discrimination, but there is still significant evidence of economic discrimination.**
- **The effect of more than 100 years of discrimination in policy is still readily measurable.**
 - Policy solutions: Come back next week.

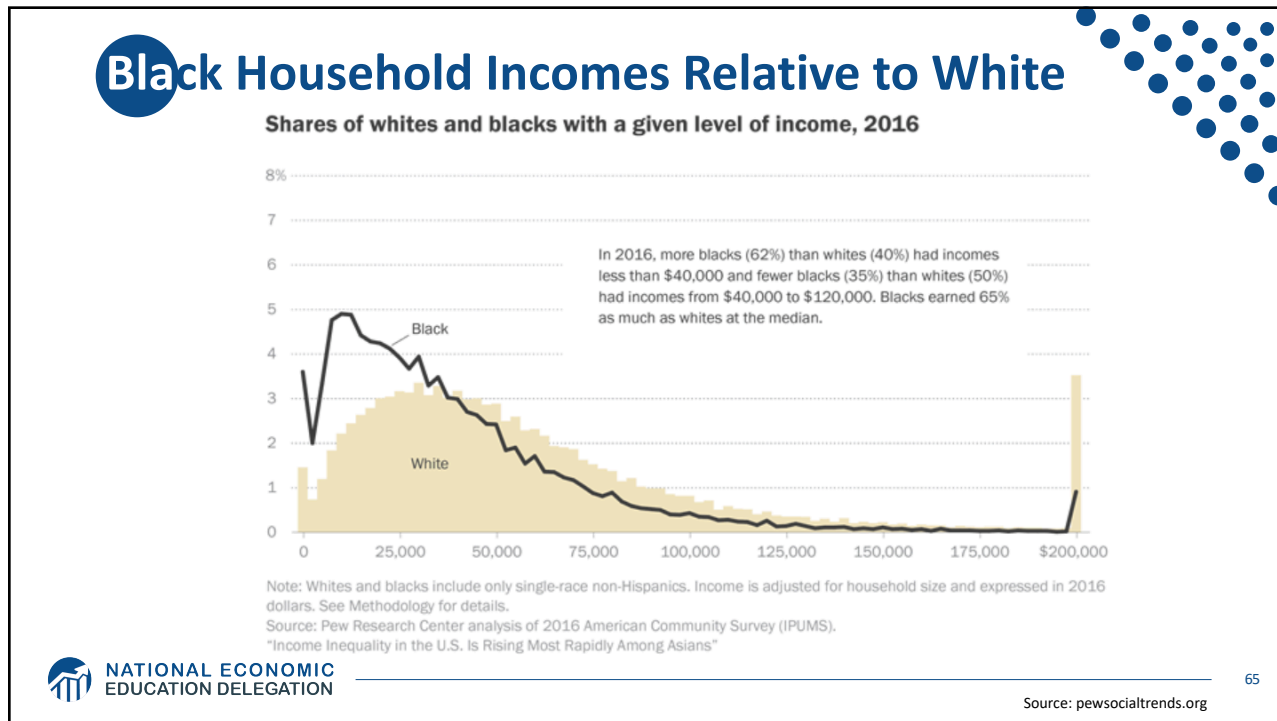


62

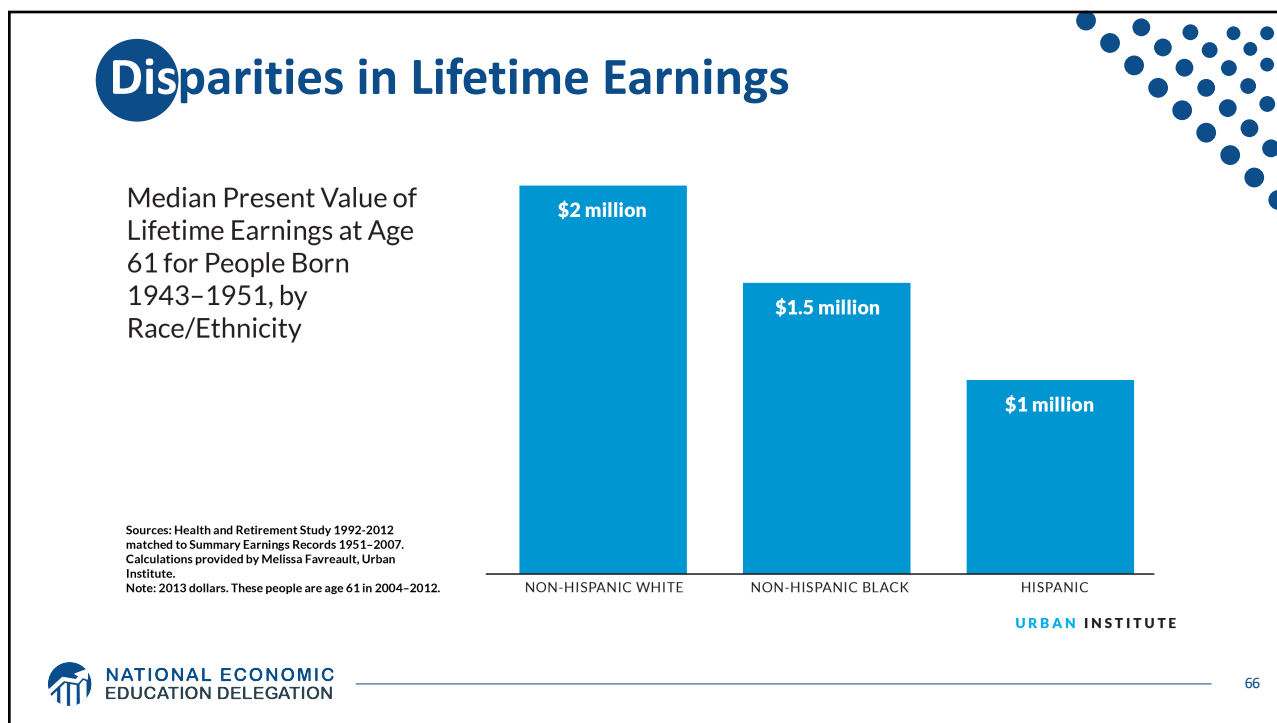
Where Does That Leave Things?

Evidence of the Gap in Wealth



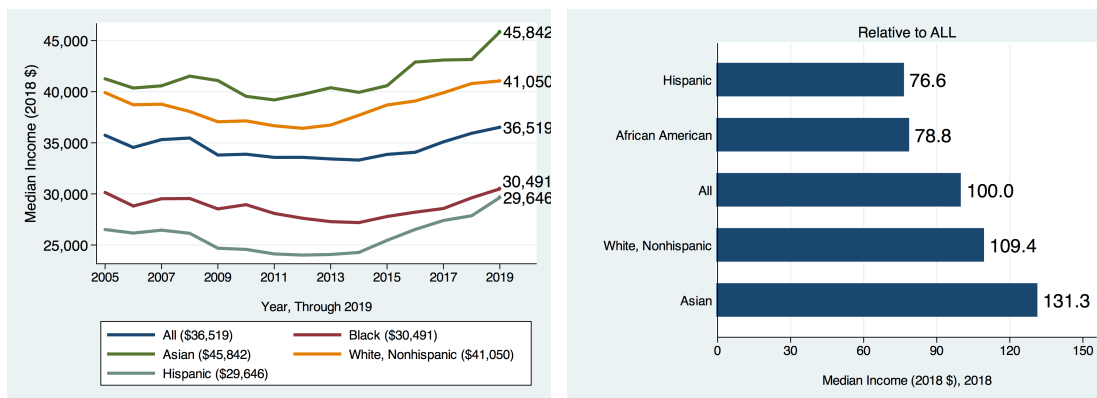


65



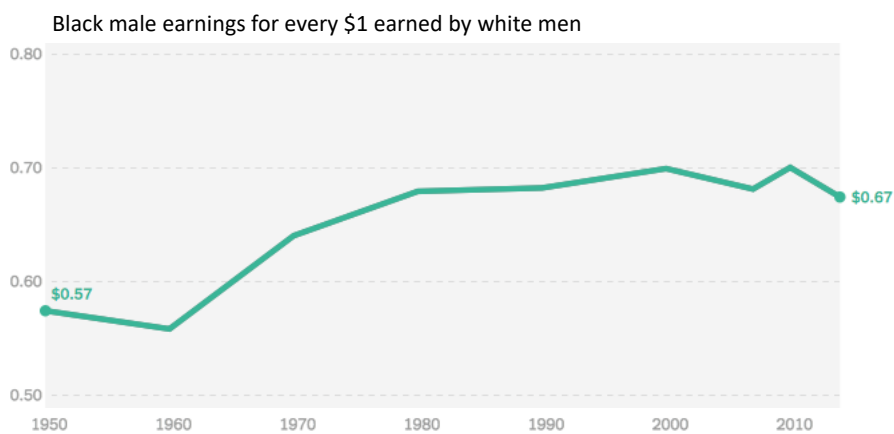
66

Median Income

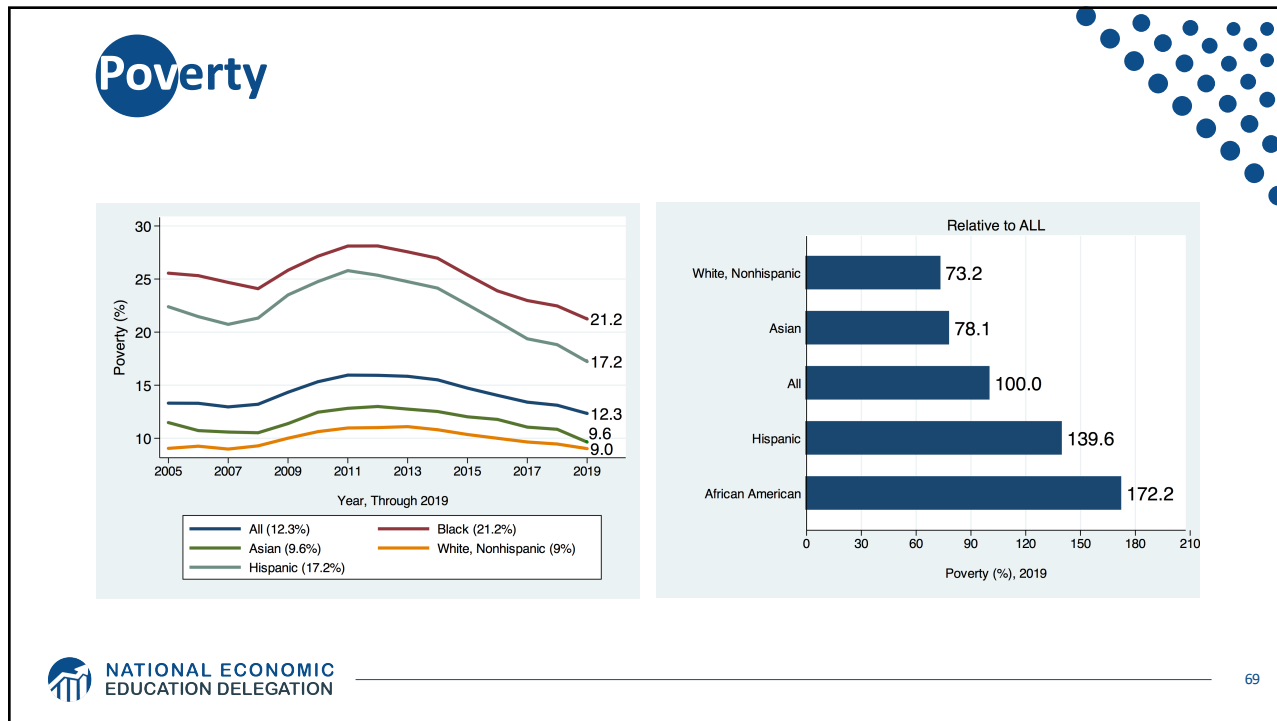


67

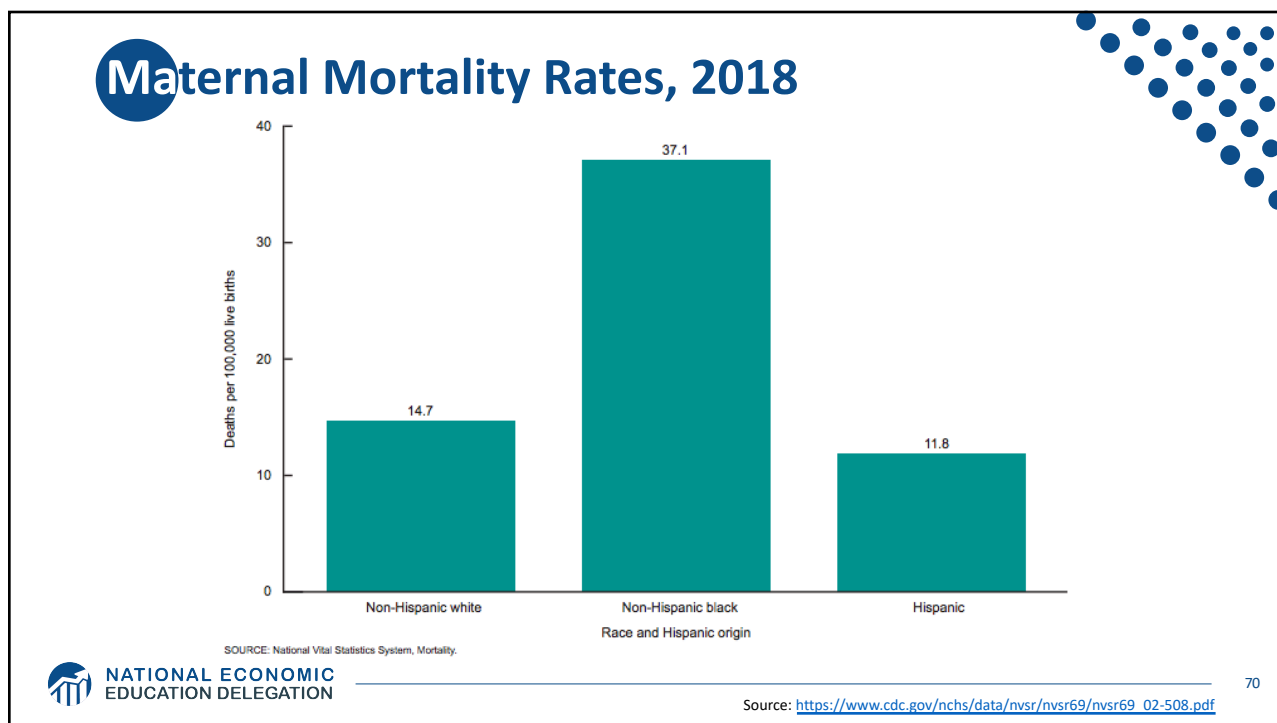
Little Wage Progress



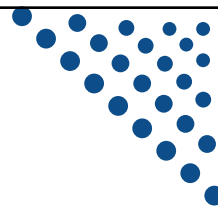
68



69



70



The Black-White Wealth Gap



Outline

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

What is Wealth? (Financial Wealth)

- **Income vs Financial 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.

- **Assets include:**

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

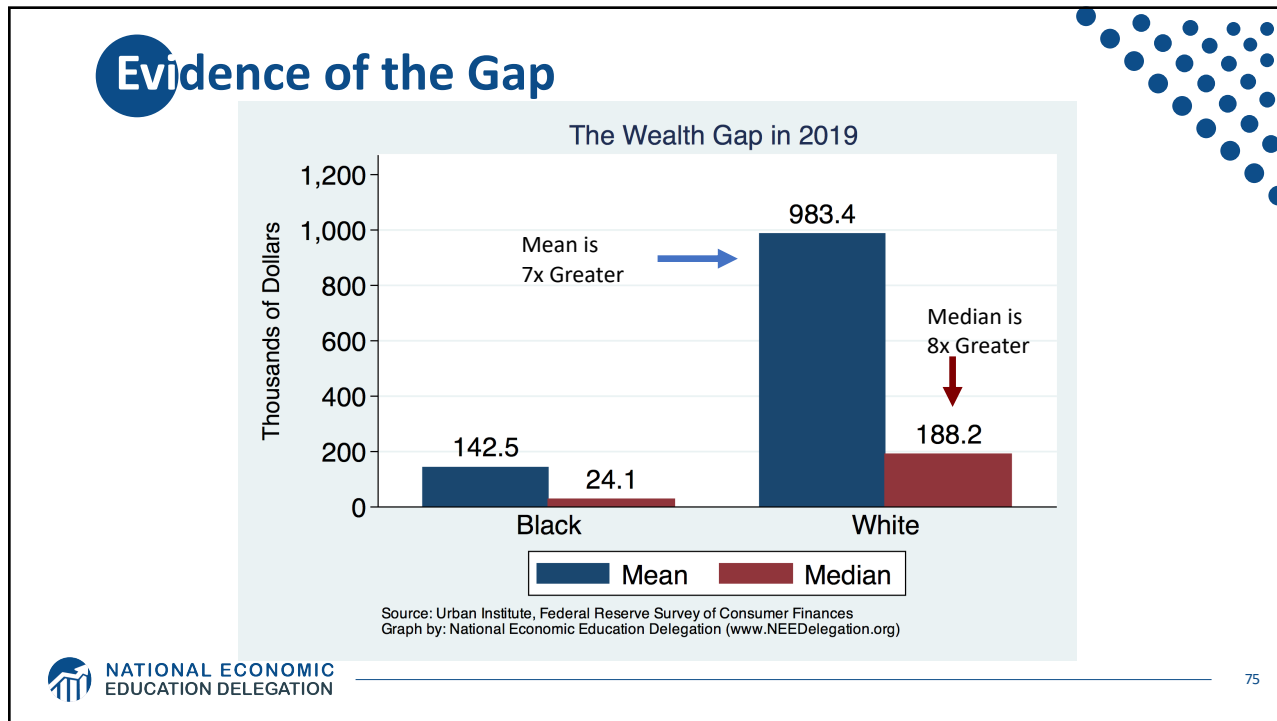
- **Debts include:**

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

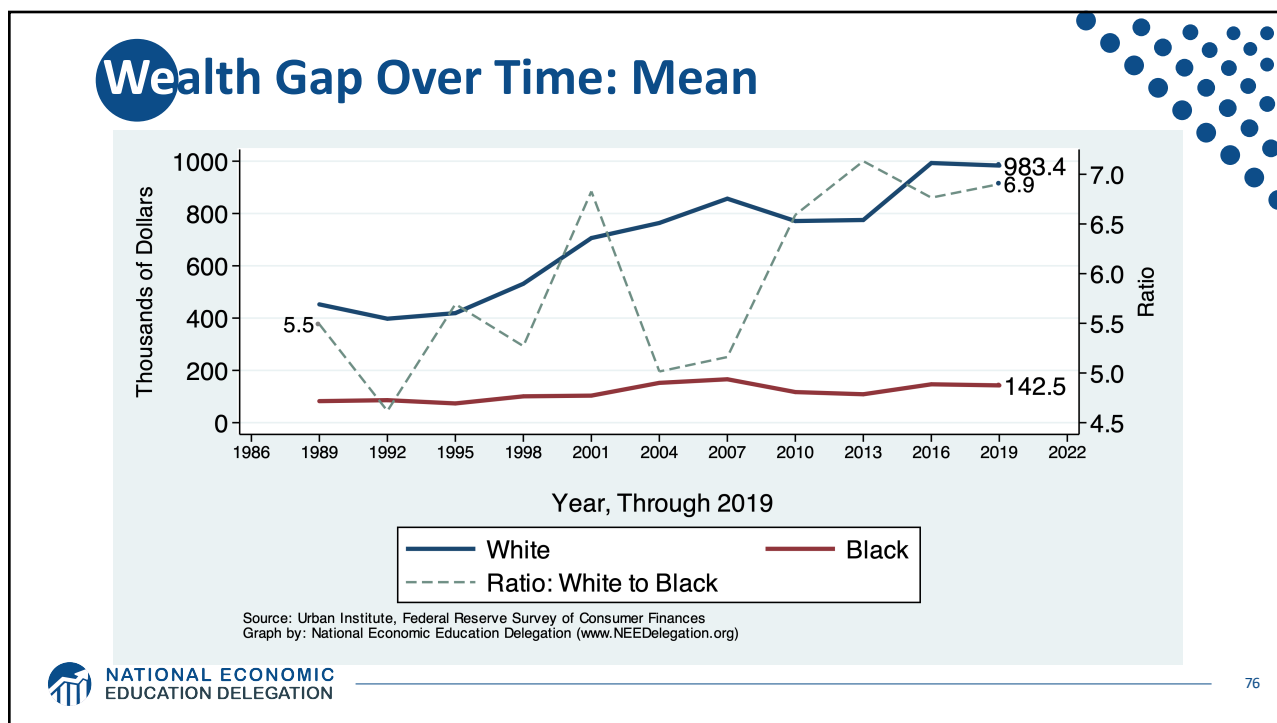


Evidence

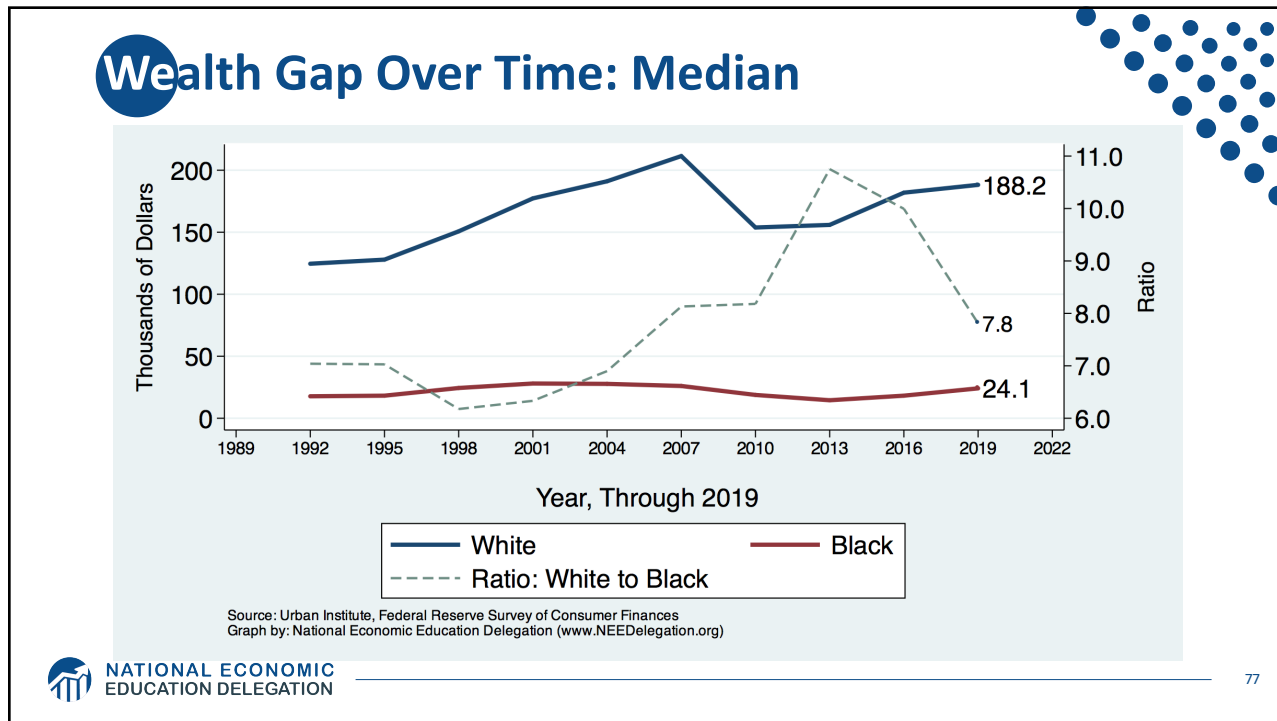




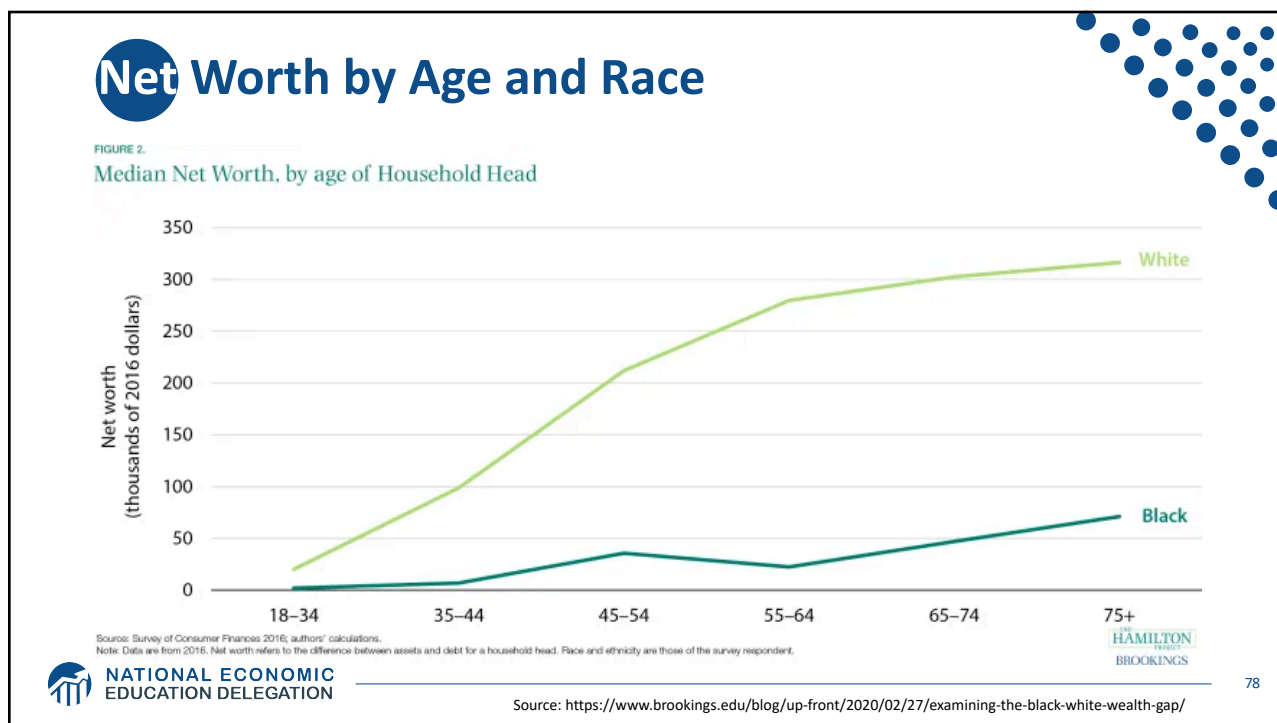
75



76

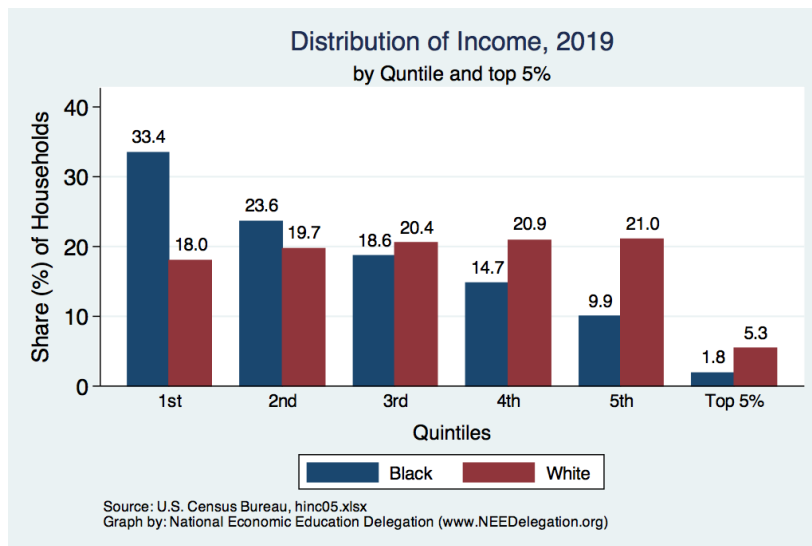


77



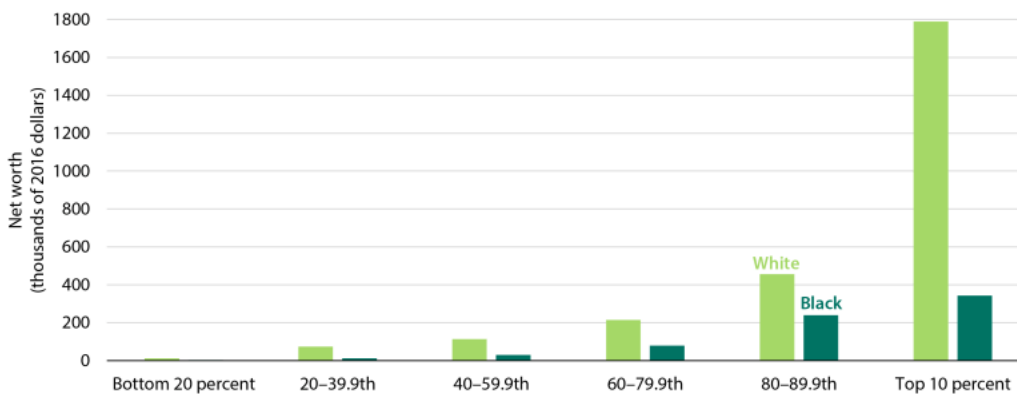
78

Black Household Incomes Relative to White



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.




Why Wealth is Important

 NATIONAL ECONOMIC EDUCATION DELEGATION


81

81



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

 NATIONAL ECONOMIC EDUCATION DELEGATION

82

82

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.

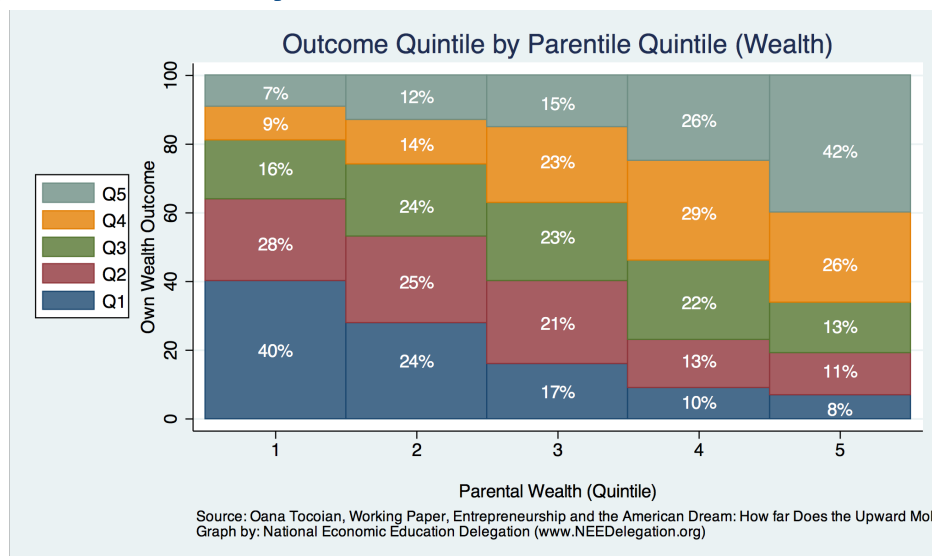
83

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.**

84

Wealth Mobility



85

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

86

Sources of Disparities



NATIONAL ECONOMIC
EDUCATION DELEGATION

87

87

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.**



NATIONAL ECONOMIC
EDUCATION DELEGATION

88

88

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.*



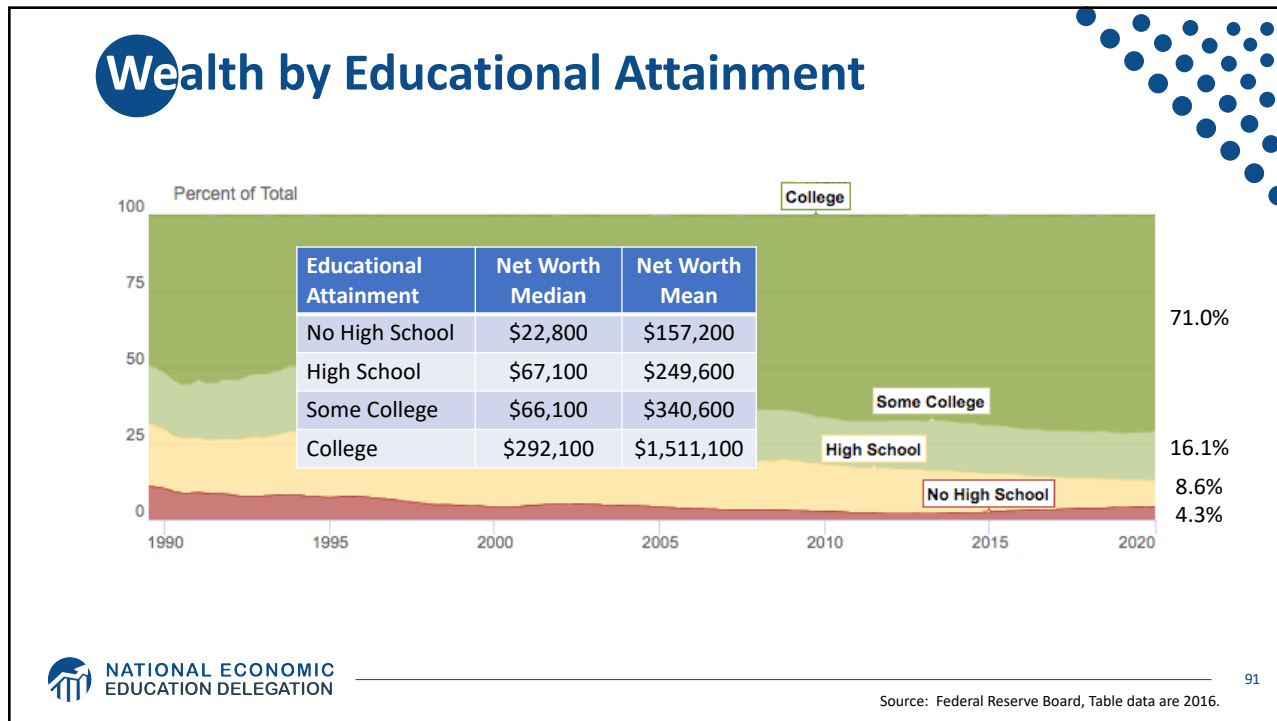
89

Potential Explanations: Differences in...

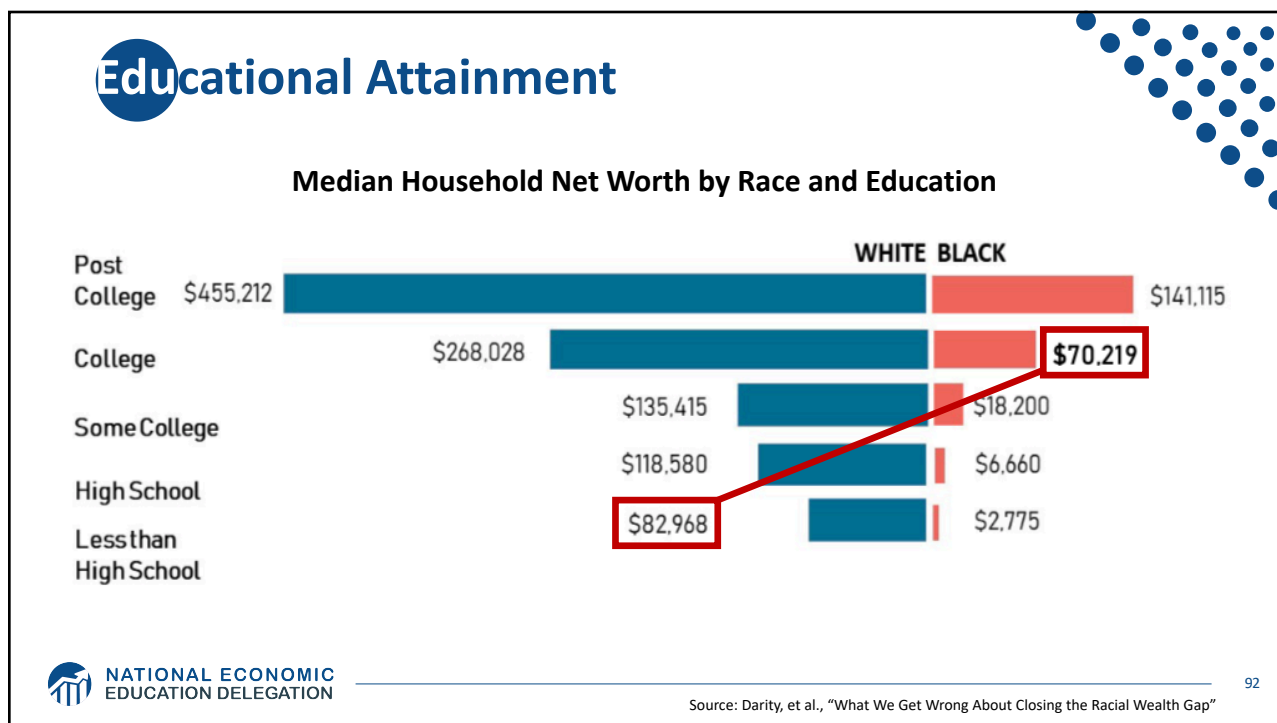
- | | |
|---------------------------------|--|
| • Educational attainment | • Soft skills and personal responsibility |
| • Home ownership | • Wages |
| • Increased savings | • Labor force participation |
| • Financial literacy | • Family structure |
| • Entrepreneurship | • Initial endowment |



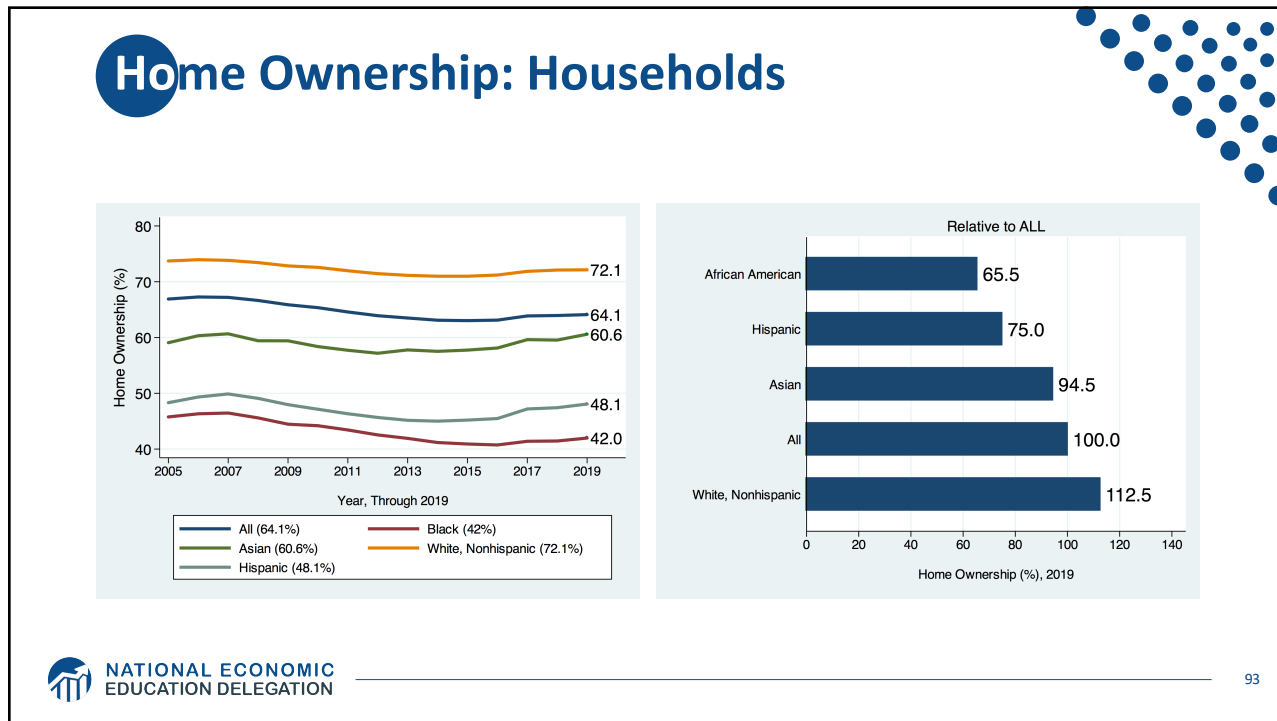
90



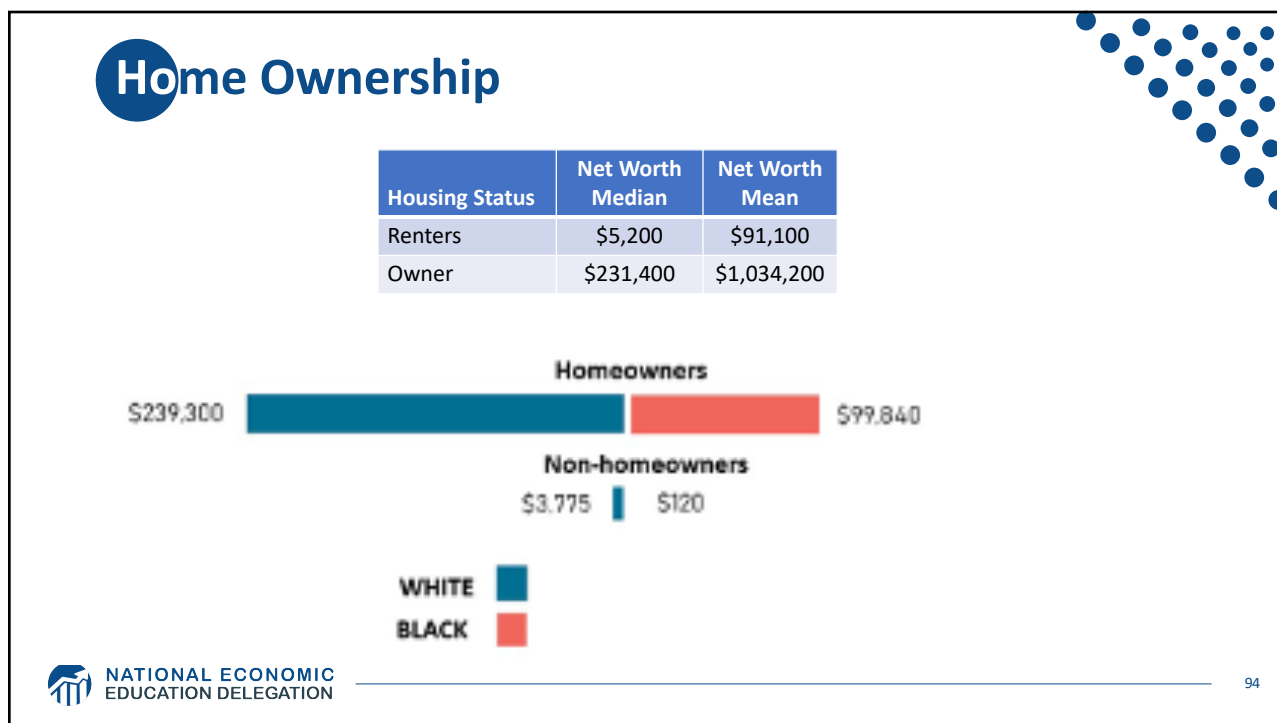
91



92



93



94

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.

95

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.**

96

Increased Savings

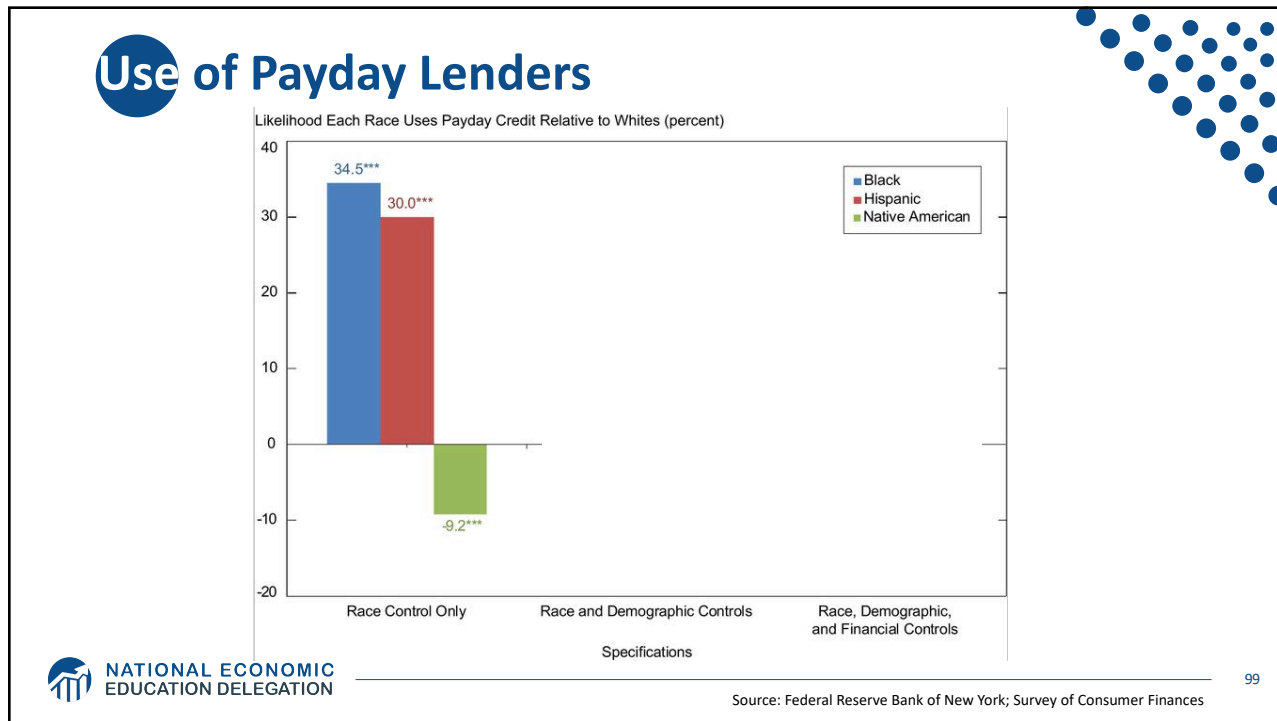
- **Historical evidence generated by economists ranging from Milton Friedman (1957) to Marjorie Galenson (1972) to Marcus Alexis (1971) to Gittelman and Wolff (2004).....**
 - All find that after accounting for household income, Blacks have a slightly higher savings rate than Whites.
- **Risk and reward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



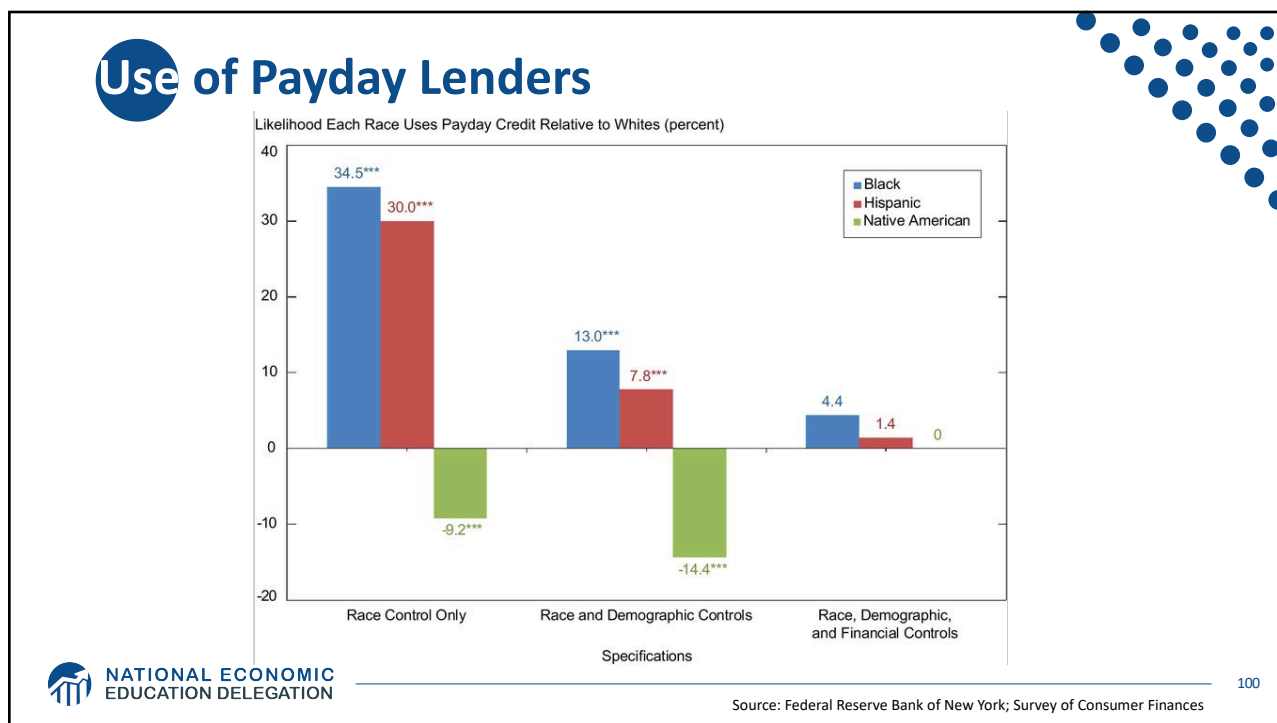
Financial Literacy

- **First bullet point. 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.
 - 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.**

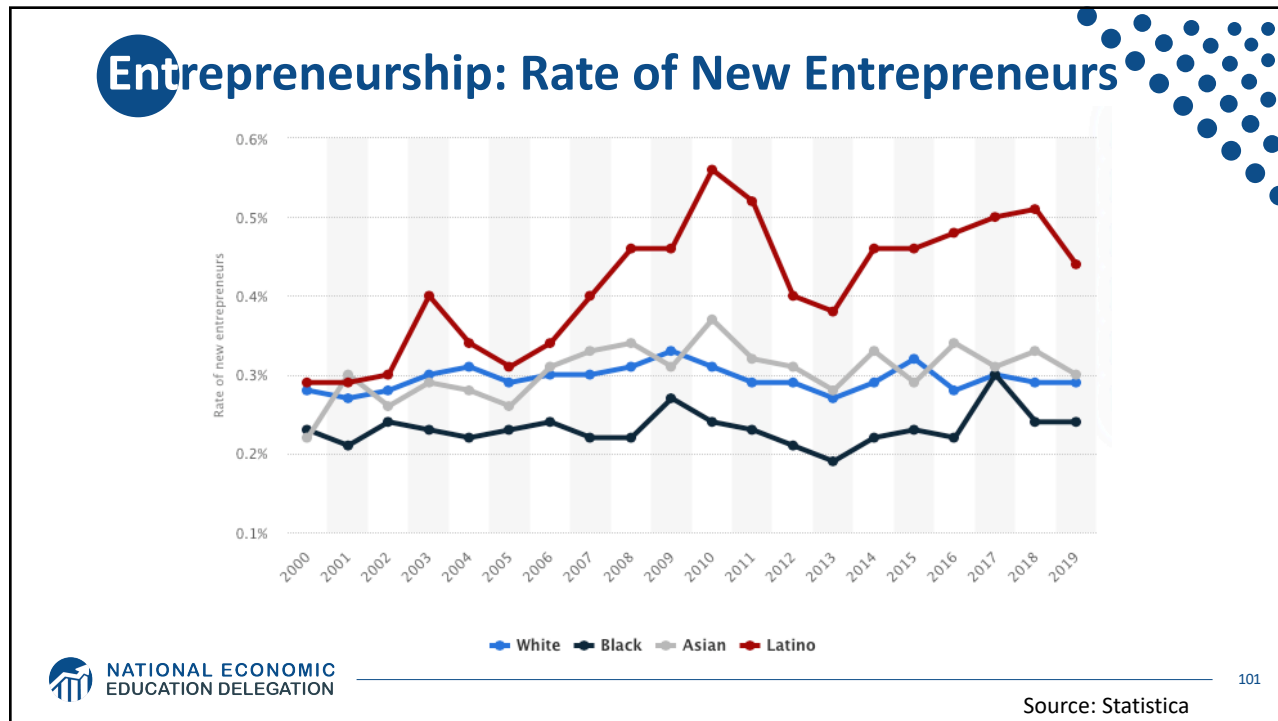




99



100



101

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.**
- **Different stocks of relevant social capital.**

NATIONAL ECONOMIC EDUCATION DELEGATION

102

Soft Skills and Personal Responsibility

• Employability

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

• Reality

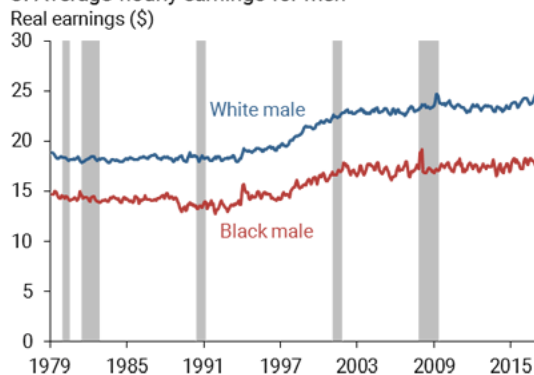
- Black workers are crowded into service sector jobs.
- Well represented in service, sales and office, and production, transportation, and material moving
- Relatively less well represented in construction, extraction, and maintenance.



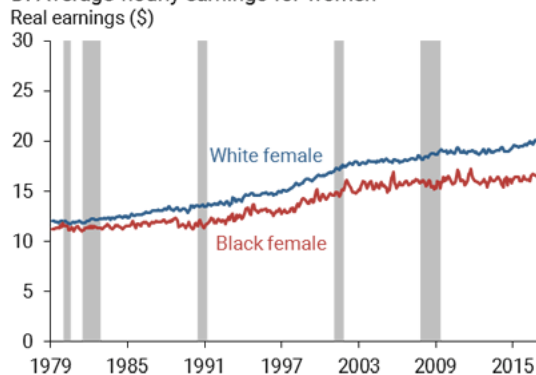
103

Wage Gap

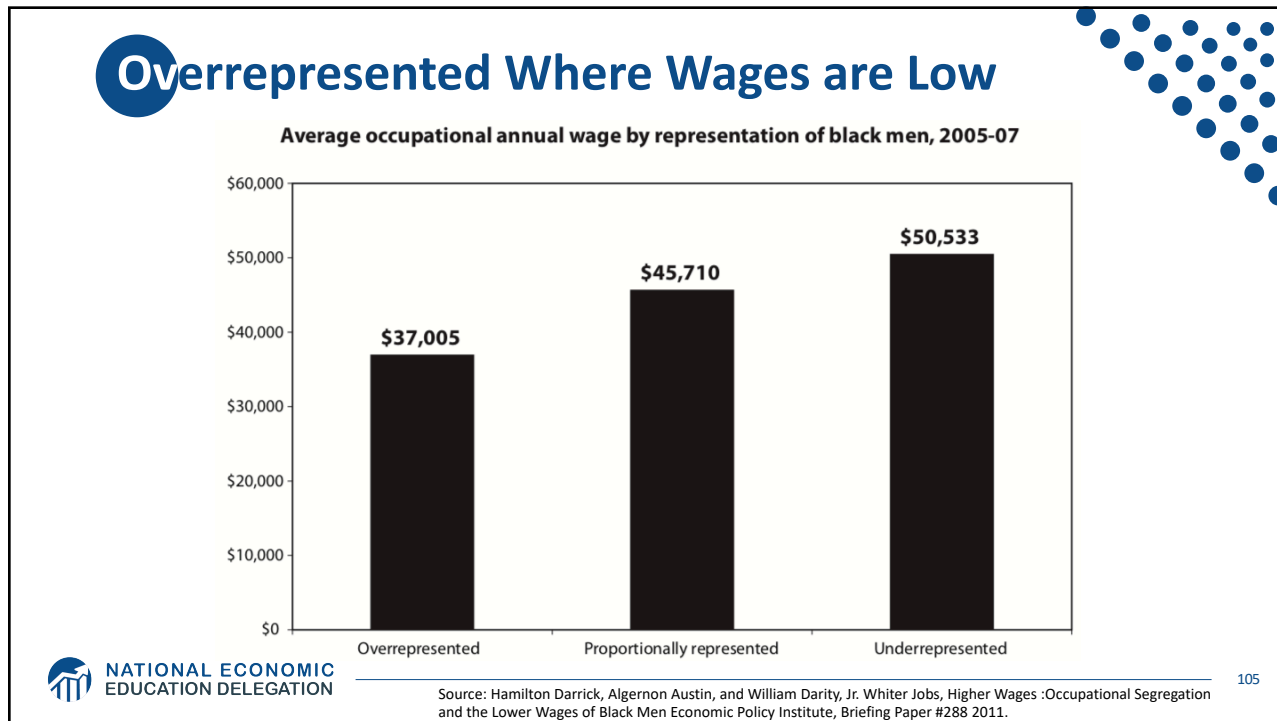
C. Average hourly earnings for men



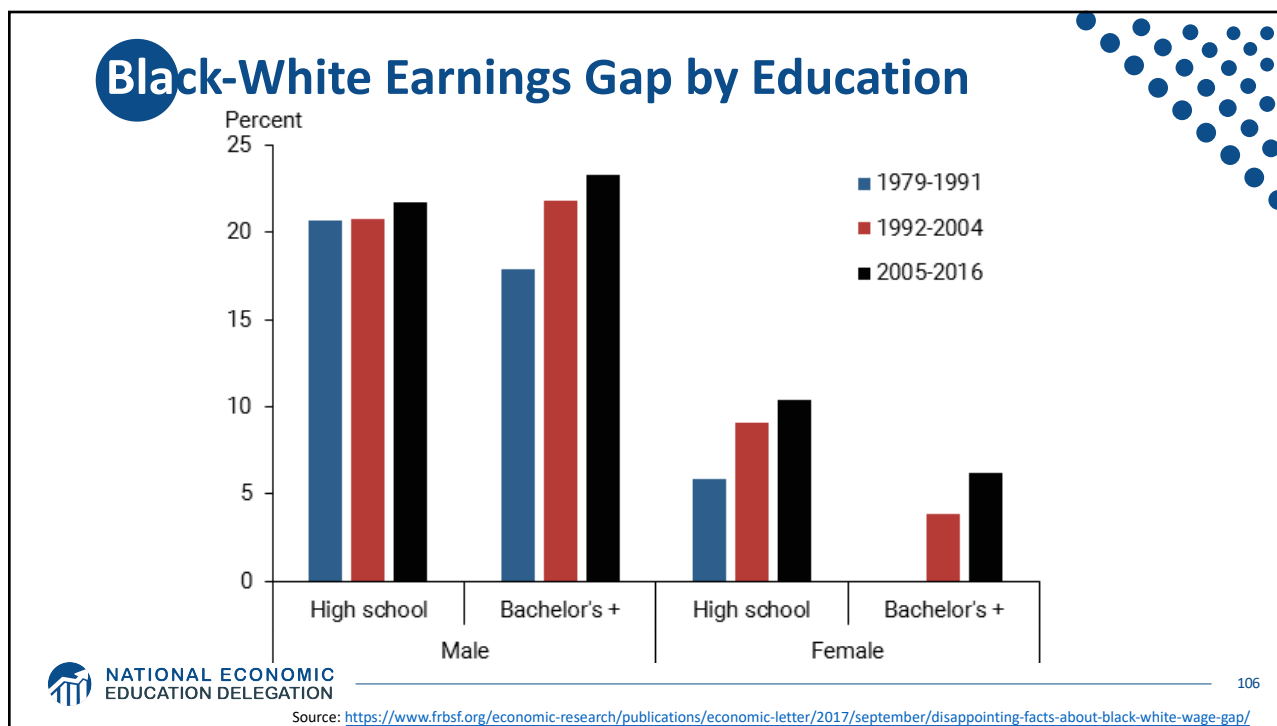
D. Average hourly earnings for women



104



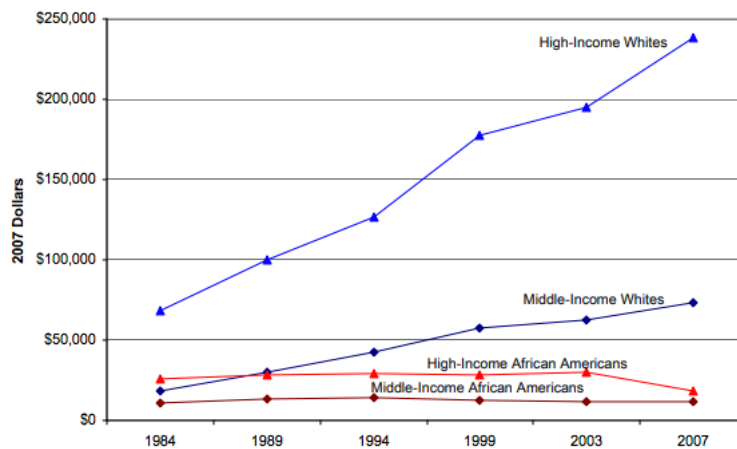
105



106

Equality of Income ≠ Equality of Wealth

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



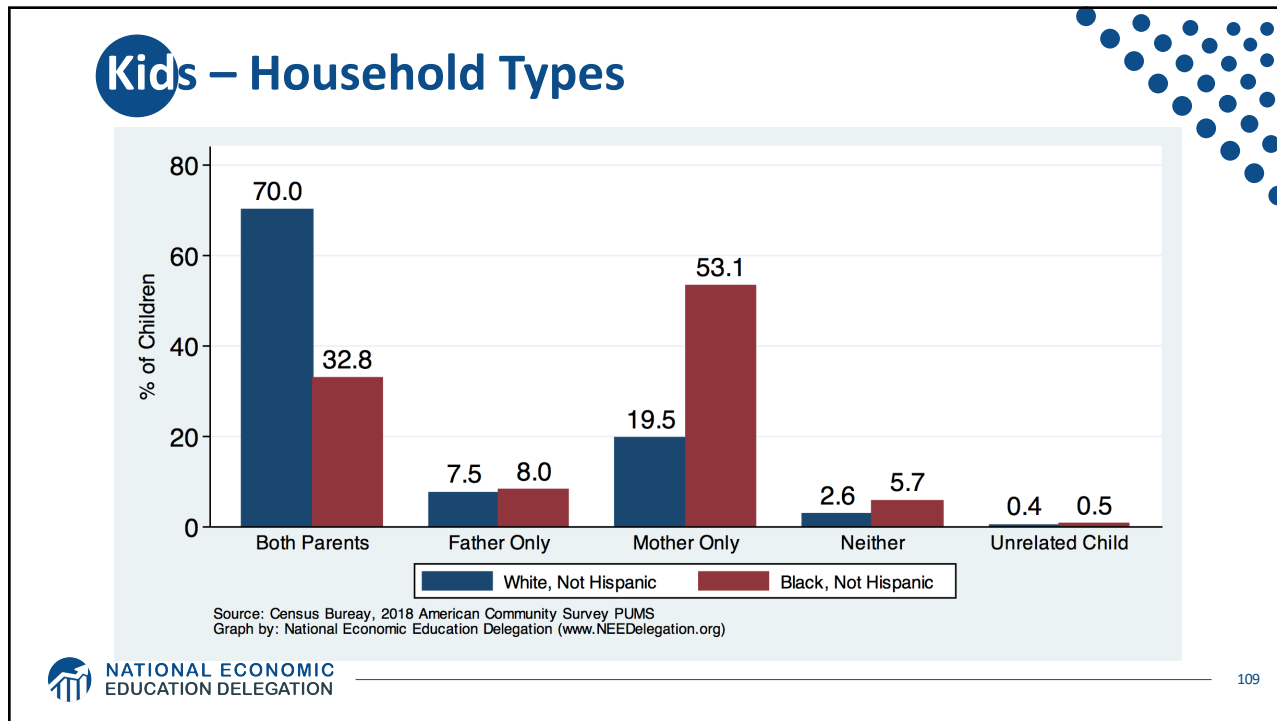
107

Family Structure

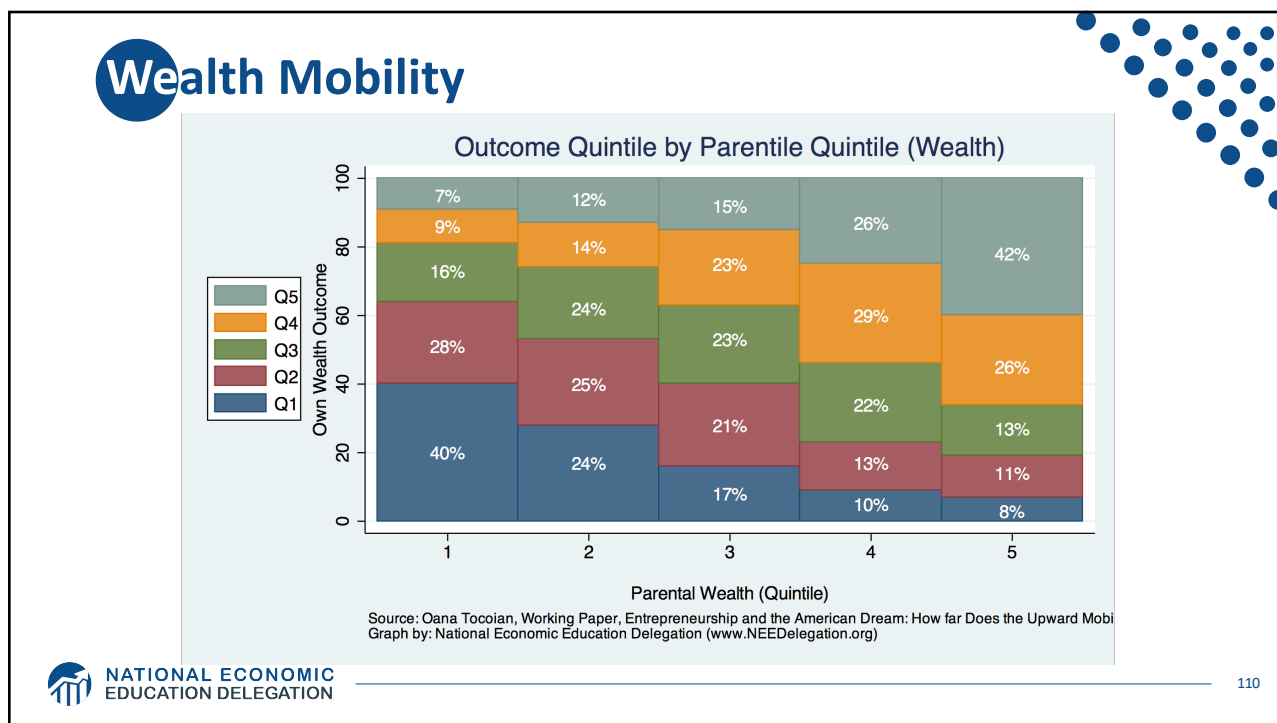
AGE	No Bachelor's Degree				With Bachelor's Degree			
	MARRIED		SINGLE		MARRIED		SINGLE	
	BLACK	WHITE	BLACK	WHITE	BLACK	WHITE	BLACK	WHITE
20-29	\$4,000	\$13,000	\$0	\$2,000	\$7,700	\$18,700	-\$11,000	\$3,400
30-39	\$12,000	\$33,450	\$0	\$0	-\$20,500	\$97,000	\$0	\$7,500
40-49	\$22,501	\$60,000	\$1,000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

108



109



110

What is Fundamentally Responsible?

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

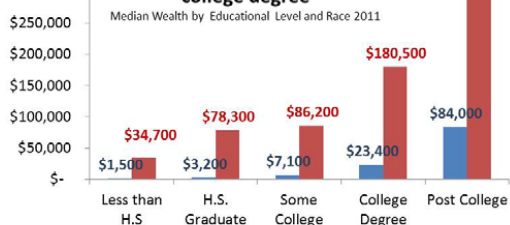
111

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

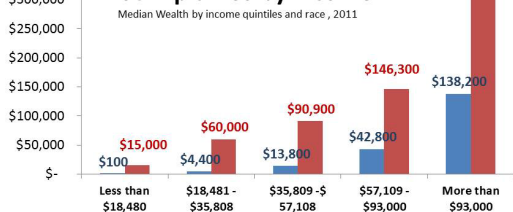


Studying hard is not enough

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



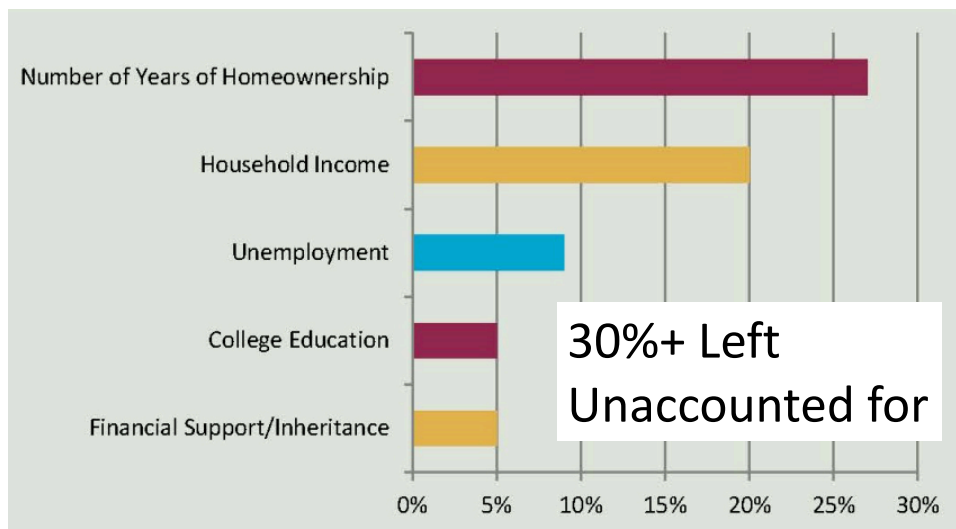
Racial Wealth Inequality is Not Explained by Income



■ Black
■ White

112

Accounting for the Wealth Gap



NATIONAL ECONOMIC EDUCATION DELEGATION

Source: <https://heller.brandeis.edu/iasp/pdfs/racial-wealth-equity/racial-wealth-gap/roots-widening-racial-wealth-gap.pdf>

113

113

Policy Options



NATIONAL ECONOMIC EDUCATION DELEGATION

114

114

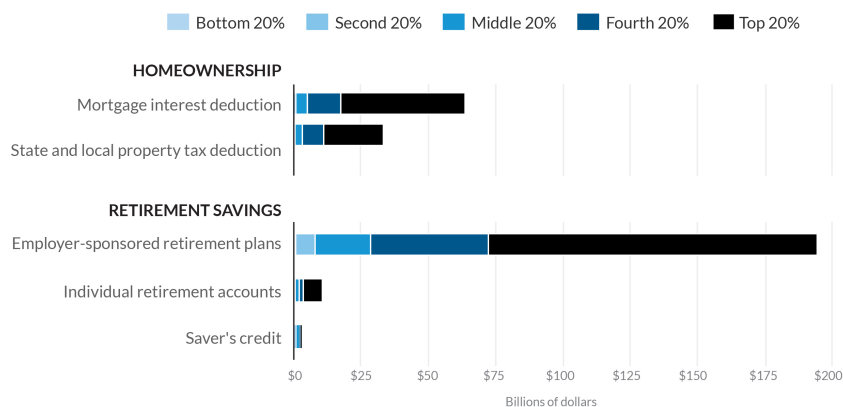
Categories of Policy Areas

- **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**

115

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).

116

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.

117

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.

118

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.

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

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.**

121

Thank you!

Any Questions?

www.NEEDelegation.org

Jon D. Haveman, Ph.D.

Jon@NEEDelegation.org

Contact NEED: info@needelegation.org

Submit a testimonial: www.NEEDelegation.org/testimonials.php

Become a Friend of NEED: www.NEEDelegation.org/friend.php

122

Available NEED Topics Include:

- Coronavirus Economics
- Climate Change
- Economic Inequality
- Economic Mobility
- US Social Policy
- Trade and Globalization
- Trade Wars
- The U.S. Economy
- Immigration Economics
- Housing Policy
- Federal Budgets
- Federal Debt
- 2017 Tax Law
- Autonomous Vehicles

