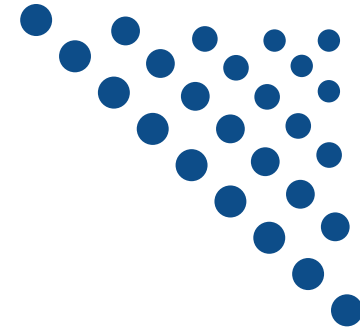


*Osher Lifelong Learning Institute, Winter 2021*  
**Contemporary Economic Policy**

**Dominican University**

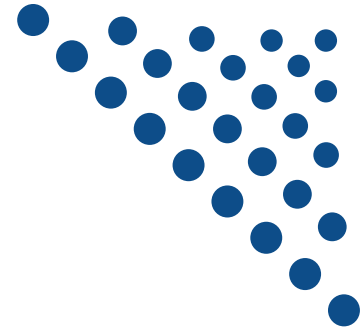
**Jon Haveman, Ph.D.**  
National Economic Education Delegation

# Course Outline



- **Contemporary Economic Policy**

- Week 1 (1/13): US Economy & Coronavirus Economics
- Week 2 (1/27): Healthcare Economics (Veronika Dolar, SUNY)
- Week 3 (2/3): Federal Debt (Geoffrey Woglom, Amherst College)
- Week 4 (2/10): Economic Inequality
- Week 5 (2/17): Racial Discrimination in U.S. Policy, A History
- **Week 6 (2/24): The Black-White Wealth Gap**



# Brief Review

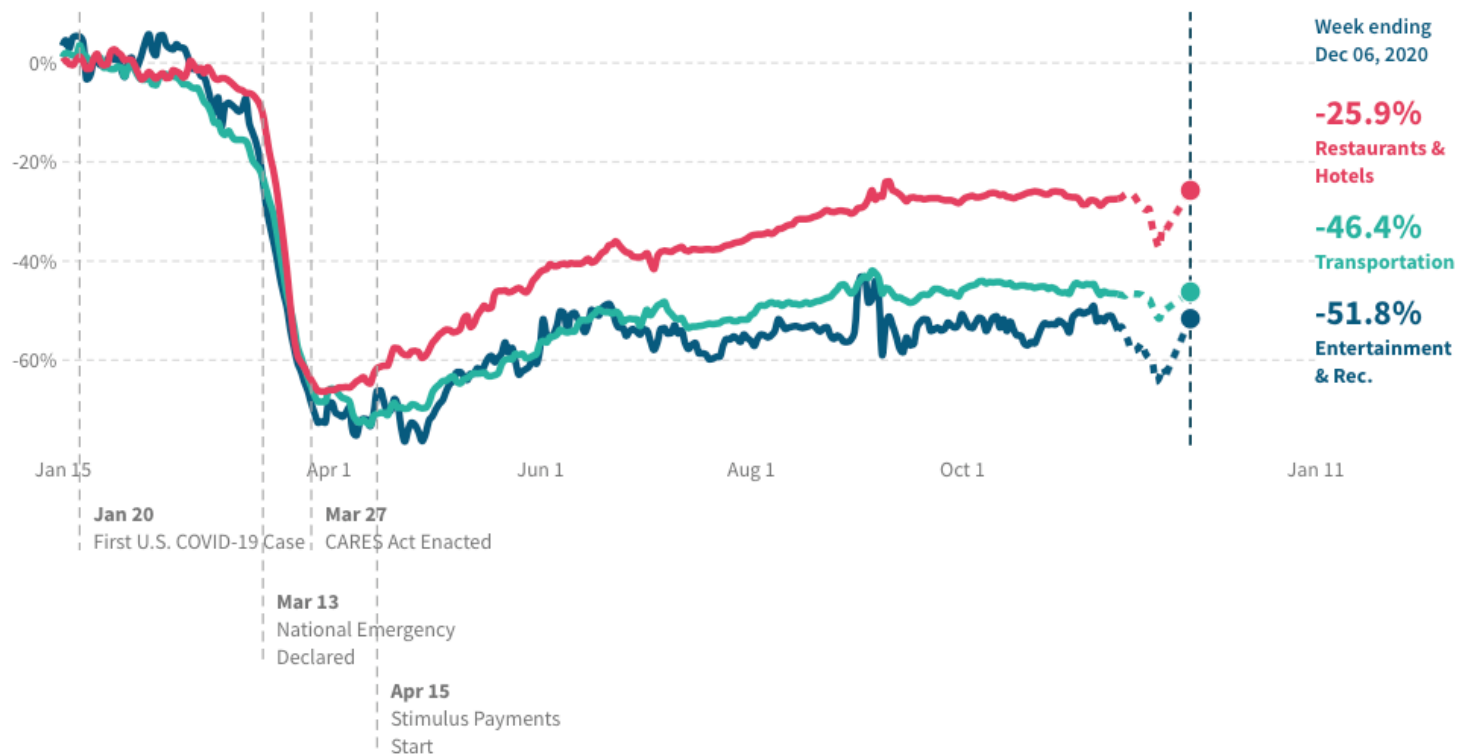
# Spending Patterns Since First US Case

In **the United States**, as of January 31 2021, total spending by all consumers increased by **0.4%** compared to January 2020.



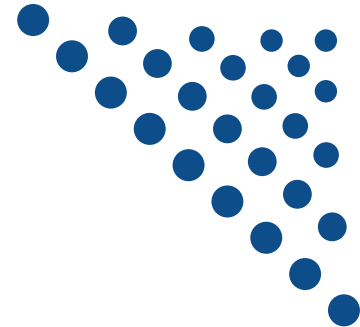
# Spending Patterns – Hardest Hit Sectors

In the United States, as of December 06 2020, arts, entertainment, and recreation spending by all consumers decreased by **51.8%** compared to January 2020.

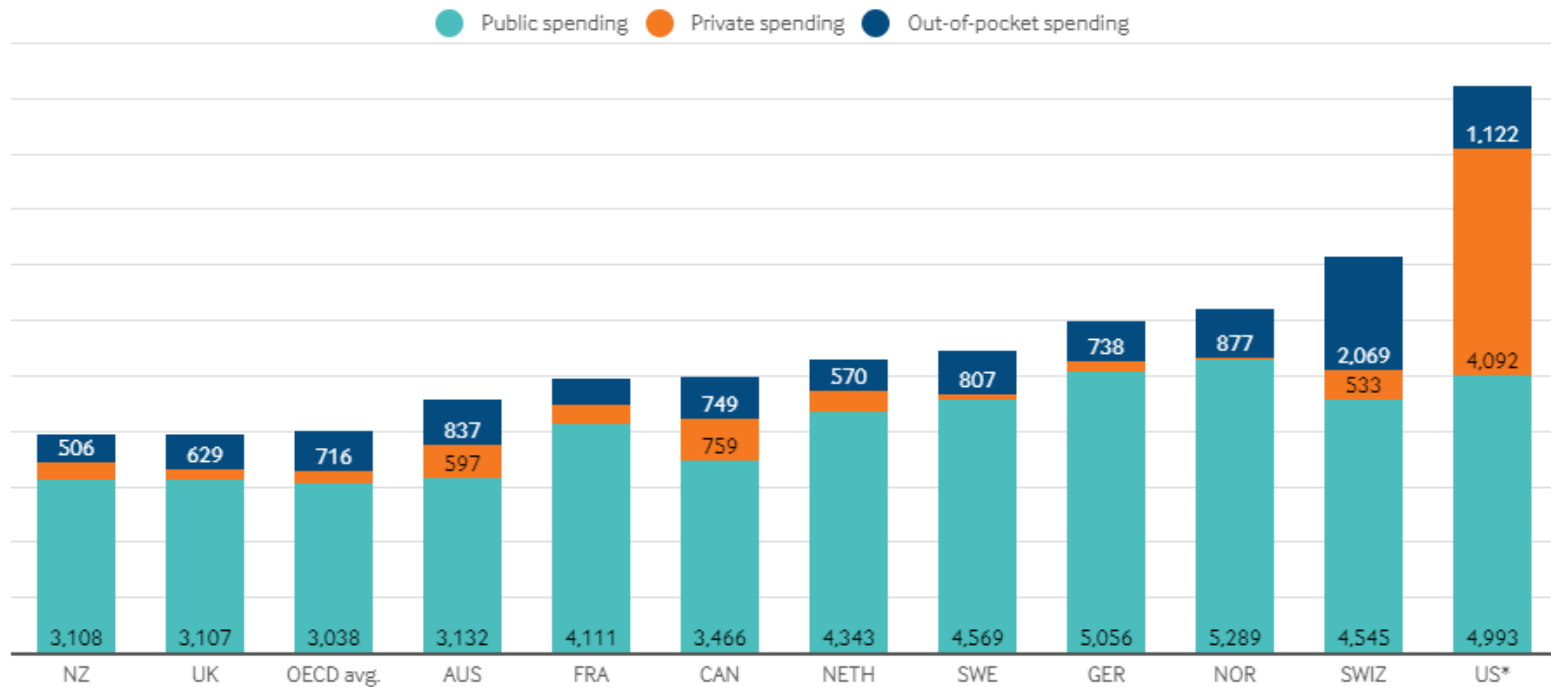


# International Comparison

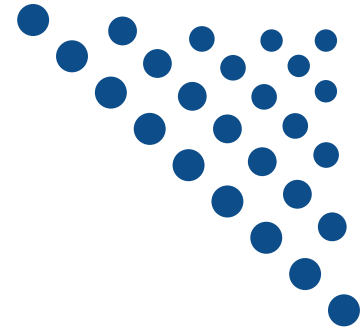
Dollars (US\$), adjusted for differences in cost of living



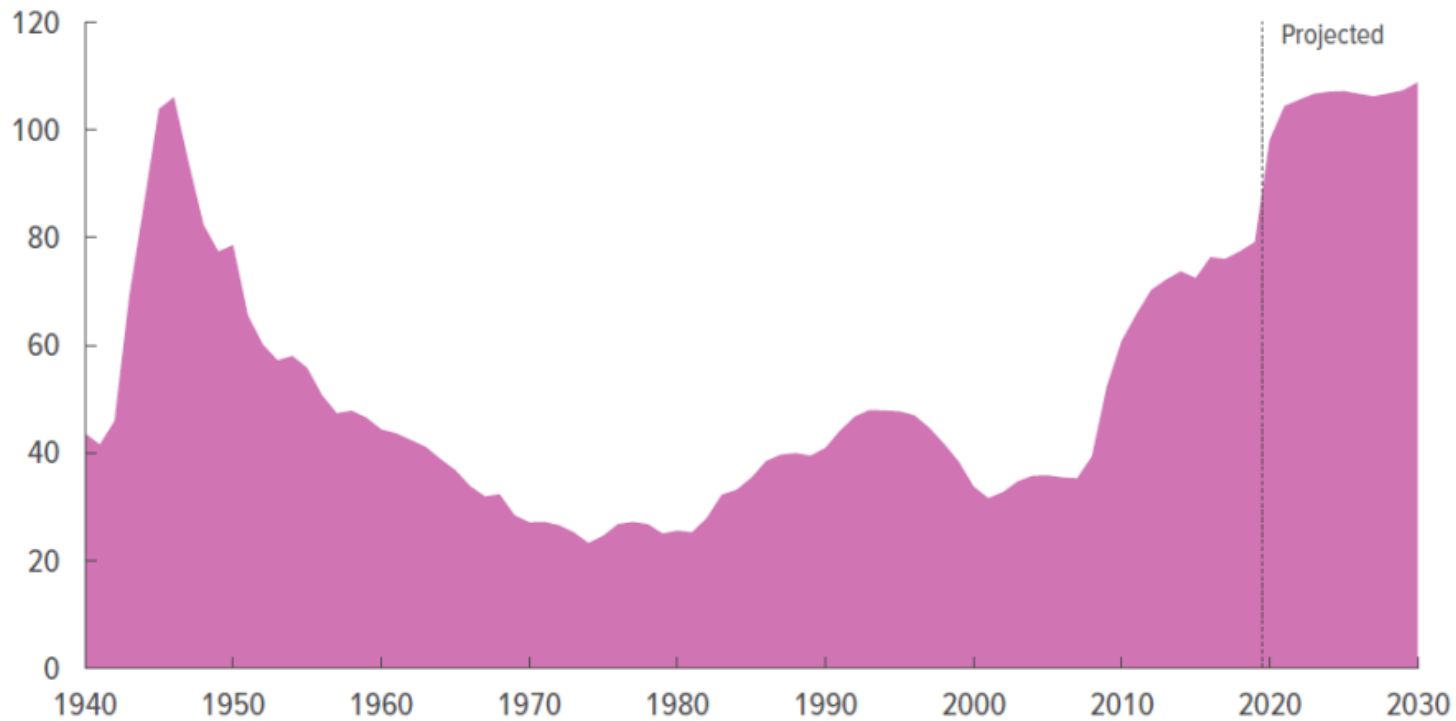
Total per-capita spending



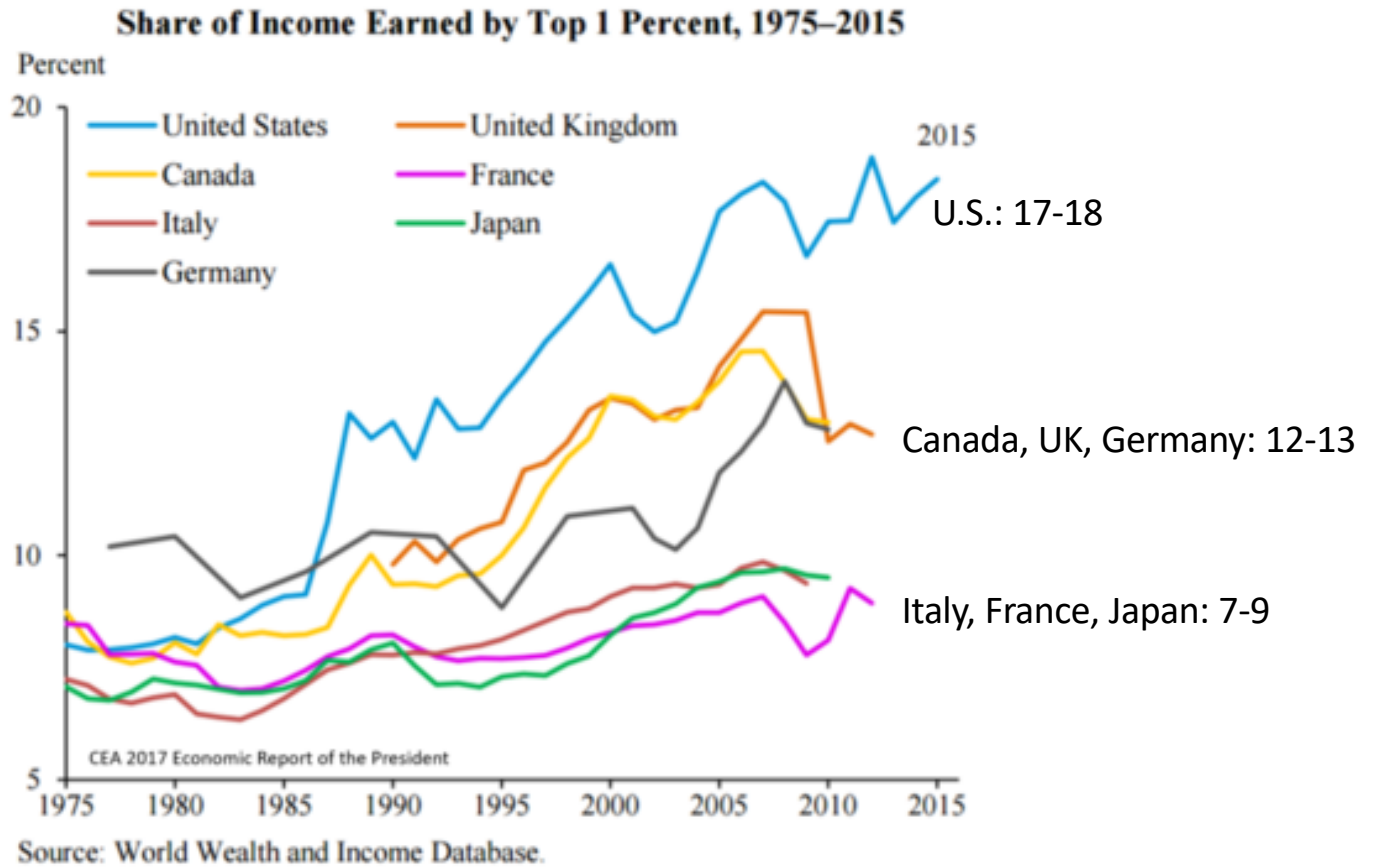
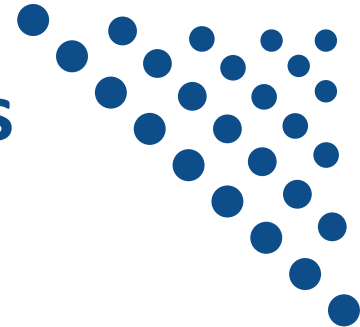
# Relative Debt since 1940 and Projections



Percentage of Gross Domestic Product

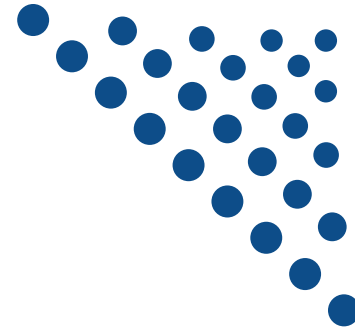


# An International Perspective: Comparables

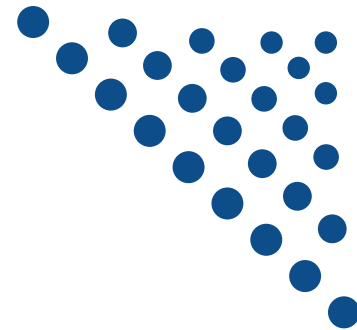




# Policies with Direct Racial Implications

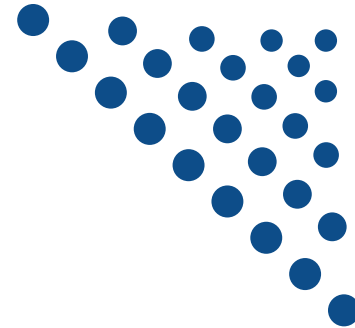


- **Slave trade**
  - The first deprivation
- **Slavery**
- **40 acres (and a mule)**
  - The second deprivation
- **Freedmen's Bank**
  - Lax oversight and dissolution.
- **Jim Crow Laws**
- **Homestead Act**
  - Discriminatory distribution of land.
- **Land theft and destruction**
  - E.g., Black Wall Street – Tulsa, 1921
- **GI Bill**
  - Discriminatory access – Levittown
- **Federal Housing Authority**
  - Redlining
- **And many more.**



# The Black-White Wealth Gap

# Credits and Disclaimer



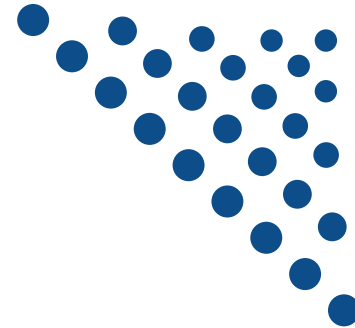
- **This slide deck was authored by:**

- 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).

# Outline



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



# Evidence

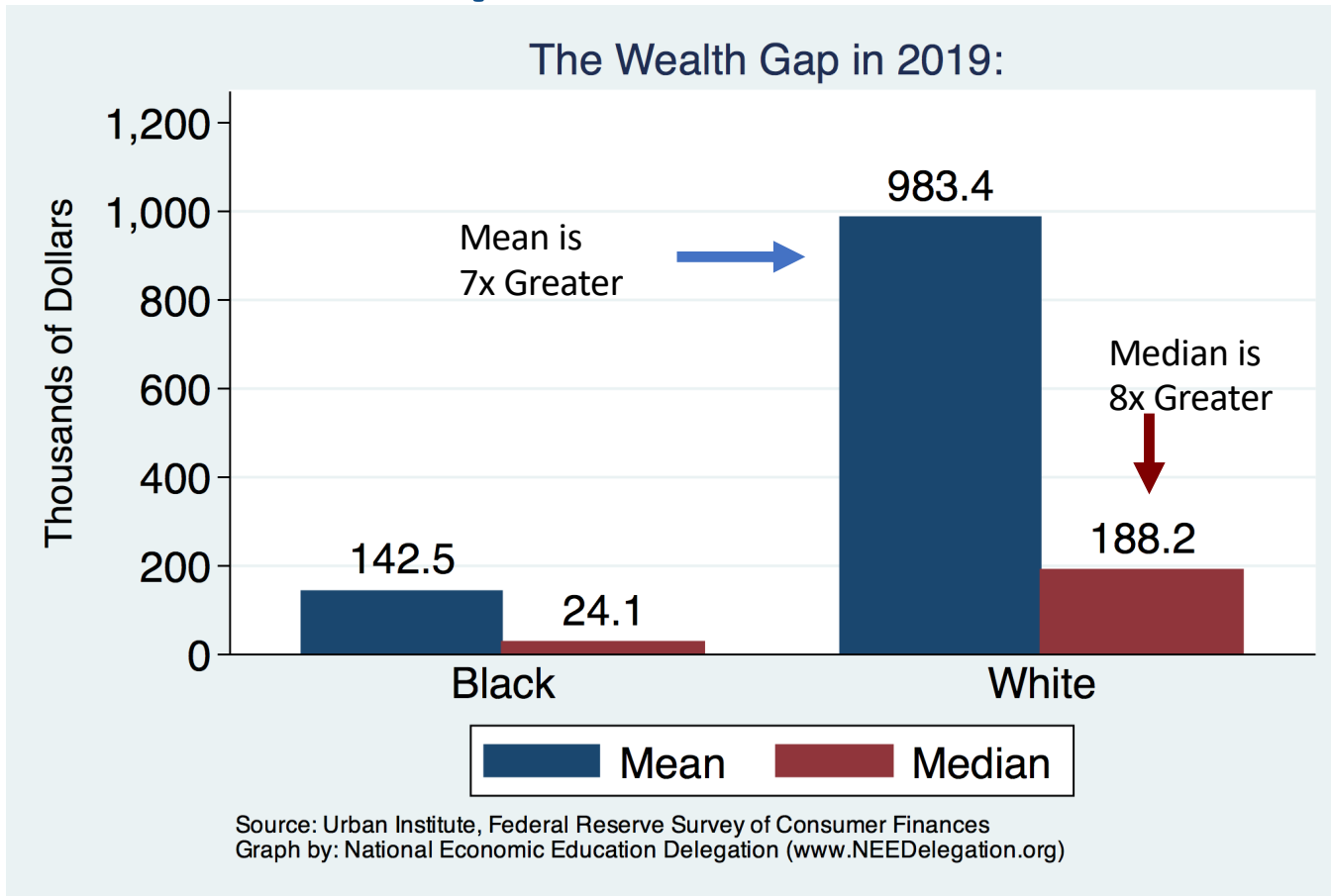
# Wealth Disparities, 2019



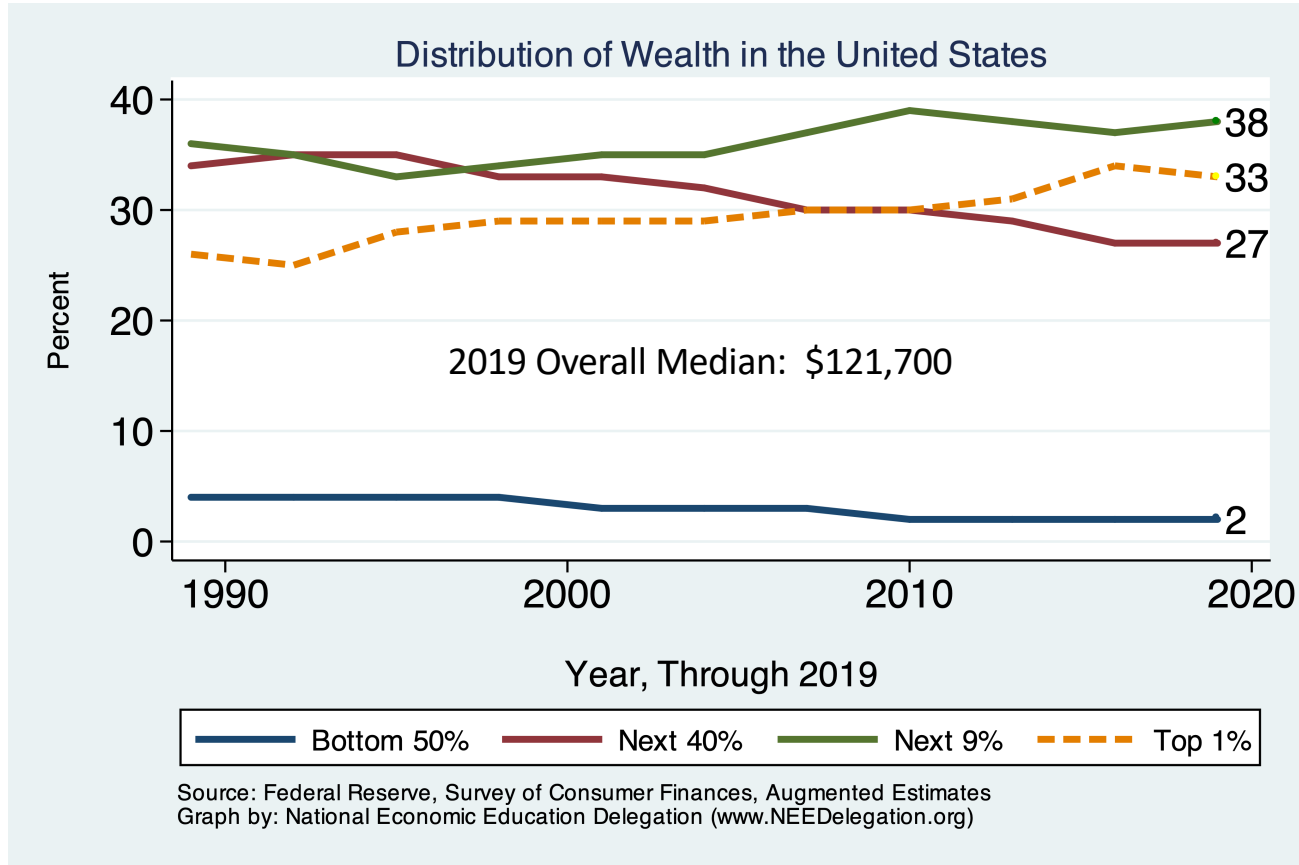
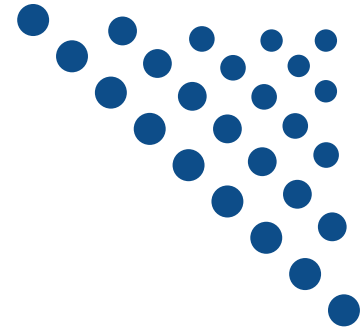
Race/Ethnicity	Mean Wealth	Share of Families	Share of Wealth	Ratio of Shares
White, non-Hispanic	\$983,400	64.9	85.3	1.3
<b>Black, non-Hispanic</b>	<b>\$142,500</b>	<b>14.2</b>	<b>2.7</b>	<b>0.2</b>
Hispanic or Latino	\$165,500	9.6	2.1	0.2
Other or Multiple Race	\$657,200	11.3	9.9	0.9



# Evidence of the Gap

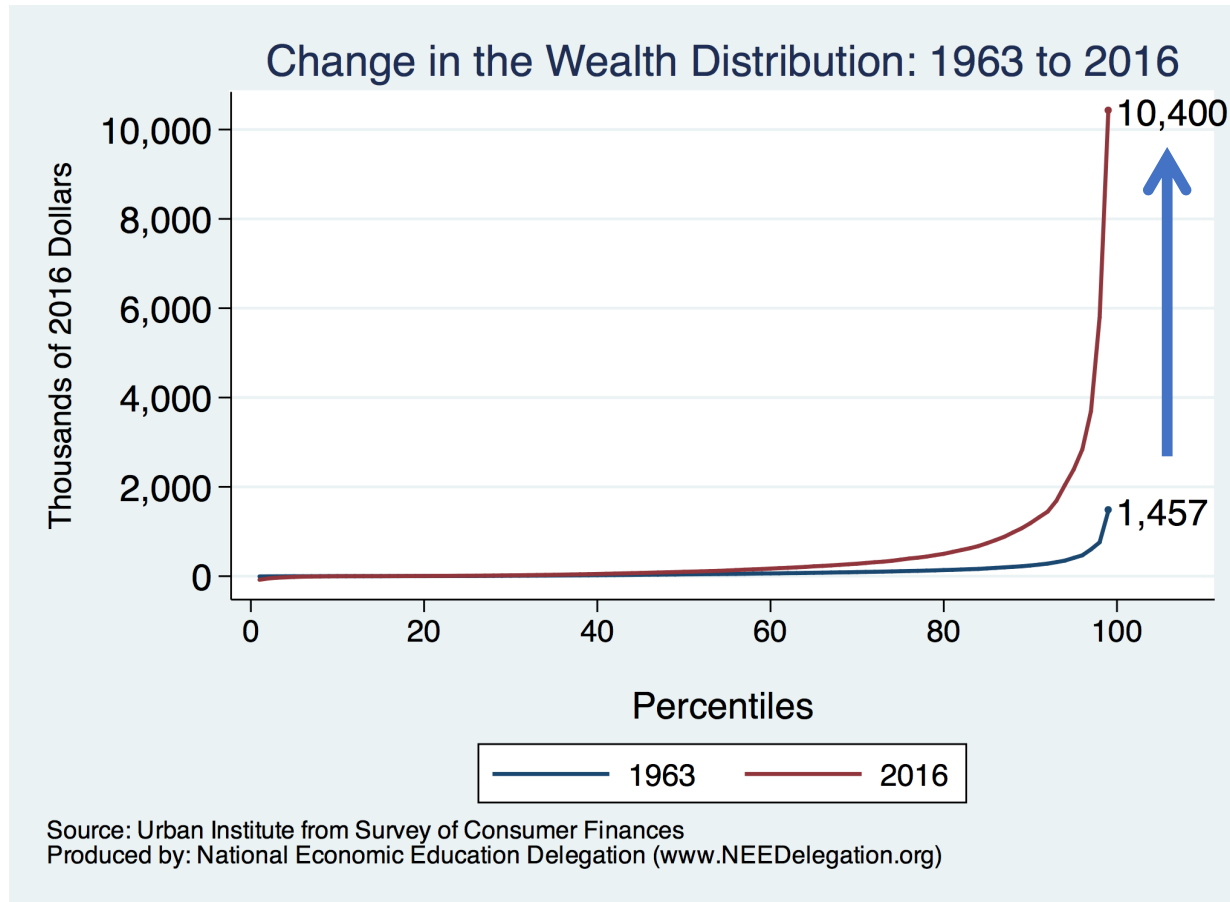
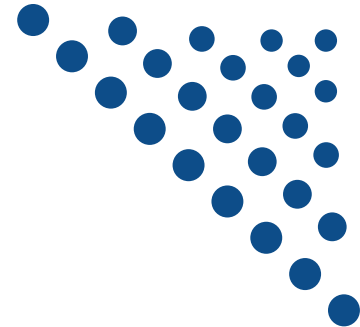


# Overall Wealth Distribution



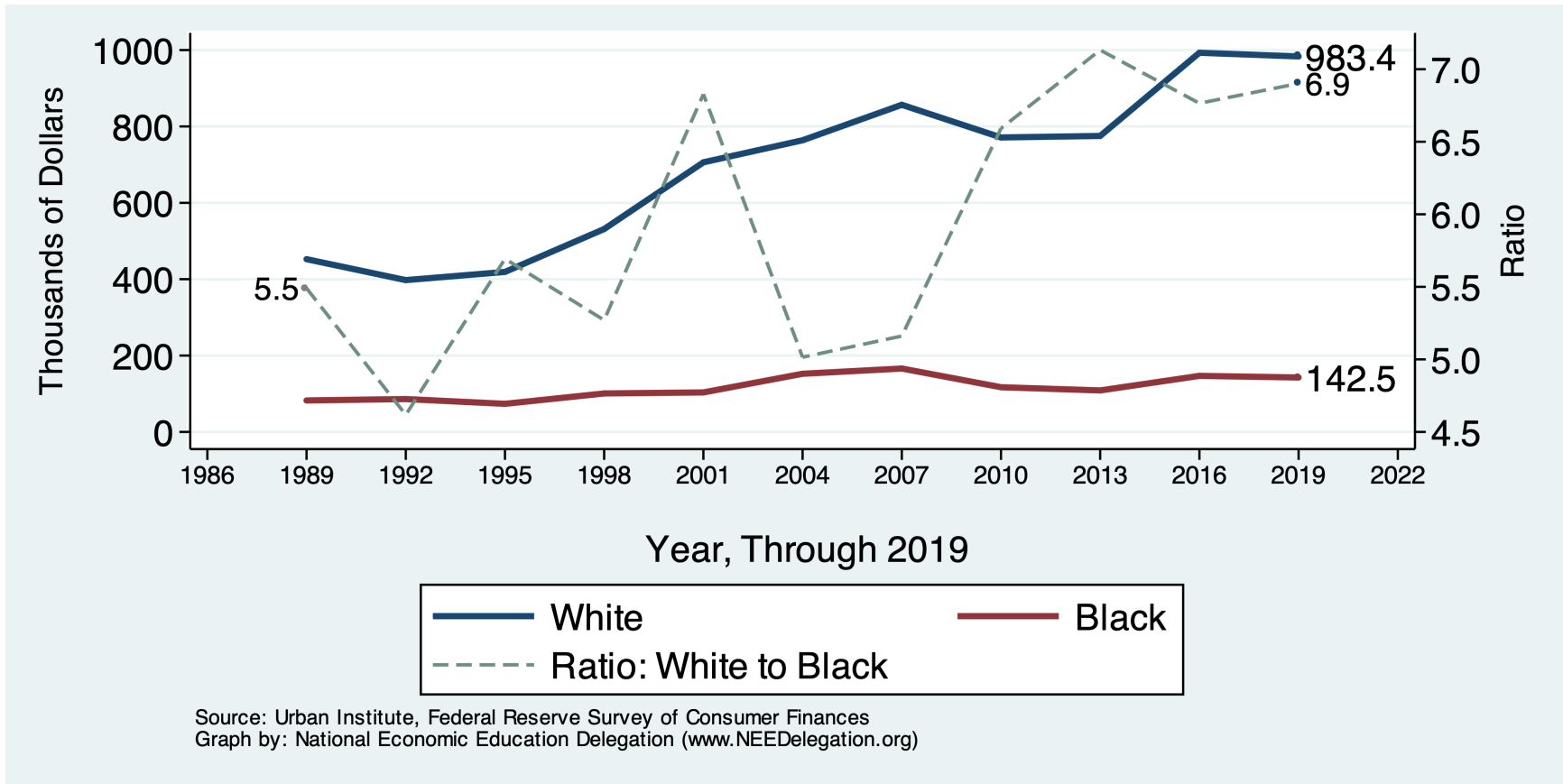
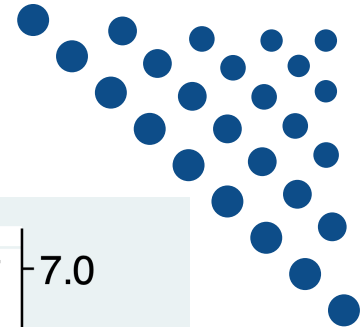


# Wealth is More and More Concentrated

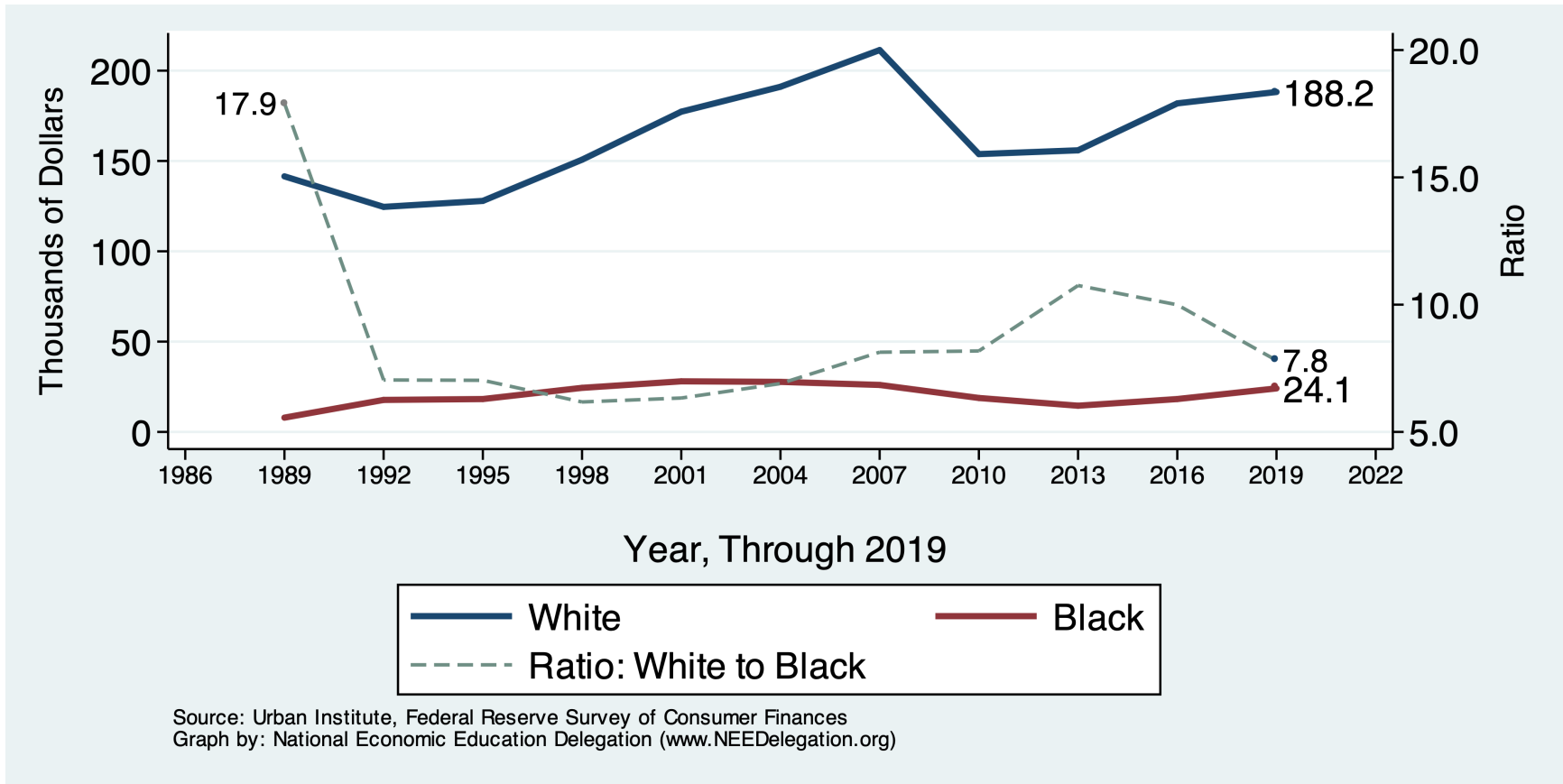
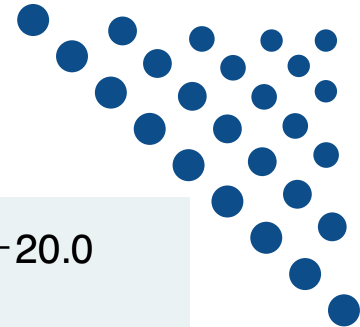


99<sup>th</sup> Percentile  
2016 = 7x 1963

# Wealth Gap Over Time: Mean



# Wealth Gap Over Time: Median



# Net Worth by Age and Race

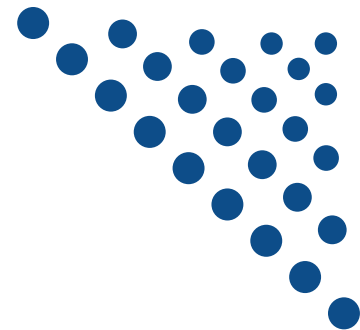
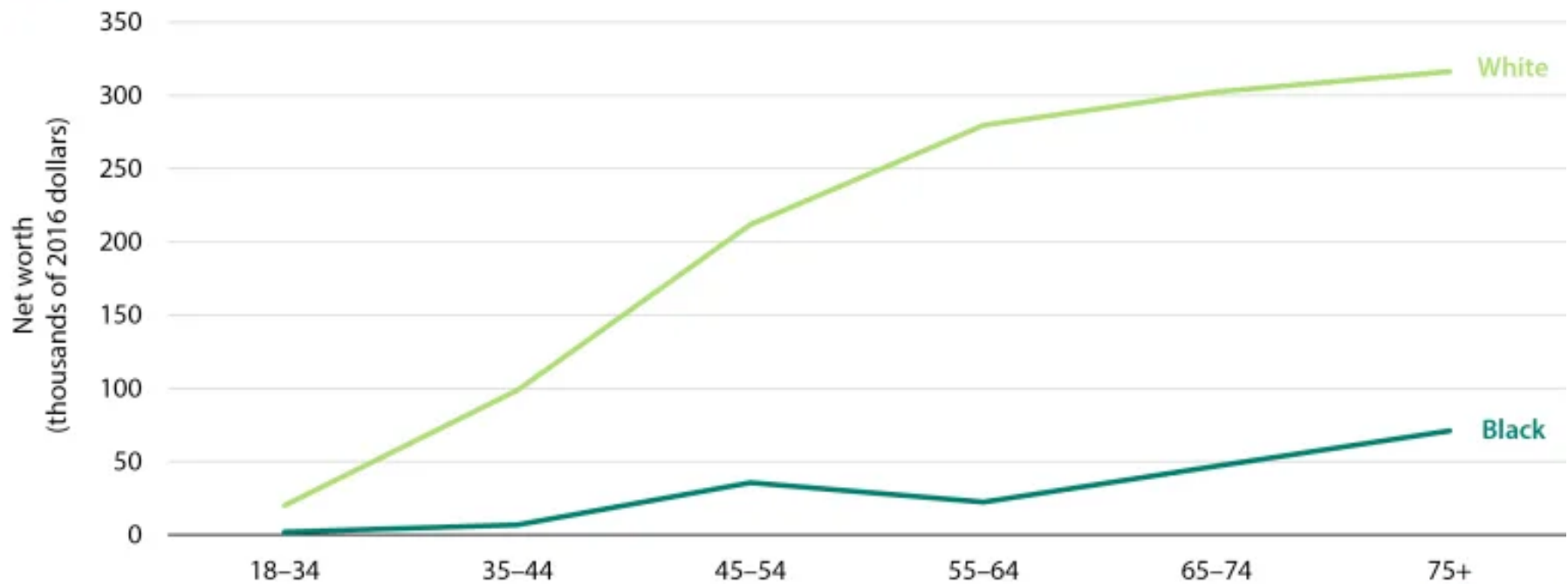


FIGURE 2.  
Median Net Worth, by age of Household Head



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.



# By Household Income

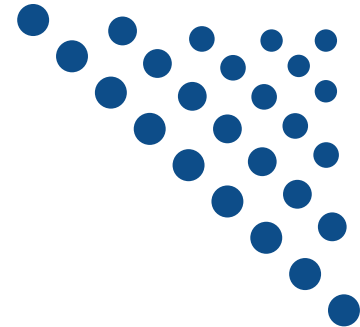
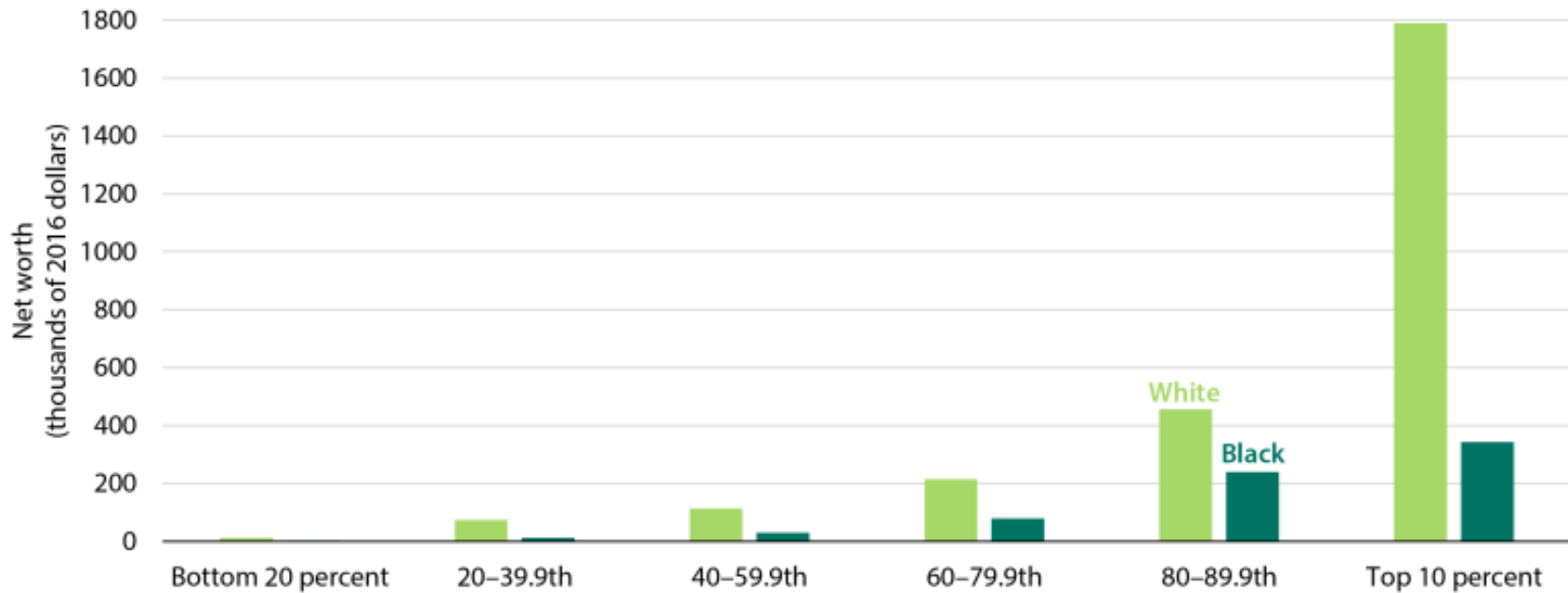
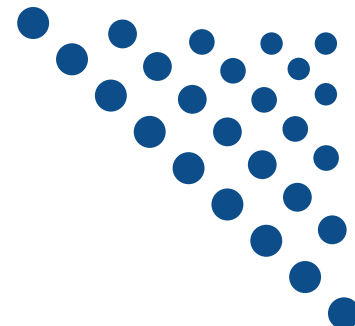


FIGURE 3.  
Median Net Worth, by Household Income Percentile

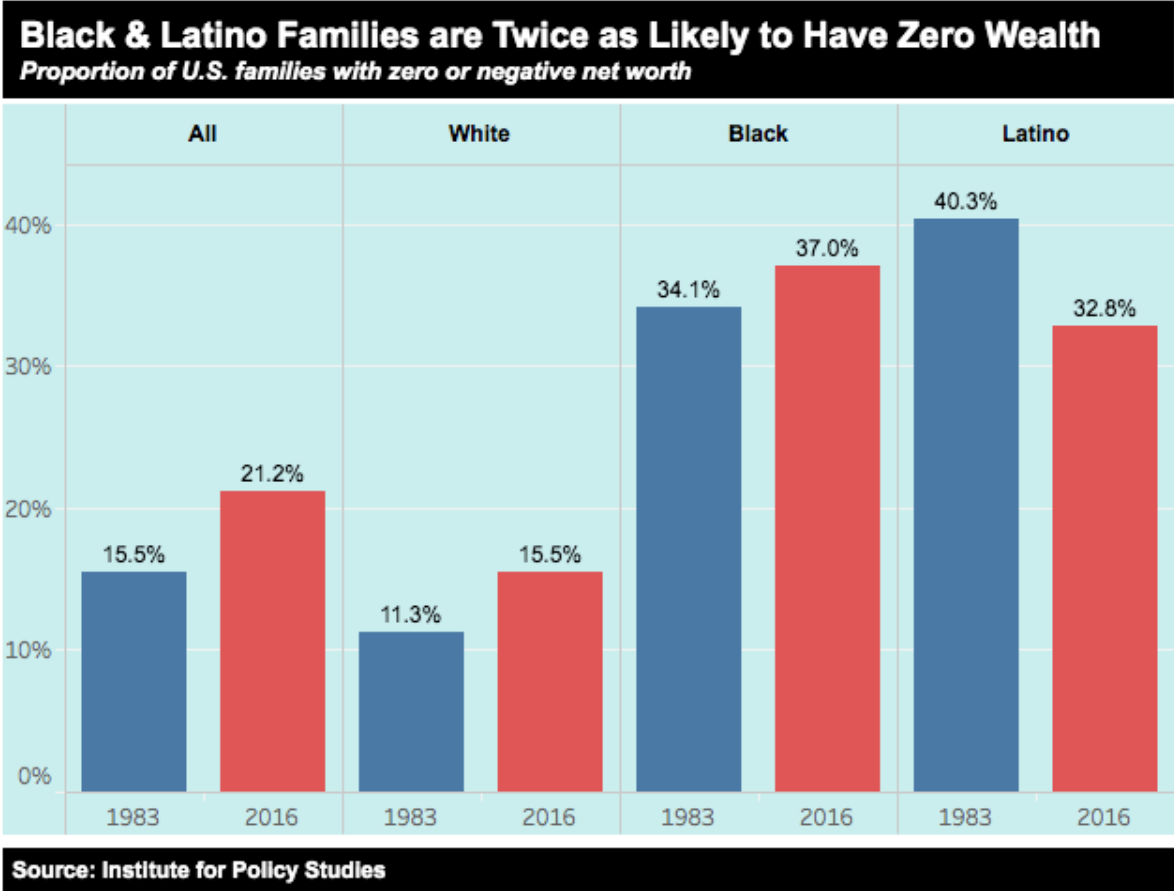


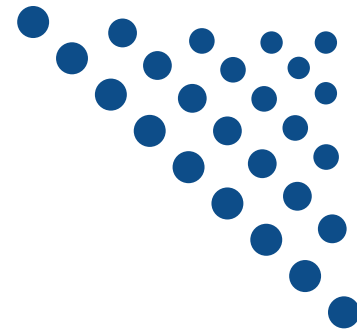
Source: Survey of Consumer Finances 2016; authors' calculations.  
Note: Data are from 2016. Net worth refers to the difference between assets and debt for a household head. Race and ethnicity are those of the survey respondent.





# Evidence of Disparities: Zero Wealth





# Why Wealth is Important

# Widespread Household Wealth Pays Dividends



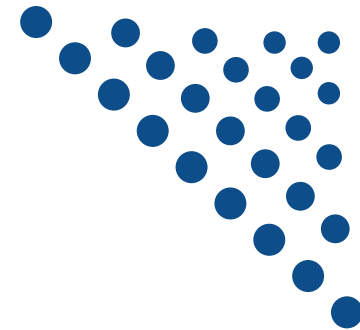
- **To individuals in the household**

- Choices/Agency
- Wealth is iterative

- **And to broader society**

- Human capital development
- Entrepreneurship and innovation





# Household Level Benefits

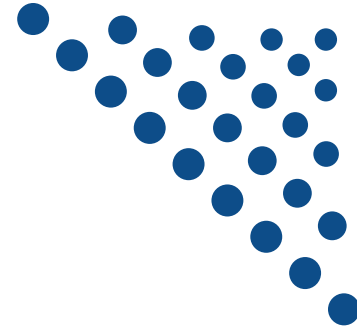
- **Choices/Life Agency**

- Finance elite 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.

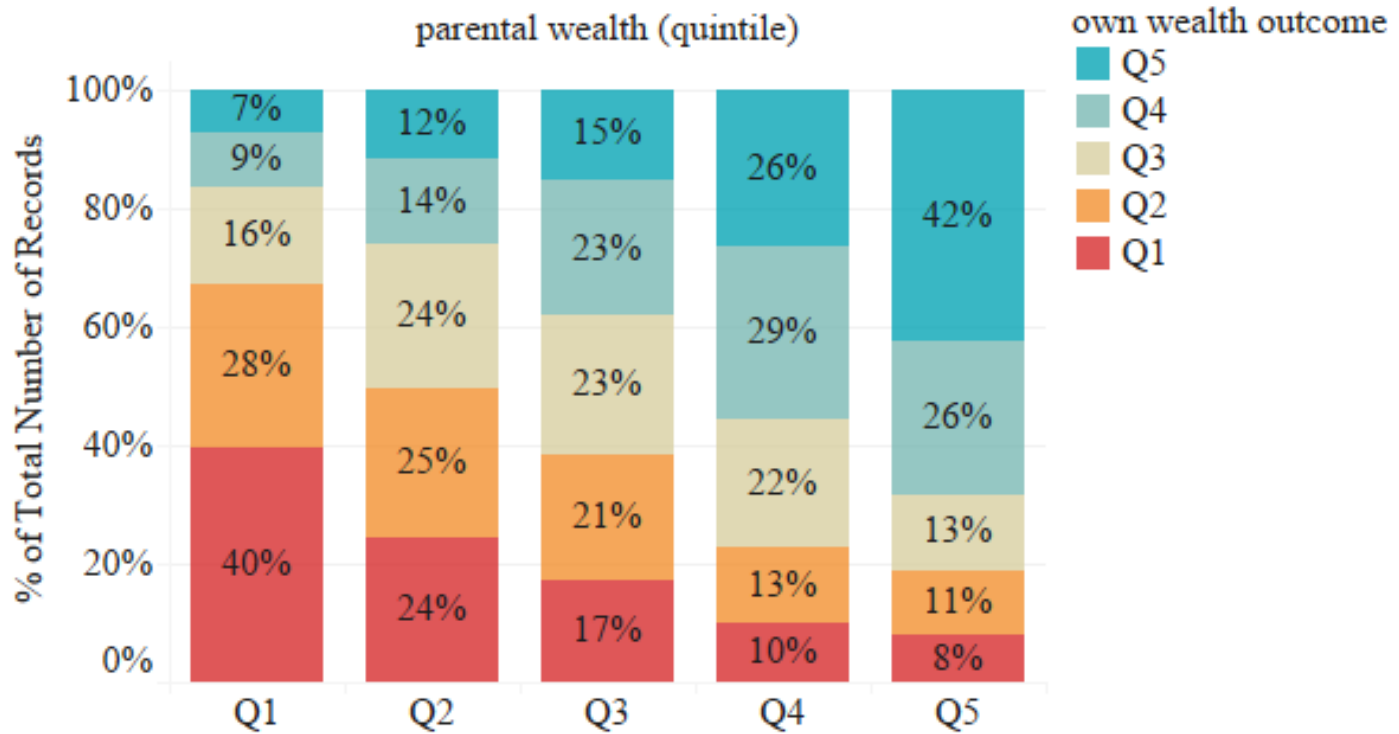
# Parental Wealth is Important



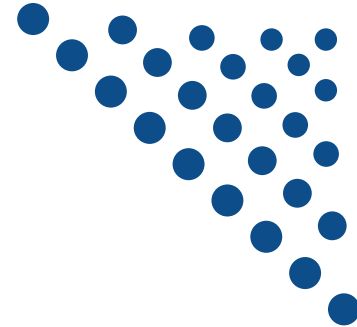
- **Important pre-estate transfer effects on kids:**
  - Influences human capital accumulation
  - Influences the returns to education
  - Adult incomes of offspring
- **There are clearly enormous differences in wealth held by parents of Black and White children.**
- **And it's clear that nurture plays a big roll.**

# Wealth Mobility

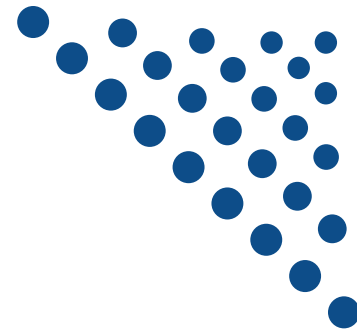
Outcome quintile by parental quintile (wealth)



# 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



# Sources of Disparities

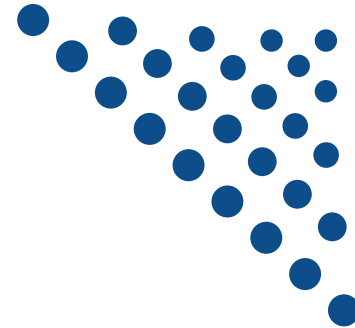


# Events/Policies with Direct Wealth Implications



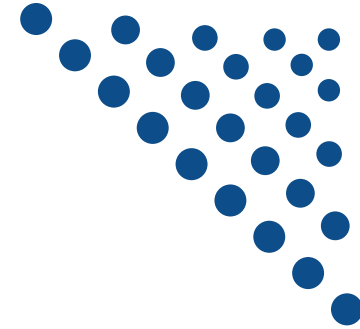
- **Slave trade**
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  - Lax oversight and dissolution
- **Homestead Act**
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- **Land theft and destruction**
  - E.g., Black Wall Street – Tulsa, 1921
- **GI Bill**
  - Discriminatory access – Levittown
- **Federal Housing Authority**
  - Redlining

# 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.***

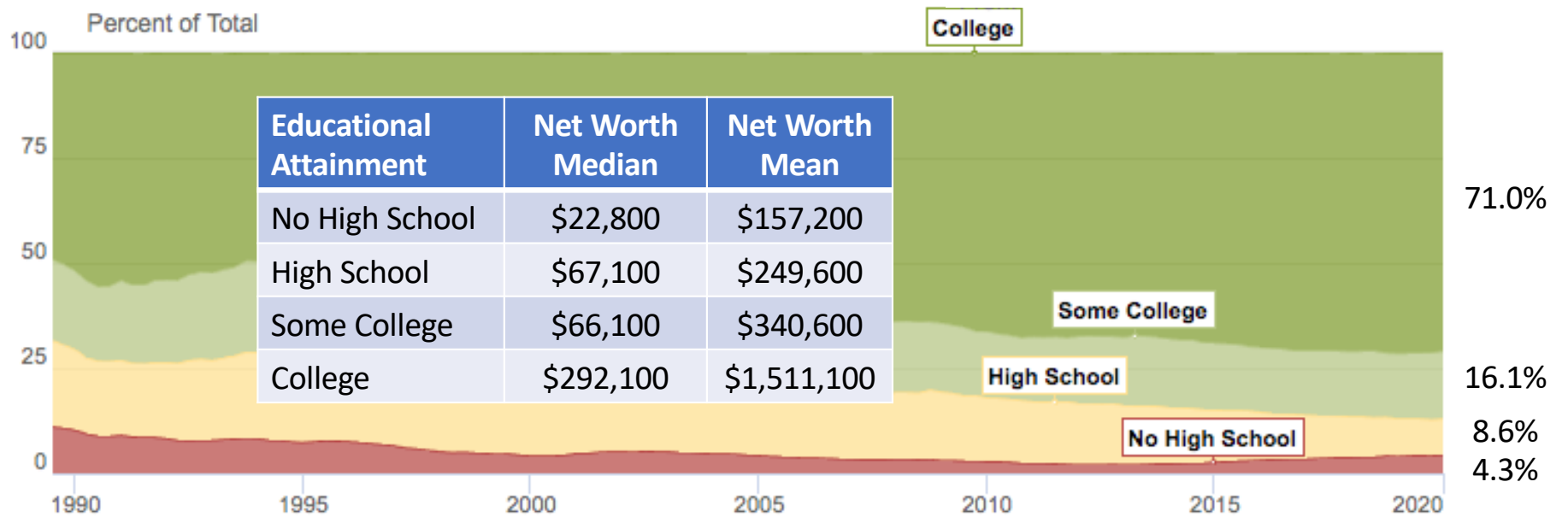
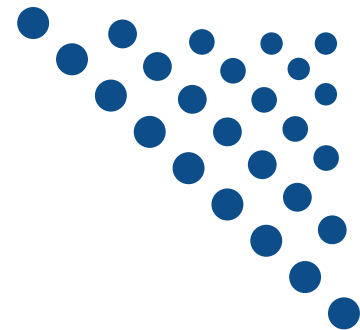
# Potential Explanations: Differences in...



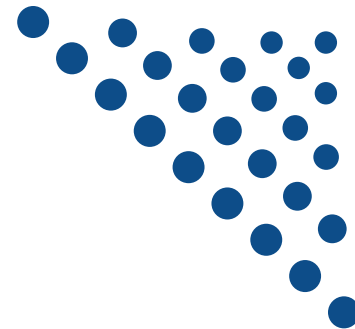
- Educational attainment
- Home ownership
- Increased savings
- Financial literacy
- Entrepreneurship
- Soft skills and personal responsibility
- Wages
- Labor force participation
- Family disorganization
- Initial endowment



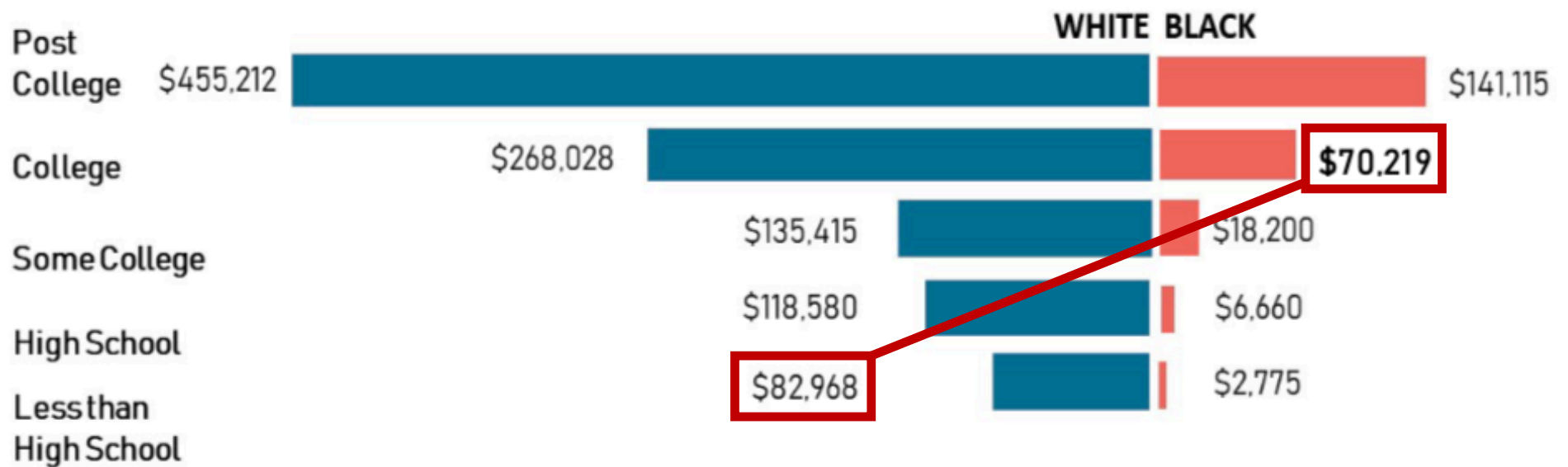
# Wealth by Educational Attainment



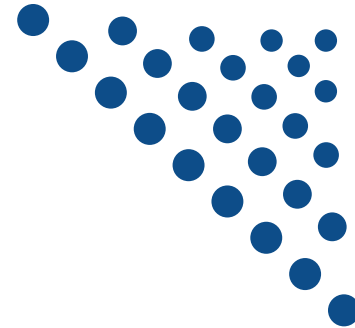
# Educational Attainment



## Median Household Net Worth by Race and Education

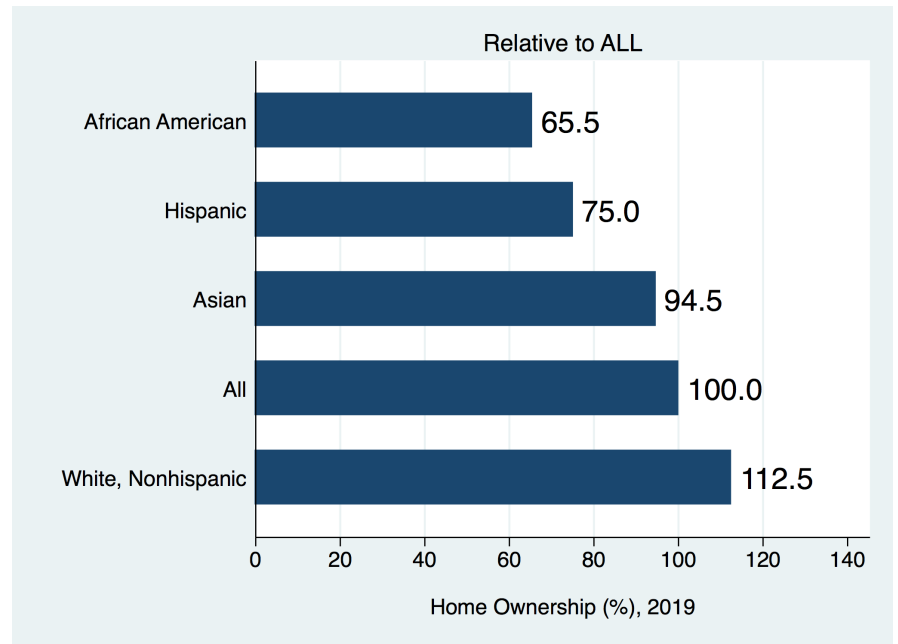
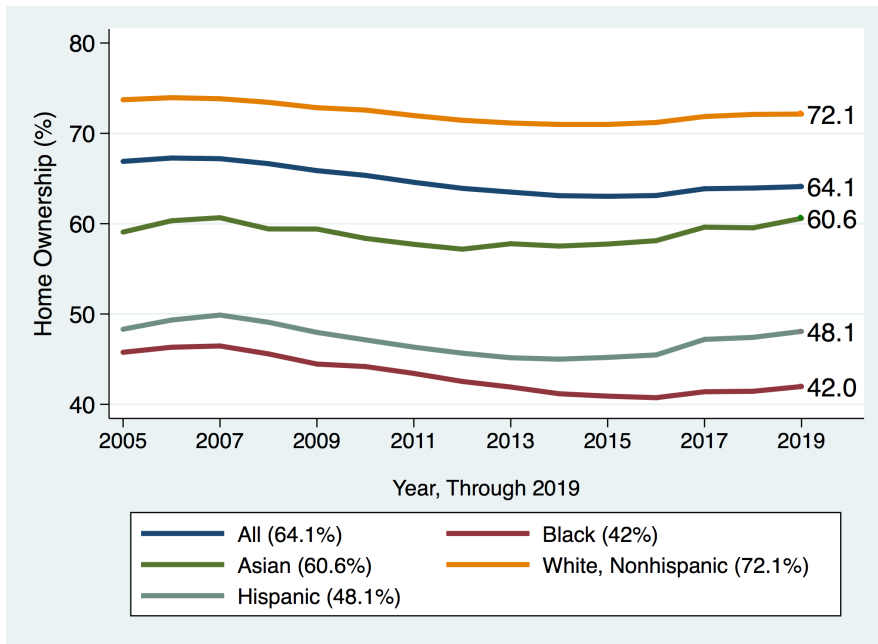


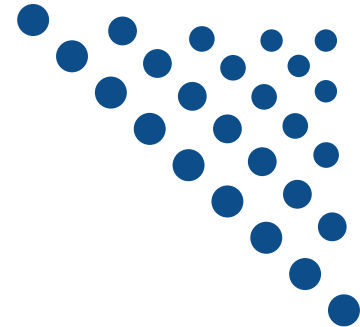
# Educational Attainment: Policy



- **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

# Home Ownership

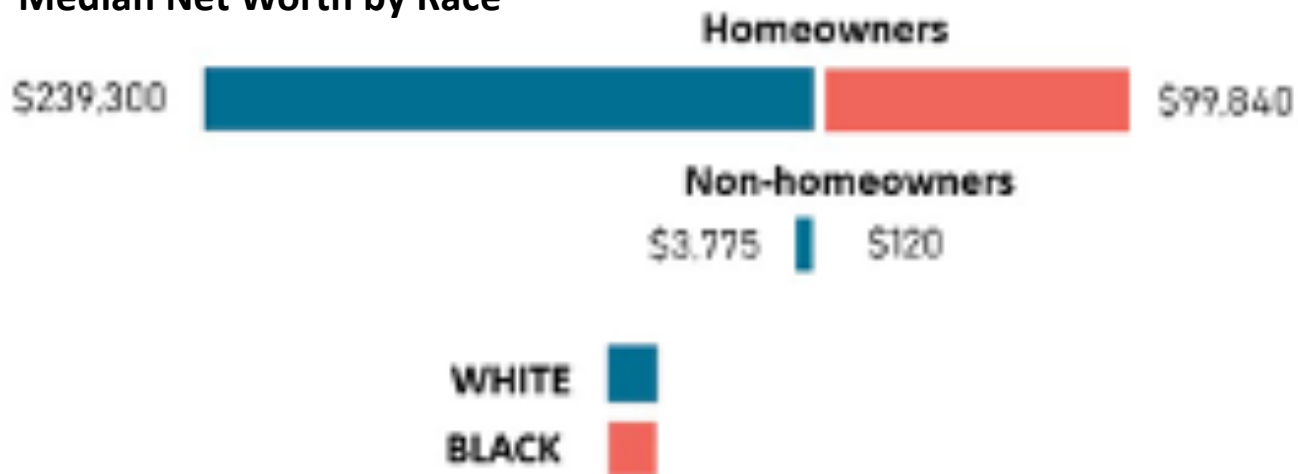




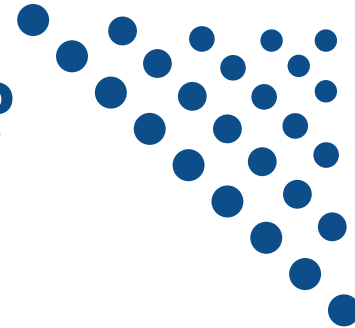
# Home Ownership

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

## Median Net Worth by Race

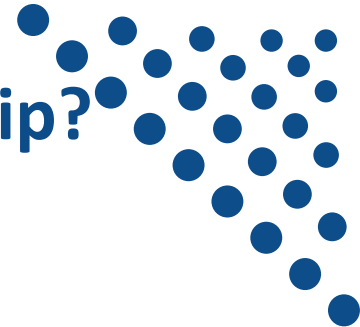


# Wealth Equality Through Home Ownership?



- **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.

# What Determines Differences in Home Ownership?



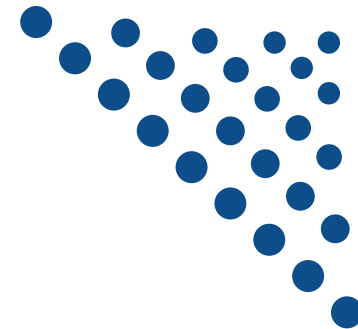
- **Wealth of parents**
- **Ability to borrow – lending discrimination**
  - At all
  - On equivalent terms to white borrowers
- **Local ordinances – housing discrimination**
- **Lower appreciation rates of homes in majority Black communities.**

# Increased Savings

- **Historical evidence generated by economists ranging from Milton Friedman (1957) to Marjorie Galenson (1972) to Marcus Alexis (1971) to Gittelman and Wolff (2004).....**
  - All find that after accounting for household income, Blacks have a slightly higher savings rate than Whites.
- **Risk and reward are higher for White investors**
  - Controlling for income, this is not clear.
  - Access to and tolerance for higher risk investments is clearly correlated with income.

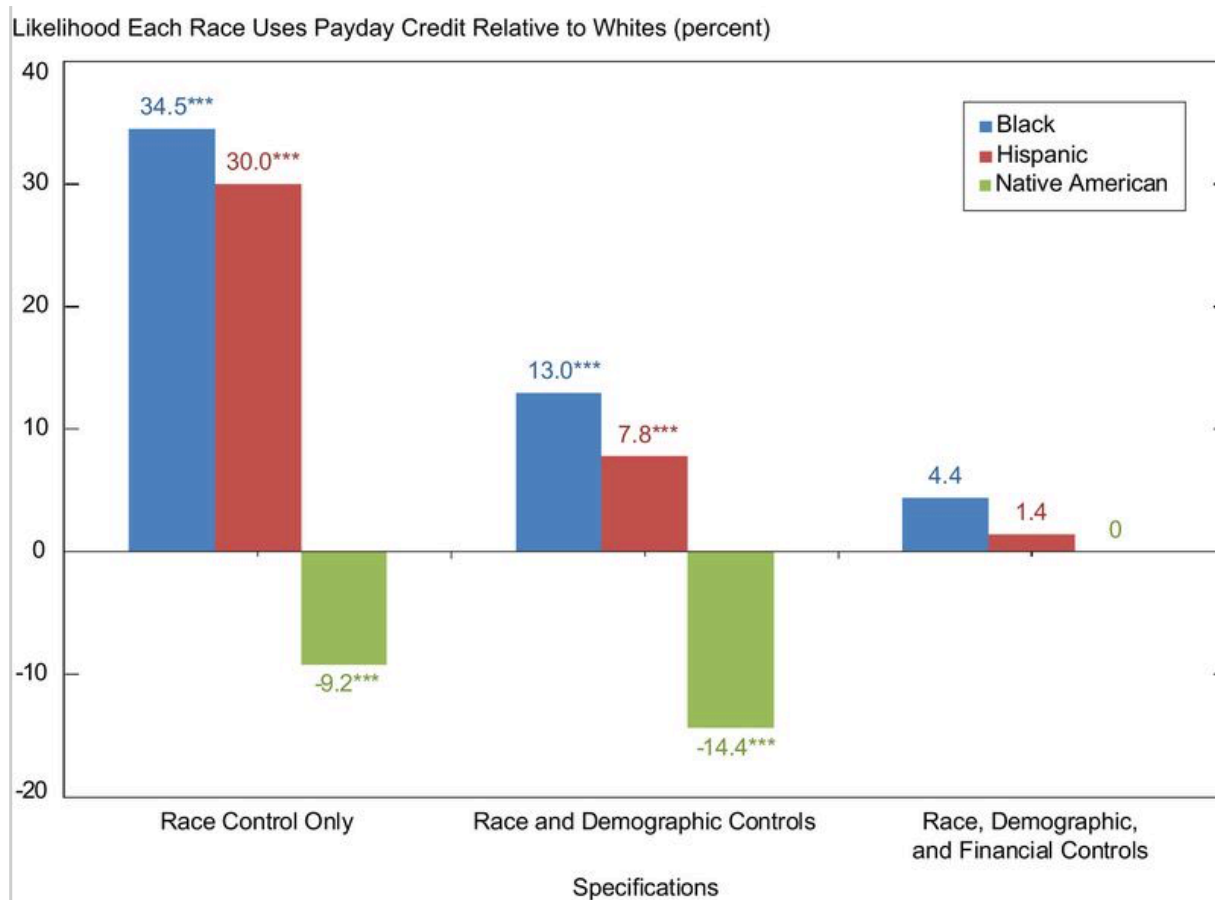
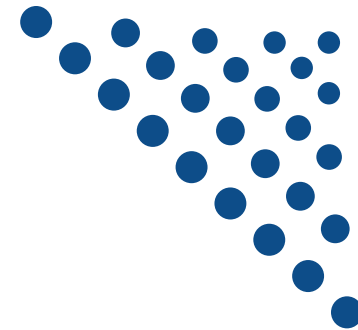


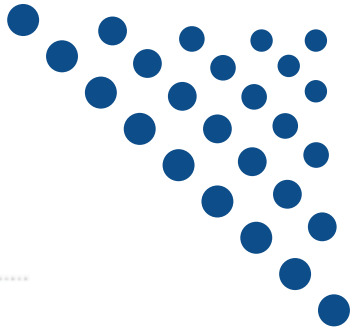
# Financial Literacy



- **Financial literacy doesn't matter that much when you don't have any finances to manage.**
  - 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.**

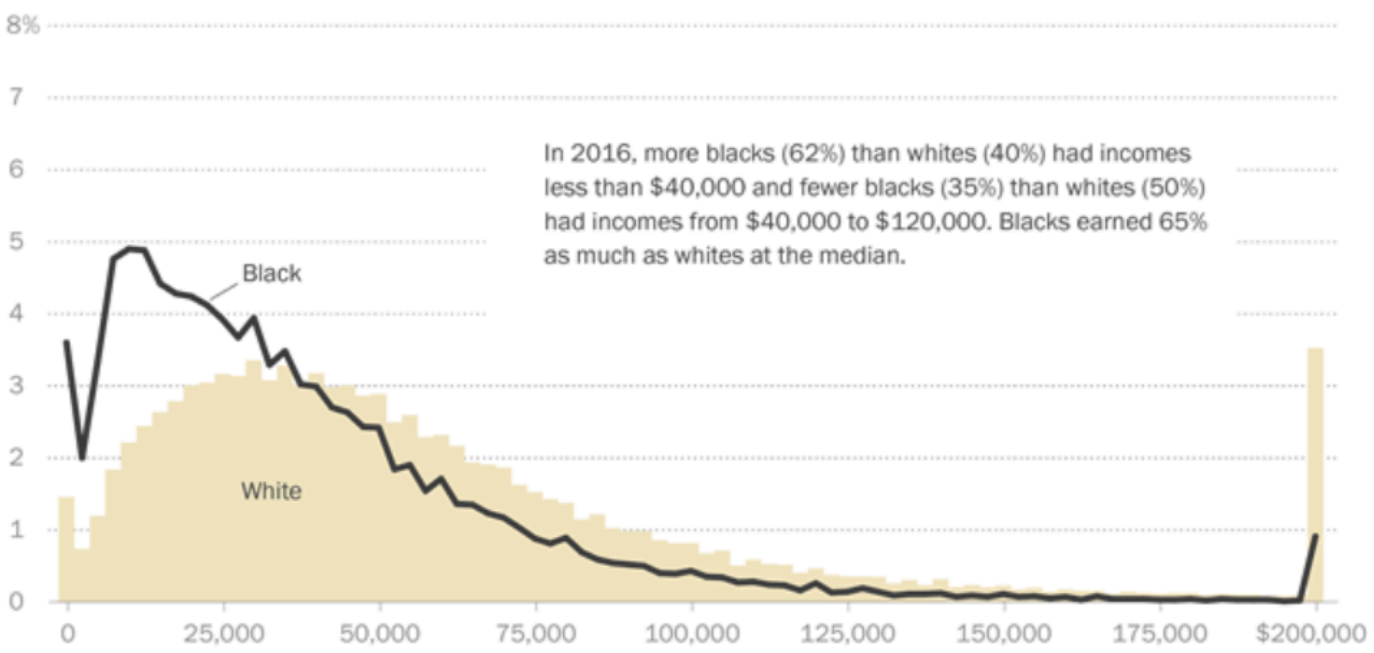
# Use of Payday Lenders





# Black Household Incomes Relative to White

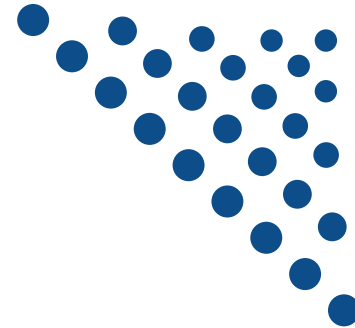
Shares of whites and blacks with a given level of income, 2016



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.

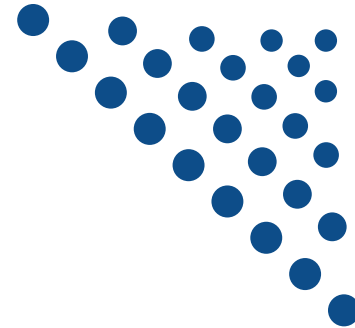
Source: Pew Research Center analysis of 2016 American Community Survey (IPUMS).  
"Income Inequality in the U.S. Is Rising Most Rapidly Among Asians"

# Entrepreneurship



- **Disparities in access to capital**
  - Wealth disparities
    - Specifically differences in home equity.
    - 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**

# Soft Skills and Personal Responsibility



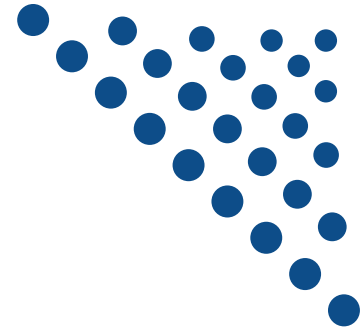
- **Employability**

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

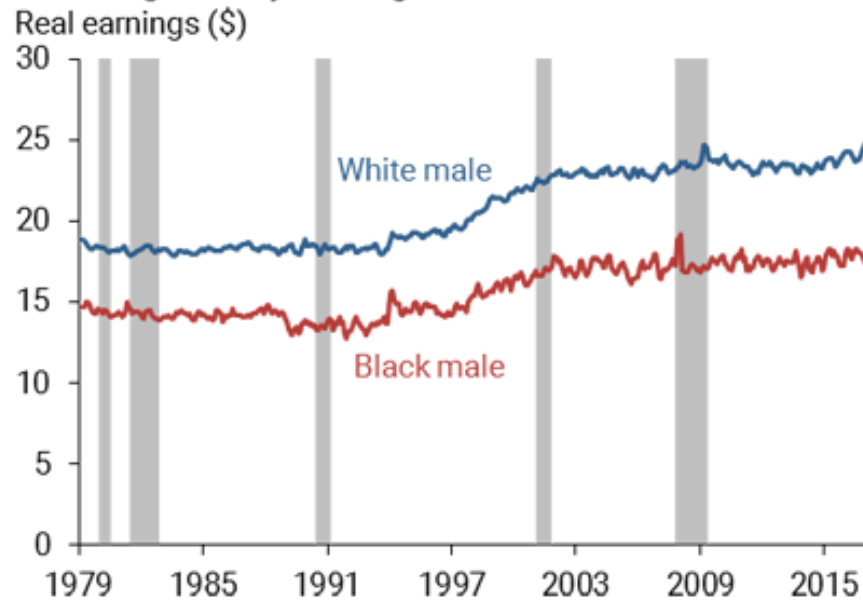
- **Reality**

- 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.

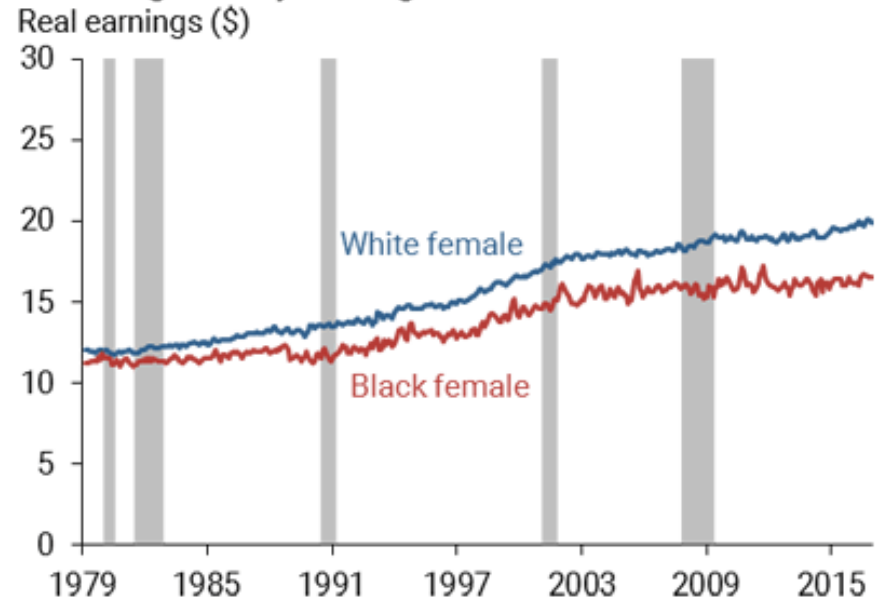
# Wage Gap



C. Average hourly earnings for men



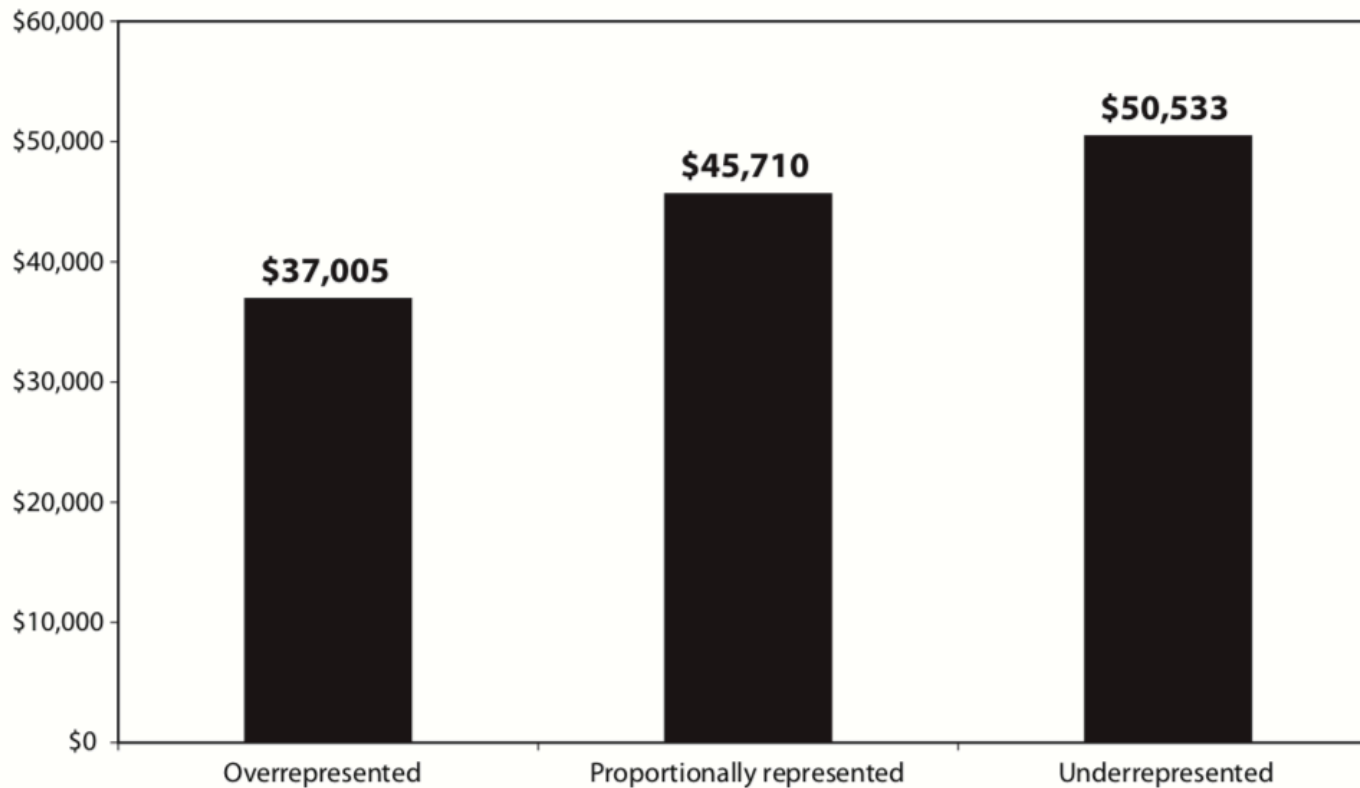
D. Average hourly earnings for women

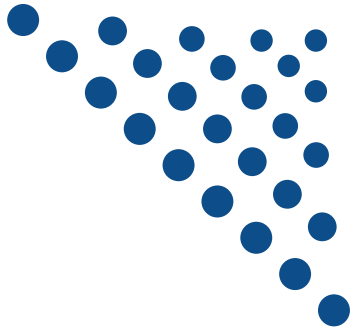


# Overrepresented Where Wages are Low

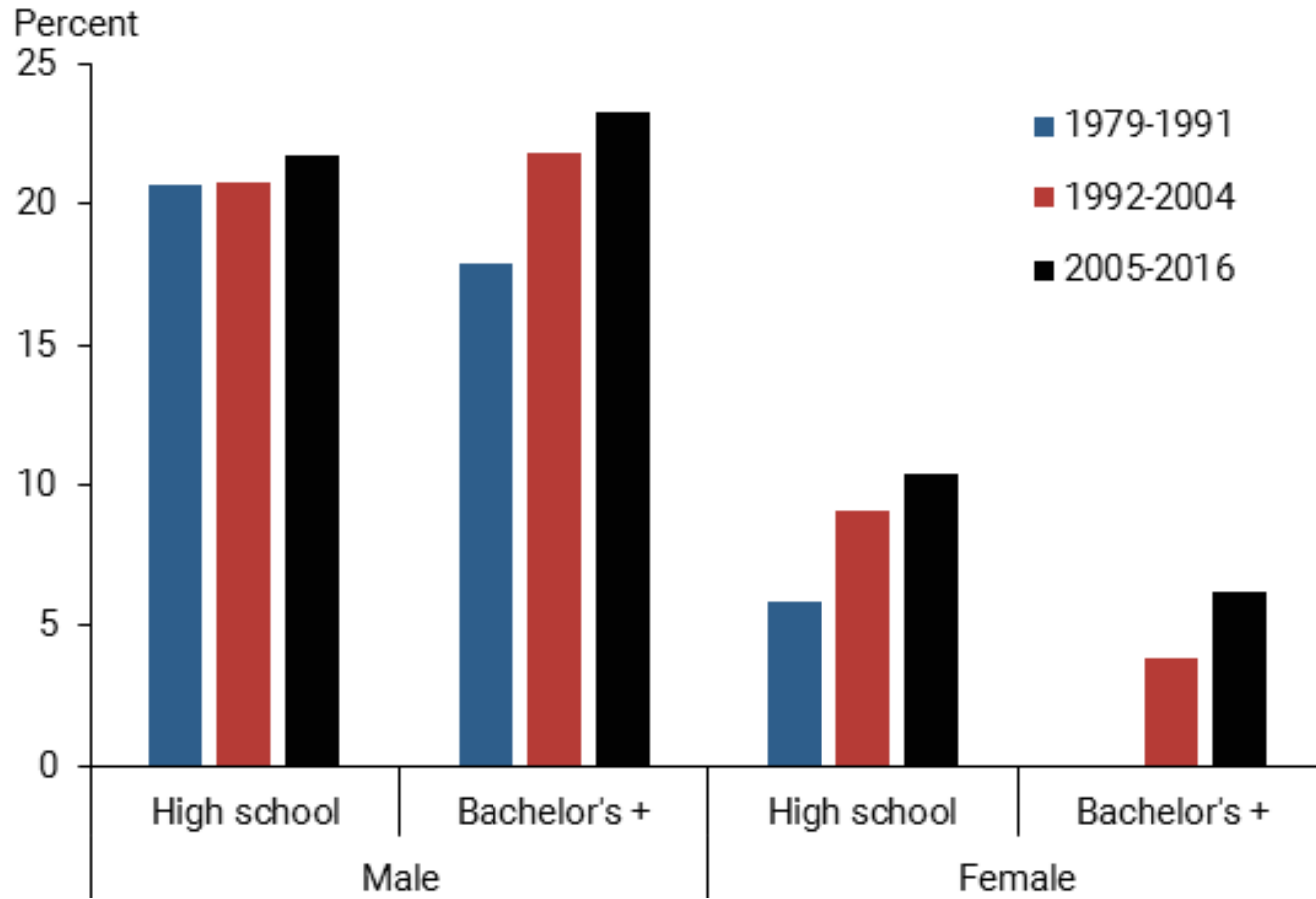


Average occupational annual wage by representation of black men, 2005-07



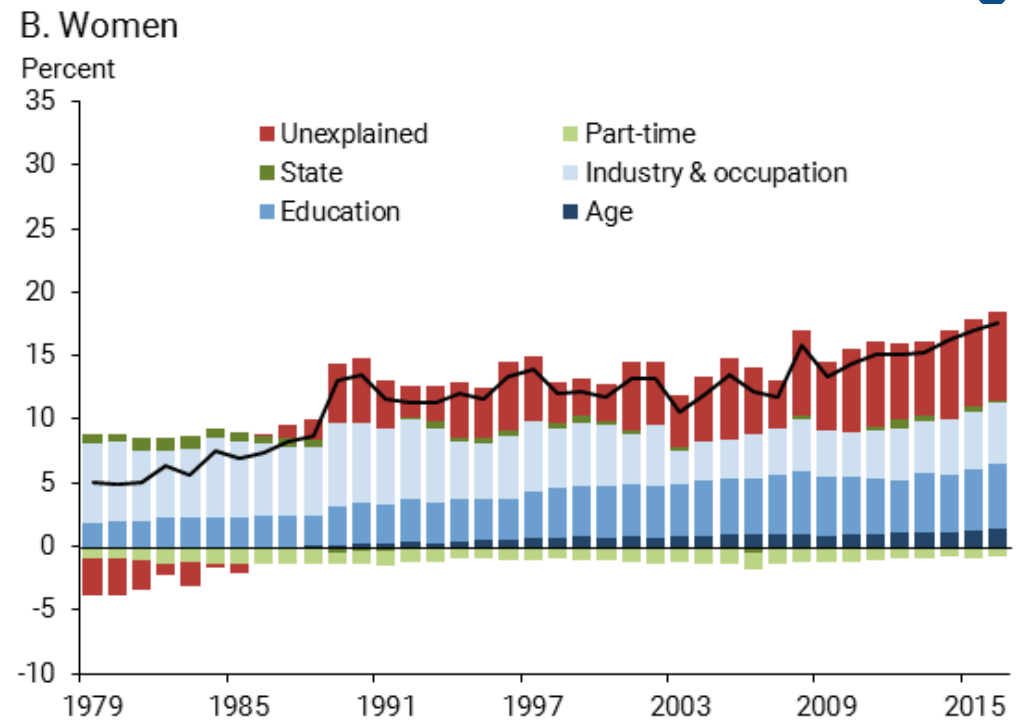
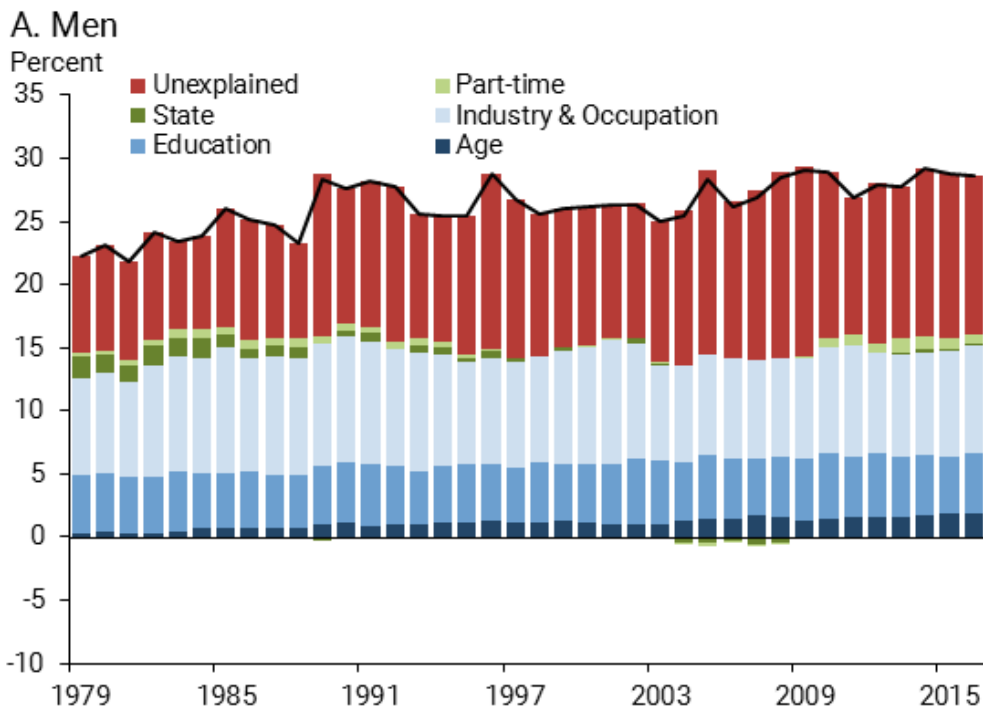


# Black-White Earnings Gap by Education





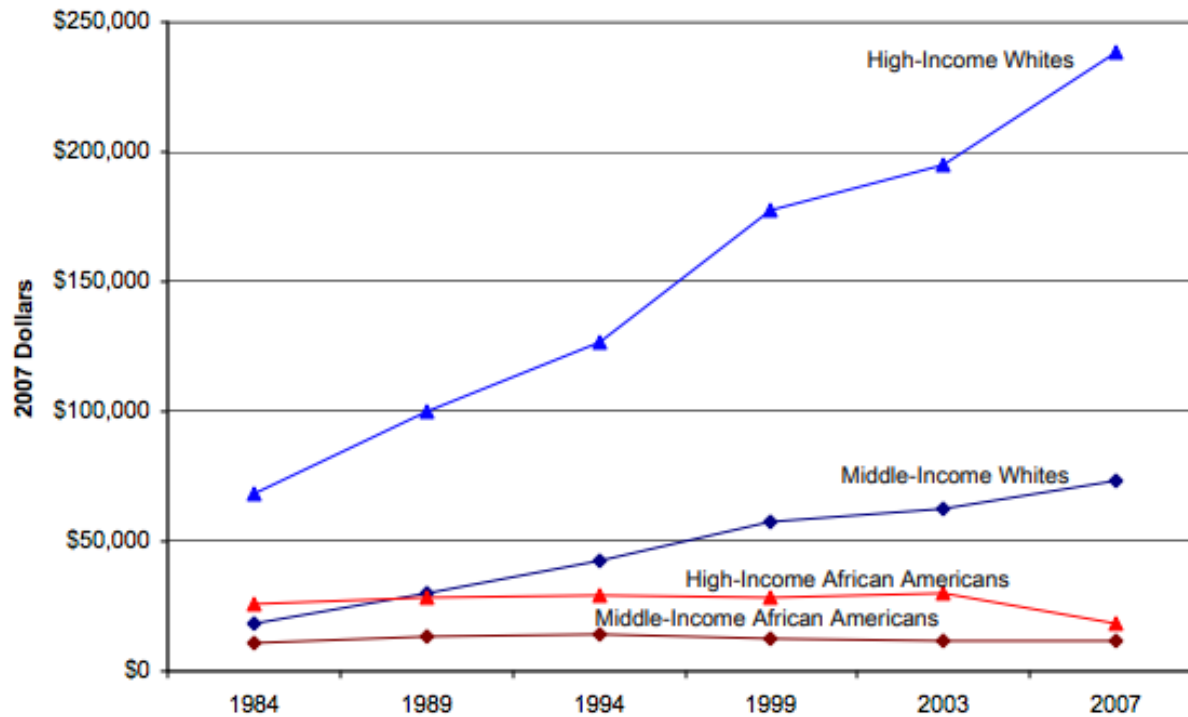
# Wage Gap Broken Down



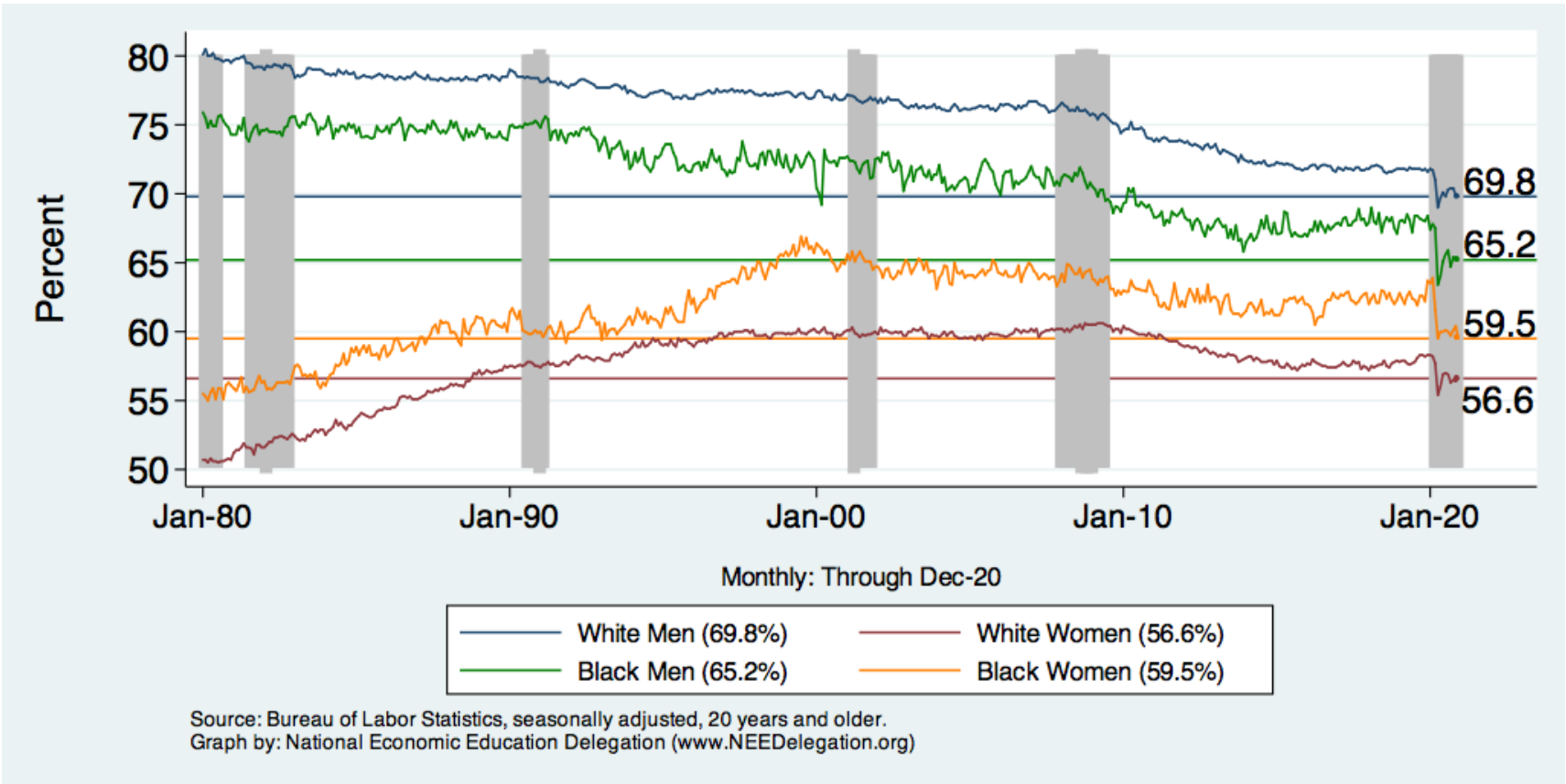
# Equality of Income $\neq$ Equality of Wealth



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



# Labor Force Participation



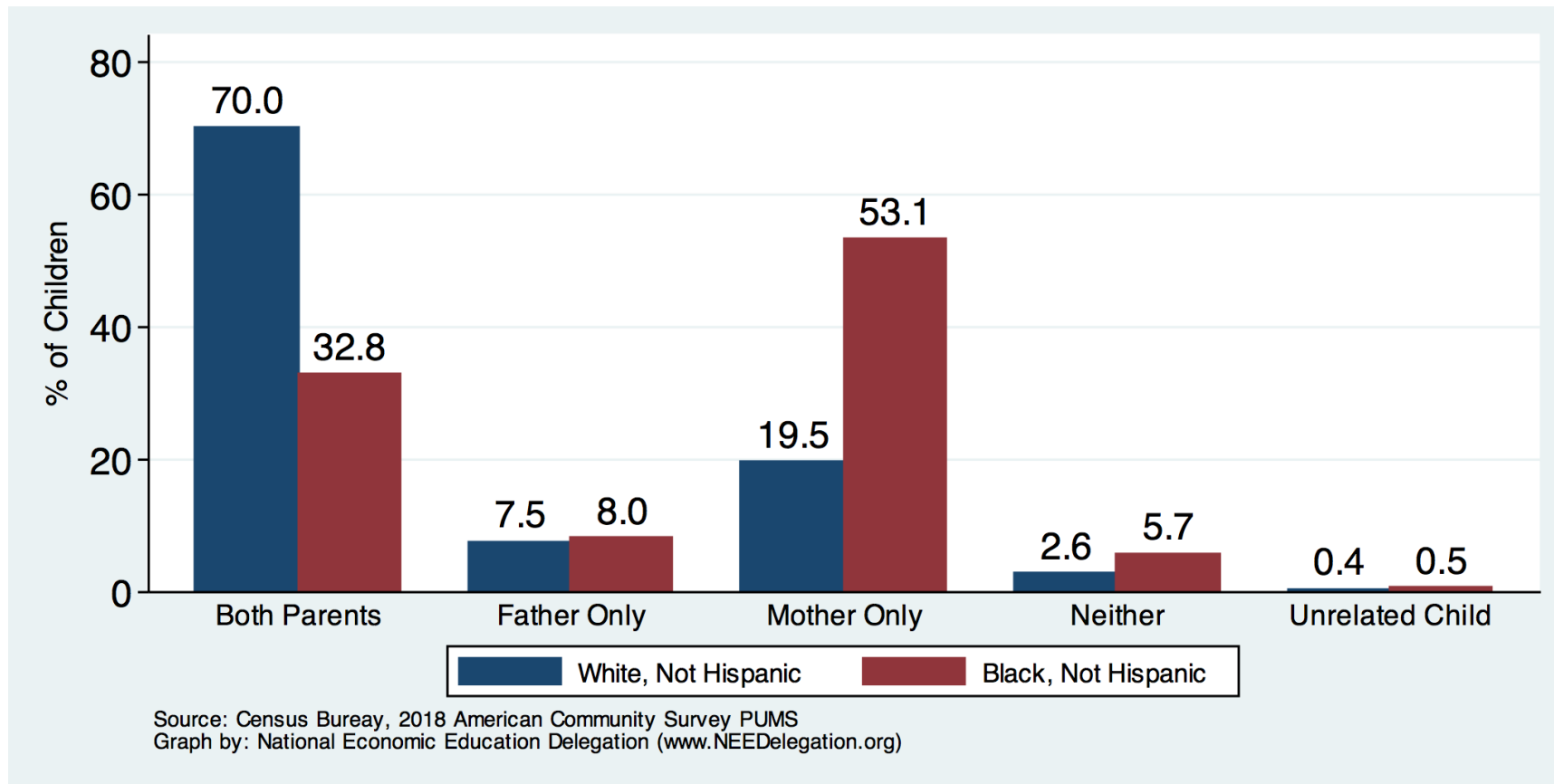
# Family Disorganization



AGE	No Bachelor's Degree				With Bachelor's Degree			
	MARRIED		SINGLE		MARRIED		SINGLE	
	BLACK	WHITE	BLACK	WHITE	BLACK	WHITE	BLACK	WHITE
20-29	\$4,000	\$13,000	\$0	\$2,000	\$7,700	\$18,700	\$-11,000	\$3,400
30-39	\$12,000	\$33,450	\$0	\$0	\$-20,500	\$97,000	\$0	\$7,500
40-49	\$22,501	\$60,000	\$1,000	\$3,006	\$12,000	\$195,000	\$6,000	\$25,000
50-59	\$38,000	\$155,000	\$2,000	\$8,200	\$198,000	\$430,000	\$9,500	\$117,500
60+	\$89,500	\$344,700	\$12,000	\$60,000	\$424,000	\$778,000	\$11,000	\$384,400

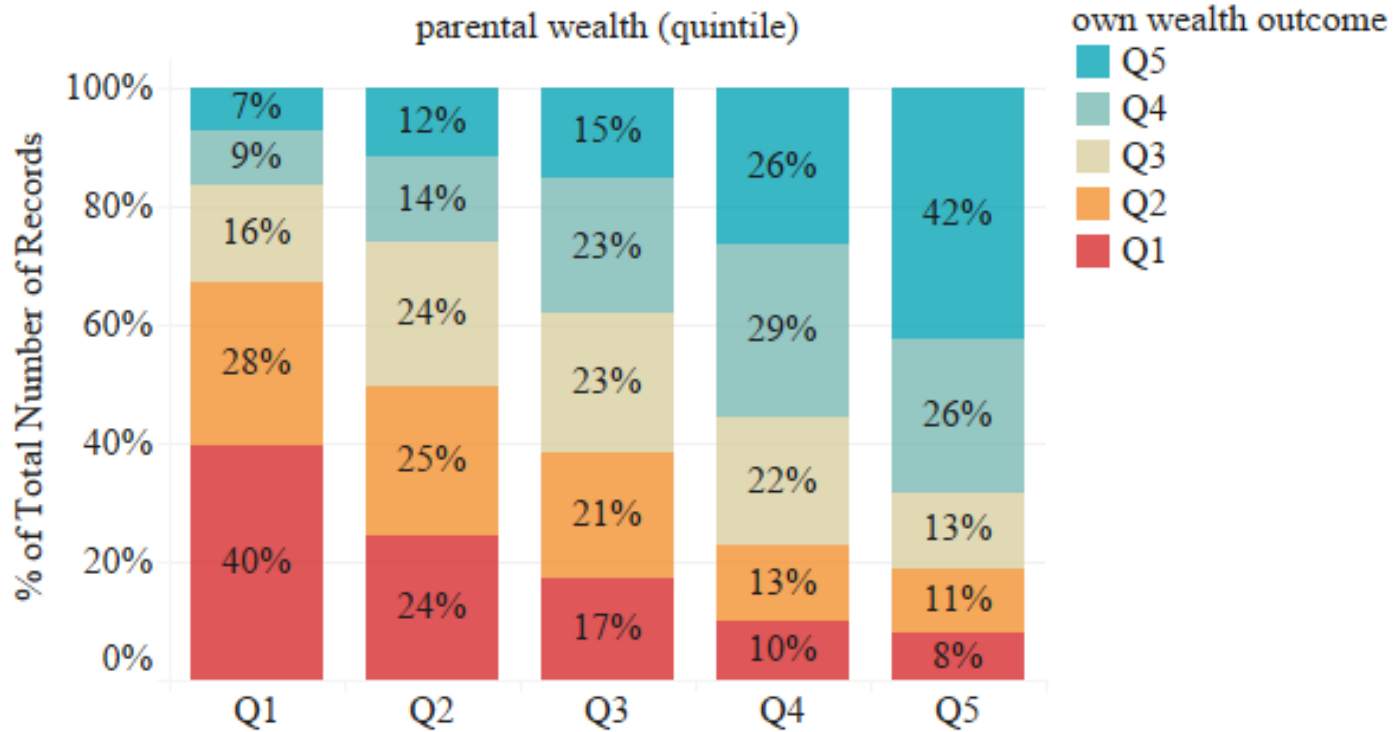
Source: Zaw, Khaing, Jhumpa Bhattachayra, Anne Price, Darrick Hamilton and William Darity, Jr. *Women, Race and Wealth* Samuel DuBois Cook Center for Social Equity and the Insight Center for Community Economic Development 2017.

# Kids – Household Types

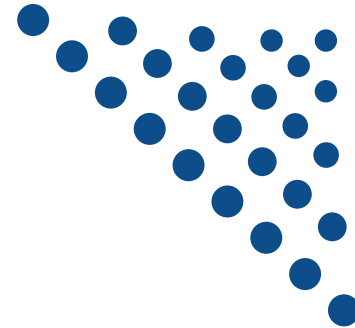


# Initial Endowment

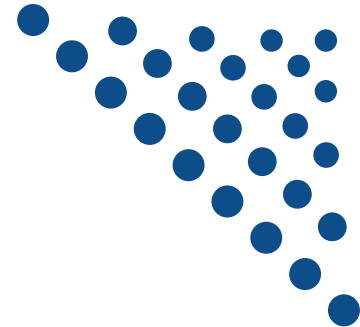
Outcome quintile by parental quintile (wealth)



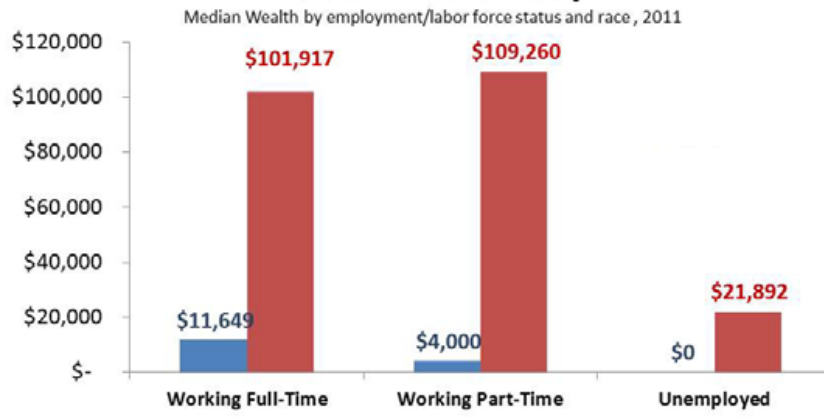
# What is Fundamentally Responsible?



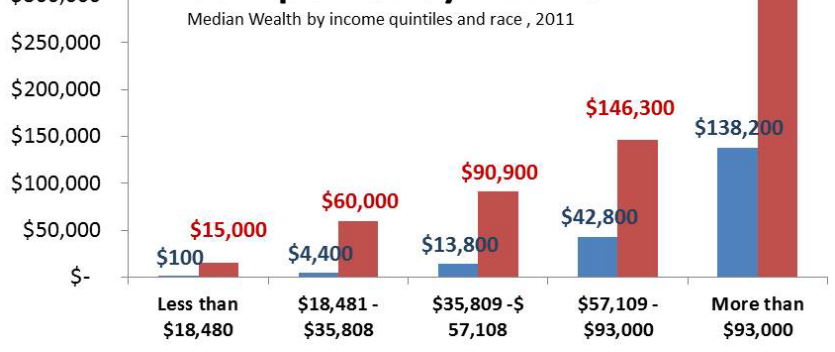
- Individual behaviors?
- Structural characteristics of the economy?
- History – policy and otherwise?



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

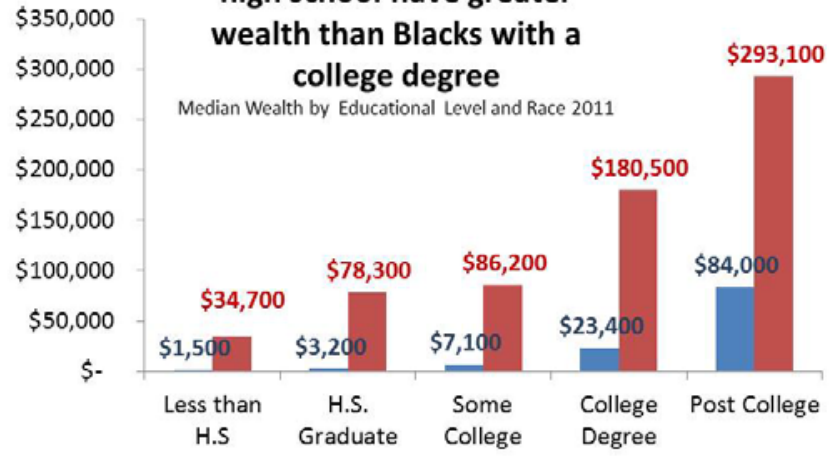


## Racial Wealth Inequality is Not Explained by Income



## Studying hard is not enough

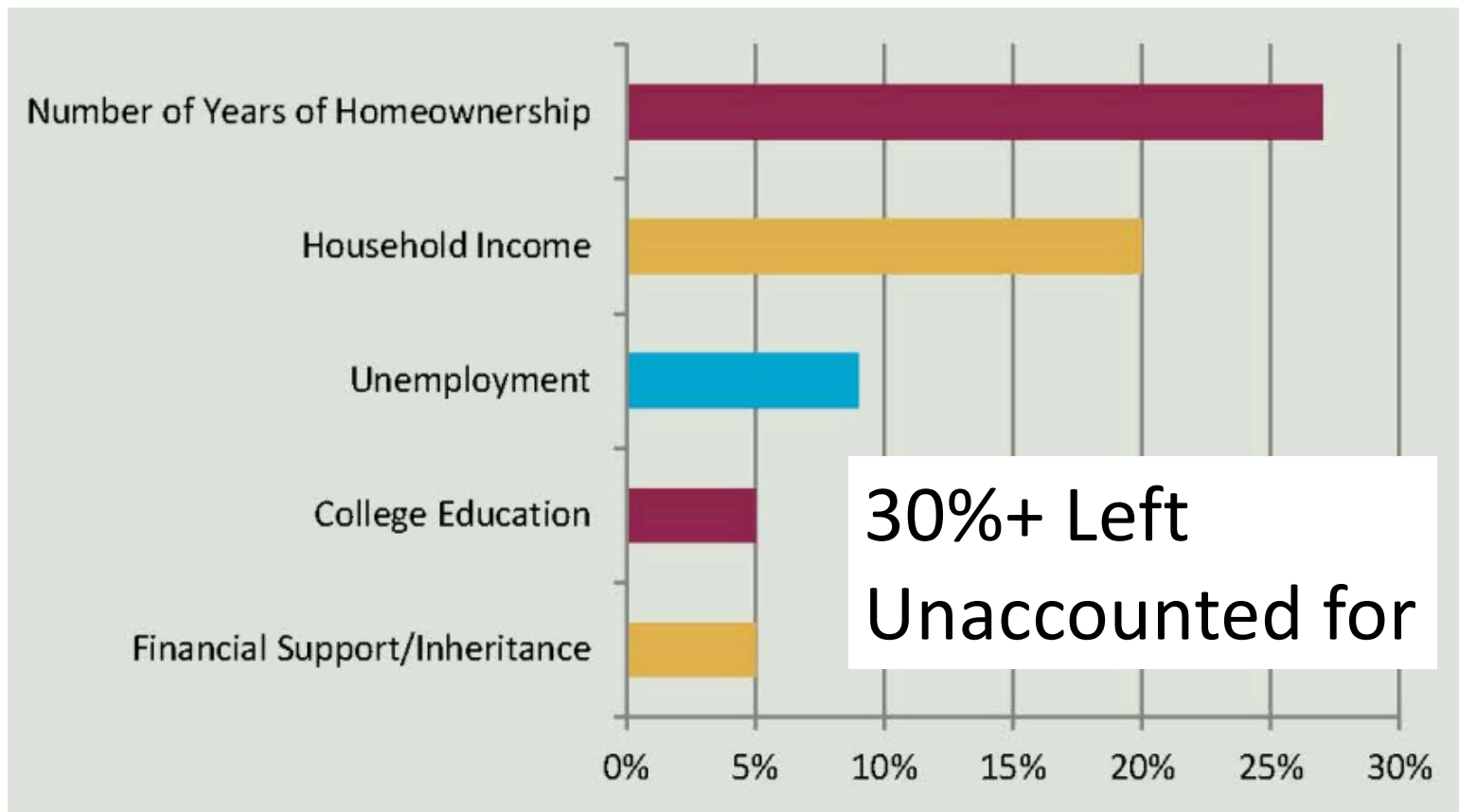
Whites who dropped out of high school have greater wealth than Blacks with a college degree



Black  
White



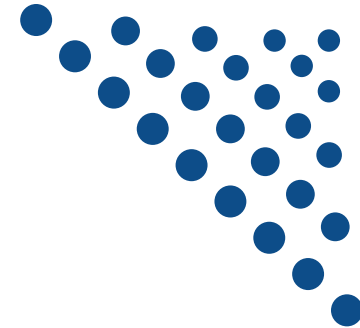
# Accounting for the Wealth Gap





# Policy Options

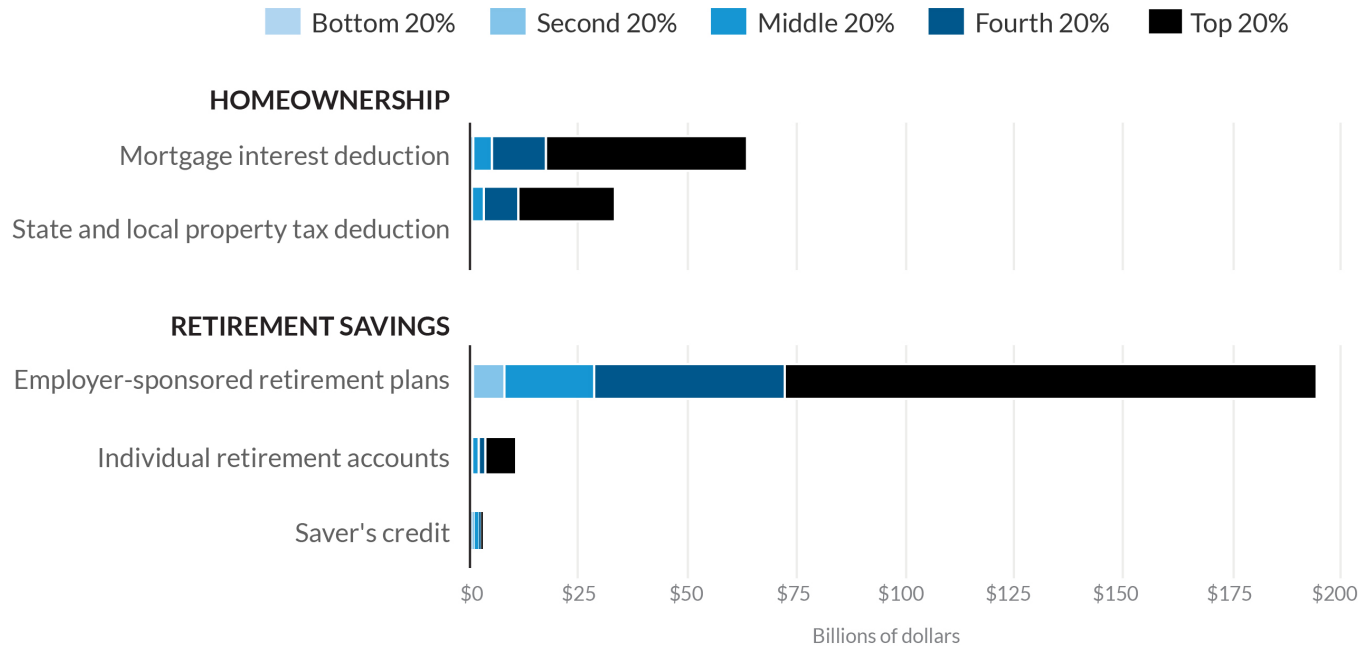
# Categories of Policy Areas



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

# Gov't Asset Building Policies

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

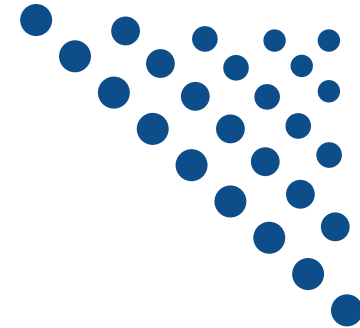


Source: Updated estimates from Steuerle et al. (2014).

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

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# Specific Policy Options



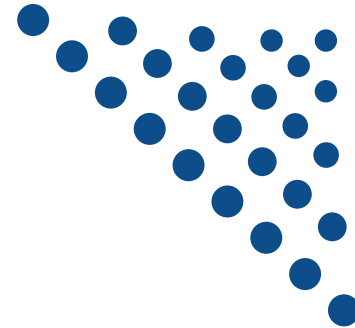
- **Global solutions that affect all source areas**
  - Child Trust Accounts - "Baby Bonds"
  - Guaranteed minimum income
- **Addressing racial disparities directly**
  - Reparations
    - Aggressive affirmative action.
    - A new Homestead Act.
    - Heavily investing in Black communities.
  - Labor and other laws that address discrimination
    - Enforce more aggressively and make adjustments where necessary to increase efficacy.
  - Fundamental reorientation of asset building agenda.

# Other Concrete Policy Options



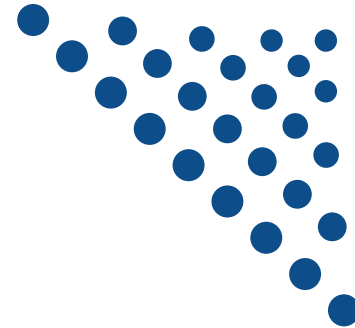
- Limit the mortgage interest tax deduction and use the revenues to provide a credit for first-time homebuyers.
- Establish automatic savings and retirement plans.
- Reduce reliance on student loans while supporting success in postsecondary education.
- Offer universal children's savings accounts.
- Reform safety net program asset tests, which can act as barriers to saving among low-income families.
- Provide subsidies to promote emergency savings, such as those linked to tax time.

# Buying and Banking Black



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

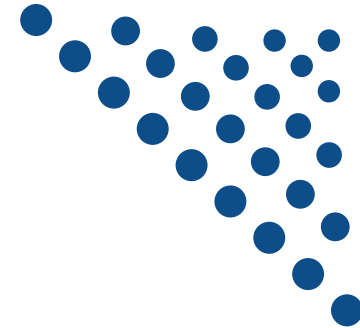
# Intro to Fractional Reserve Banking



- **Money is deposited in an account in a bank.**
- **Most of that money is lent out.**
  - The rest is the “reserve”.
- **Suppose lent to purchase a house.**
  - That money is then deposited in a bank.
    - Most of that money is lent out.
      - The rest is the “reserve”.
    - Suppose lent to purchase a house.
      - That money is then deposited.....
- **This is how wealth is created in the banking system.**
  - Many banks are charging interest on essentially the same deposit.

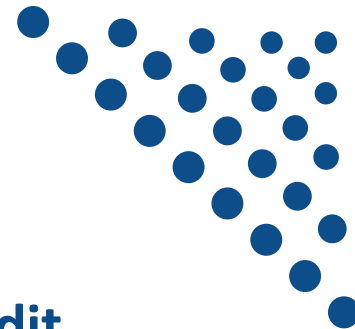


# Why This Doesn't Work for Black Banks



- Money is deposited in an account in a Black bank.
- Most is lent for the purchase of a house by a Black buyer.
- If the seller is White, those funds then get deposited in a White bank.
  - All of the remaining fractional reserve benefits now go to White banks.
- Because the money is not allowed to circulate **ONLY** within the Black community, Black banking will likely have limited capacity to generate wealth.
  - Capacity of banks. Capacity of depositors (3% of all U.S. wealth).

# Why the Short Circuiting of Black Banking?



Category	White	Black
Home Ownership (%)	73.7	45.0
Other Residential Property Ownership (%)	15.1	8.2
<b>Residential Ownership (%)</b>	<b>75.8</b>	<b>12.5</b>
Mean Asset Value (Thousands \$)		
- Own Home	354.8	199.3
- Other Residential	430.6	173.6
<b>Share of Res. Value (%)</b>	<b>80.0</b>	<b>5.7</b>

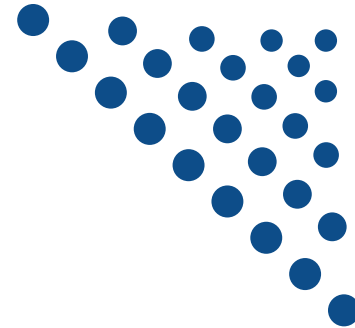
- **Numbers of banks & credit unions**

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

- **They are very small**

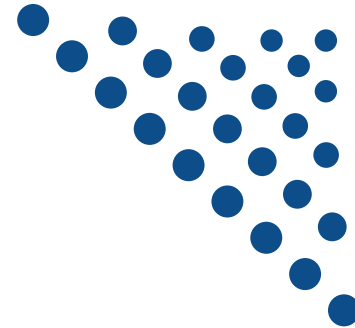
- All Black owned: \$5.8 Billion
- JP Morgan Chase: \$2.8 TRILLION

# The Multiplier Economy – Spanner in the Works



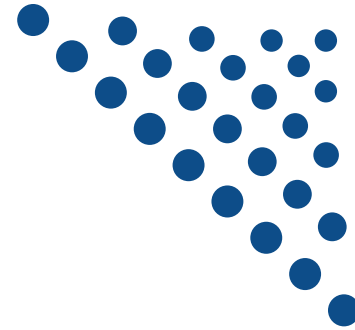
- **Banking – money goes where money is.**
- **Buying – money goes to buy intermediate inputs, into the White community.**
  - There is a similar multiplier for consumer spending.
  - Money is spent – goes to a Black business
    - That Black business then keeps some of the money, but some leaves the Black community through the purchases of intermediate inputs.
      - The Black economy may simply not be big enough to prevent this leakage.

# Can It Be Made To Work?



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

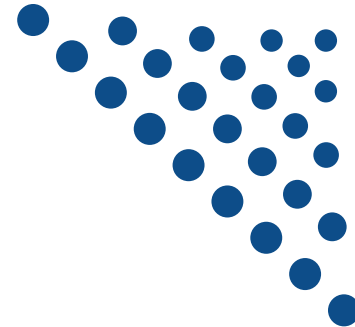
# Summary



- **The Black White wealth gap is enormous (2019)**
  - Mean: White wealth is 6.9x Black wealth
  - Median: White wealth is 7.8x Black wealth
- **There are many explanations in the common narrative.**
  - Many do not stand up to scrutiny.
- **Government policies have contributed enormously this gap.**
  - Racial dehumanizing permitted these policies.
- **Wealth endowments (parental wealth) are enormously important for determining own wealth in adulthood.**
  - Policies that address this relationship are most likely to be effective.
- **Some form of policy intervention is likely necessary if the gap is to be closed.**

**Thank you!**

# Any Questions?



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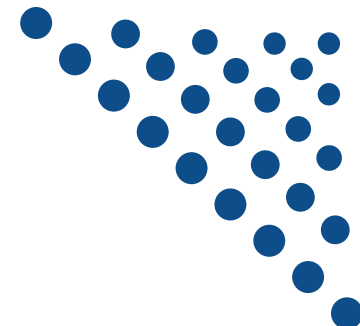
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- **Housing Policy**
- **Federal Budgets**
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