

Osher Lifelong Learning Institute, Summer 2021

Contemporary Economic Policy

Summer, 2021, San Francisco State University

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National Economic Education Delegation



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Course Outline

- **Contemporary Economic Policy**

- Week 1 (6/8): US Economy & Coronavirus Economics
- Week 2 (6/15): Climate Change Economics (Jennifer Alix-Garcia, Oregon St.)
- Week 3 (6/22): Health Economics (Veronika Dolar, SUNY)
- Week 4 (6/29): Economic Inequality
- **Week 5 (7/6): The Black-White Wealth Gap**
- Week 6 (7/22): Autonomous Vehicles



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The Black-White Wealth Gap

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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).

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Outline

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

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Evidence

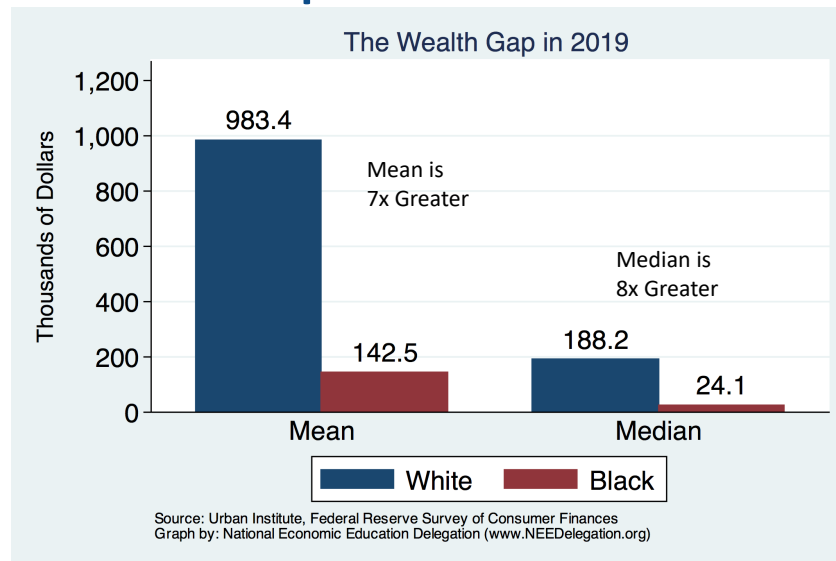
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Wealth Disparities, 2019

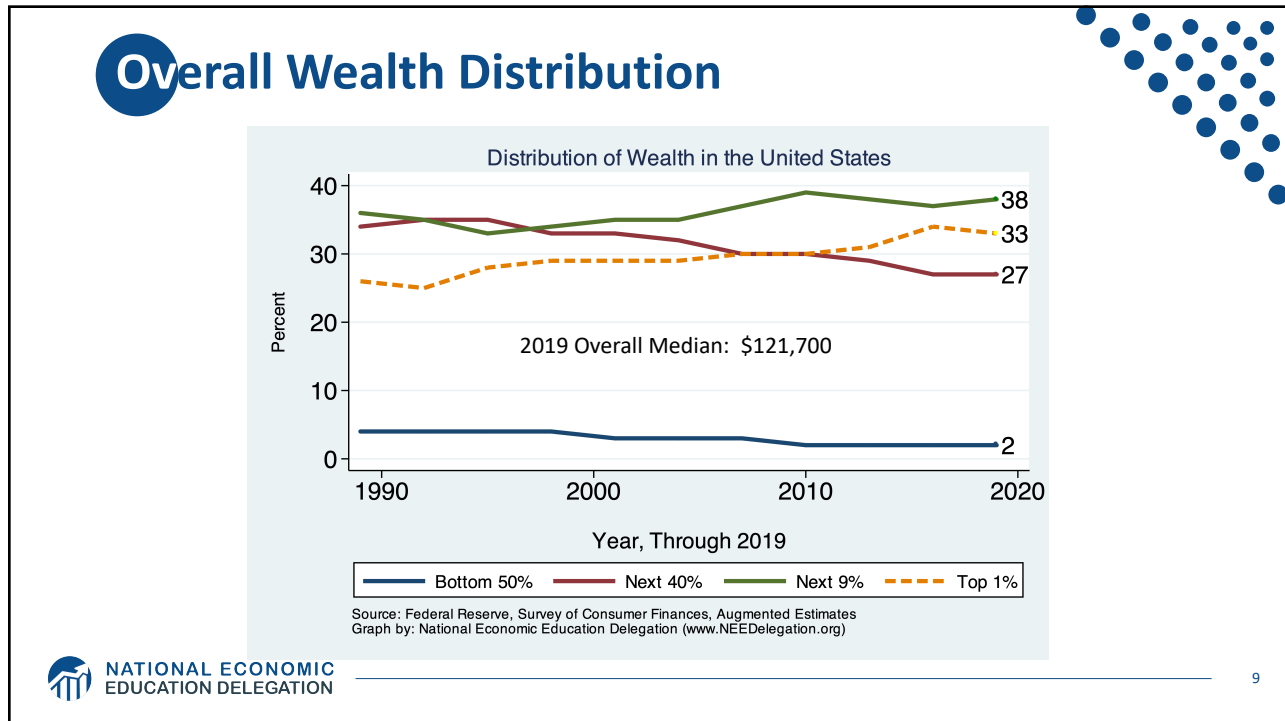
Race/Ethnicity	Mean Wealth	Share of Families	Share of Wealth	Ratio of Shares
White, non-Hispanic	\$983,400	64.9	85.3	1.3
Black, non-Hispanic	\$142,500	14.2	2.7	0.2
Hispanic or Latino	\$165,500	9.6	2.1	0.2
Other or Multiple Race	\$657,200	11.3	9.9	0.9

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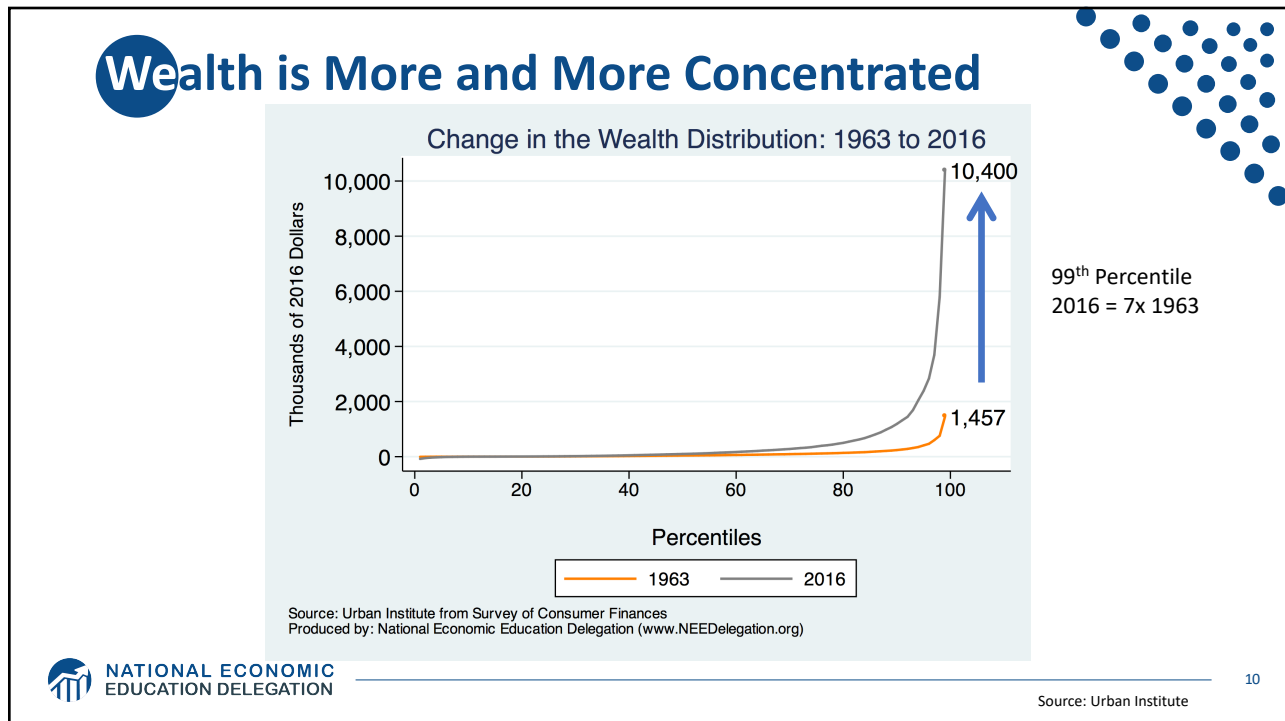
Evidence of the Gap



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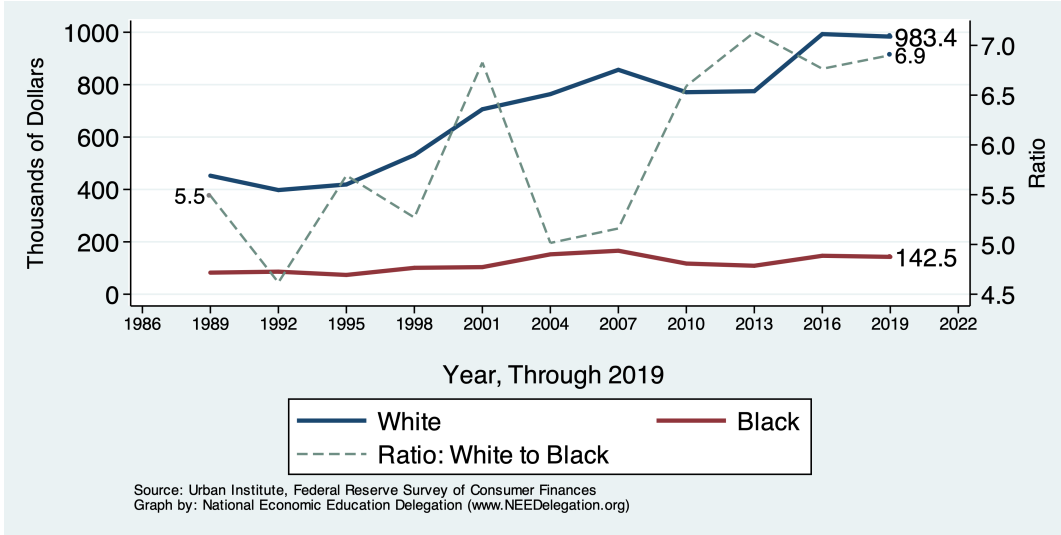


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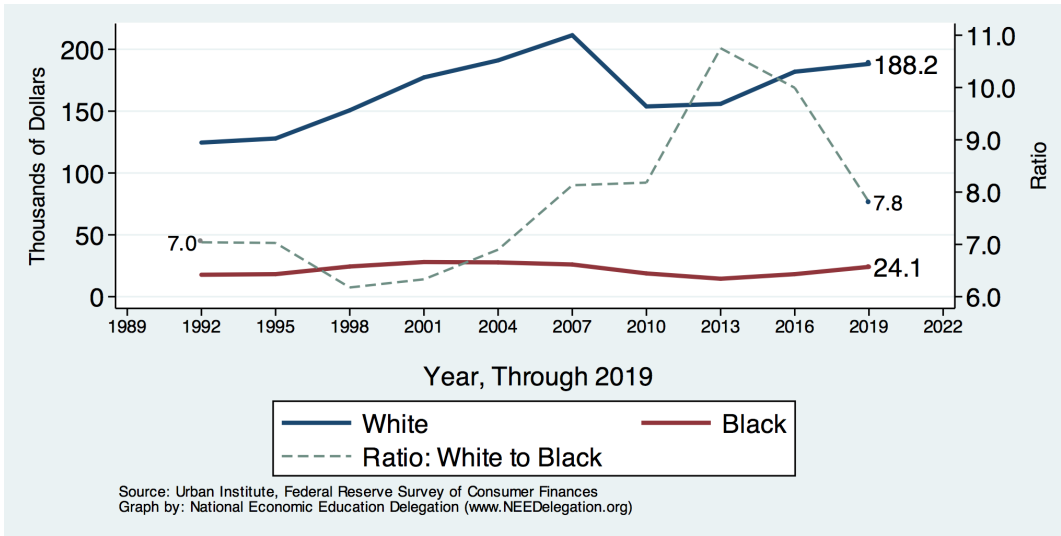
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Wealth Gap Over Time: Mean



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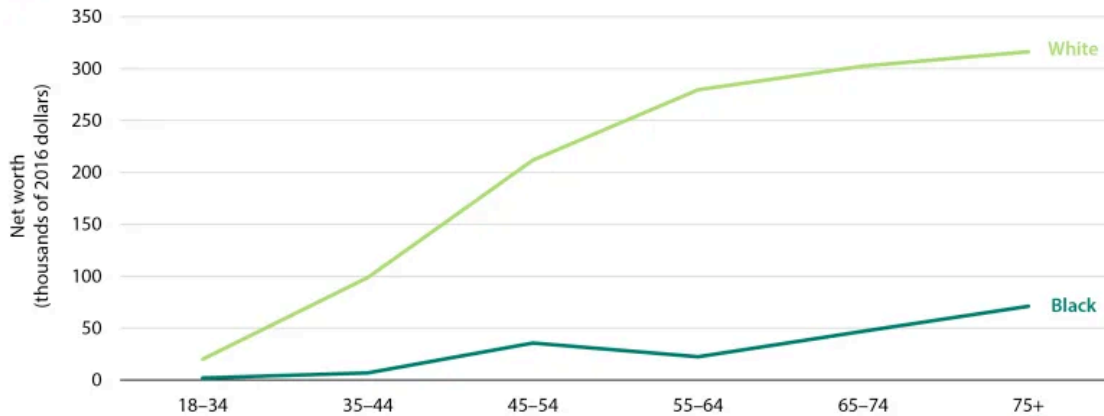
Wealth Gap Over Time: Median



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Net Worth by Age and Race

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

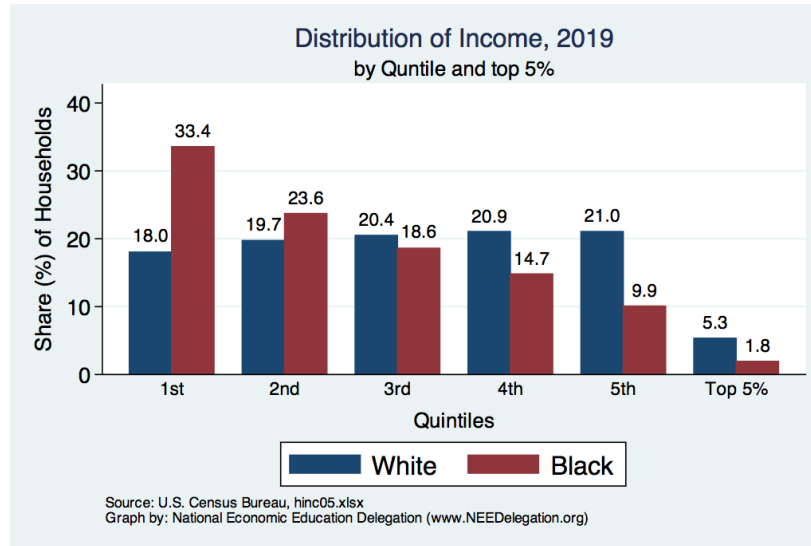


Source: Survey of Consumer Finances 2016; authors' calculations.
Note: Data are from 2016. Net worth refers to the difference between assets and debt for a household head. Race and ethnicity are those of the survey respondent.



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

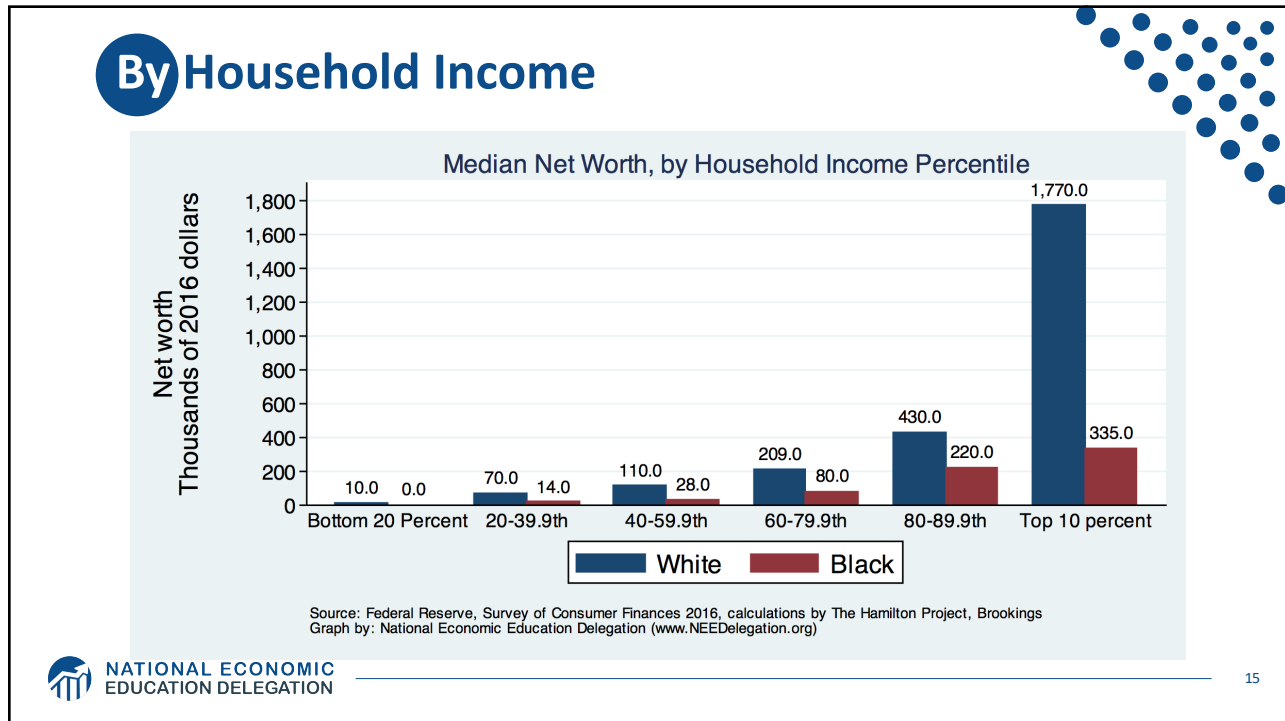
Black Household Incomes Relative to White



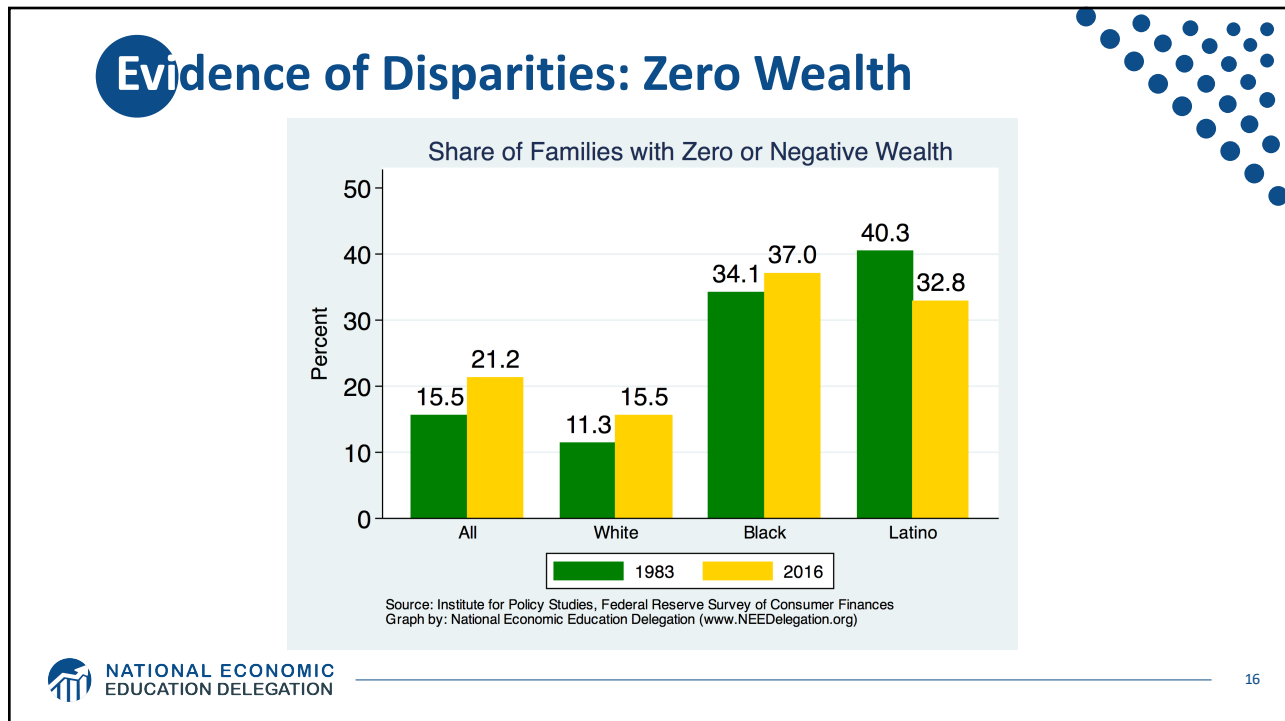
Source: U.S. Census Bureau, hinc05.xlsx
Graph by: National Economic Education Delegation (www.NEEDelegation.org)



Source: pewsocialtrends.org



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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
- Withstand 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

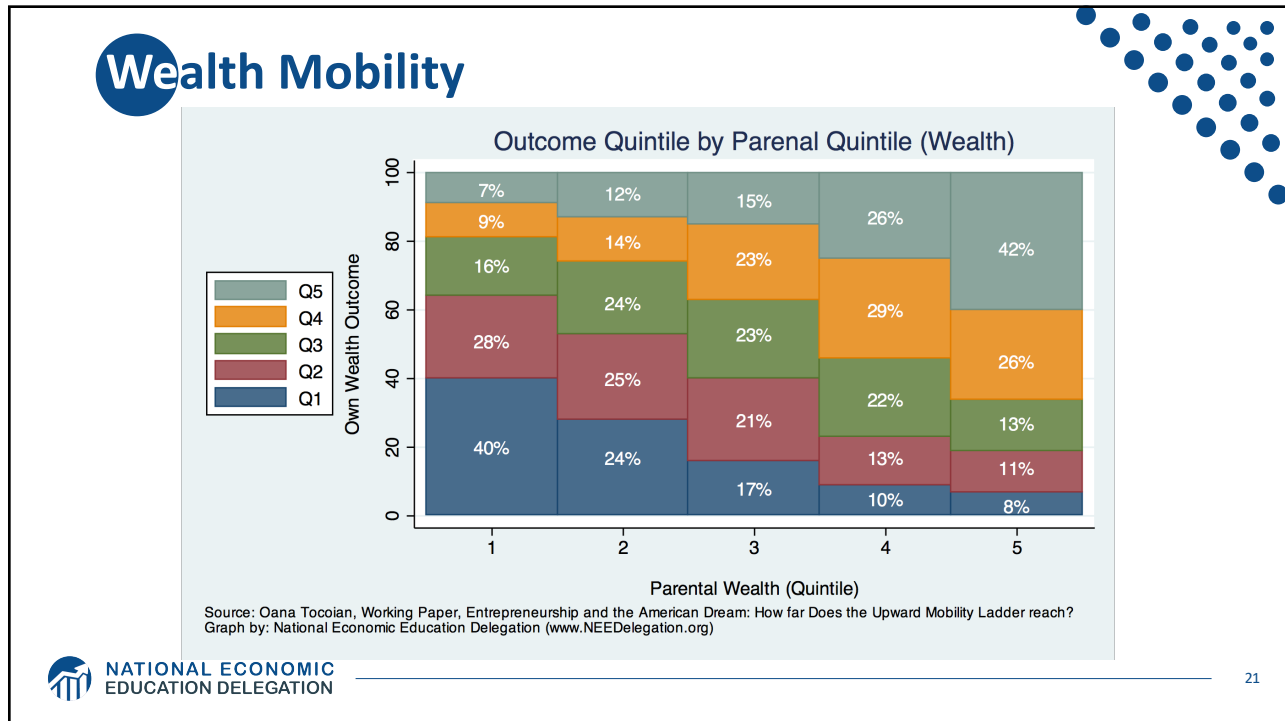
- **Important pre-estate transfer effects on kids:**

- 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.**





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Tangible Benefits for the Broader Economy

- More human capital development
- Increased entrepreneurship
- Greater labor force participation
- Healthier labor force
- Less social unrest
- Less reliance on social programs
- Smaller stock of student loans

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Sources of Disparities



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Events/Policies with Direct Wealth Implications

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



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Results for Black Families

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



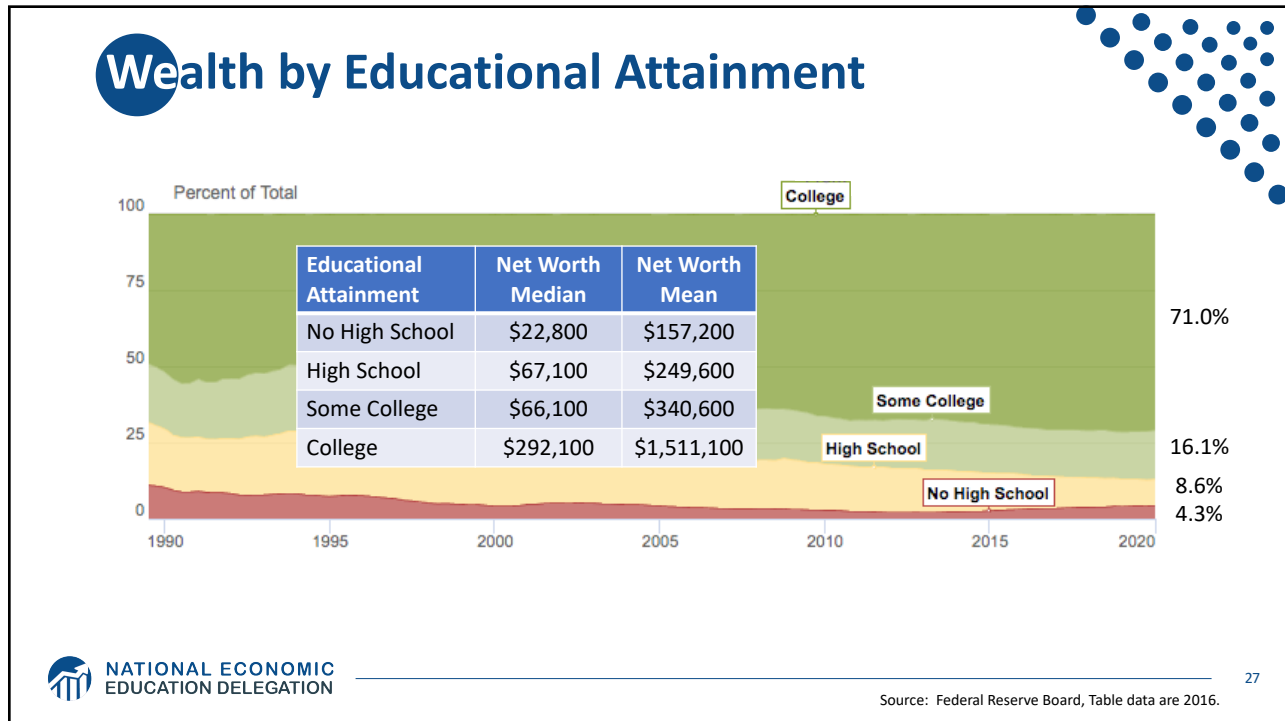
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Potential Explanations: Differences in...

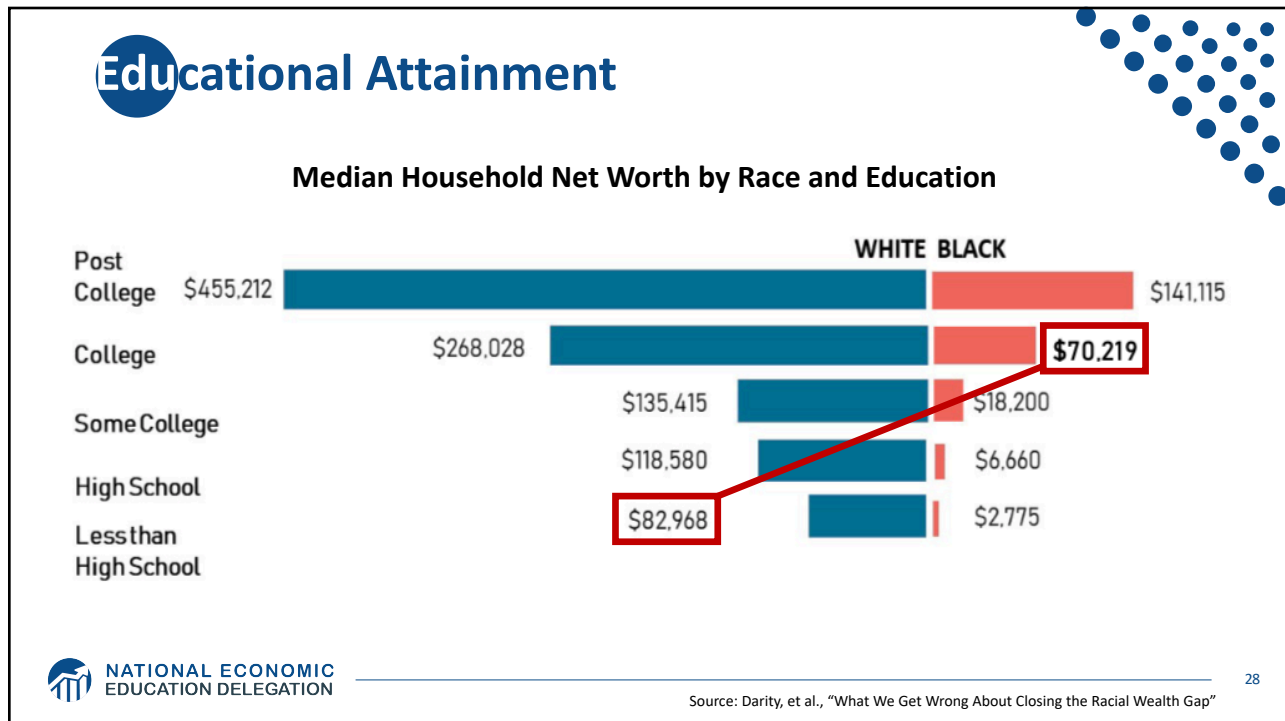
- | | |
|---------------------------------|--|
| • Educational attainment | • Soft skills and personal responsibility |
| • Home ownership | • Wages |
| • Increased savings | • Labor force participation |
| • Financial literacy | • Family disorganization |
| • Entrepreneurship | • Initial endowment |



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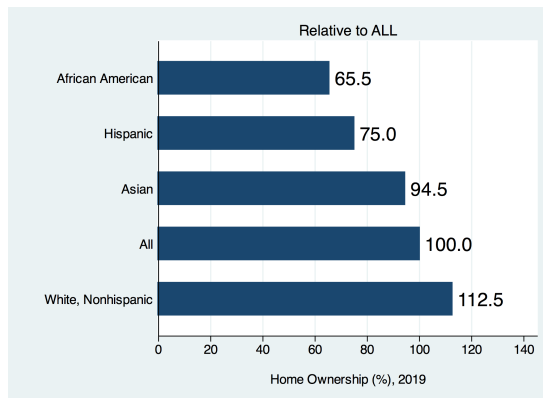
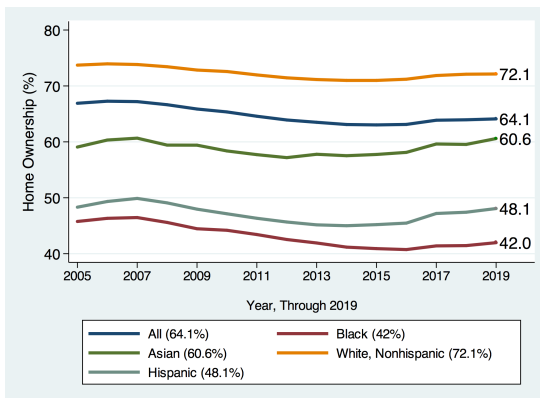
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Educational Attainment: Policy

• How do we increase educational attainment?

- Increase universal quality of public schools.
- Increased/improved counseling in high schools.
- Reduce costs (including living) of attending college.
- Increased access to funds for education.
- Make publicly available pre-k education.
- Mandate kindergarten by age 5.
- No one able to drop out before age 18 or at least 11 completed years of education.

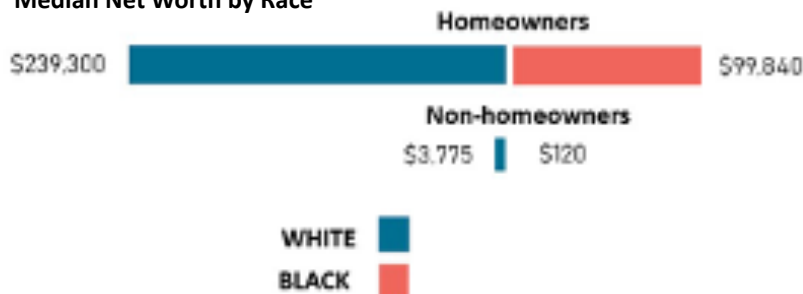
Home Ownership



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



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Wealth Equality Through Home Ownership?

- **Well-documented evidence of historical and ongoing housing and lending discrimination.**
 - Appraisals, buyers, lenders, local laws, covenants...
- **What about home prices in minority neighborhoods? Even if they buy, they won't get the appreciation of White neighborhoods.**
 - Home values are 50% lower in majority Black neighborhoods.
 - 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.**
 - This makes it a less attractive investment.



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Increased Savings

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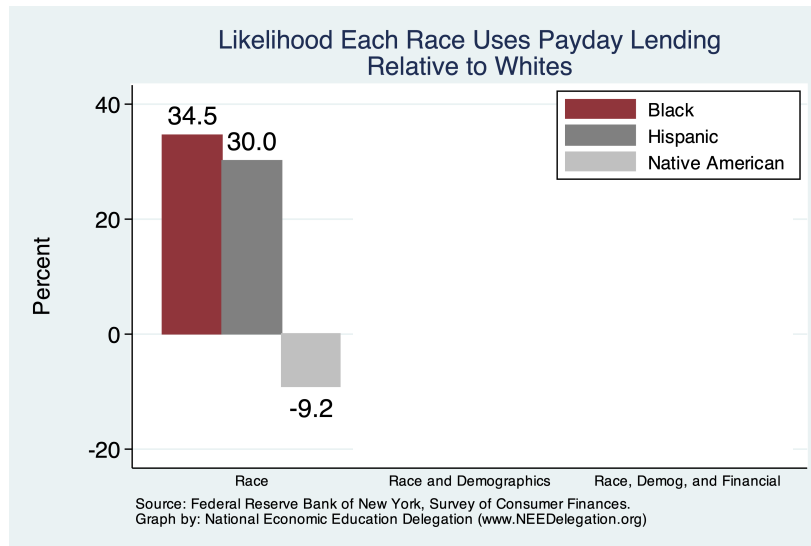
Financial Literacy

- **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.

- **Controlling for household income, there is no difference in rates of asset appreciation between Black and White households.**

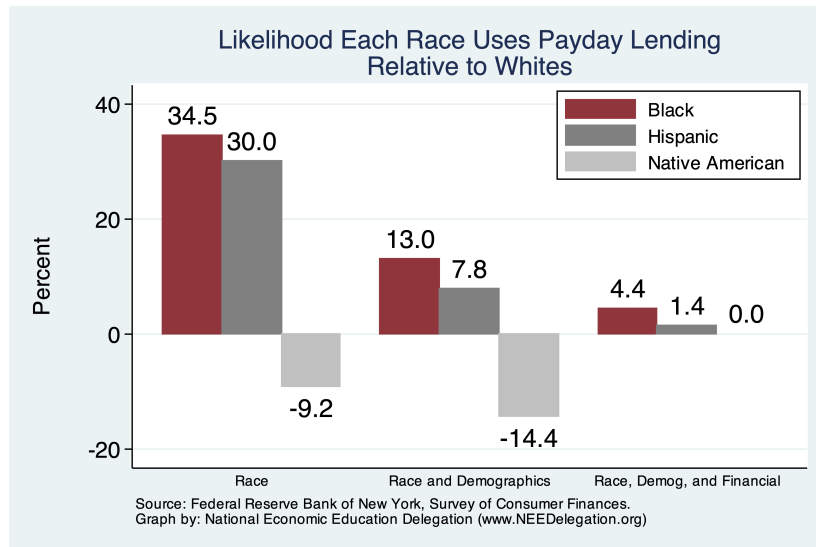
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Use of Payday Lenders



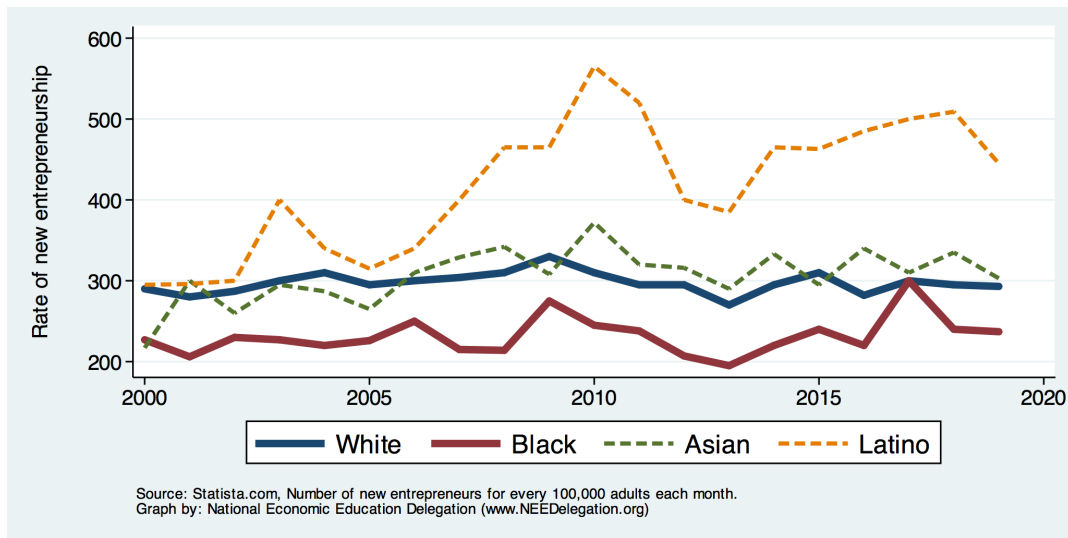
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Use of Payday Lenders



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Entrepreneurship: Rate of New Entrepreneurs



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Explaining Differences in Entrepreneurship

- **Disparities in access to capital:**

- Wealth disparities
 - o Specifically - differences in home equity.
 - o Differences in wealth levels of friends and family.
- Less likely to rely on banks and more likely to rely on credit cards.
- Loans have higher interest rates if they can get them.
- Less access to venture funds.

- **Generally lower levels of education.**

- **Previous business ownership by family members.**

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



Soft Skills and Personal Responsibility

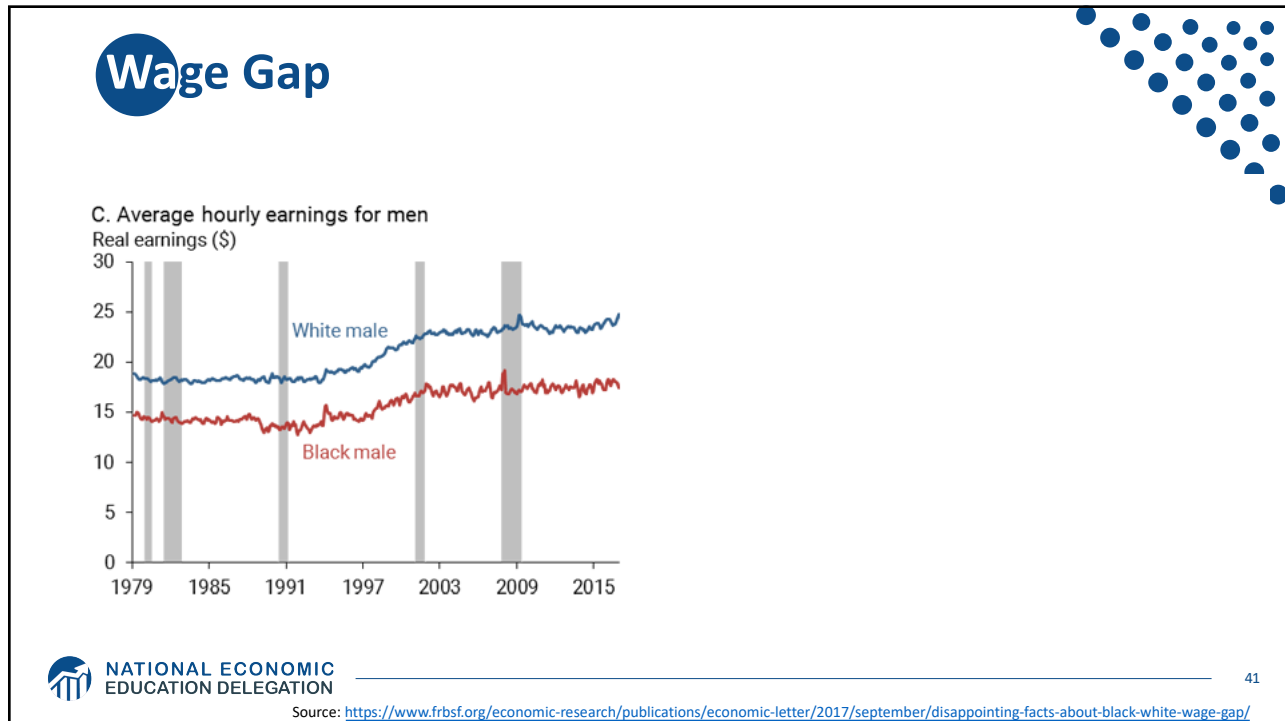
- **Employability**

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

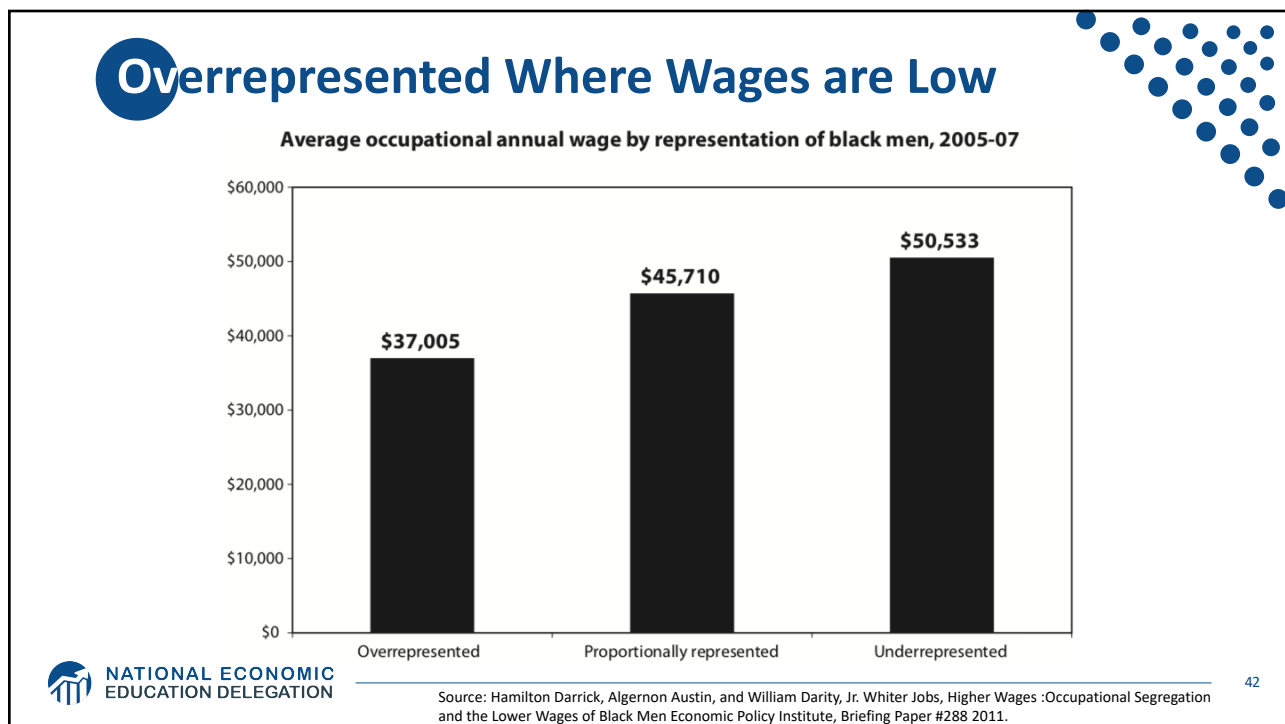
- **Reality**

- 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.

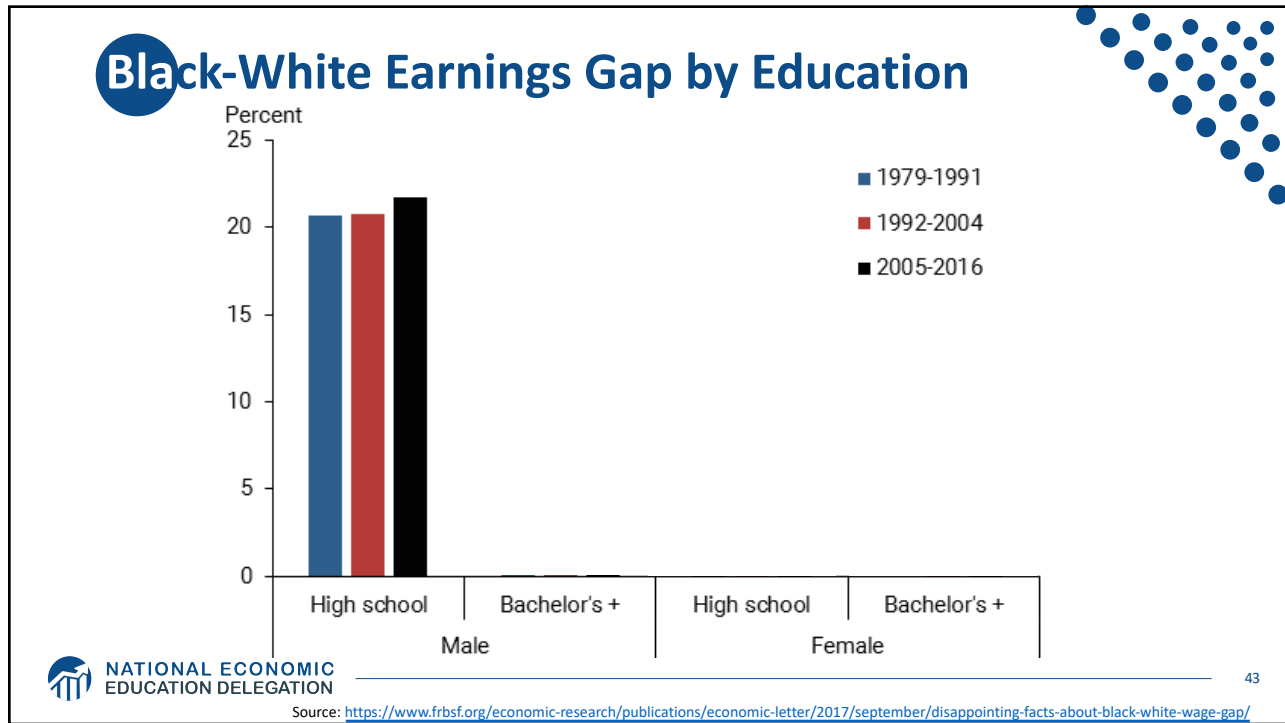




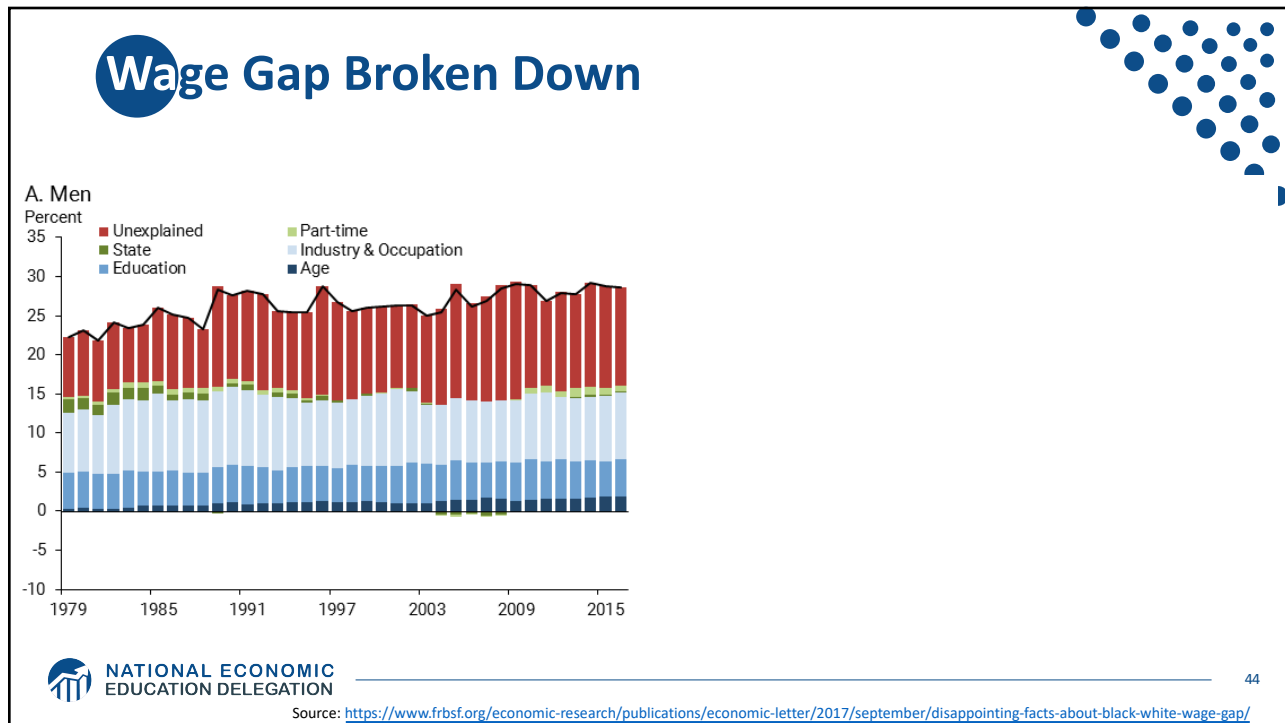
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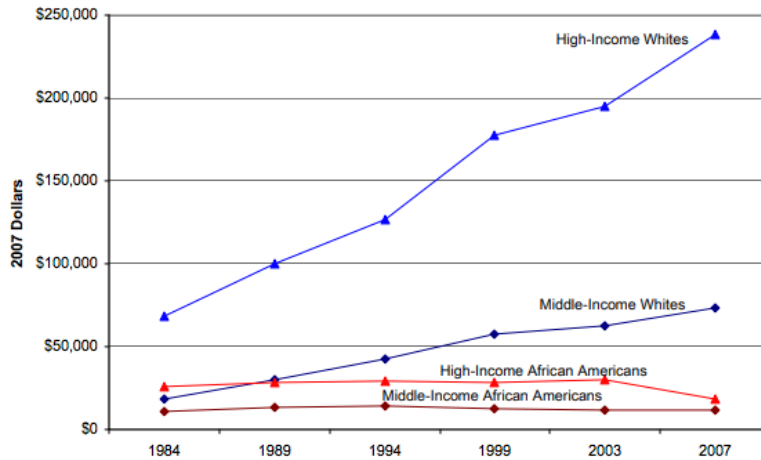
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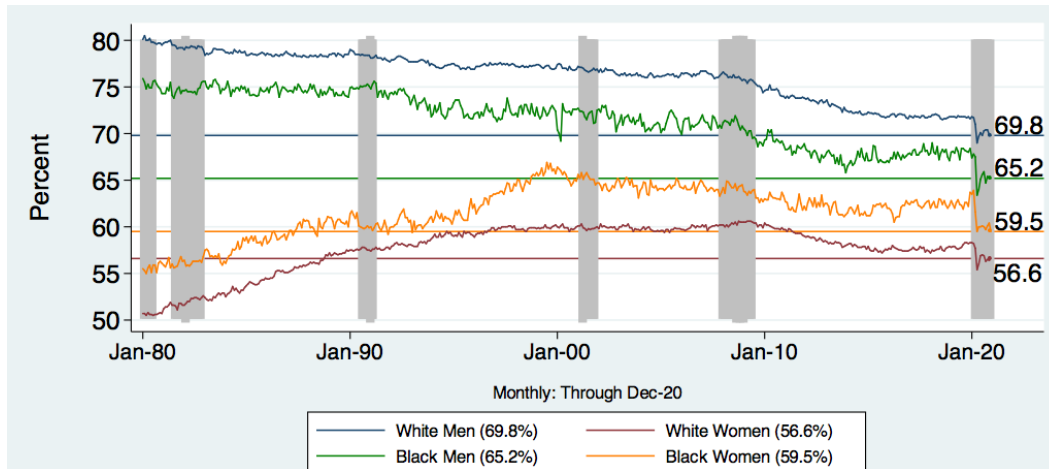
Equality of Income ≠ Equality of Wealth

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



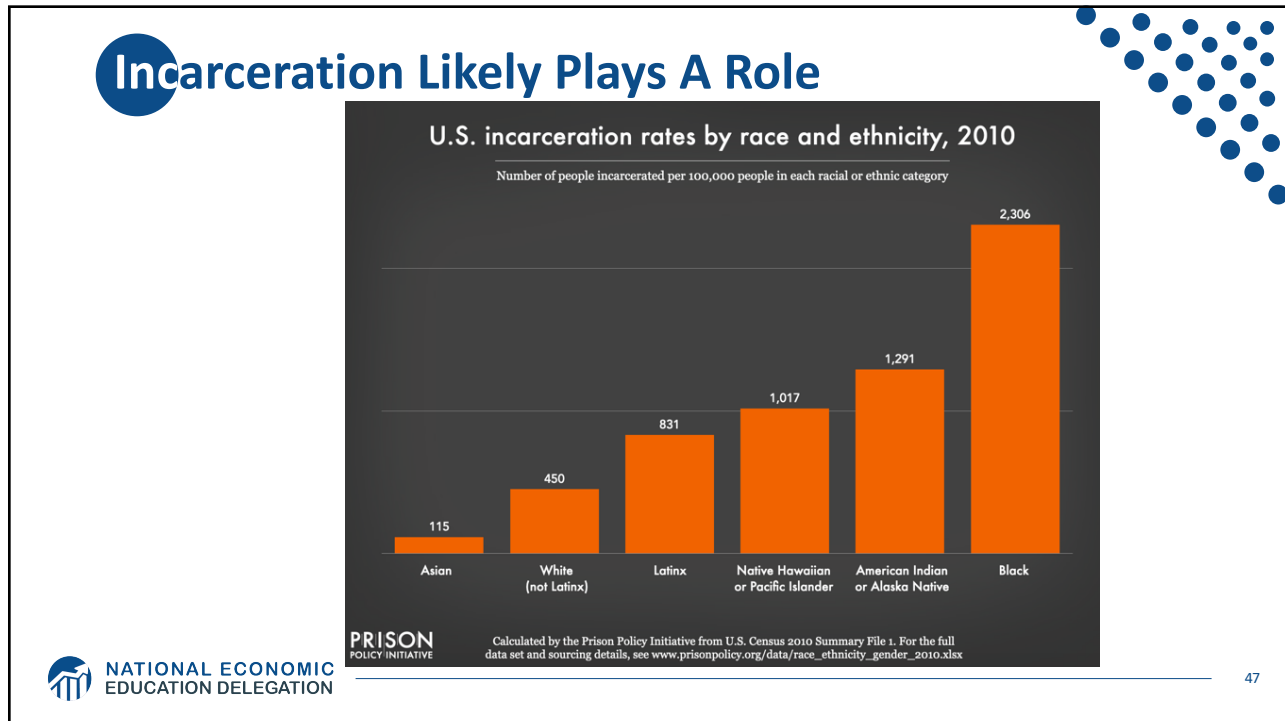
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Labor Force Participation

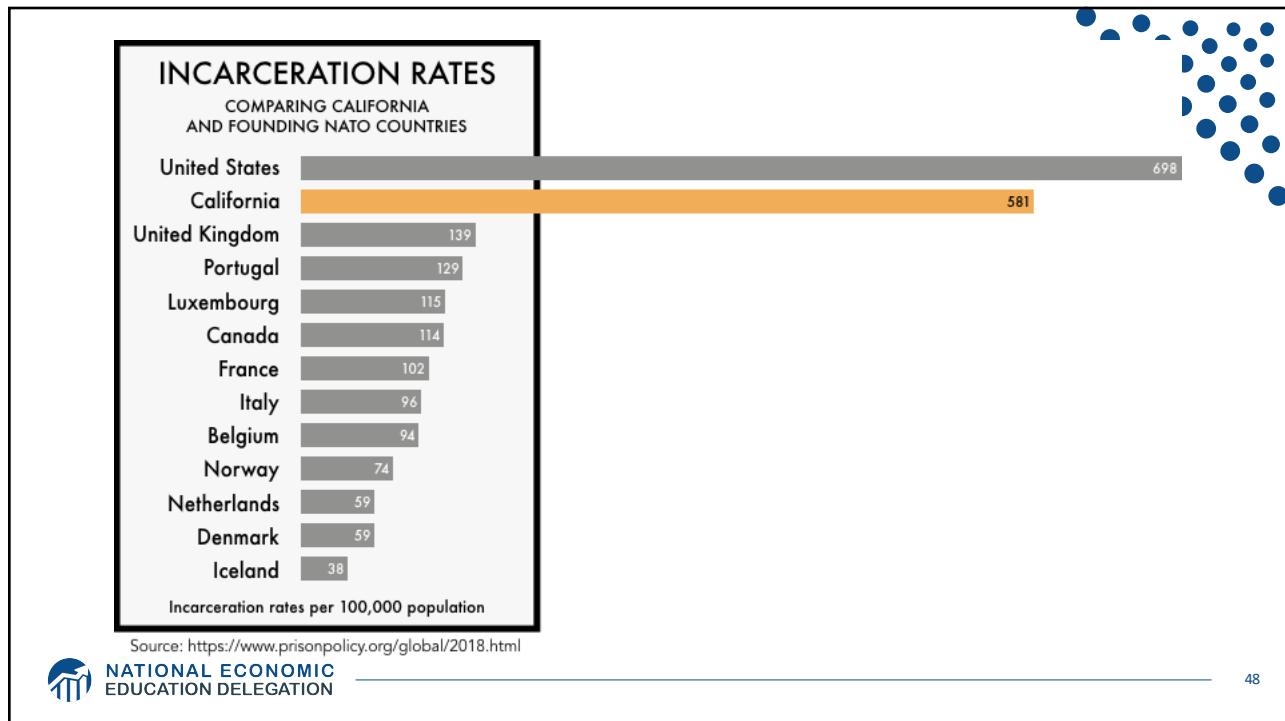


Source: Bureau of Labor Statistics, seasonally adjusted, 20 years and older.
Graph by: National Economic Education Delegation (www.NEEDelegation.org)

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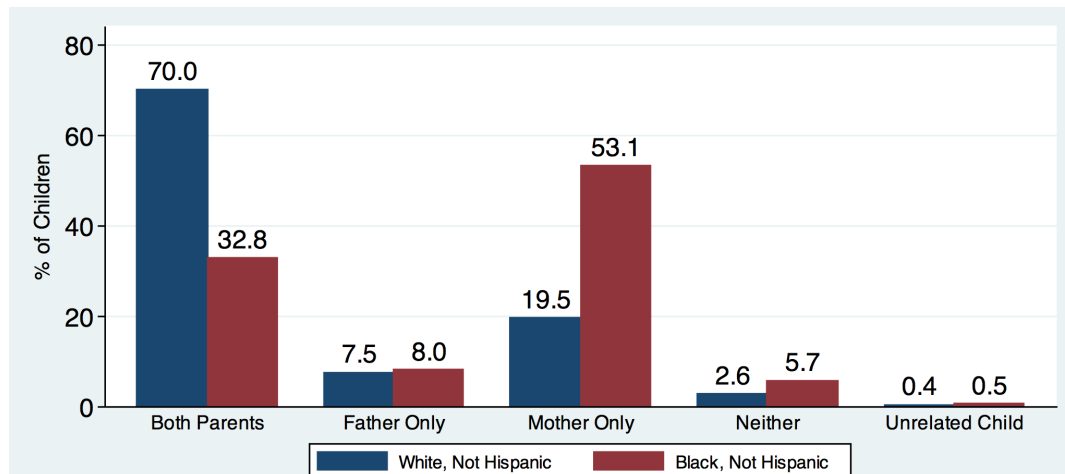
Family Structure

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

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

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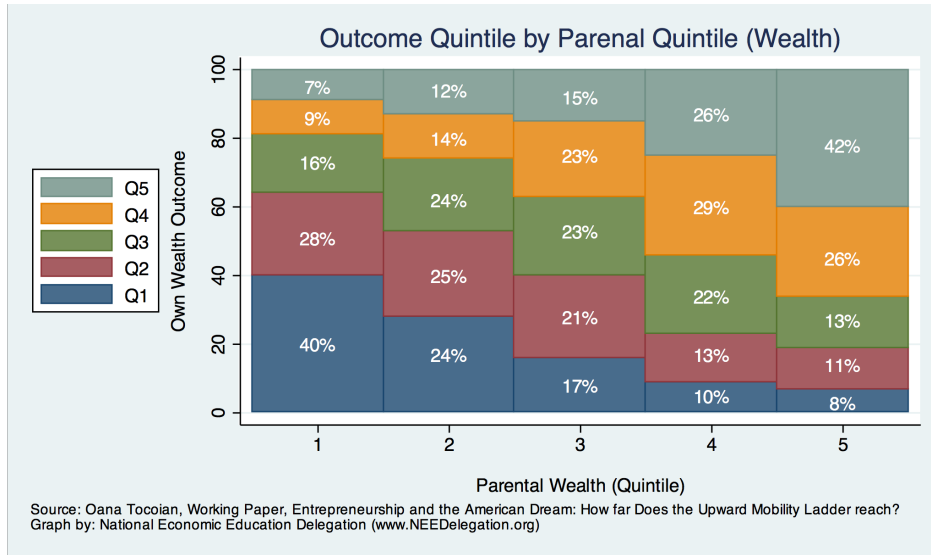
Kids – Household Types



Source: Census Bureau, 2018 American Community Survey PUMS
Graph by: National Economic Education Delegation (www.NEEDelegation.org)

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Initial Endowment

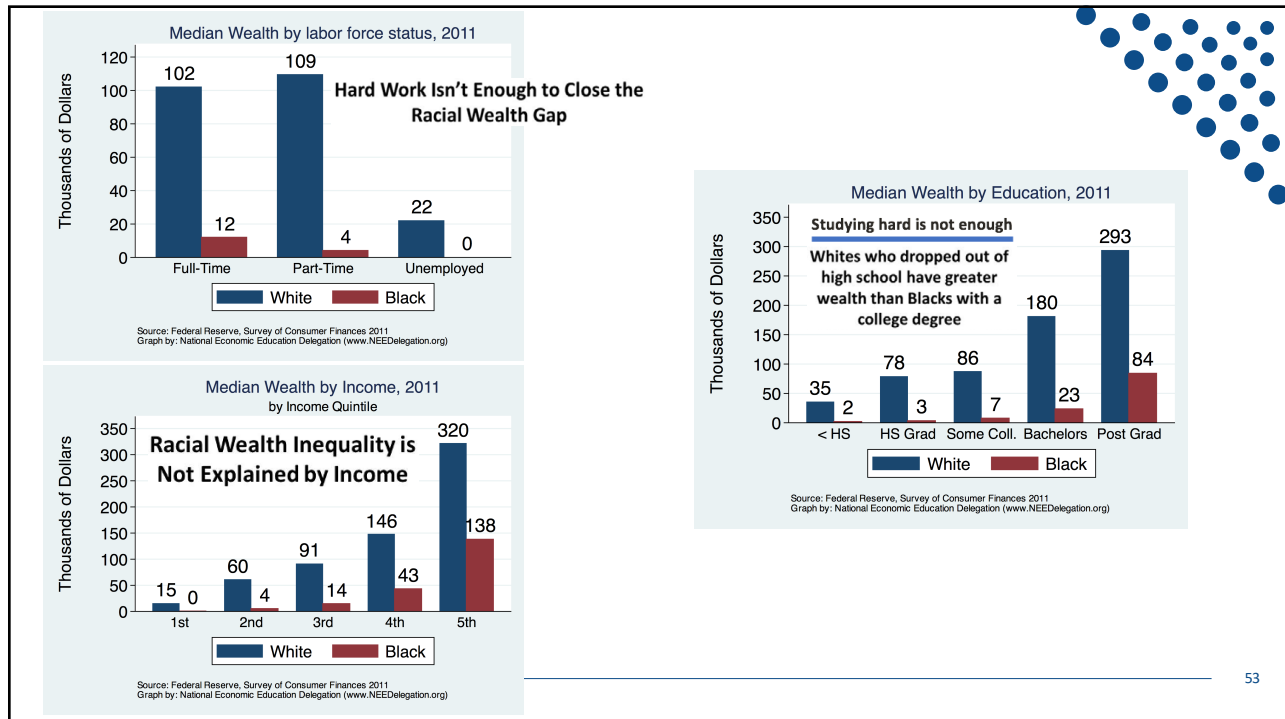


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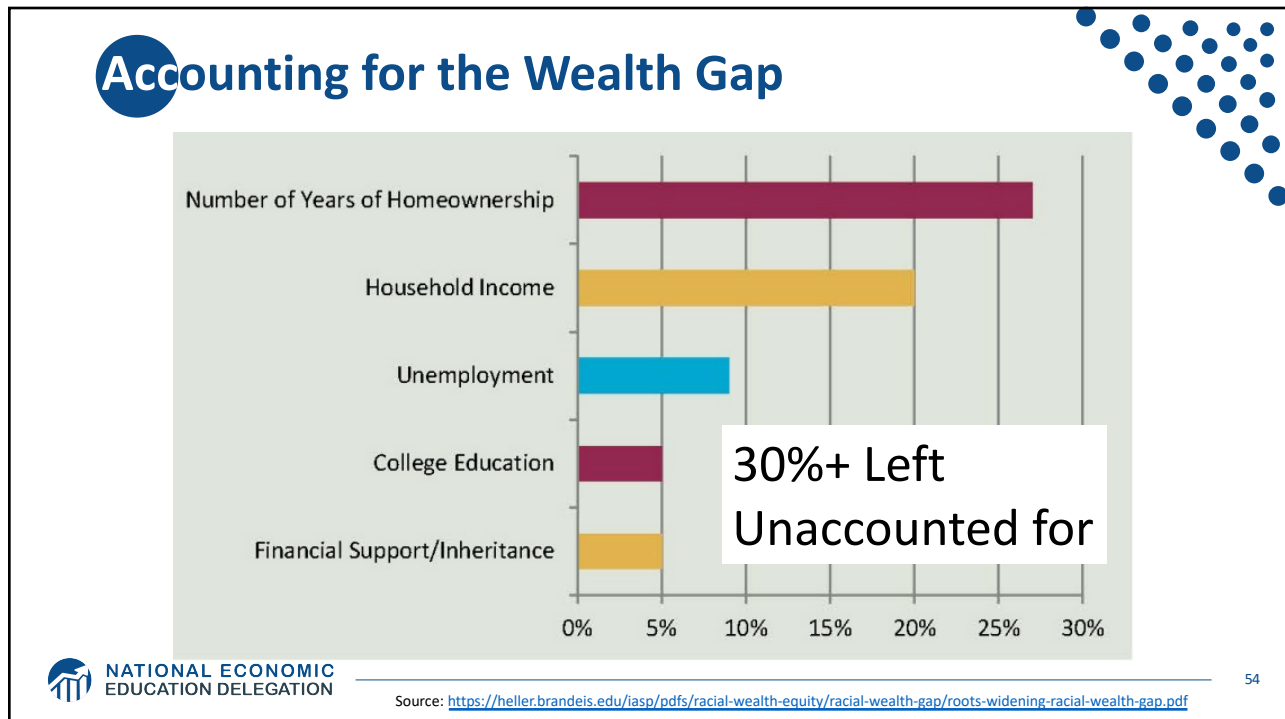
What is Fundamentally Responsible?

- 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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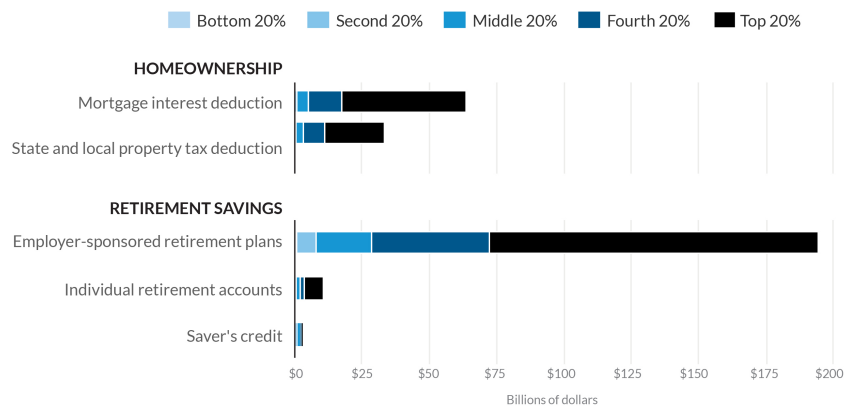
Specific Policy Options

- **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.
 - o Differential tax treatment.
 - 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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Gov't Asset Building Policies

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



Source: Updated estimates from Steuerle et al. (2014).
 Note: "Income" refers to the Tax Policy Center's "expanded cash income" measure, which is described in Rosenberg (2013).

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Other Concrete Policy Options

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



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Source: Urban Institute

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Buying and Banking Black – Less Concrete

- **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.



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* Source: <https://www.newswise.com/articles/minority-markets-have-3-9-trillion-buying-power>

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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.



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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).



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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



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?

www.NEEDelegation.org

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Available NEED Topics Include:

- Coronavirus Economics
- Climate Change
- Economic Inequality
- Economic Mobility
- US Social Policy
- Trade and Globalization
- Minimum Wage
- The U.S. Economy
- Immigration Economics
- Housing Policy
- Federal Budgets
- Federal Debt
- The Black-White Wealth Gap
- Autonomous Vehicles



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