

Osher Lifelong Learning Institute - Berkeley

Contemporary Economic Policy Issues

Fall, 2020

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National Economic Education Delegation



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National Economic Education Delegation

- **Vision**

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

- **Mission**

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

- **NEED Presentations**

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



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Course Outline

- **What Economists Know About Important Policy Issues**

- Week 1 (9/21): Coronavirus Economics
- Week 2 (9/28): Economic Mobility (Oana Tocoian, UCSD)
- Week 3 (10/5): Economics of Immigration
- **Week 4 (10/12): Racial Inequities – Black/White Wealth Gap**
- Week 5 (10/19): Racially Discriminatory Policies
- Week 6 (10/26): Health Economics (Veronika Dolar, SUNY, Od Westbury)
- Week 7 (11/2): Infrastructure Economics (Mallika Pung, Univ. New Mexico)
- Week 8 (11/9): 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**

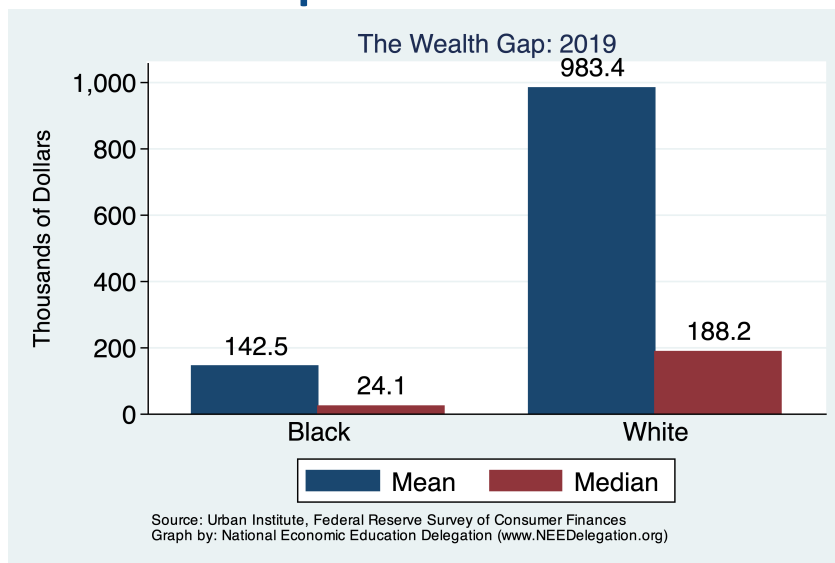


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Evidence

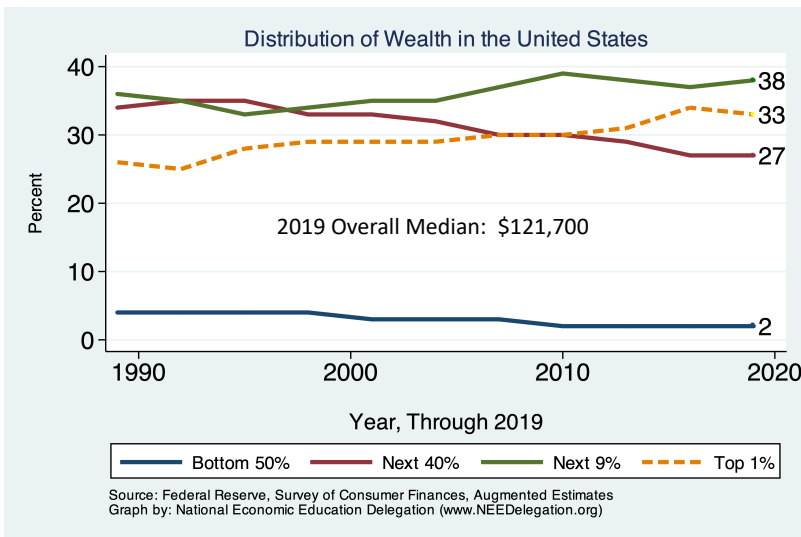
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Evidence of the Gap

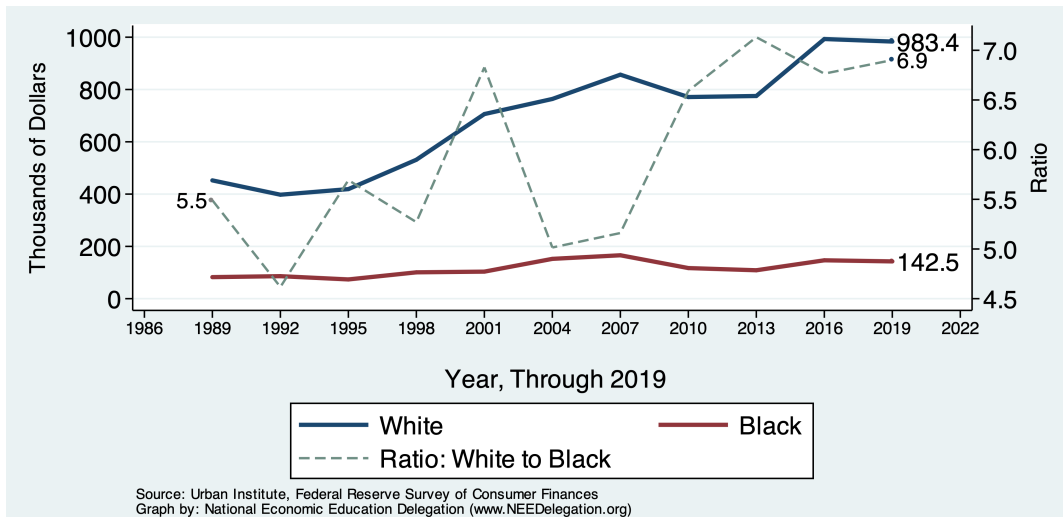


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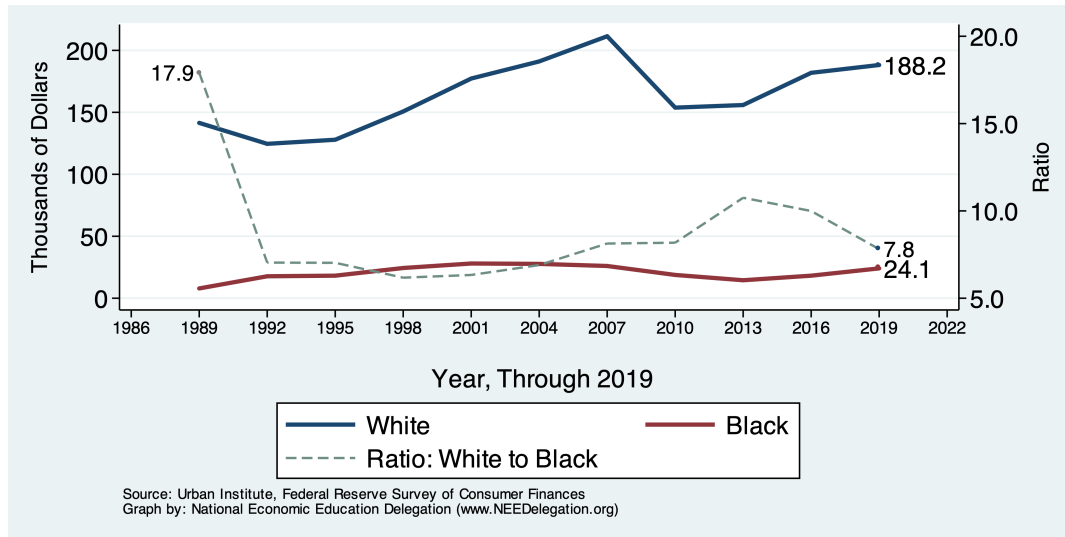
Overall Wealth Distribution



Wealth Gap Over Time: Mean



Wealth Gap Over Time: Median



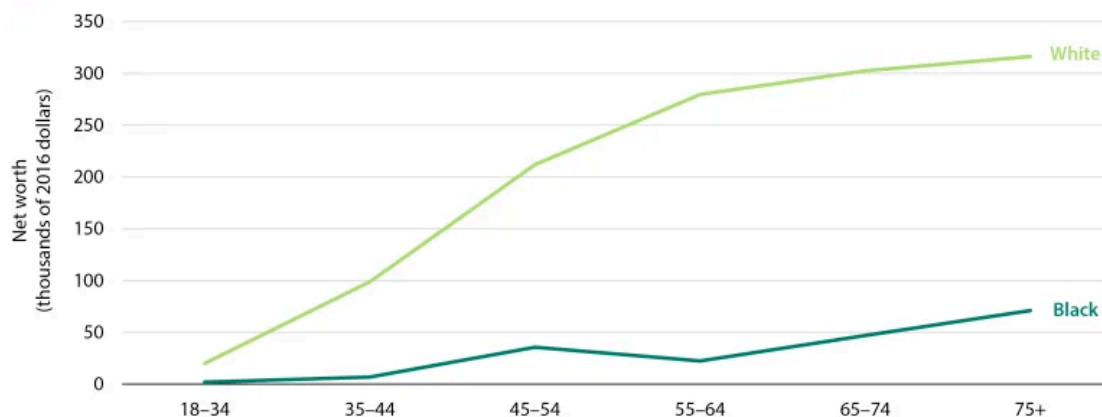
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Net Worth by Age and Race

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.



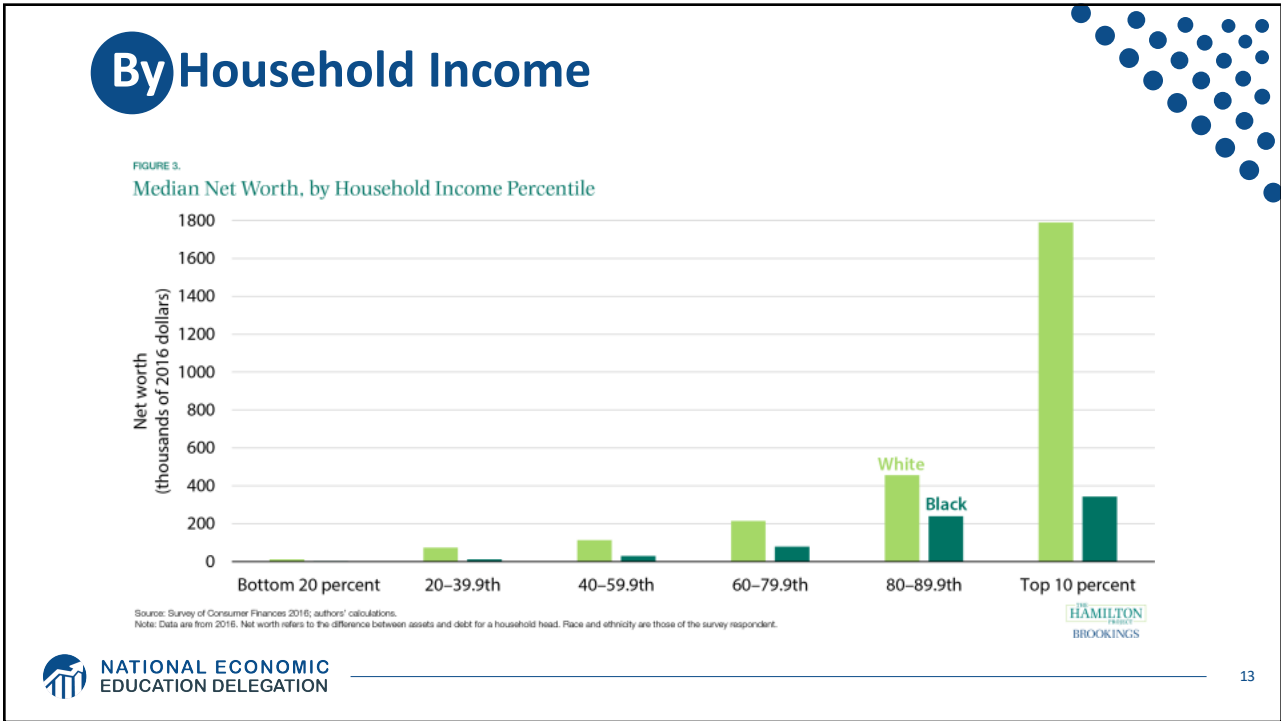
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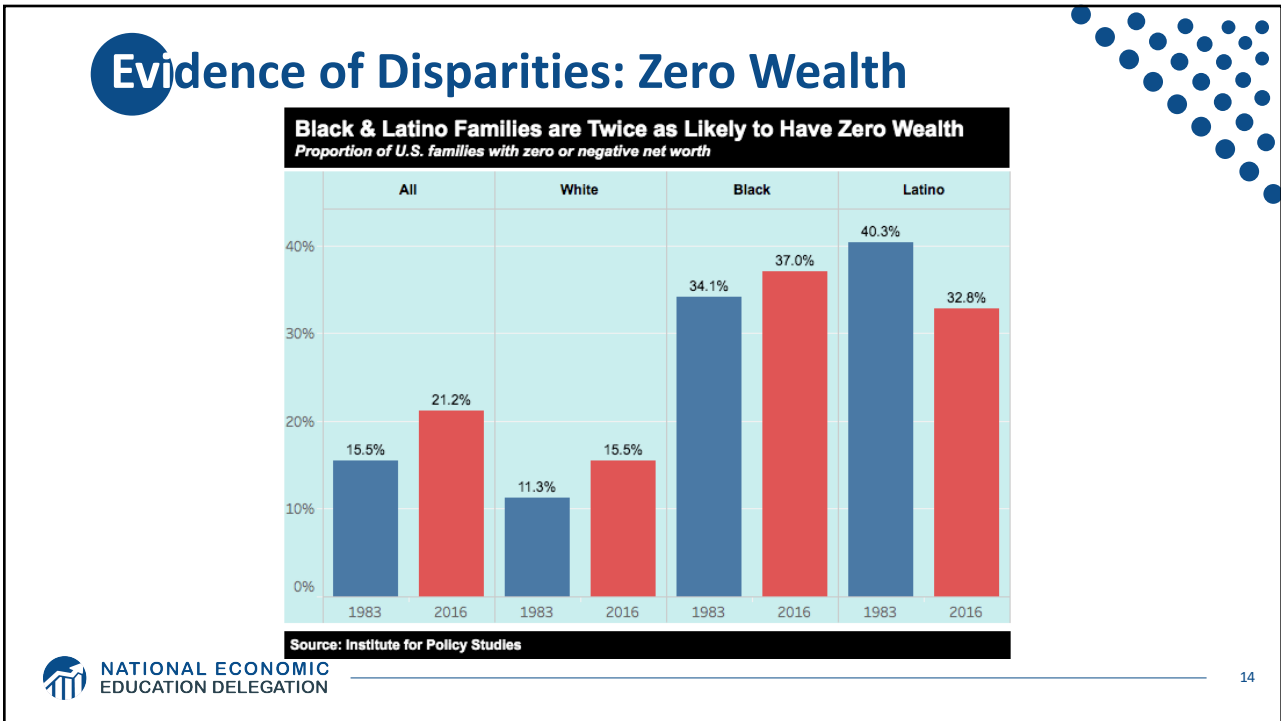
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Source: <https://www.brookings.edu/blog/up-front/2020/02/27/examining-the-black-white-wealth-gap/>

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The Nature of Wealth Holdings

- Liquid assets
- Interest bearing accounts
- Financial accounts

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Asset Ownership by Type, 2011 (SIPP)

	Tangible Assets					Financial Assets			
	Any	Home	Car	Other Motor Vehicles	Other	Any	Checking Account	Retirement Accounts	Other
Total	90%	61%	85%	9%	22%	81%	74%	51%	25%
White	94%	72%	88%	11%	25%	86%	80%	58%	31%
Black	79%	42%	71%	2%	12%	62%	55%	32%	9%

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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 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**

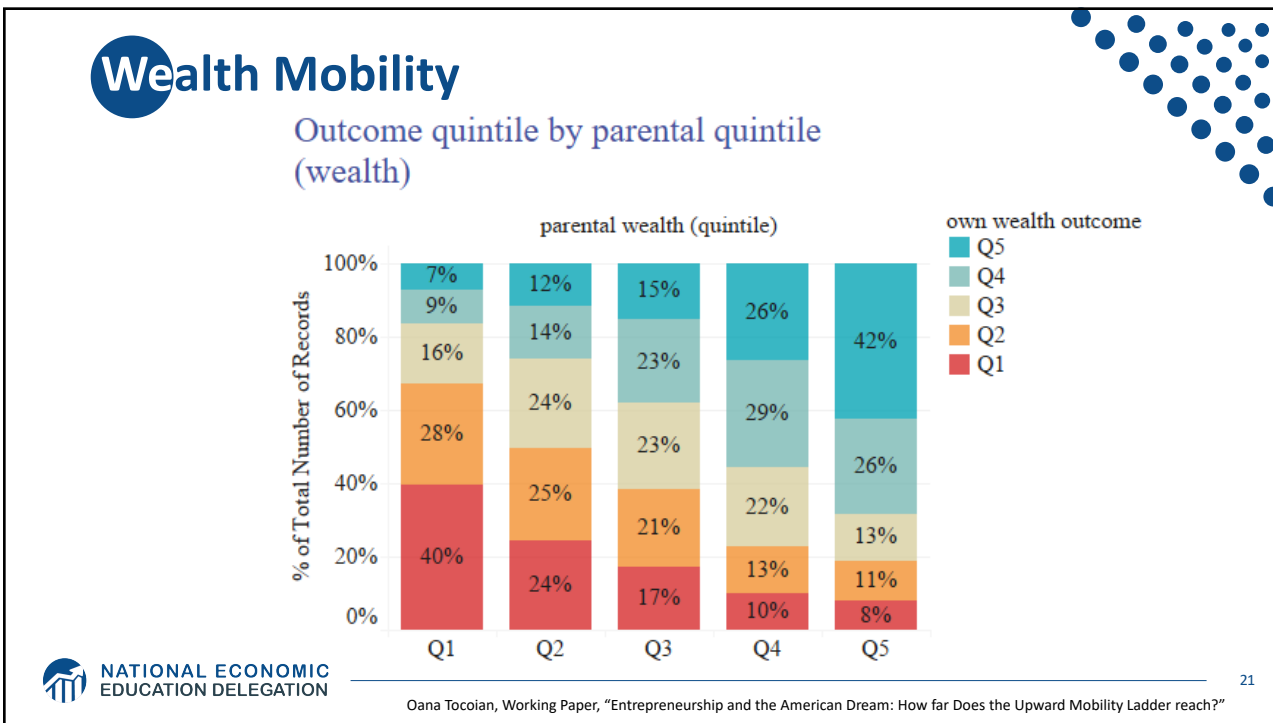
- Wealth begets more wealth.
 - Access to higher return investments.
- Wealth transfers across generations.
 - Wealth is sticky.



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**





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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 mostly nurture, not nature.**

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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 disolution
- **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



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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.*



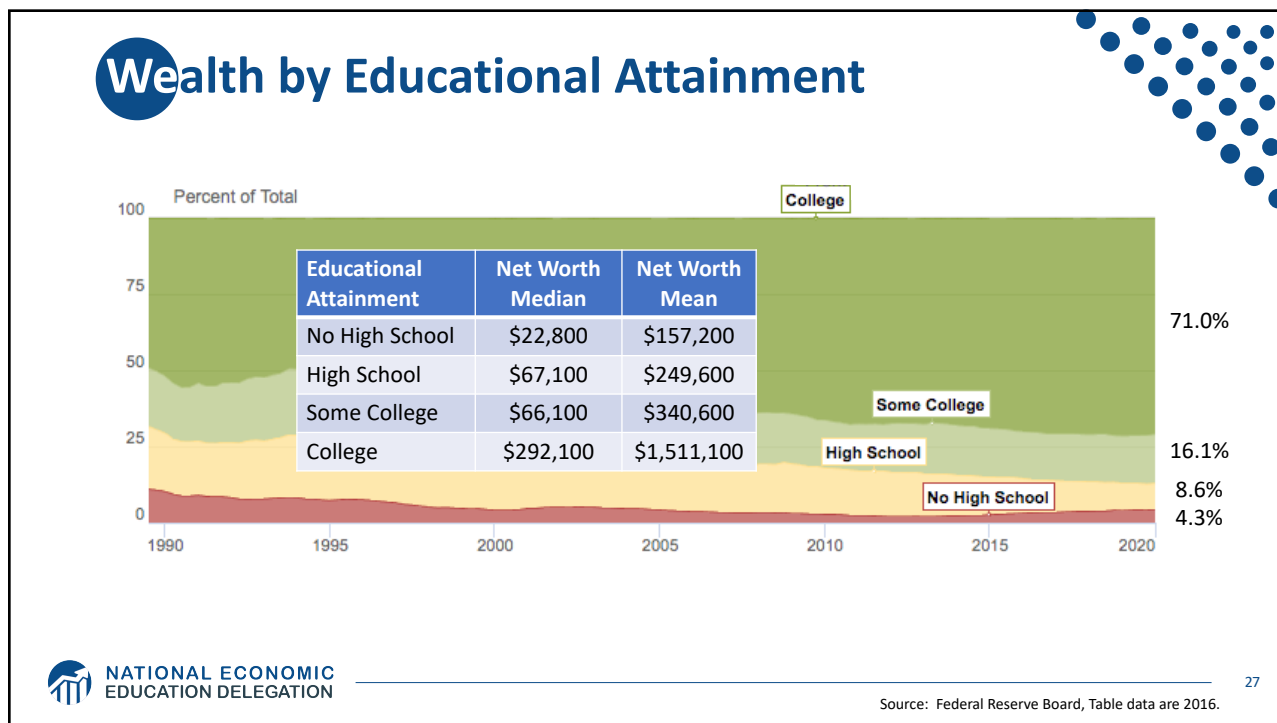
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Potential Explanations: Differences in...

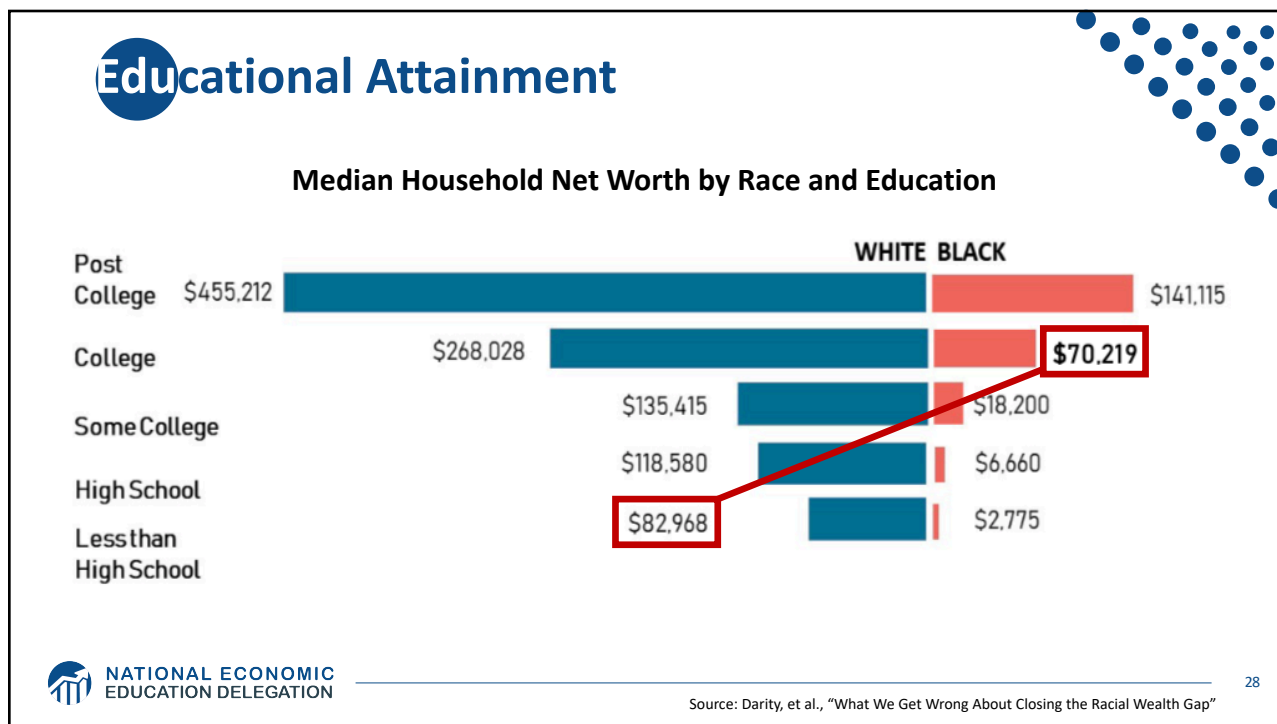
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|---------------------------------|--------------------------------------------------|
| • Educational attainment | • Soft skills and personal responsibility |
| • Home ownership | • Wages |
| • Increased savings | • Labor force participation |
| •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



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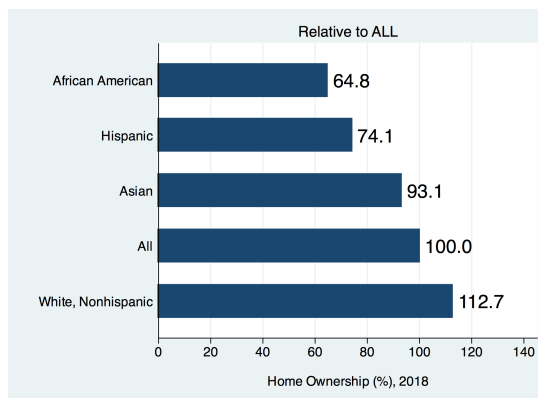
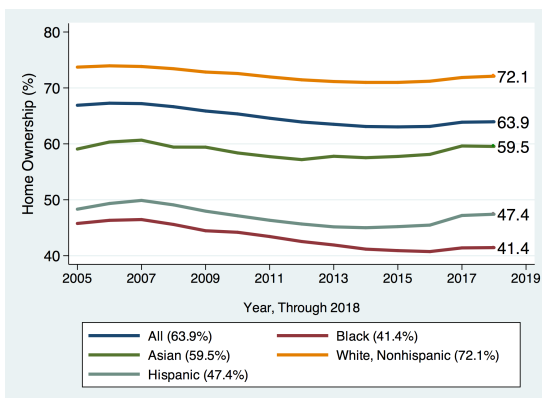
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Educational Attainment: Policy

- **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

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Home Ownership

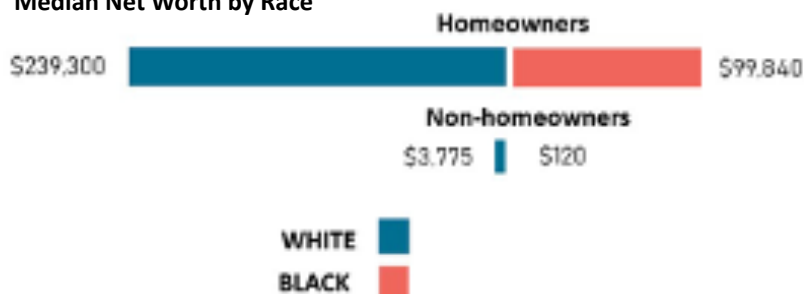


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Home Ownership

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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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**



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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.



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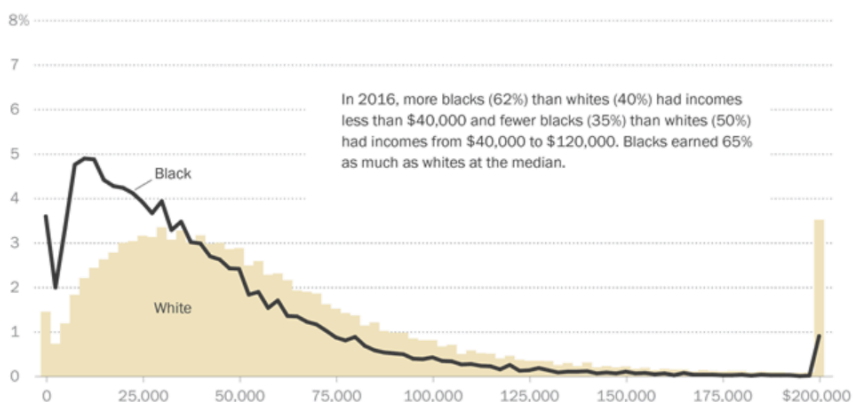
Financial Literacy

- Financial literacy doesn't matter that much when you don't have any finances to manage.
- Controlling for household income, there is no difference in rates of asset appreciation between Black and White households.

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Black Household Incomes Relative to White

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



Note: Whites and blacks include only single-race non-Hispanics. Income is adjusted for household size and expressed in 2016 dollars. See Methodology for details.
 Source: Pew Research Center analysis of 2016 American Community Survey (IPUMS).
 "Income Inequality in the U.S. Is Rising Most Rapidly Among Asians"

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Entrepreneurship

- **Disparities in access to capital**

- Wealth disparities
 - o Specifically differences in home equity.
 - o Differences in wealth levels of friends and family.
- Less likely to rely on banks and more likely to rely on credit cards.
- Loans have higher int rates and more likely to be declined.
- Less access to venture funds.

- **Education levels**

- **Previous business ownership by family**

- **Social capital**



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Soft Skills and Personal Responsibility

- **Employability**

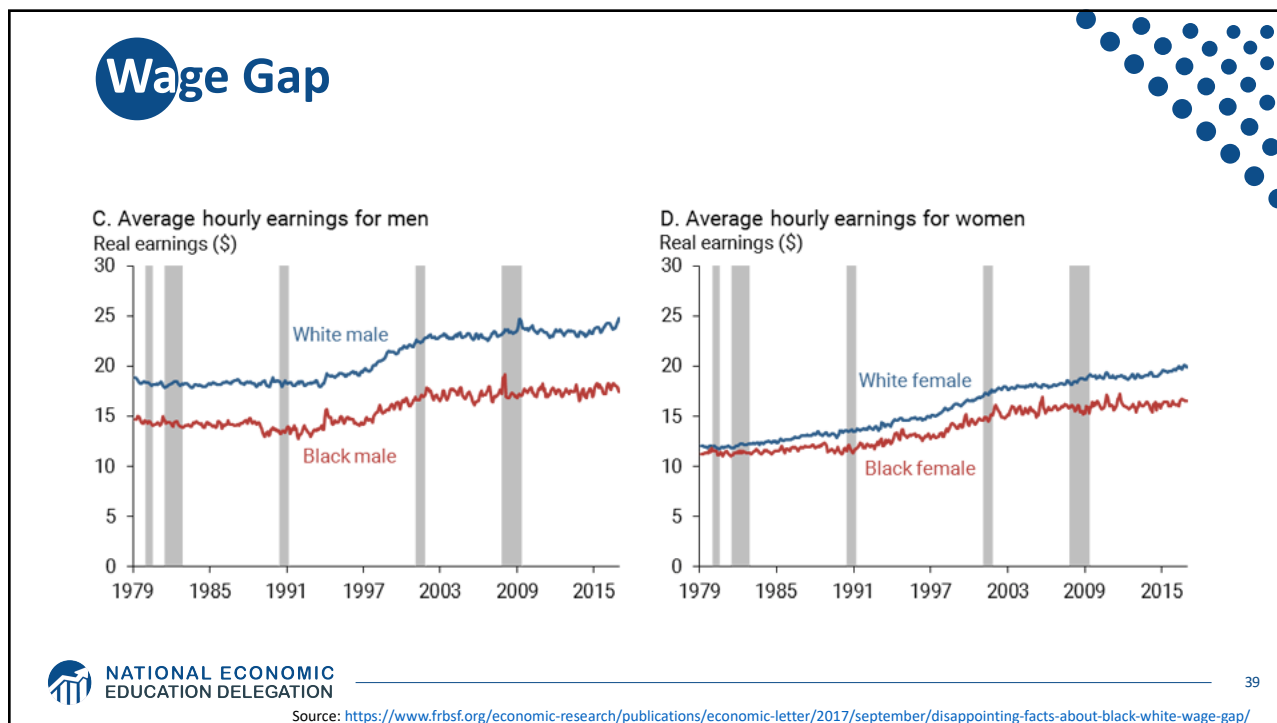
- Show up on time
- Eye contact with customers
- Dress well
- Collaborative skills

- **Reality**

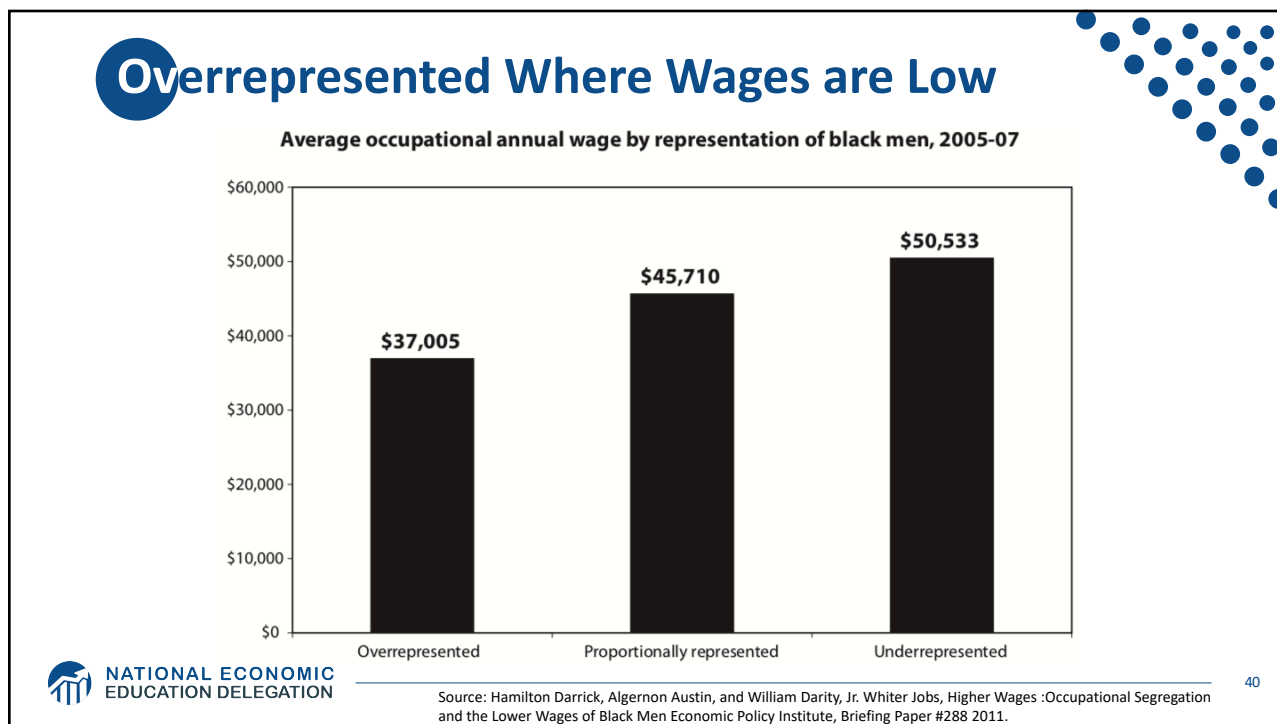
- Black workers are crowded into service sector jobs.
- Well represented in service, sales and office, and production, transportation, and material moving
- Relatively less well represented in construction, extraction, and maintenance.



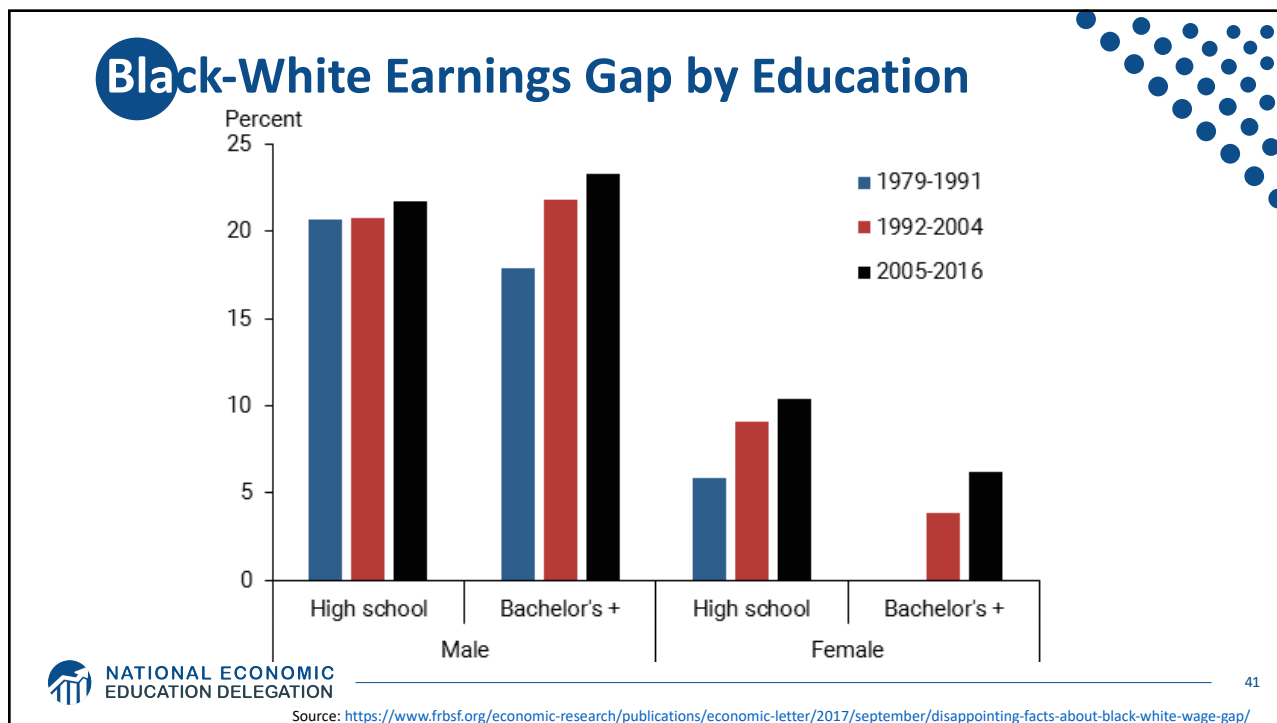
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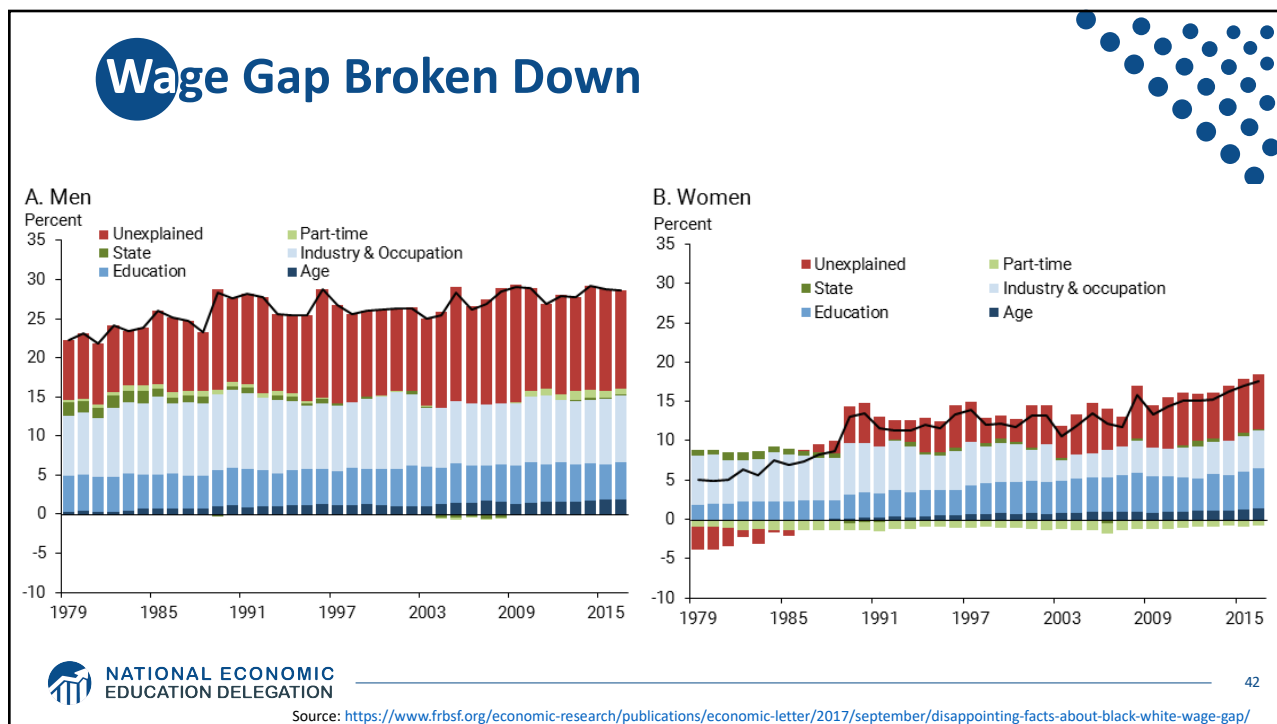
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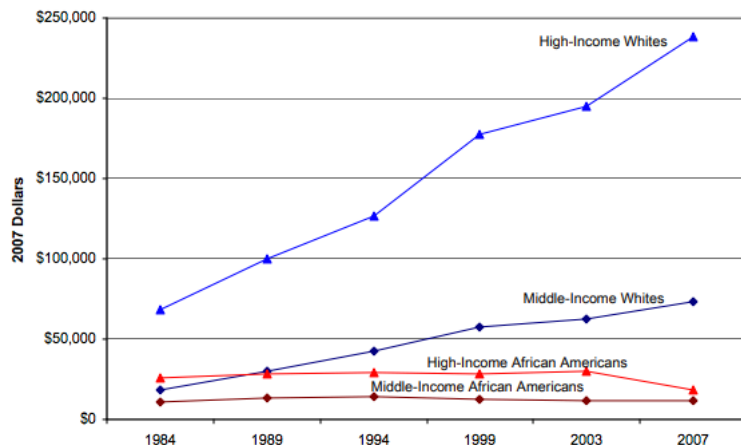
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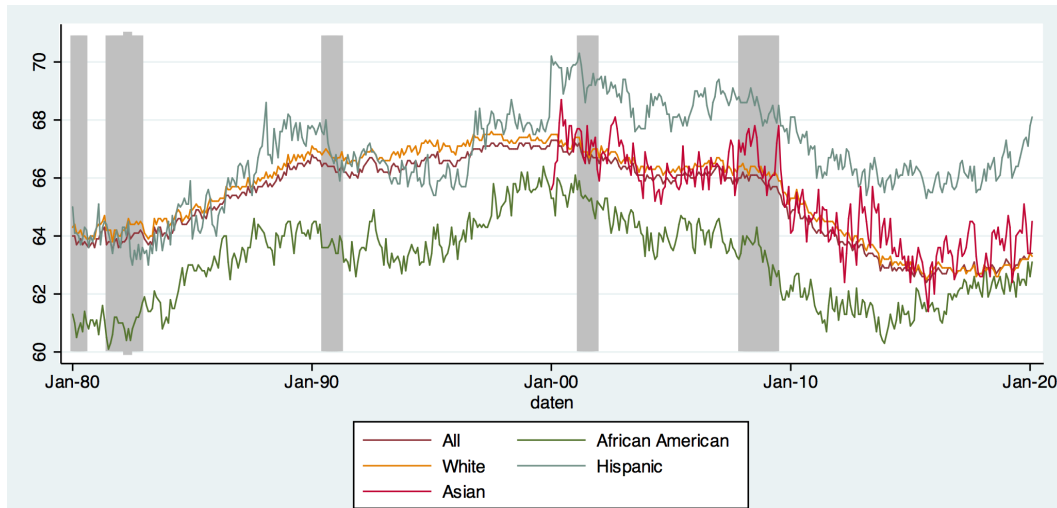
Equality of Income ≠ Equality of Wealth

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



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Labor Force Participation



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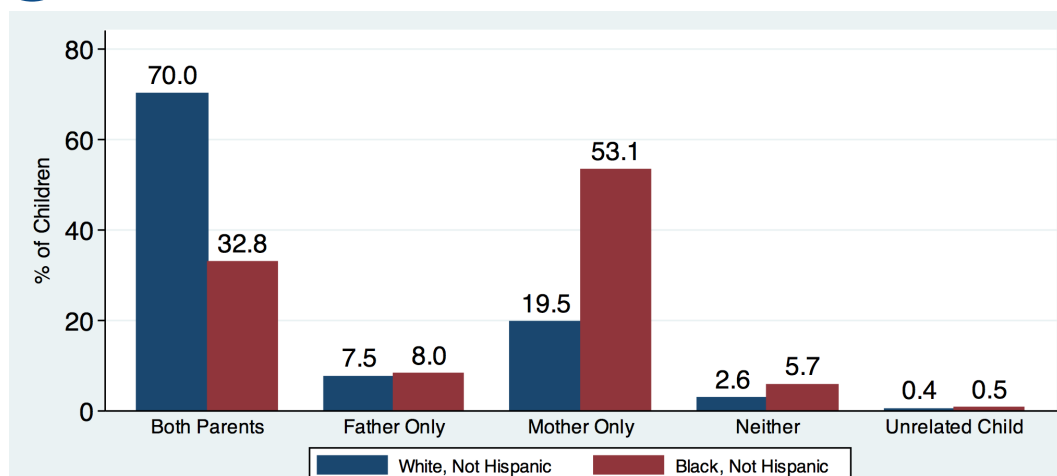
Family Disorganization

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.

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Kids – Household Types

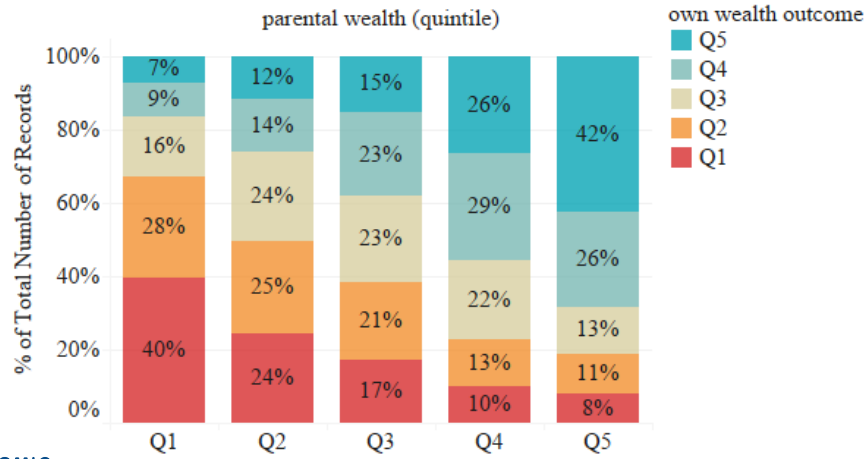


Source: Census Bureau, 2018 American Community Survey PUMS
Graph by: National Economic Education Delegation (www.NEEDelegation.org)

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Initial Endowment

Outcome quintile by parental quintile (wealth)

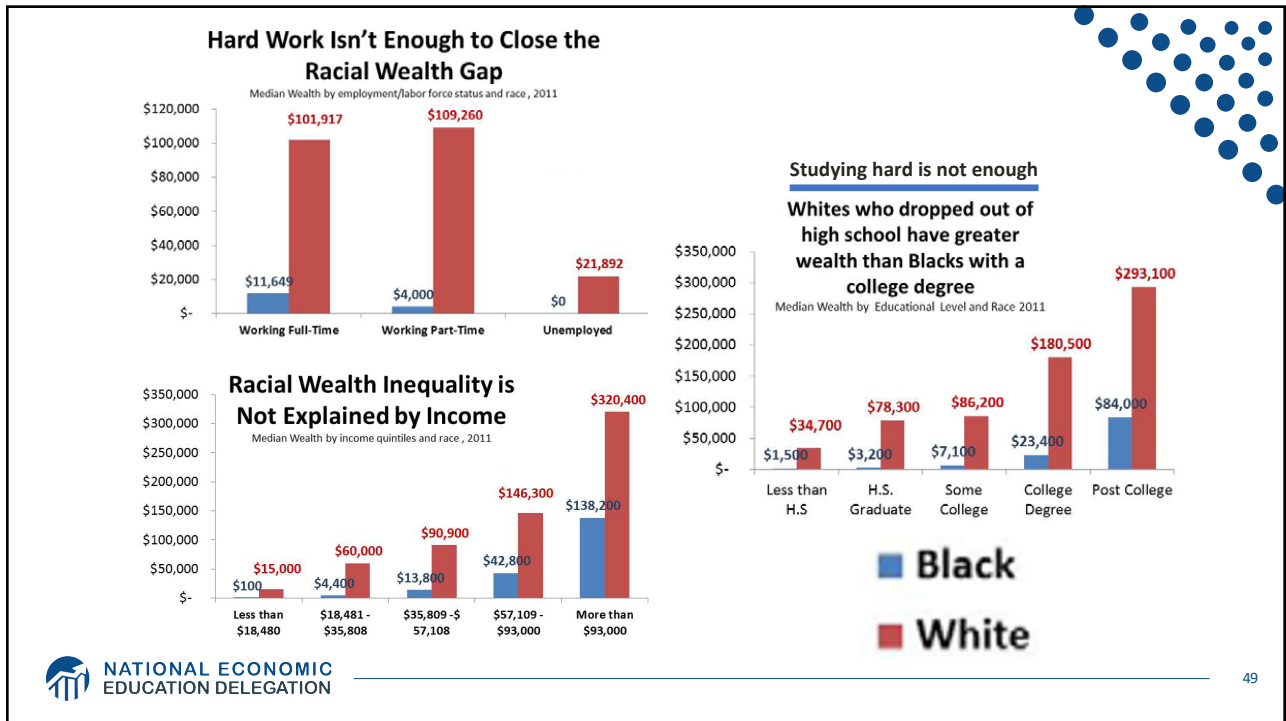


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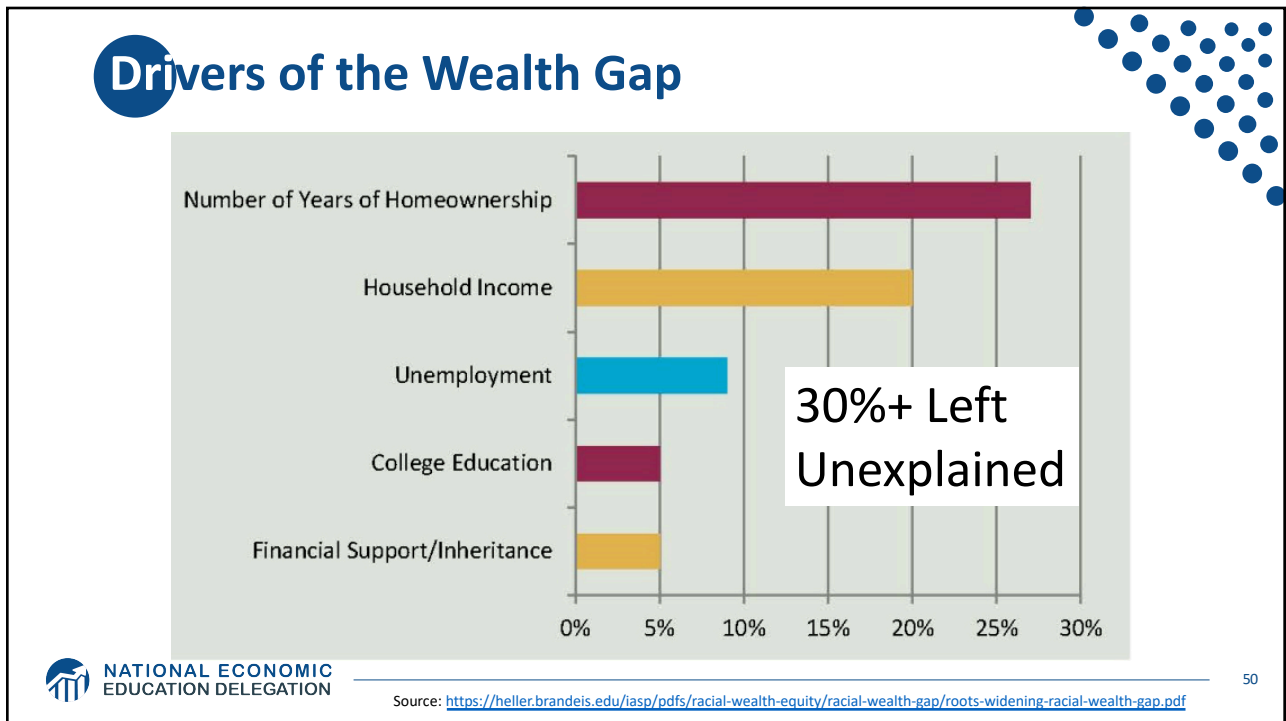
What is Fundamentally Responsible?

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

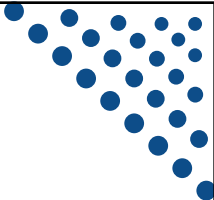
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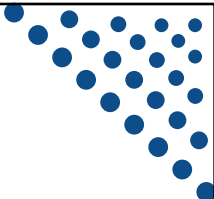


Policy Options

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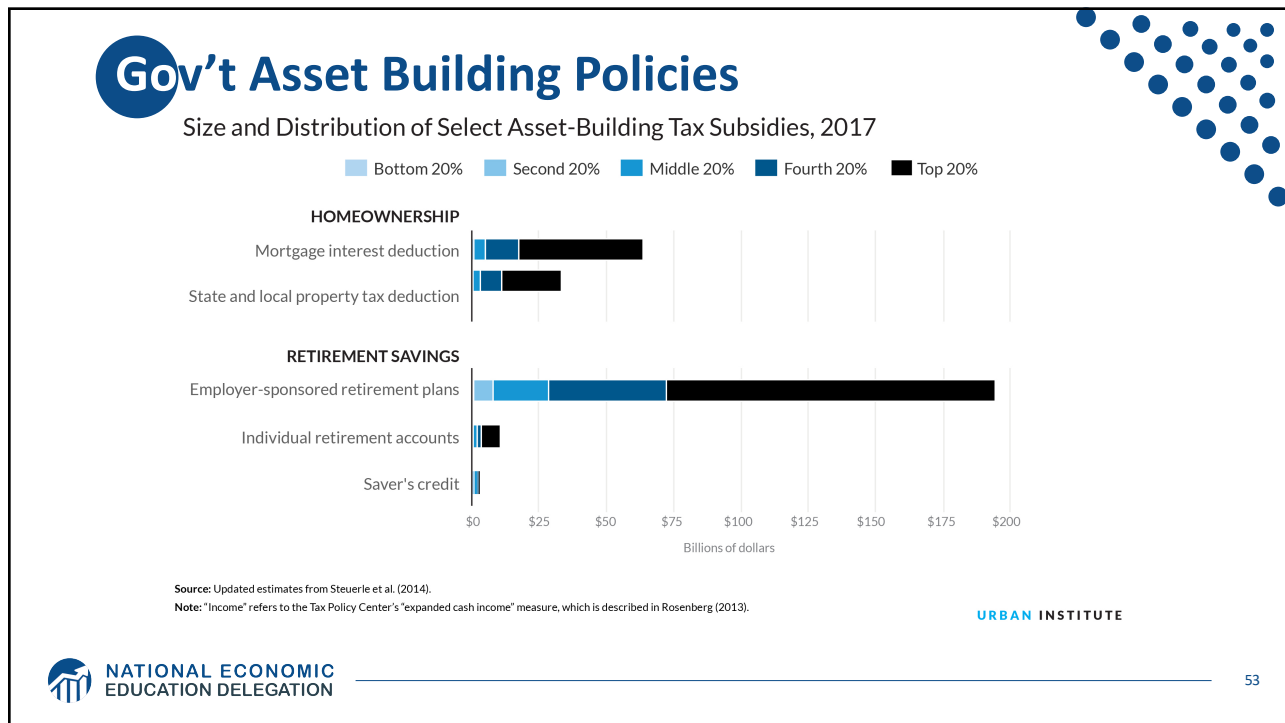
Categories of Policy Areas

- **Housing**
 - FHA and redlining
- **Health Care**
- **Incarceration**
 - Evidence on rates of incarceration
- **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"
 - UBI – Universal Basic Income
 - **Addressing racial disparities directly**
 - Reparations
 - 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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Universal Basic Income (UBI)

- **UBI is an unconditional cash transfer that is regularly and equally distributed to everyone over 18, regardless of income or need.**
- **How is this helpful?**
 - Relieves financial stresses and facilitates:
 - Business formation
 - Staying in college



Examples of UBI or similar programs:

- **Alaska Permanent Fund:**
 - Alaskan residents have been receiving a percentage of the Alaskan natural extraction revenue.
 - Showed no effect on employment
 - Similar to a small UBI
- **Native American Casinos:**
 - 2010 study showed that some Native American groups received a percentage of revenue from casinos.
 - Showed that recipients didn't decrease hours worked.



Universal Basic Income (UBI)

✓ PROS

- Provides basic income to everyone
- Will help supplement income in face of job loss or low wages
- Less disincentive for work
 - No benefit phase out
 - (based on findings from the Alaskan Permanent Fund where Alaskan residents receive a percent of natural resource extraction profits)



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Universal Basic Income (UBI)

✗ CONS

- Unaffordable: expensive because of universal nature.
- Does not address inequality: replaces safety net programs which would provide everyone with transfer incomes, not simply those in need.
- Negative Incentives on work possible: people won't be as inclined to join the workforce.
- Delays Discussion of Job Creation: may crowd out discussion of job creation or growth for poverty reduction.



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Additional Policy Suggestions

- 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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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.**
- **Wealth endowments (parental wealth) are enormously important for determining own wealth in adulthood.**
 - Policies that address this relationship are most likely to be effective.



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Thank you!

Any Questions?

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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

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