



# The Black-White Wealth Gap

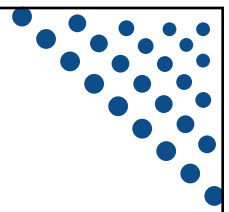
ExtraFood.org  
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National Economic Education Delegation



1

## 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.



2

## Credits and Disclaimer

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

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- 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

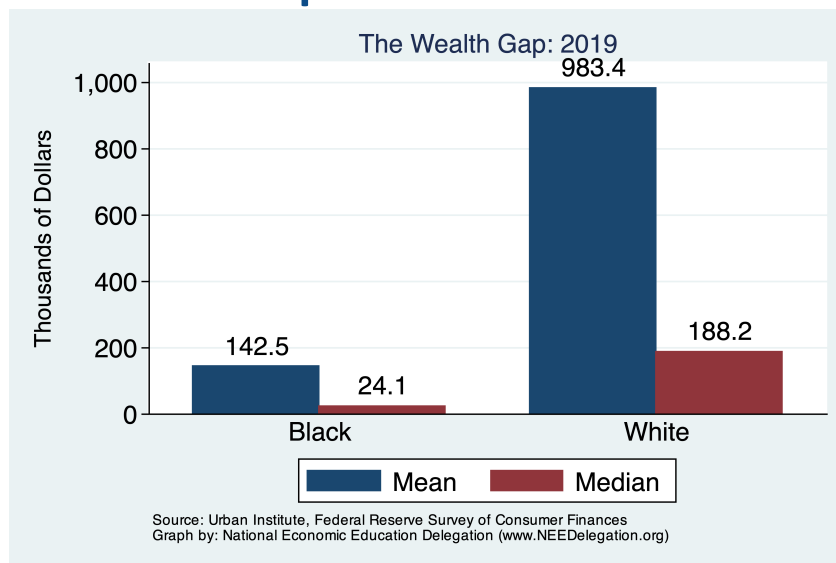
- **Evidence of disparities**
- **Why wealth is important**
- **Sources of disparities**
- **Implications of disparities**
- **Policy solutions**



# Evidence

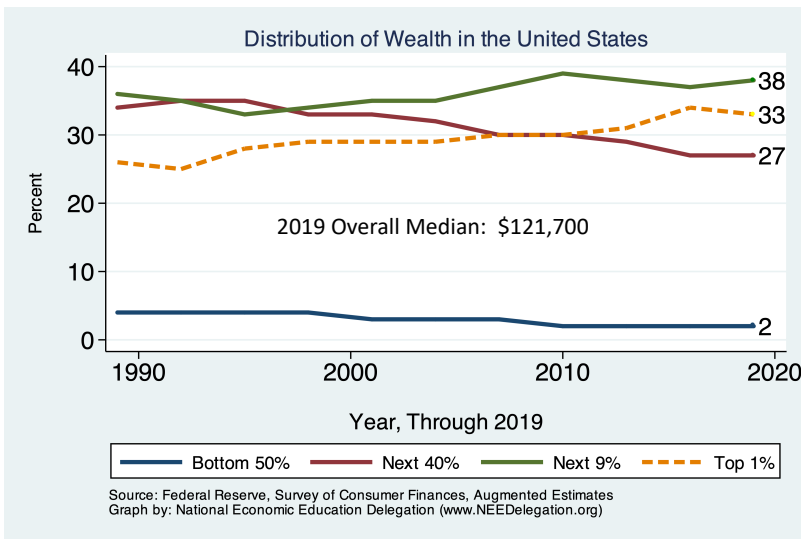
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## Evidence of the Gap



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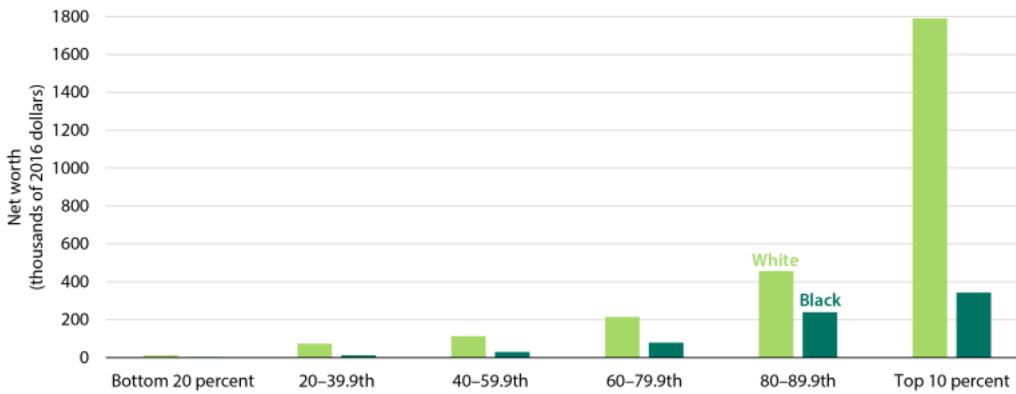
# Overall Wealth Distribution



7

# 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.

8




# Why Wealth is Important

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9

9



# 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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10

10

## 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

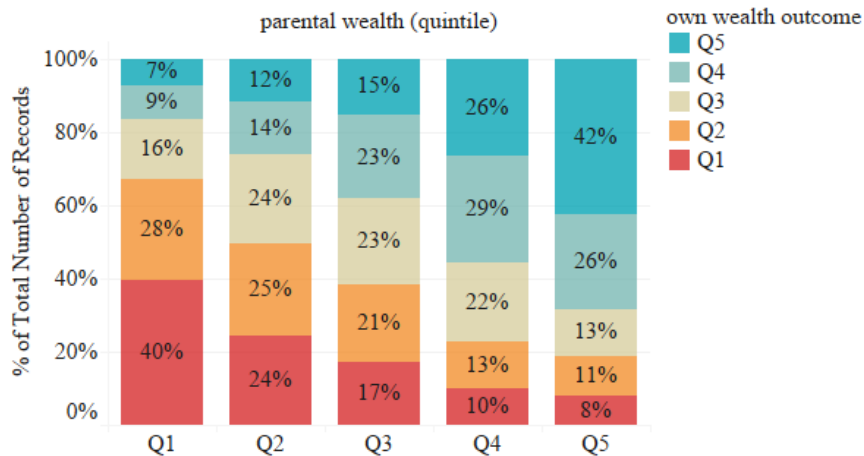
- **Wealth is iterative**

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

11

## Wealth Mobility

Outcome quintile by parental quintile (wealth)



12

## 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



13

## Sources of Disparities



14

## 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
- **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



15

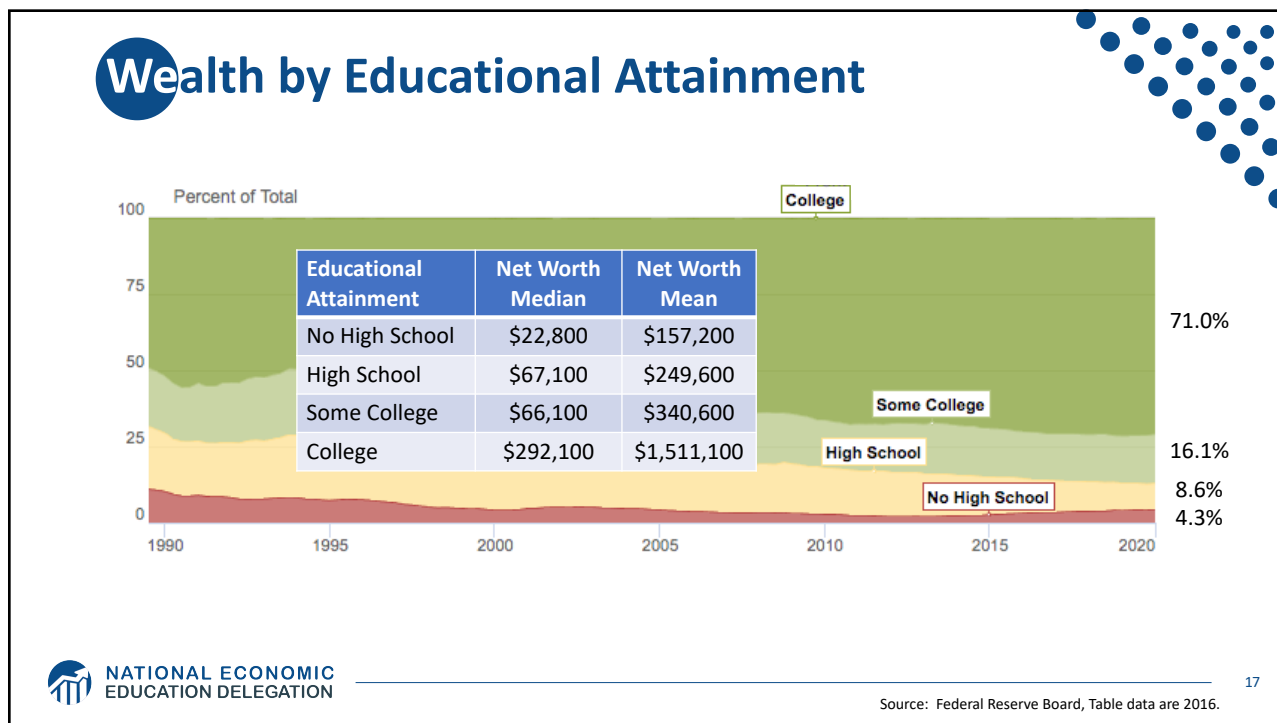
## Potential Explanations: Differences in...

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

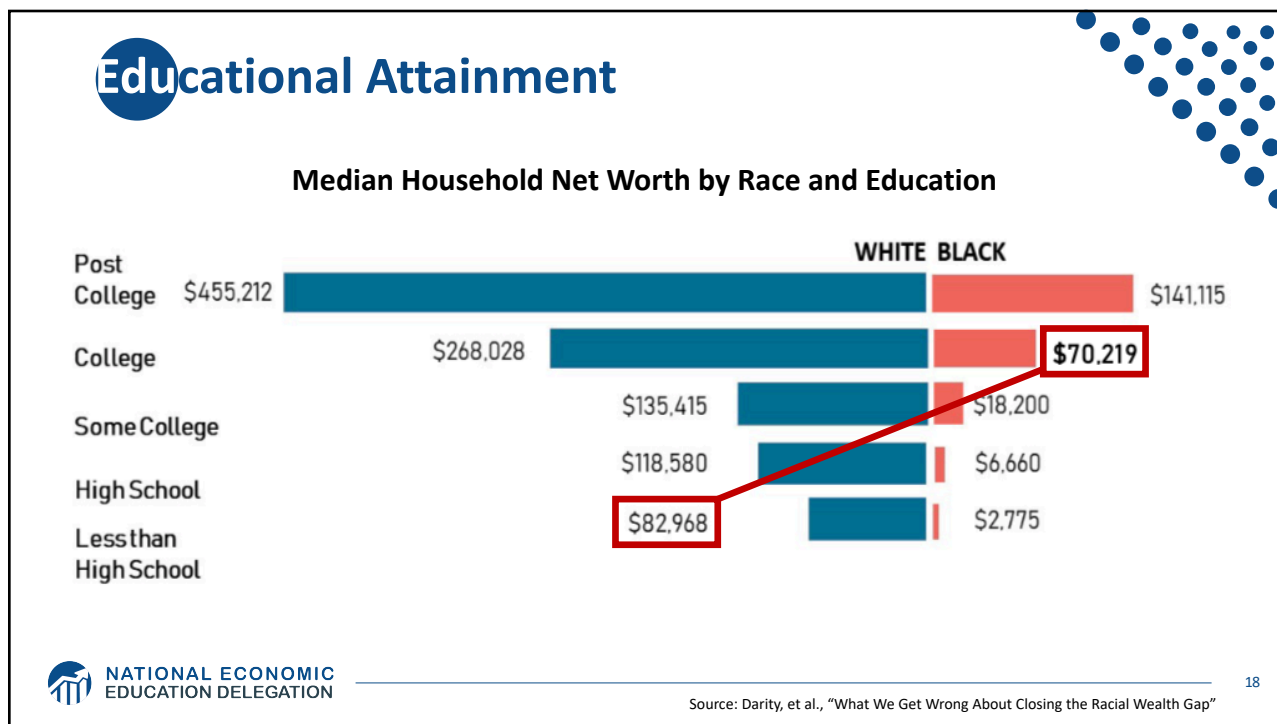


16





17



18

# 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**

Category	Race	Median Net Worth
Homeowners	WHITE	\$239,300
	BLACK	\$99,840
Non-homeowners	WHITE	\$3,775
	BLACK	\$120

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19

# 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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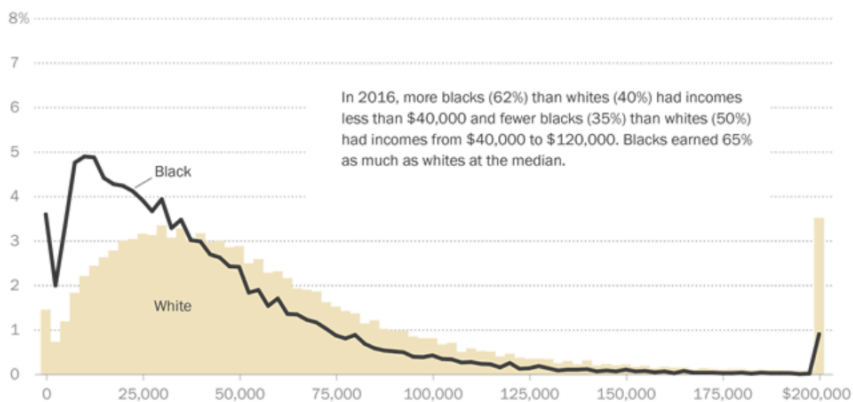
20

# 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.

# 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
  - 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**



23

## Soft Skills and Personal Responsibility

- **Employability**

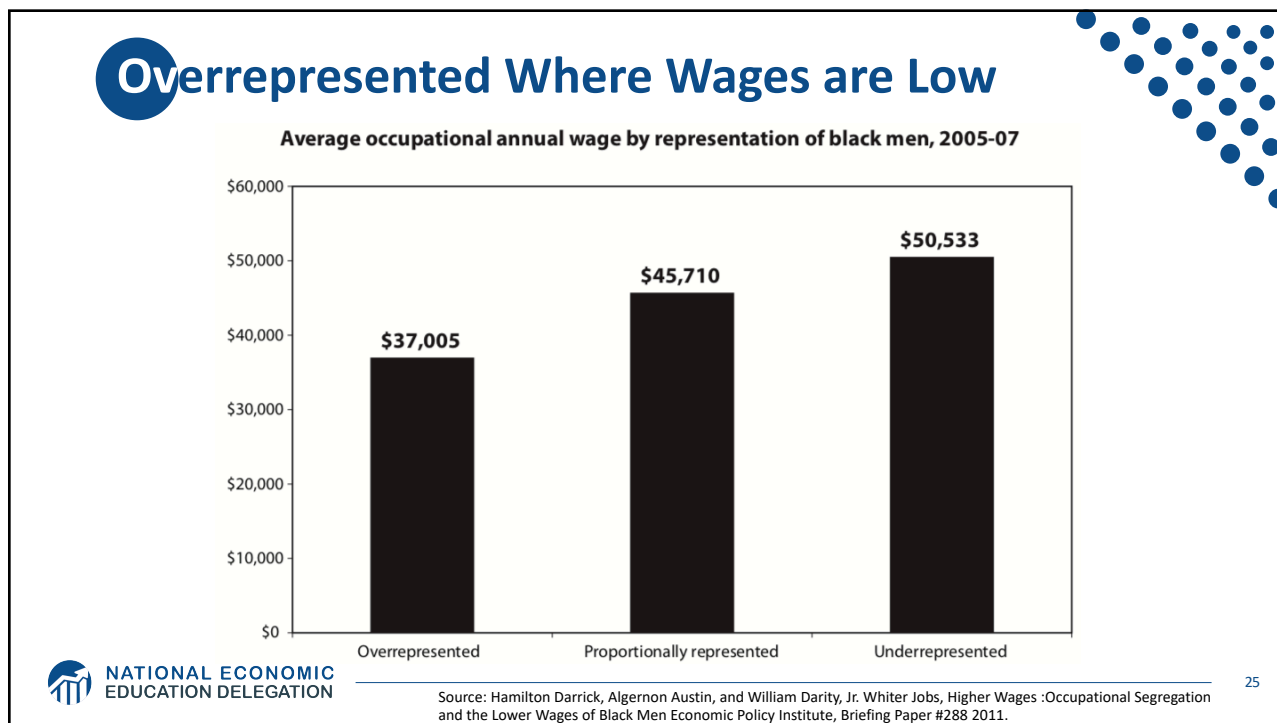
- Show up on time
- Eye contact with customers
- Dress well
- Collaborative skills

- **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.



24



25

## 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

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26

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.

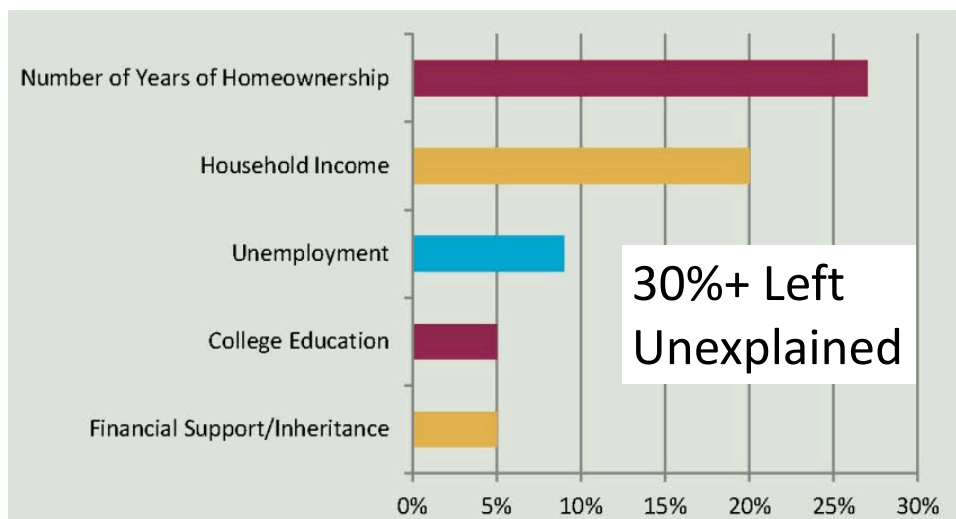
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# What is Fundamentally Responsible?

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

27

# Drivers of the Wealth Gap



28

# Policy Options



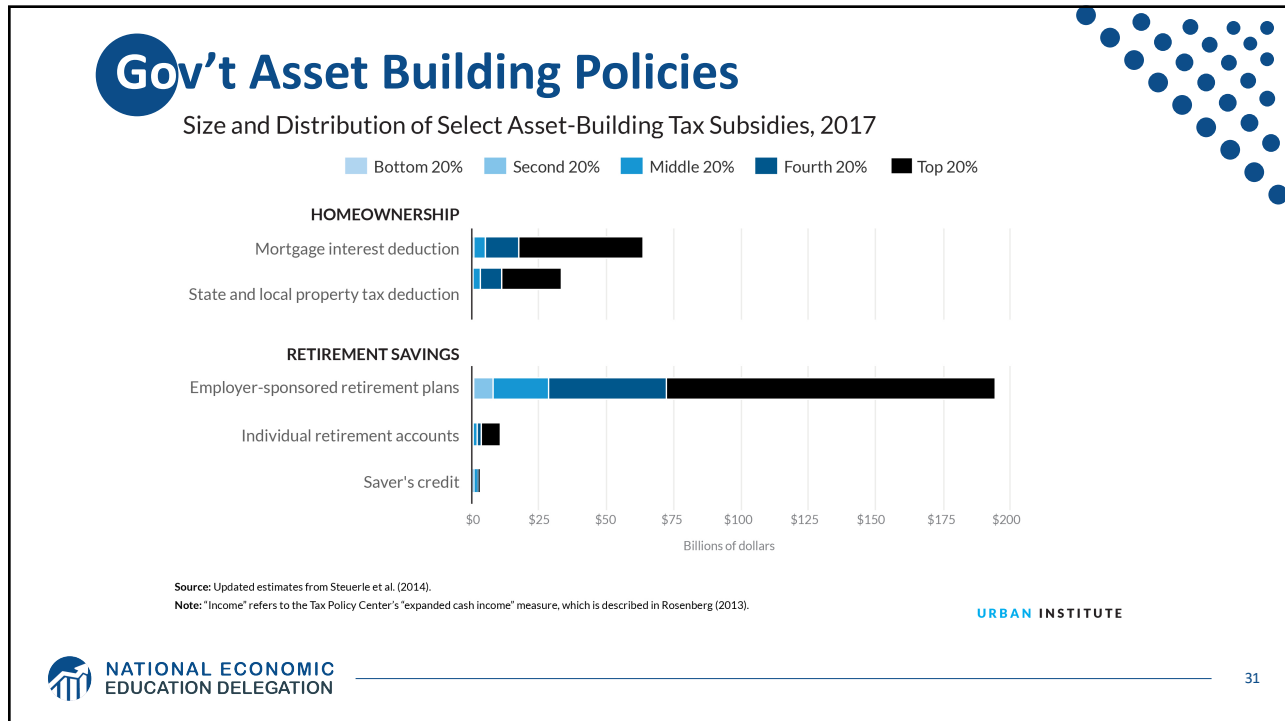
29

## 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**



30



31

- ## 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
      - Enforce more aggressively and make adjustments where necessary to increase efficacy.
    - Aggressive affirmative action.
  - **Fundamental reorientation of asset building agenda.**
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32

32



## 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.



33

## 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.



34

**Thank you!**

## Any Questions?

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- Trade Wars
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- Housing Policy
- Federal Budgets
- Federal Debt
- 2017 Tax Law
- Autonomous Vehicles



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36

36