

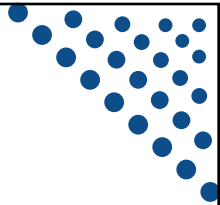
Osher Lifelong Learning Institute, Summer 2022 **Contemporary Economic Policy**

University of Hawaii, Manoa
July-Aug, 2022

Jon Haveman, Ph.D.
National Economic Education Delegation



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Available **NEED** Topics Include:

- **Coronavirus Economics**
- **US Economy**
- **Climate Change**
- **Economic Inequality**
- **Economic Mobility**
- **Trade and Globalization**
- **Minimum Wages**
- **Immigration Economics**
- **Housing Policy**
- **Federal Budgets**
- **Federal Debt**
- **Black-White Wealth Gap**
- **Autonomous Vehicles**
- **US Social Policy**



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Course Outline

- **Contemporary Economic Policy**

- Week 1 (7/8): Economic Update (Geoffrey Woglom, Amherst College)
- **Week 2 (7/15): The Black-White Wealth Gap (Jon Haveman, NEED)**
- Week 3 (7/22): Cryptocurrencies (Geoffrey Woglom, Amherst College)
- Week 4 (7/29): Gender Pay Gap (Jon Haveman, NEED)
- Week 5 (8/5): Federal Debt (Joseph Carolan, Oakland University)
- Week 6 (8/12): Autonomous Vehicles (Jon Haveman, NEED)

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Submitting Questions

- **Please submit questions in the chat.**
 - I will try to handle them as they come up, but may take them in a bunch as time permits.
- **We will do a verbal Q&A once the material has been presented.**
 - And the questions in the chat have been addressed.
- **OLLI allowing, we can stay beyond the end of class to have further discussion.**

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The Black-White Wealth Gap

Jon Haveman, Ph.D.

National Economic Education Delegation

OLLI – Hawaii, Manoa
July 15, 2022



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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
- **This slide deck was reviewed by:**
 - Patrick Mason, Florida State University
 - Steven Craig, University of Houston
- **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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What is Wealth?

• Income vs Wealth

- Income is the flow of funds into a households each year.
- **Wealth is a household's NET asset holdings.**
 - The value of all assets minus the value of all debts.
 - Assets can be financial and physical.

• 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)...



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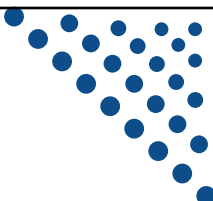


Evidence

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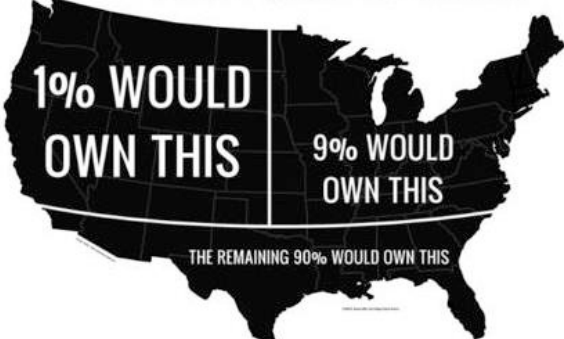
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Wealth inequality in America


IF U.S. LAND WERE DIVIDED
LIKE U.S. WEALTH



1% WOULD OWN THIS

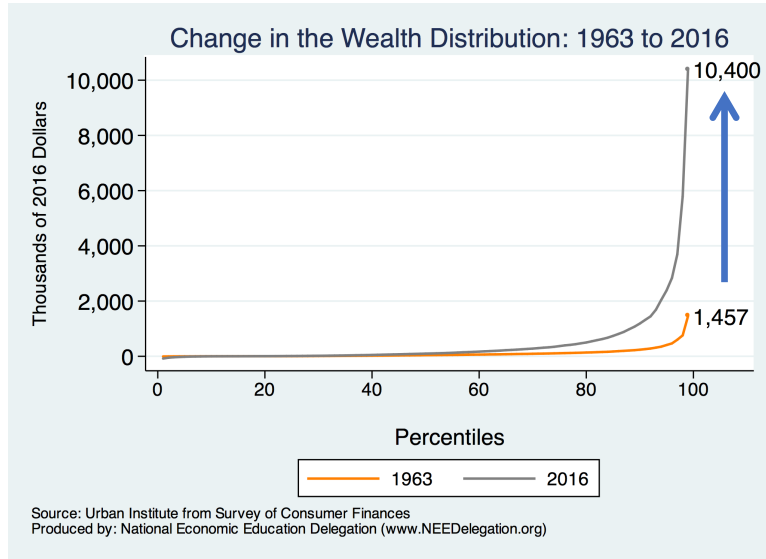
9% WOULD OWN THIS

THE REMAINING 90% WOULD OWN THIS

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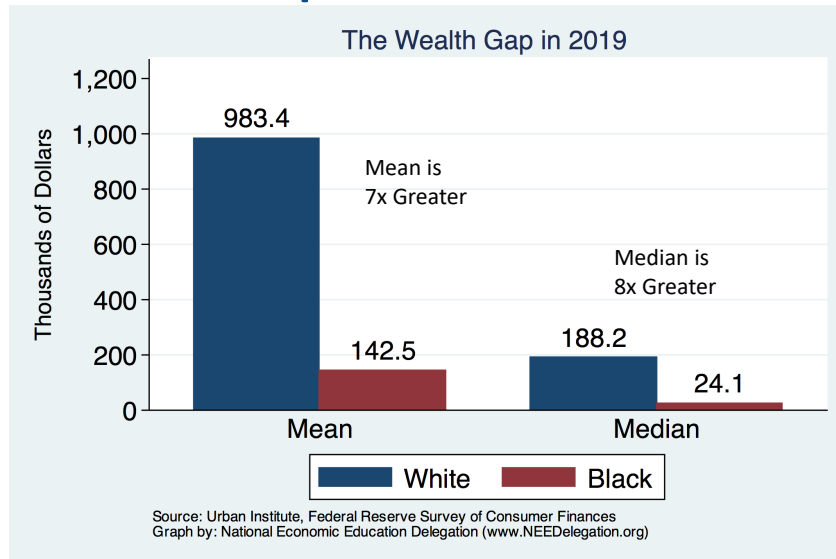
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Wealth is More and More Concentrated



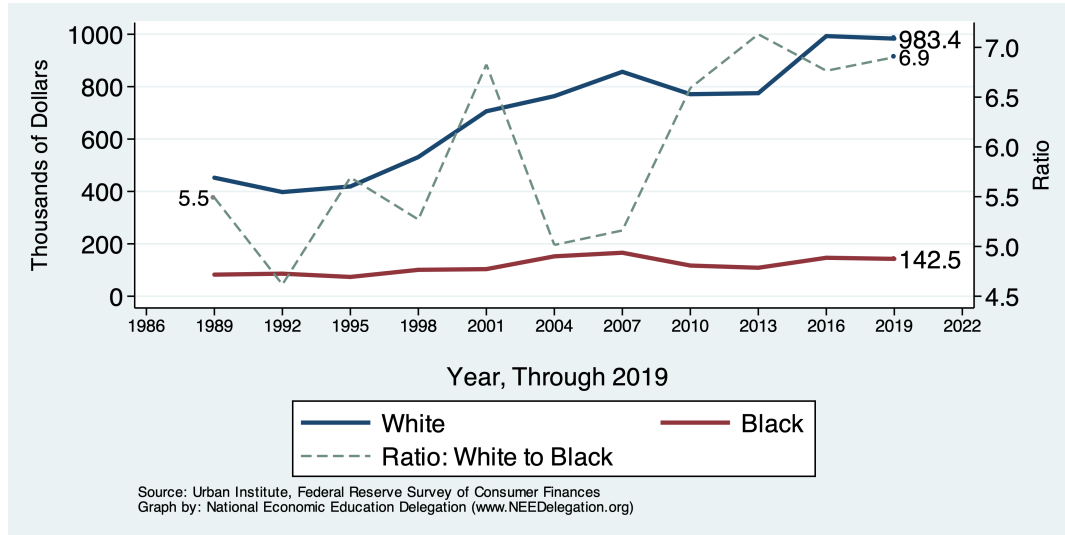
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Evidence of the Gap



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Wealth Gap Over Time: Mean

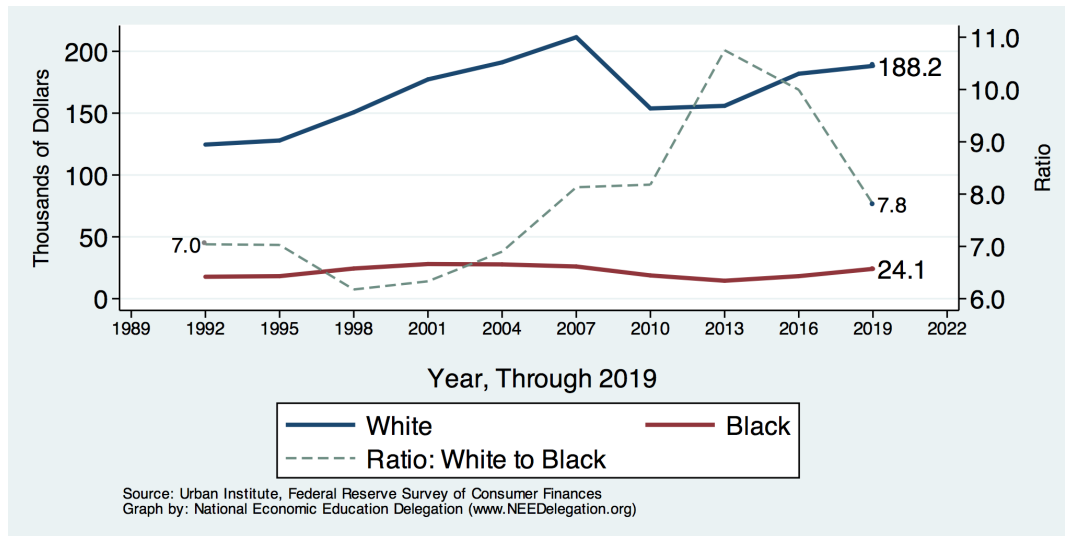


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Wealth Gap Over Time: Median



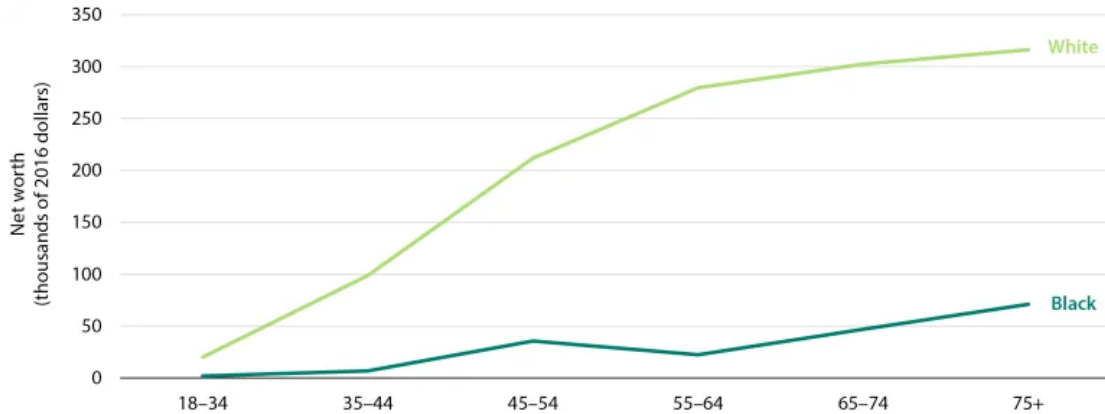
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Net Worth by Age and Race

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

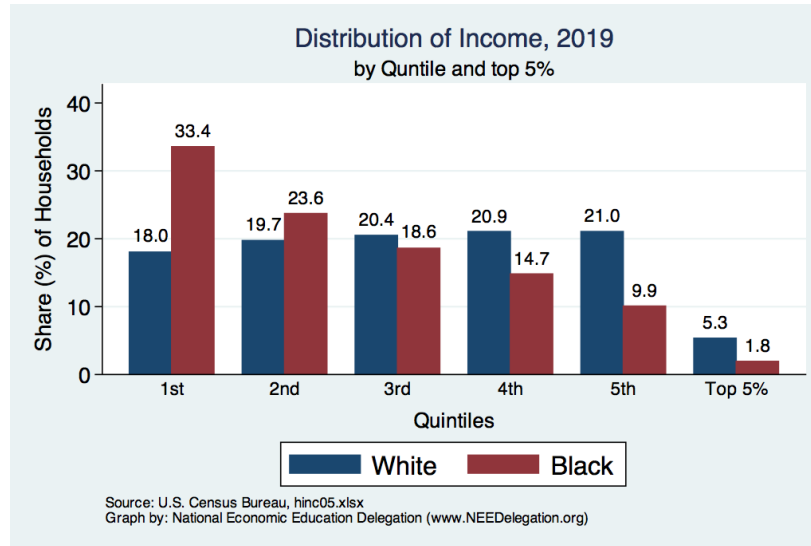


Source: Survey of Consumer Finances 2016; authors' calculations.
Note: Data are from 2016. Net worth refers to the difference between assets and debt for a household head. Race and ethnicity are those of the survey respondent.



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

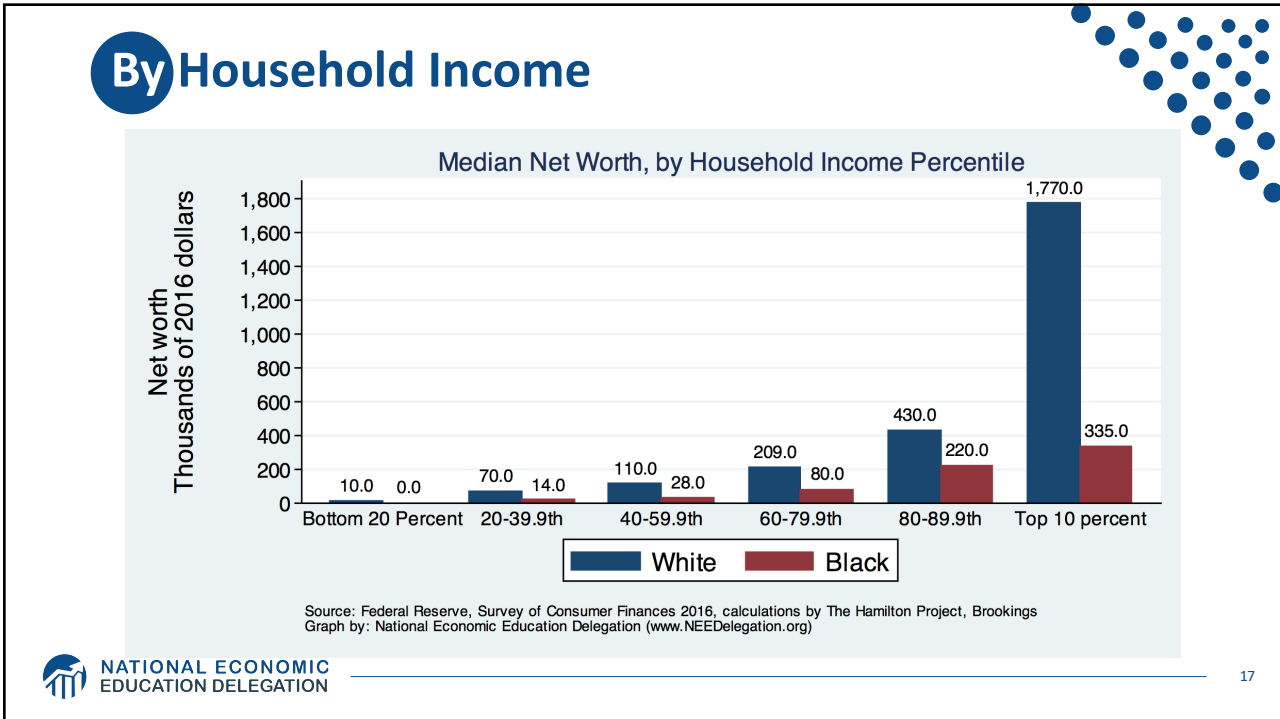
Black Household Incomes Relative to White



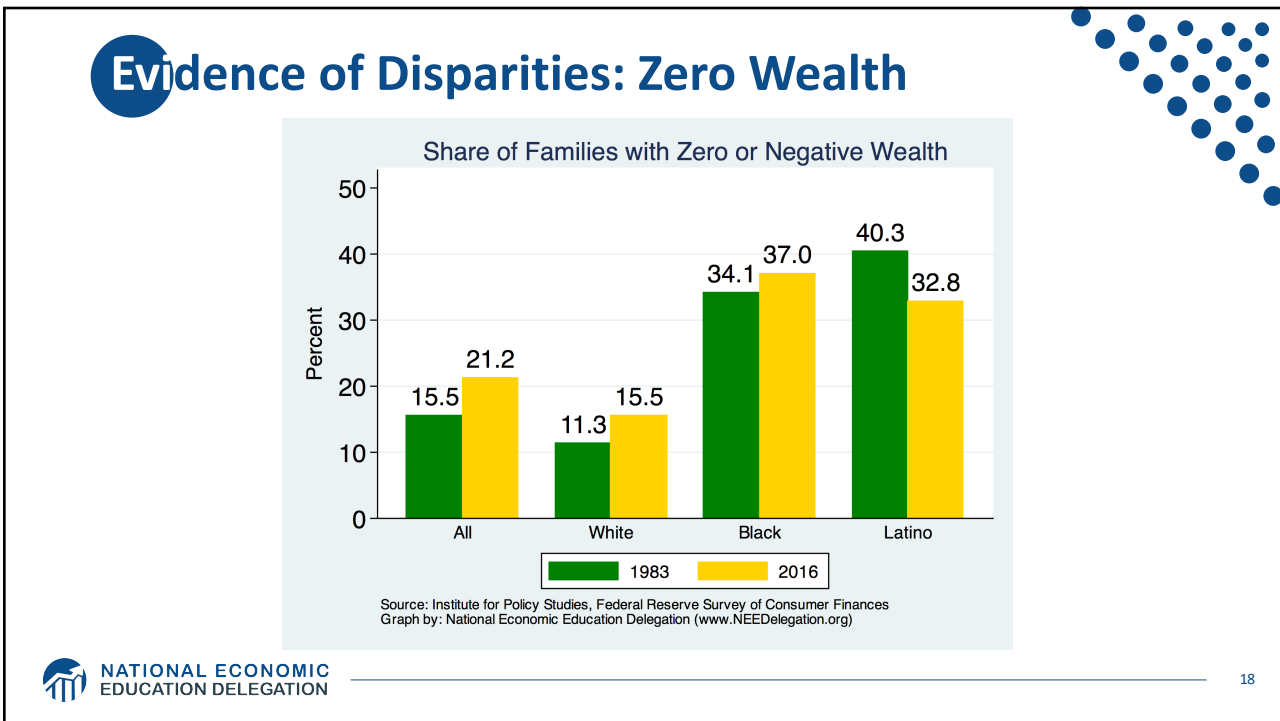
Source: U.S. Census Bureau, hinc05.xlsx
Graph by: National Economic Education Delegation (www.NEEDelegation.org)



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.



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Parental Wealth is Important

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

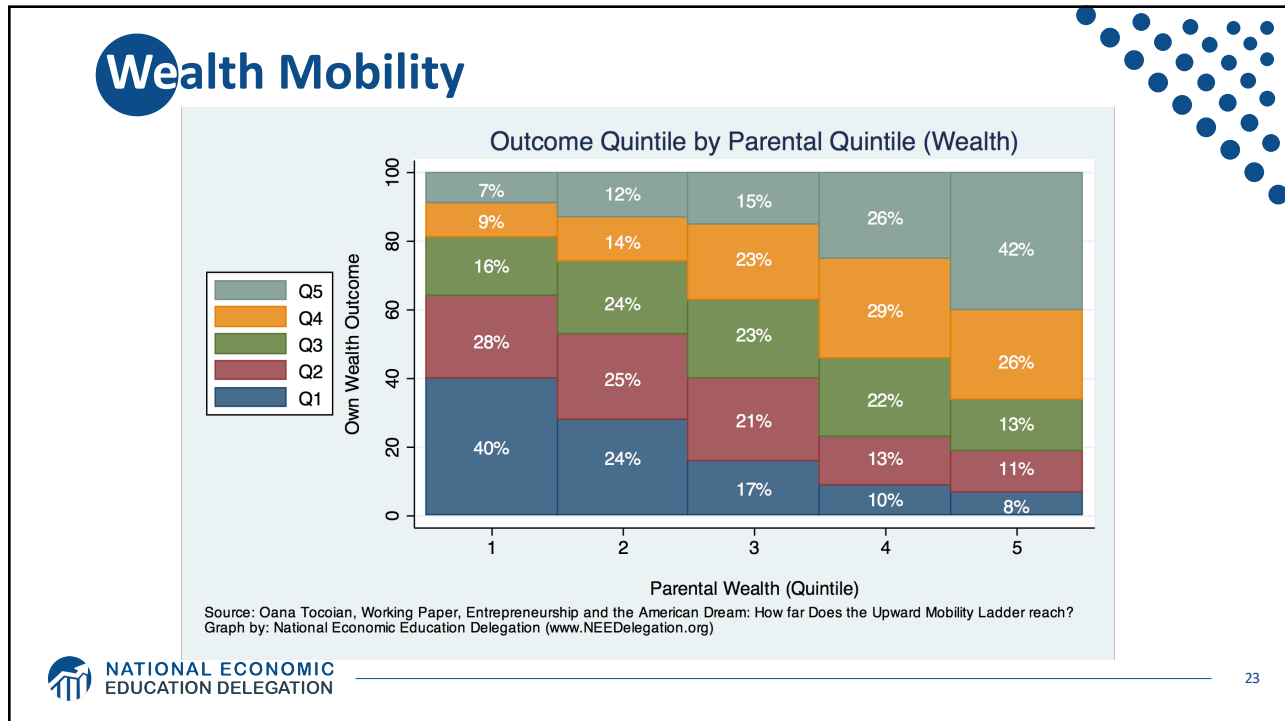
- Influences human capital accumulation.
- Influences the returns to education.
- Adult incomes of offspring.

- **There are clearly enormous differences in wealth held by parents of Black and White children.**

- **Evidence suggests that nurture plays a big role.**



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Tangible Benefits for the Broader Economy

- More human capital development
- Increased entrepreneurship
- 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.*



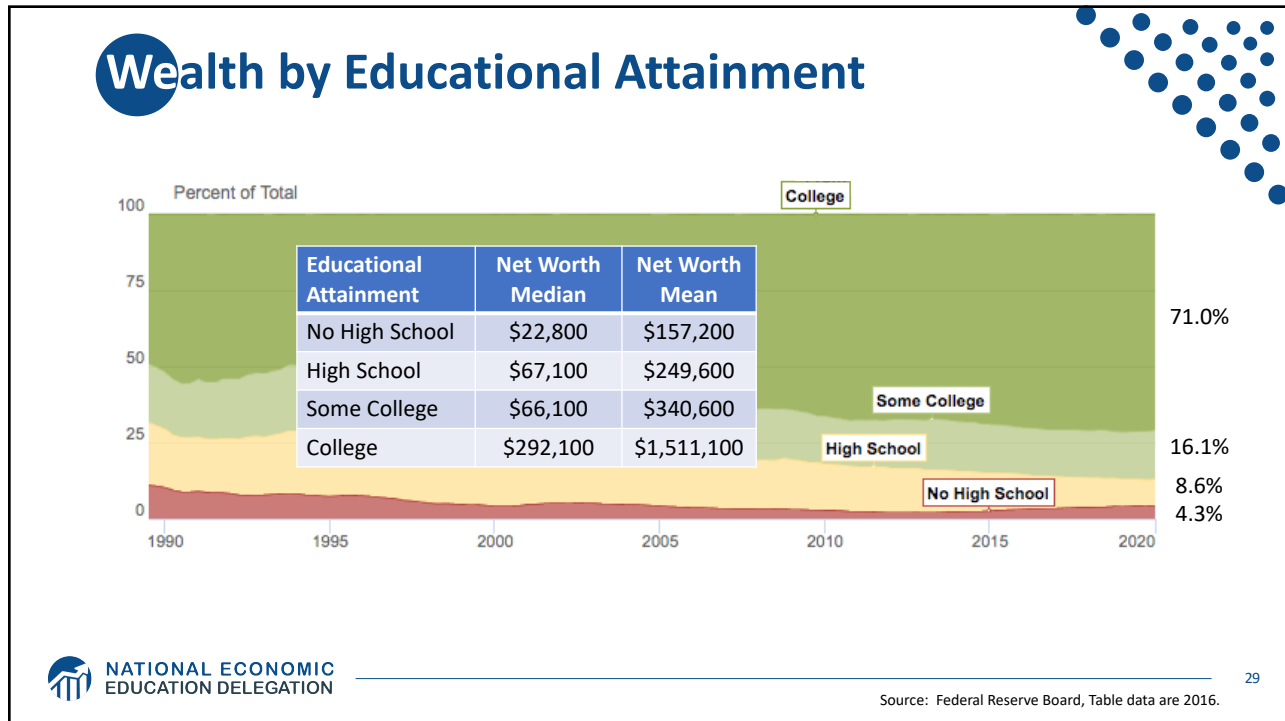
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Potential Explanations: Differences in...

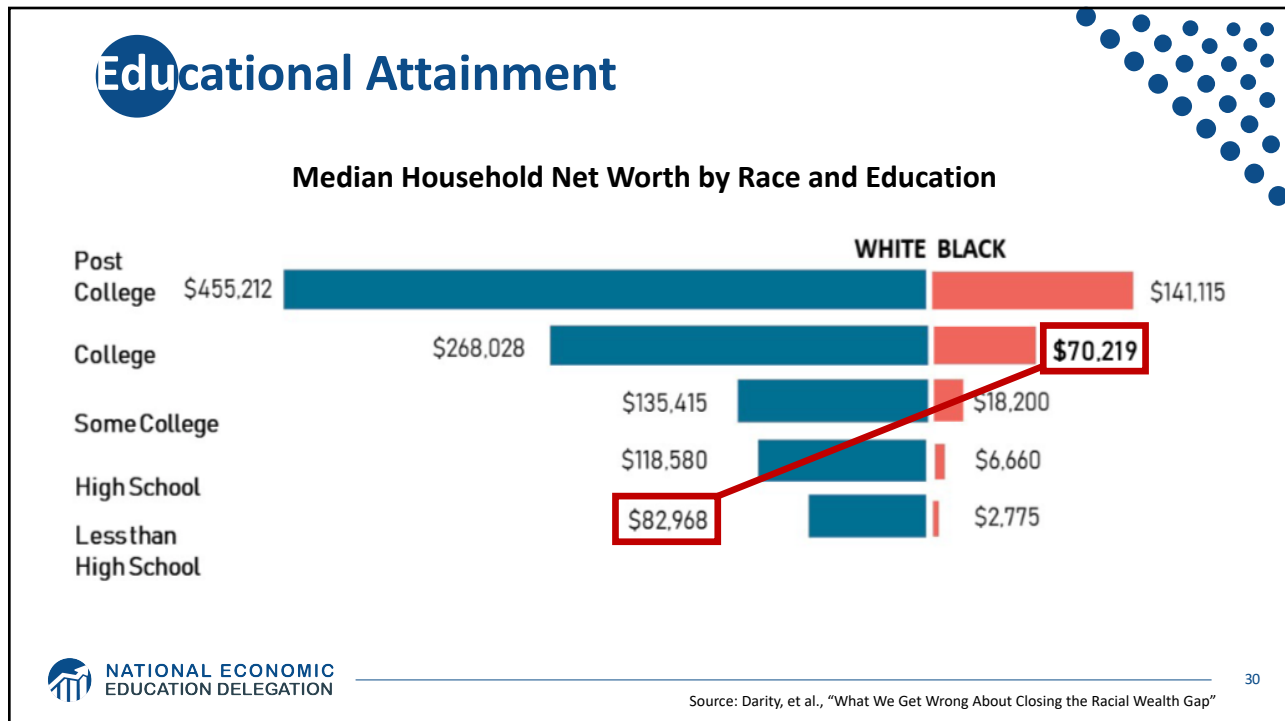
- | | |
|---------------------------------|--|
| • Educational attainment | • Soft skills and personal responsibility |
| • Home ownership | • Wages |
| • Increased savings | • Incarceration |
| • Financial literacy | • Family structure |
| • Entrepreneurship | • Initial endowment |



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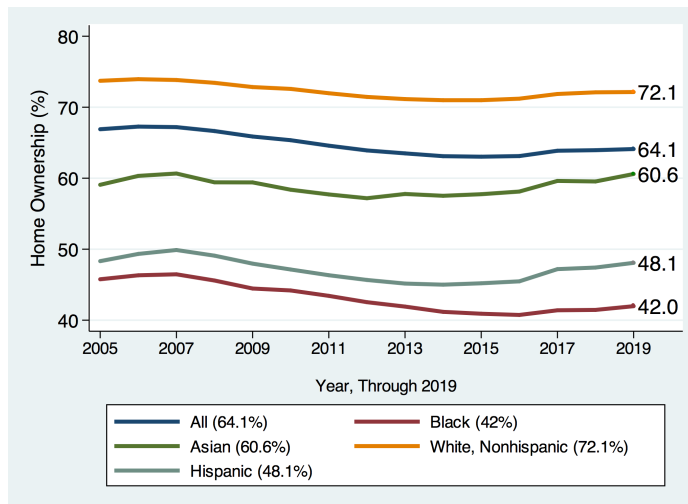
Educational Attainment: Policy

- **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.

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Home Ownership

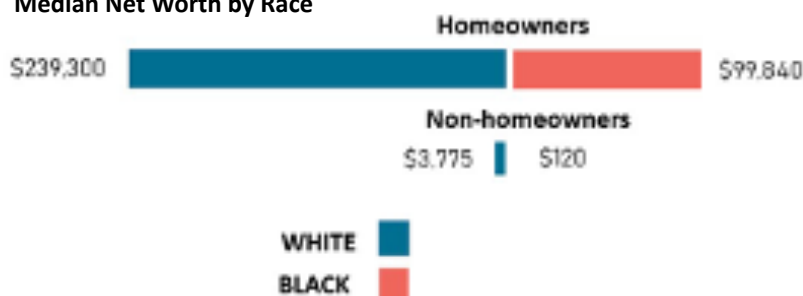


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Home Ownership: 2016

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**
- **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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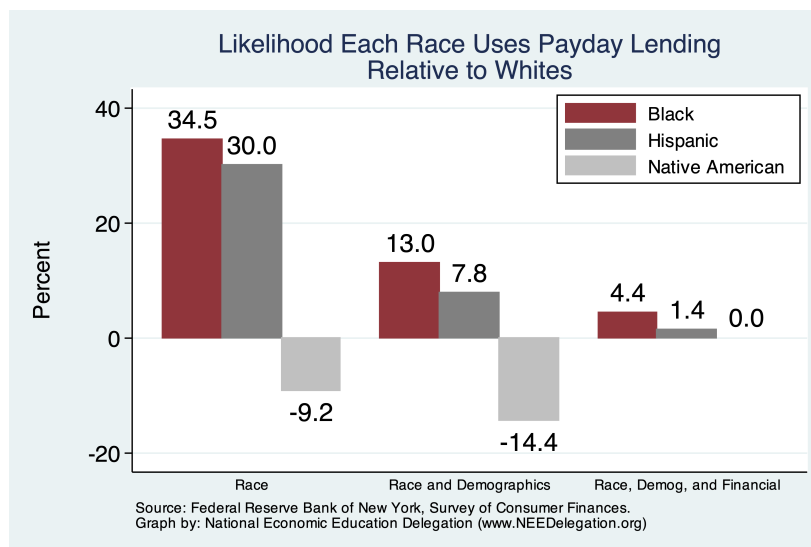
Financial Literacy

- **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.**

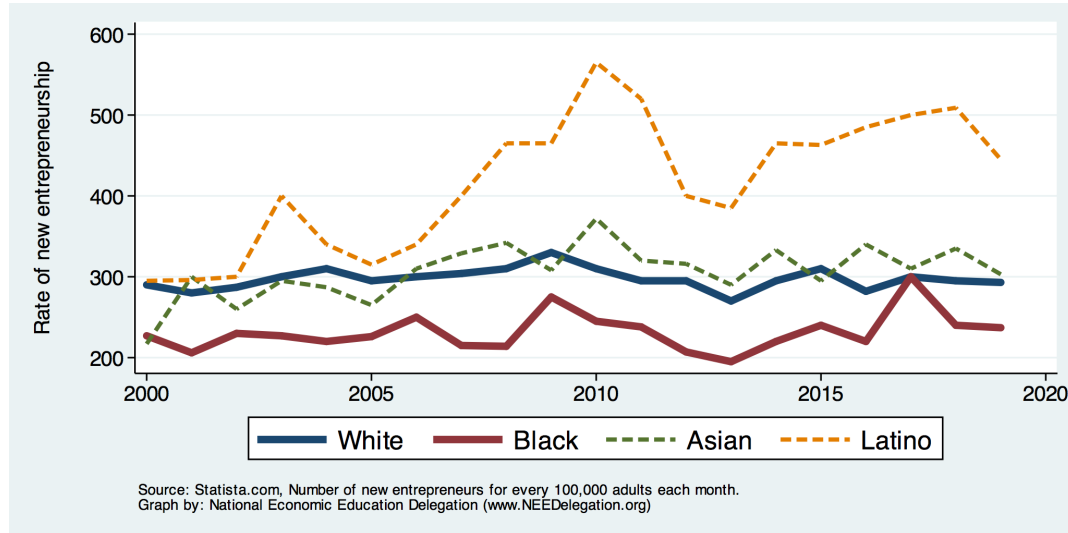
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Use of Payday Lenders



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Entrepreneurship: Rate of New Entrepreneurs



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Source: Statista

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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.**



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Soft Skills and Personal Responsibility

• Employability

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

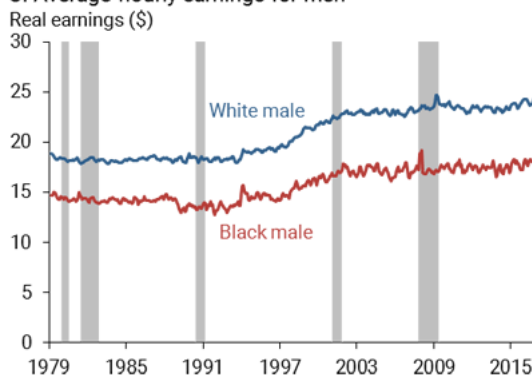
• Reality

- 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.

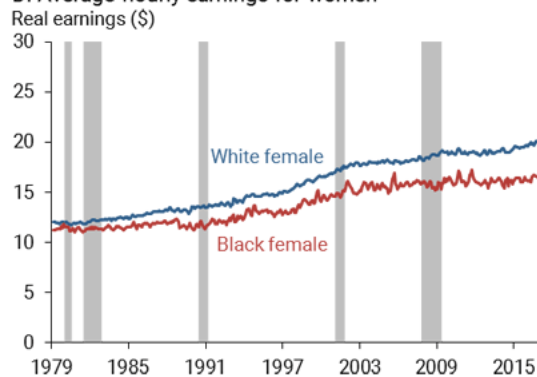
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Wage Gap

C. Average hourly earnings for men

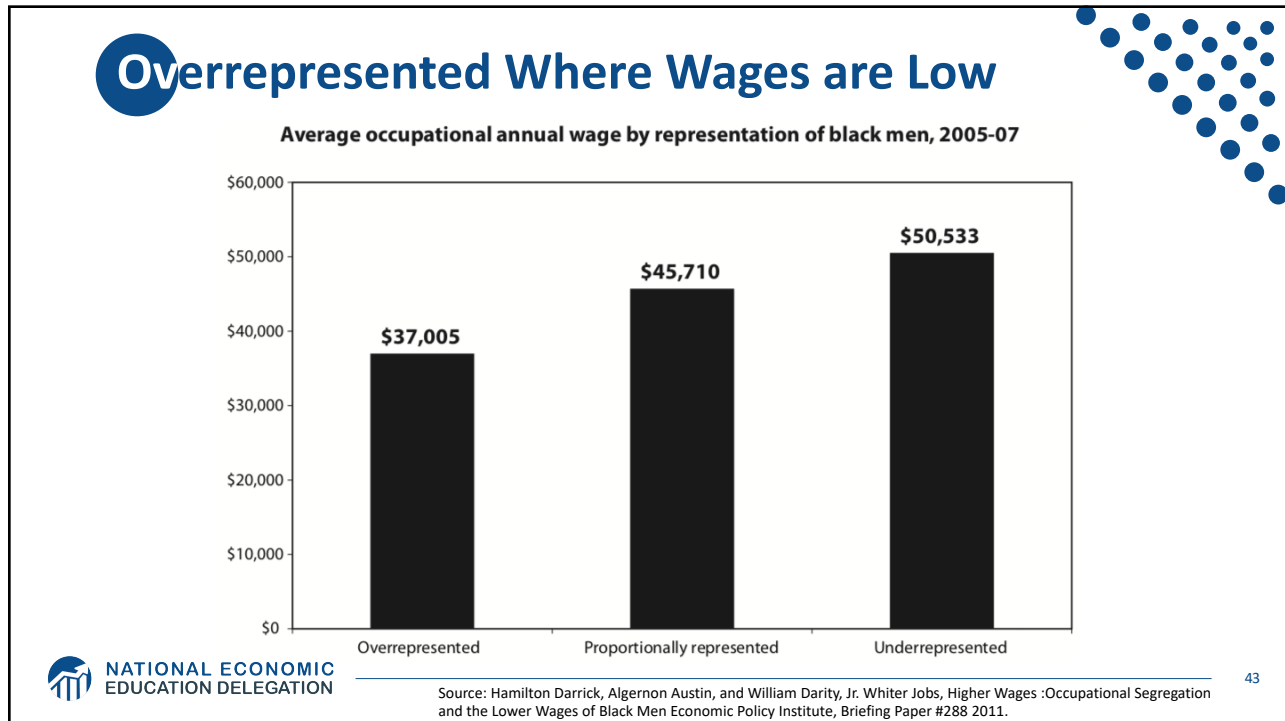


D. Average hourly earnings for women

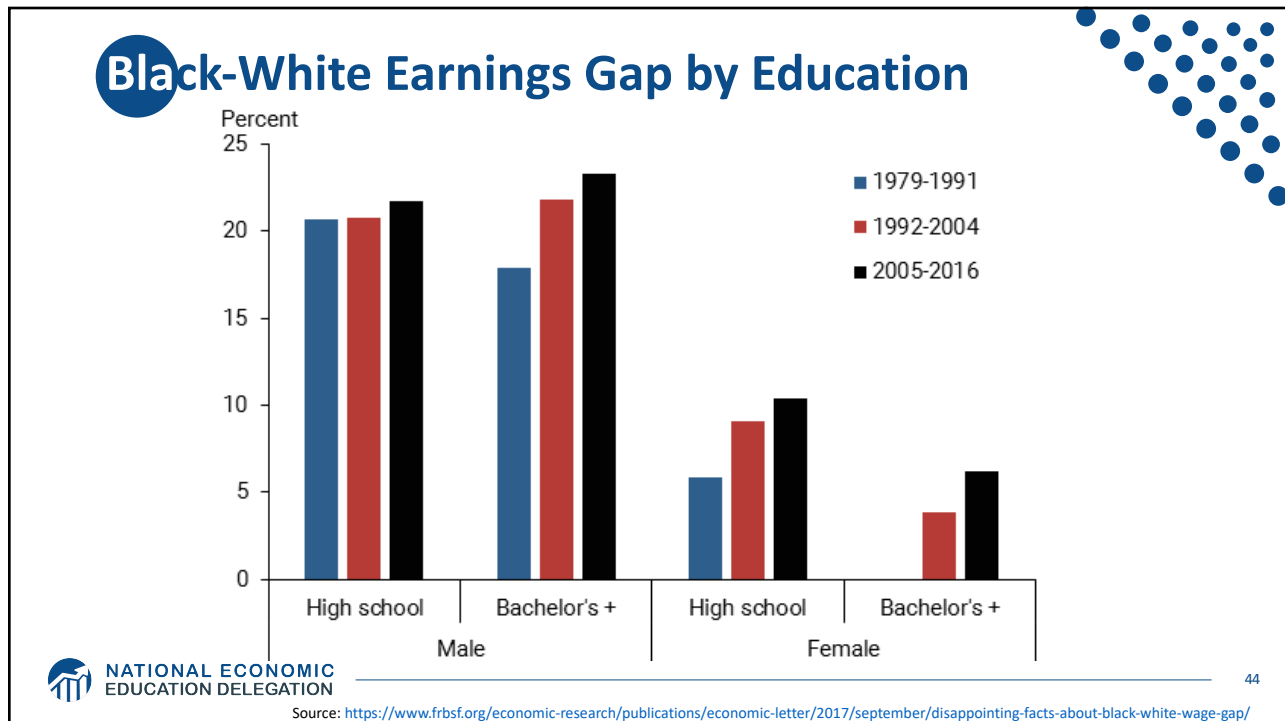


Source: <https://www.frbsf.org/economic-research/publications/economic-letter/2017/september/disappointing-facts-about-black-white-wage-gap/>

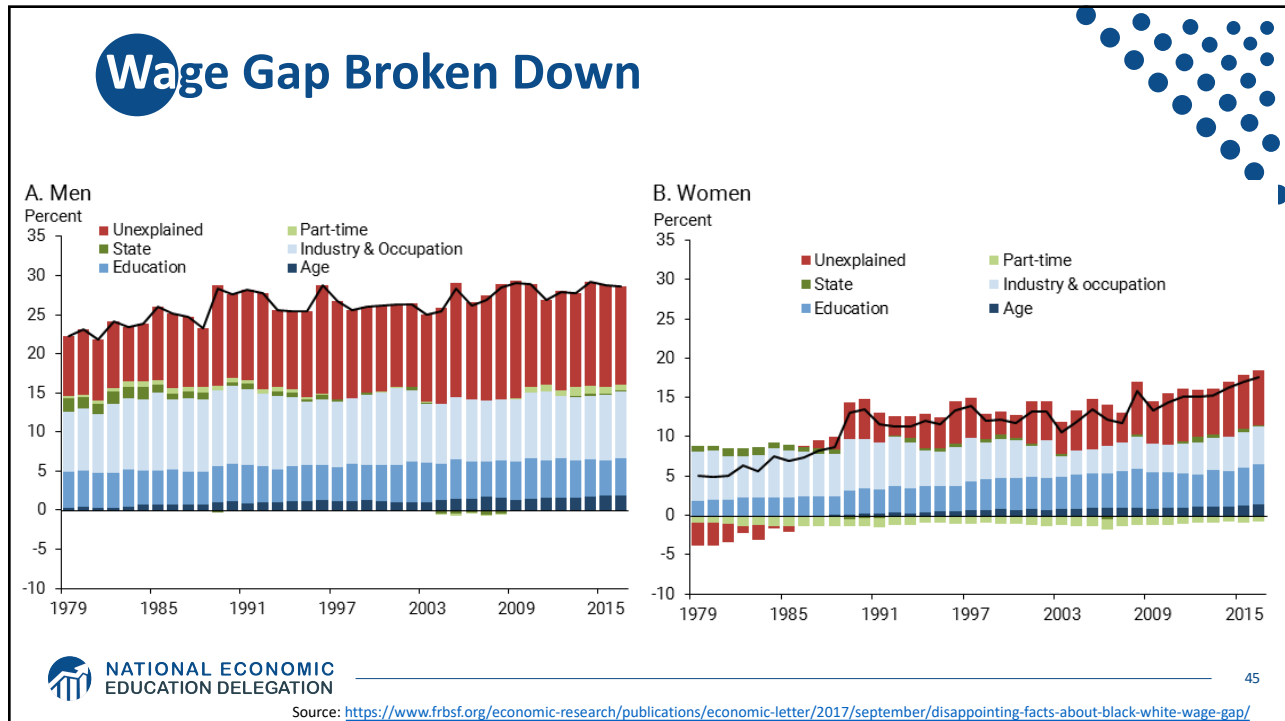
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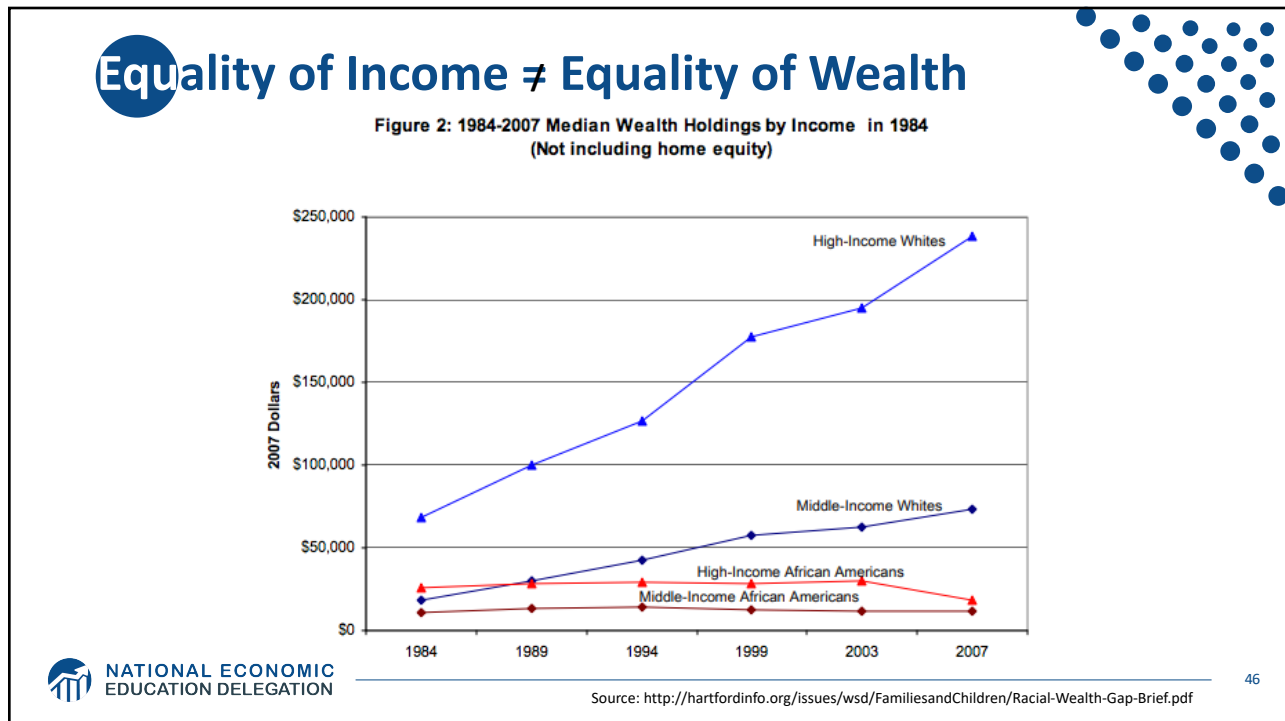
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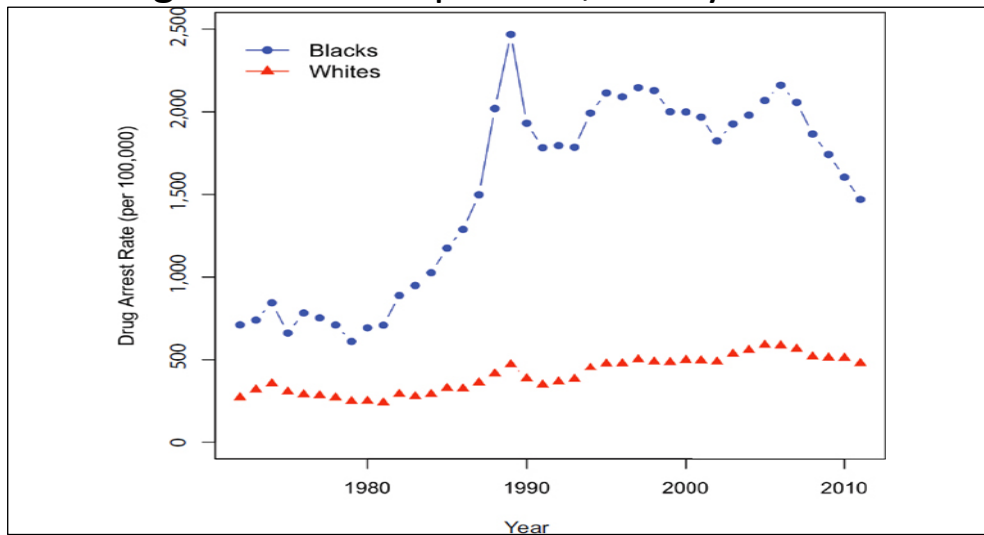
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Incarceration Likely Plays A Role

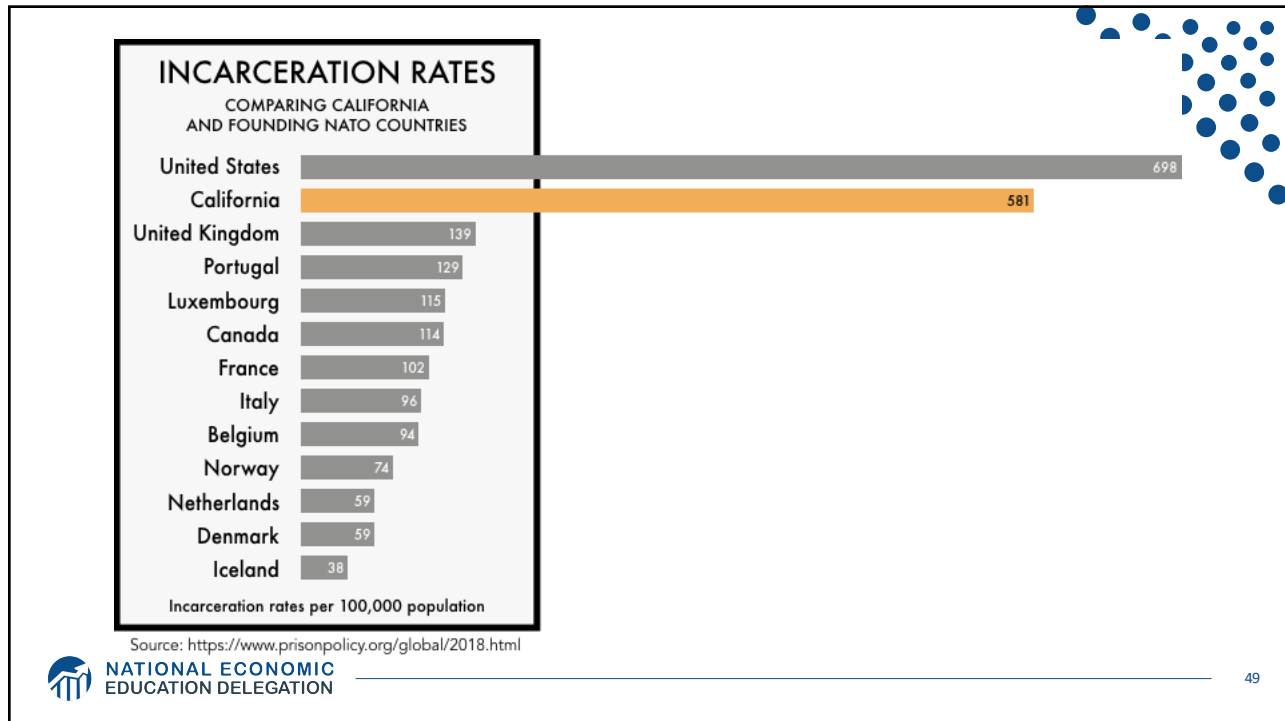


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US Drug Arrest Rates per 100,000 by Race



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Family Structure

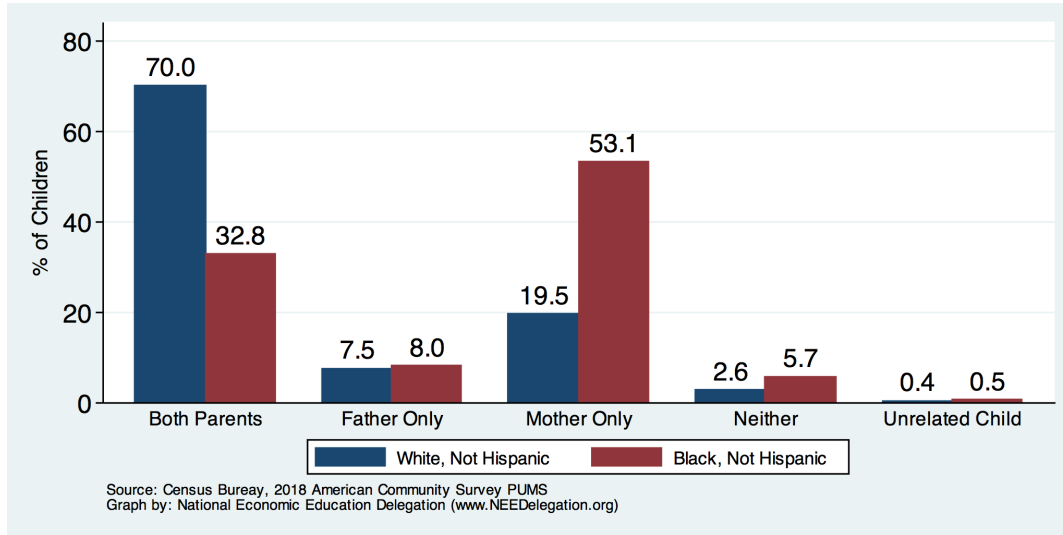
AGE	No Bachelor's Degree				With Bachelor's Degree			
	MARRIED		SINGLE		MARRIED		SINGLE	
	BLACK	WHITE	BLACK	WHITE	BLACK	WHITE	BLACK	WHITE
20-29	\$4,000	\$13,000	\$0	\$2,000	\$7,700	\$18,700	\$-11,000	\$3,400
30-39	\$12,000	\$33,450	\$0	\$0	\$-20,500	\$97,000	\$0	\$7,500
40-49	\$22,501	\$60,000	\$1,000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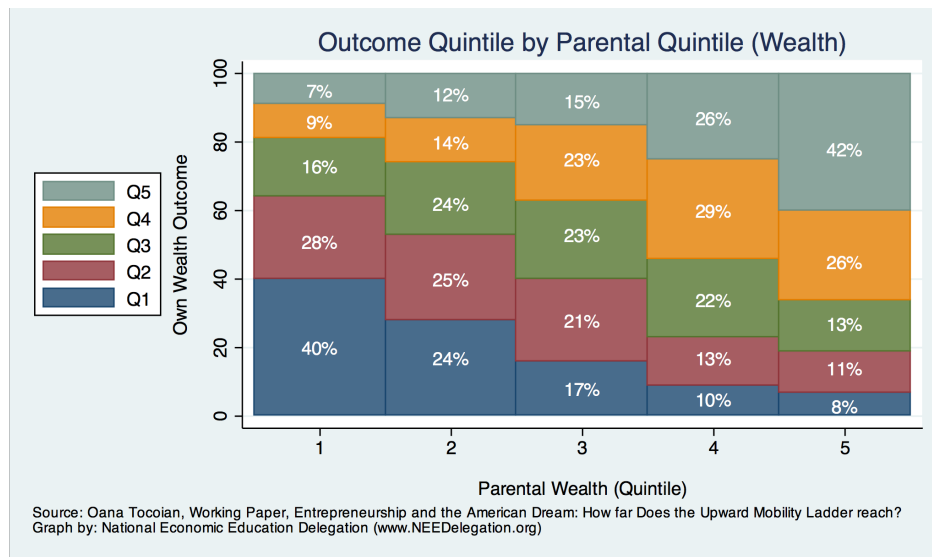
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Kids – Household Types



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Initial Endowment

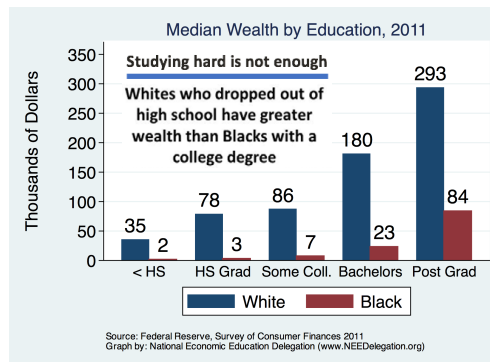
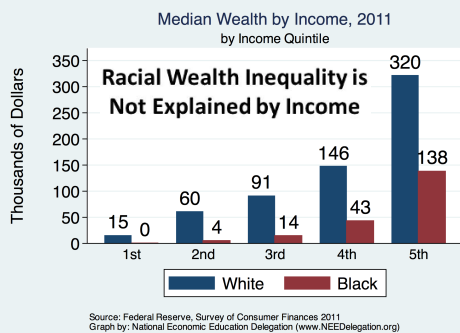
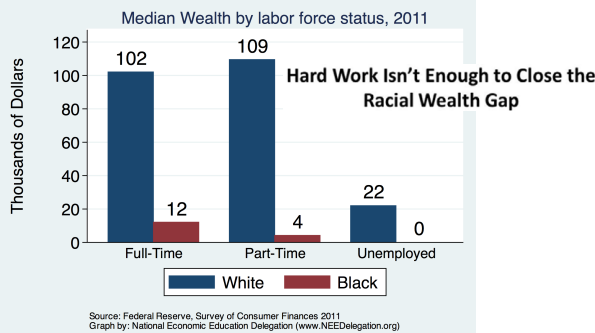


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What is Fundamentally Responsible?

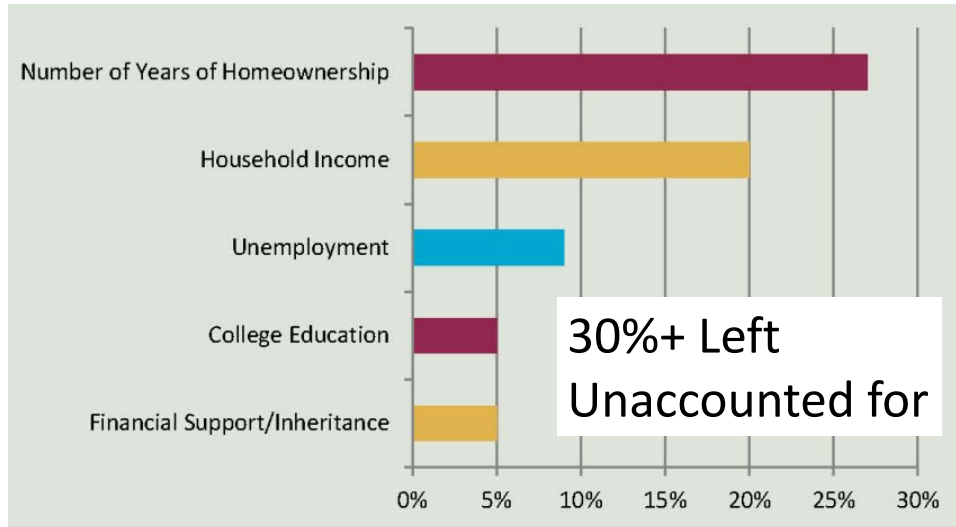
- Individual behaviors?
- Structural characteristics of the economy?
- History – policy and otherwise?

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Accounting for the Wealth Gap



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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.
- **Education**
- **Workforce**
- **Income support and stability**
- **Asset accumulation**



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Reform Criminal Justice System

- **Legal restrictions on the rights of people who have had contact with the criminal justice system, particularly contact resulting in conviction.**
- **Usually placed in civil and regulatory codes, collateral consequences may limit a person's:**
 - ability to vote
 - live in public housing
 - qualify for an occupational license
 - serve in the military
 - receive public benefits (Food Stamps, housing vouchers)
 - sit on a jury
 - borrow money for college



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Specific Policy Options

- **Addressing racial disparities directly**

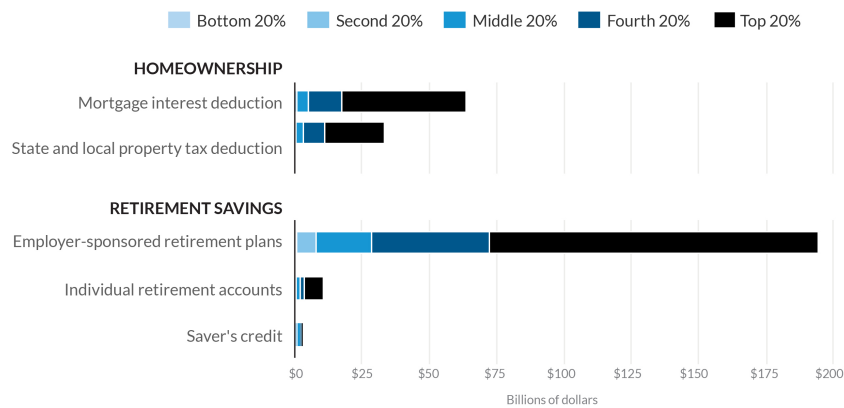
- Reparations
 - o Aggressive affirmative action.
 - o A new Homestead Act.
 - o Heavily investing in Black communities.
 - o Differential tax treatment.
- Labor and other laws that address discrimination
 - o Enforce more aggressively and make adjustments where necessary to increase efficacy.

- **Global solutions that affect all source areas**

- Child Trust Accounts - "Baby Bonds"
- Guaranteed minimum income
- Fundamental reorientation of asset building agenda.

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).

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.

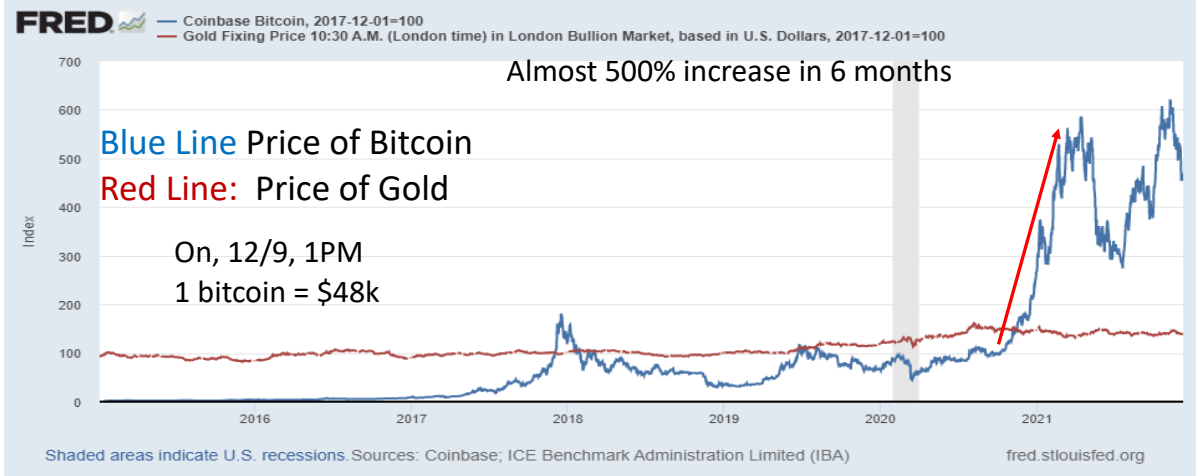
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Summary

- **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.**

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Cryptocurrencies: Geoffrey Woglom



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Thank you!

Any Questions?

www.NEEDelegation.org

Jon D. Haveman, Ph.D.

Jon@NEEDelegation.org

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