



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

West Virginia University
January-March, 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 (1/27): US Economy & Coronavirus Economics
- Week 2 (2/3): Federal Debt (Geoffrey Woglom, Amherst College)
- **Week 3 (2/10): The Black-White Wealth Gap (Me)**
- Week 4 (2/17): Health Economics (Veronika Dolar, SUNY, Old Westbury)
- Week 5 (2/24): Monetary Policy (Geoffrey Woglom, Amherst College)
- Week 6 (3/3): Autonomous Vehicles (Me)



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The Black-White Wealth Gap

Jon Haveman, Ph.D.

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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).



Outline

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



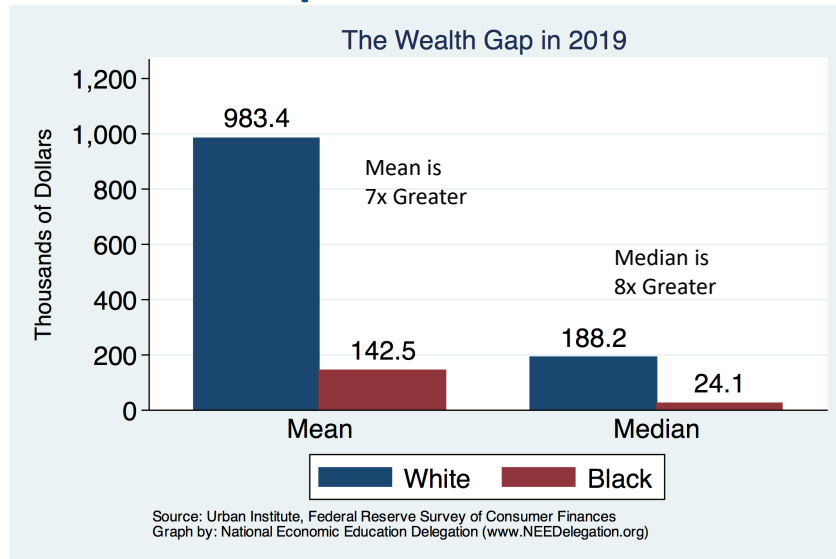
Evidence



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Evidence of the Gap



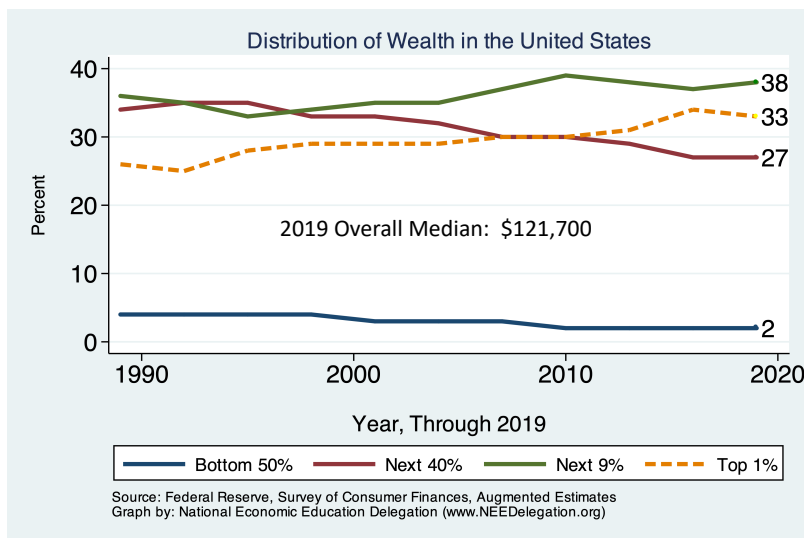
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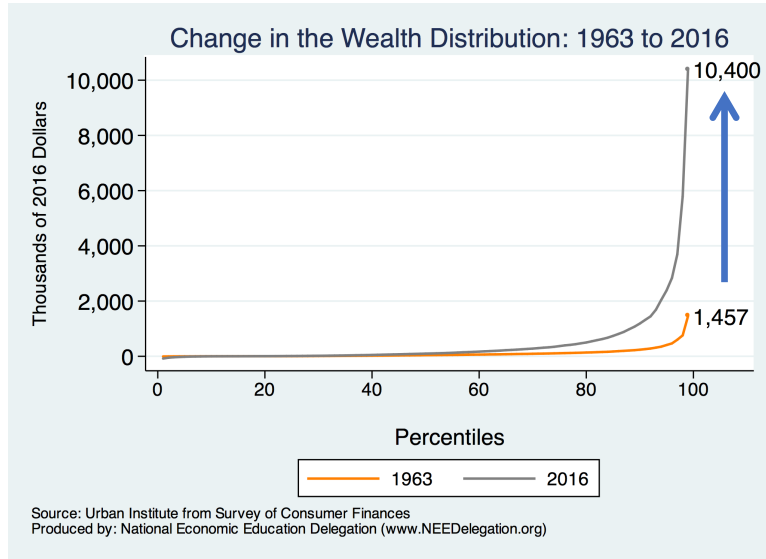
Wealth Disparities, 2019

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

Overall Wealth Distribution

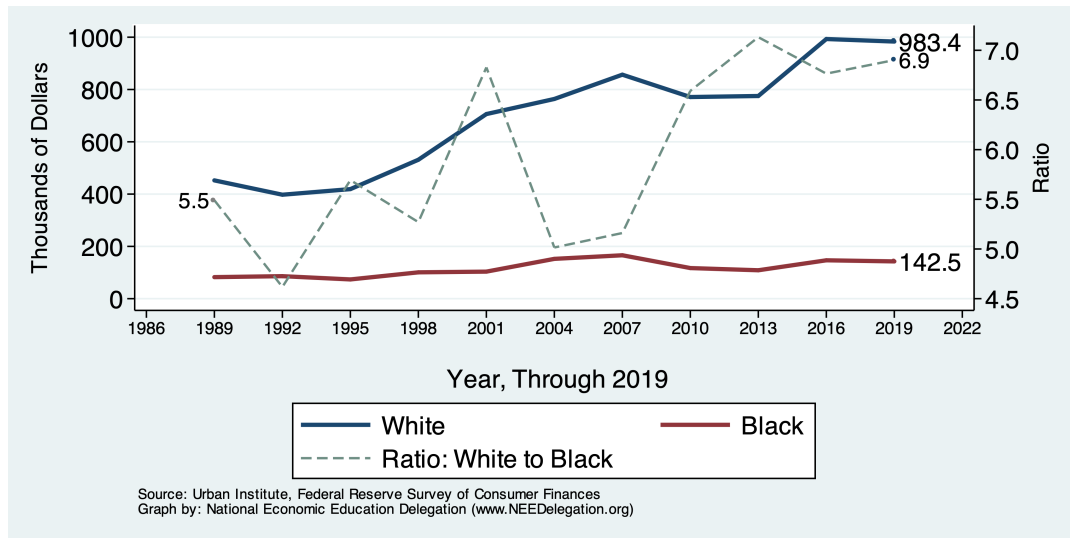


Wealth is More and More Concentrated



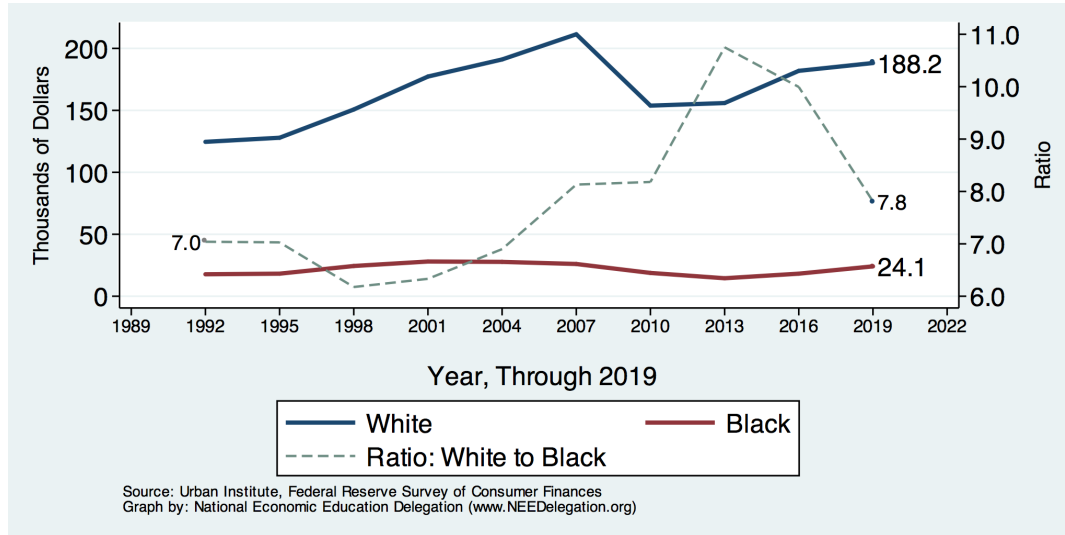
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Wealth Gap Over Time: Mean



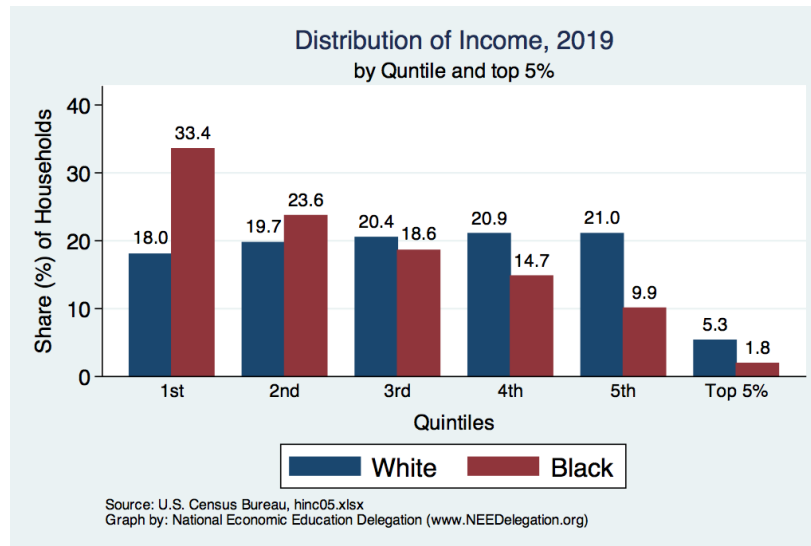
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Wealth Gap Over Time: Median

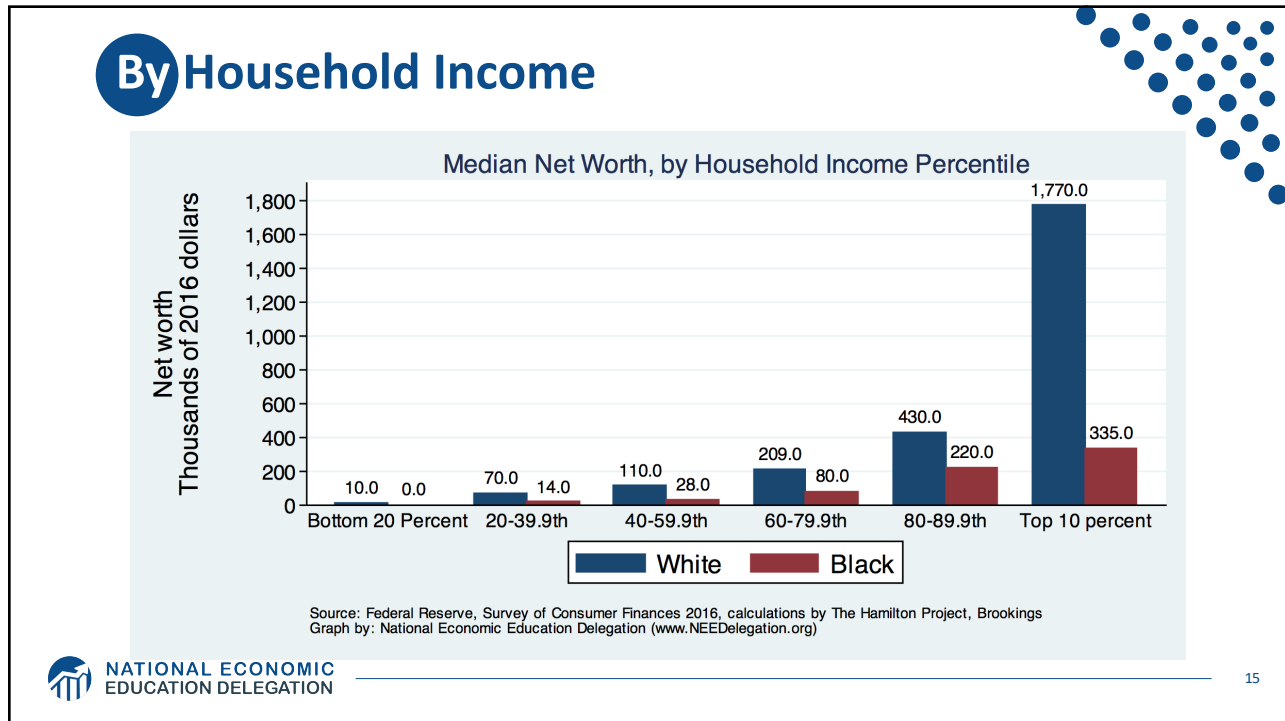


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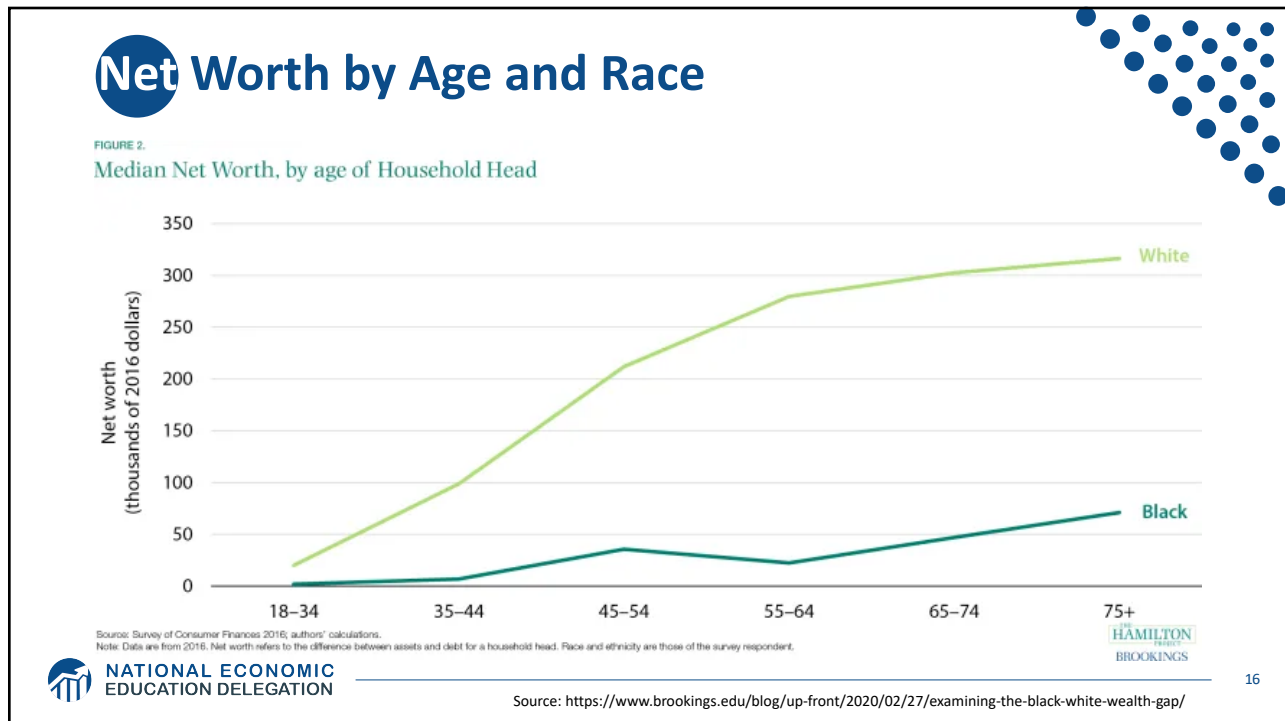
Black Household Incomes Relative to White



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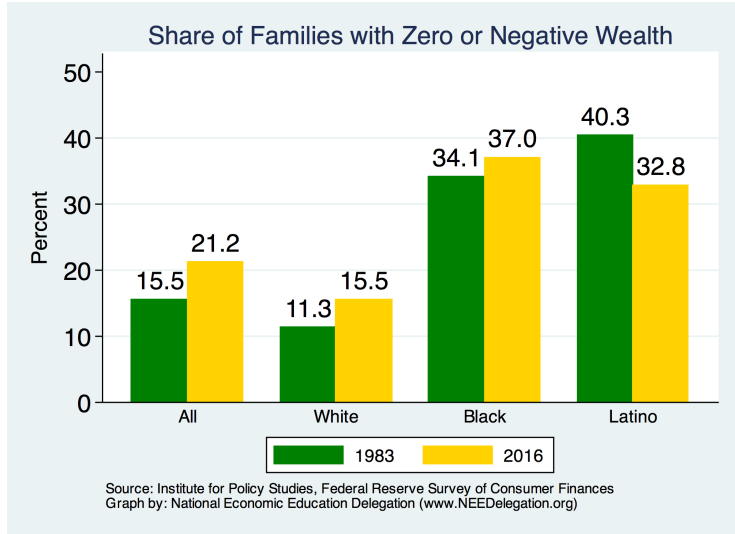


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Evidence of Disparities: Zero Wealth



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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.

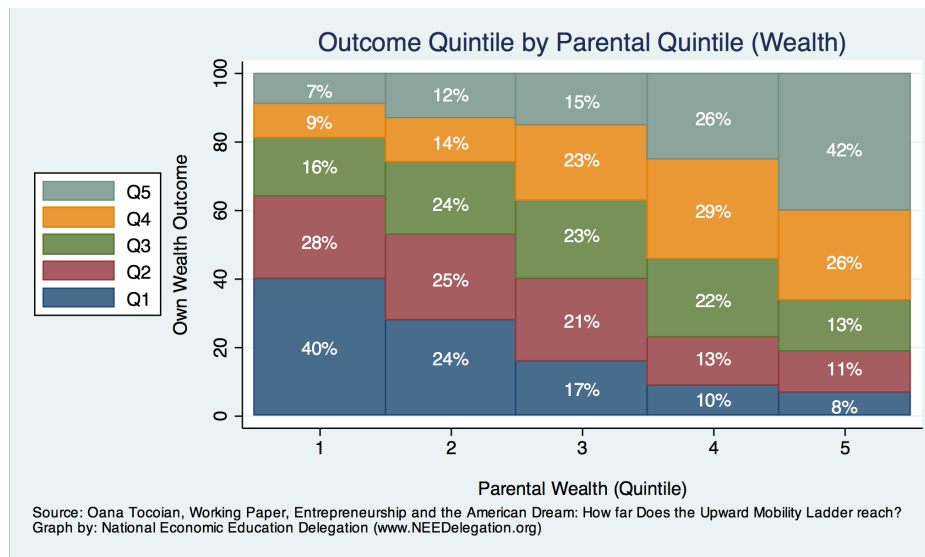
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Parental Wealth is Important

- **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.**
- **And it's clear that nurture plays a big roll.**

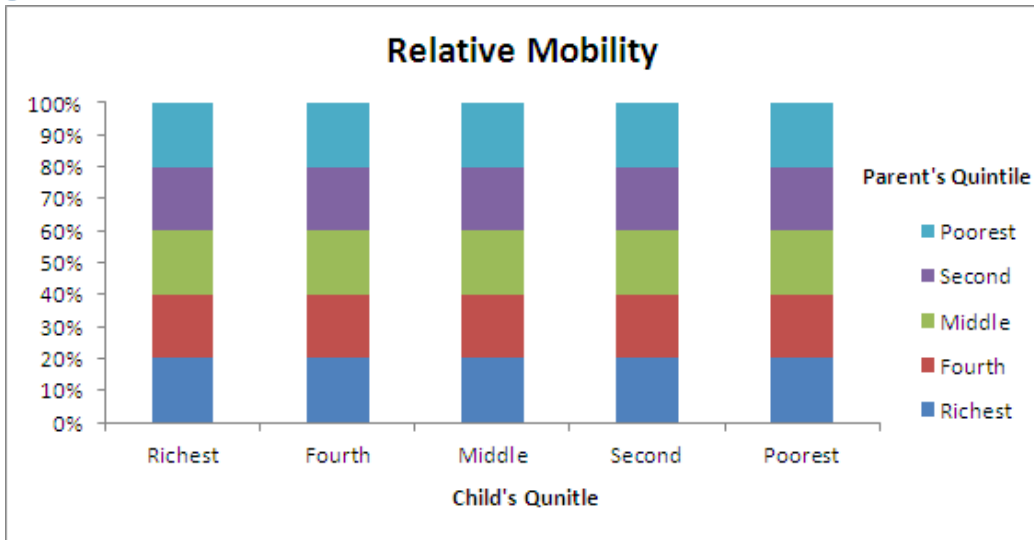
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Wealth Mobility



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Mobility Example: Perfect Mobility



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<https://www.demos.org/blog/absolute-and-relative-mobility-short-primer>

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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.*



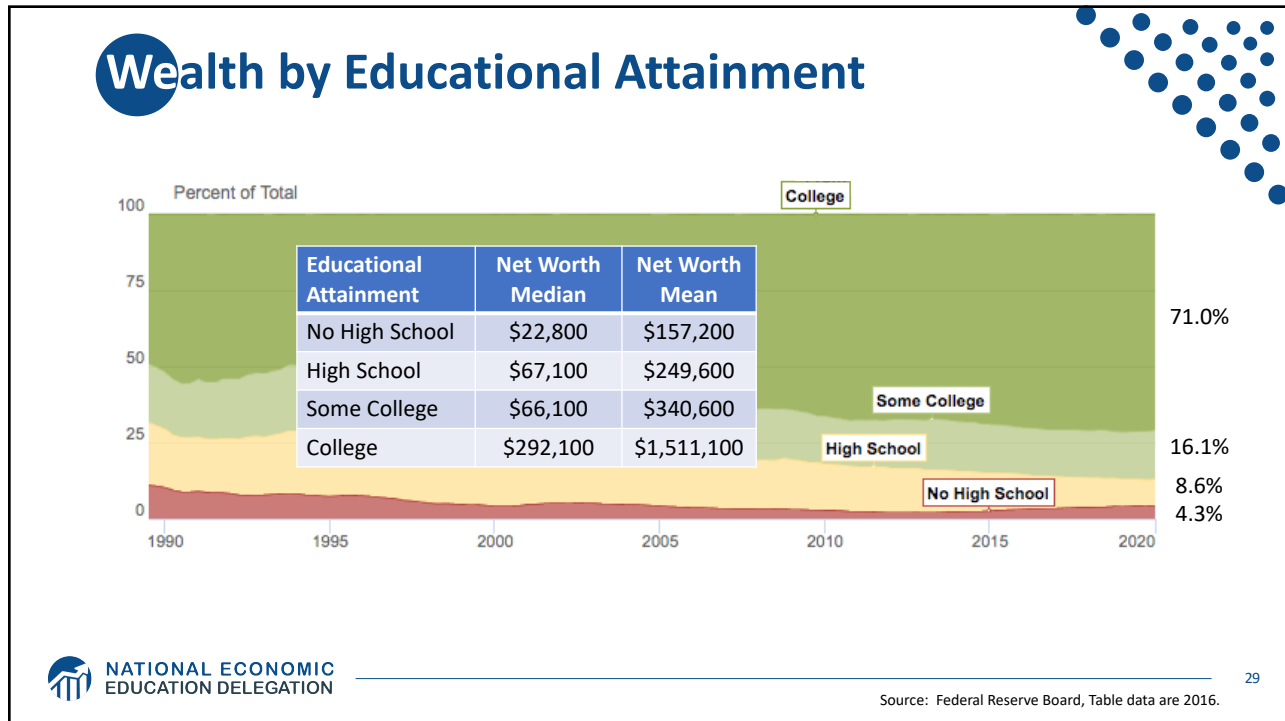
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Potential Explanations: Differences in...

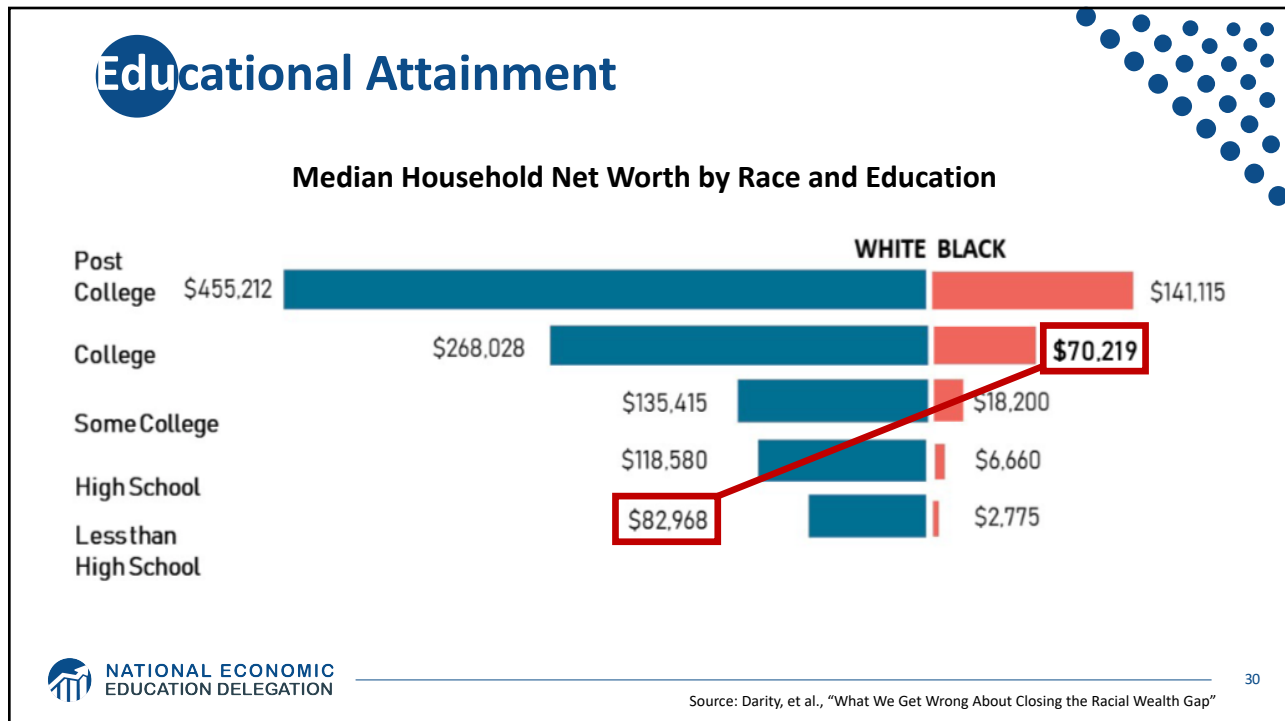
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|---------------------------------|--|
| • Educational attainment | • Soft skills and personal responsibility |
| • Home ownership | • Wages |
| • Increased savings | • Labor force participation |
| • Financial literacy | • Family disorganization |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



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Educational Attainment: Policy

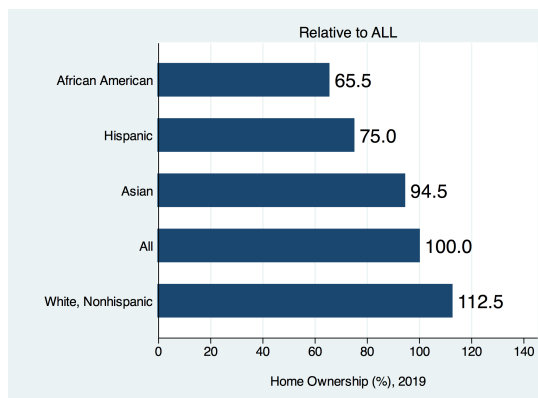
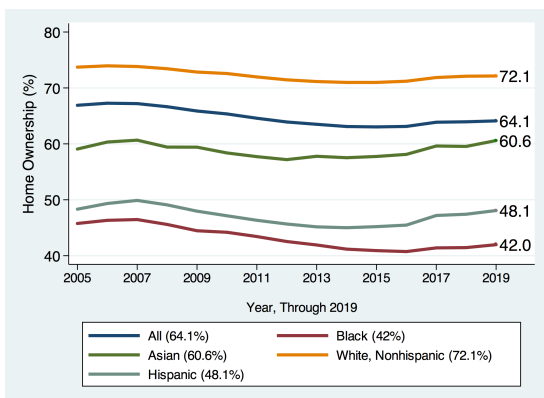
• How do we increase educational attainment?

- 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

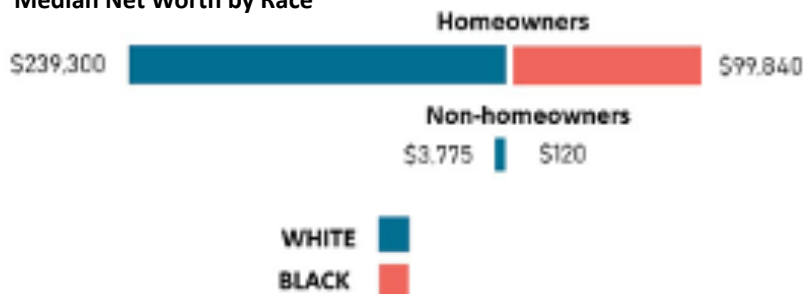


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Home Ownership: 2016

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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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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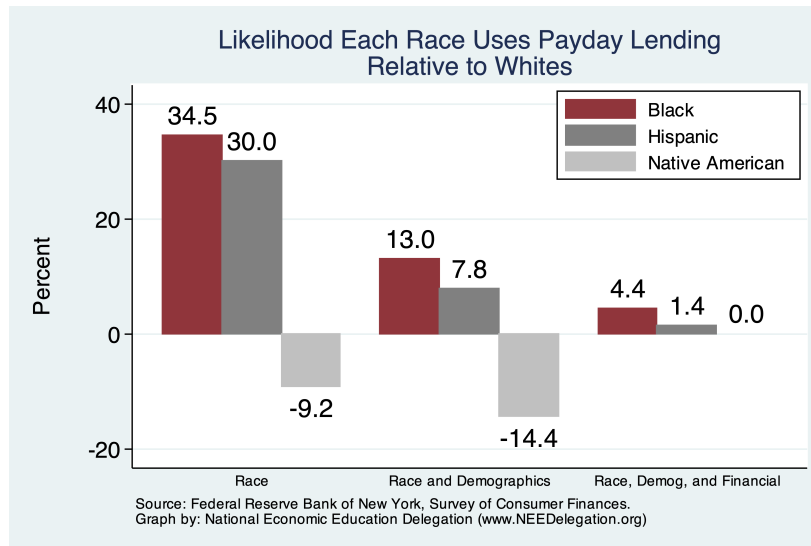
Financial Literacy

- **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.**

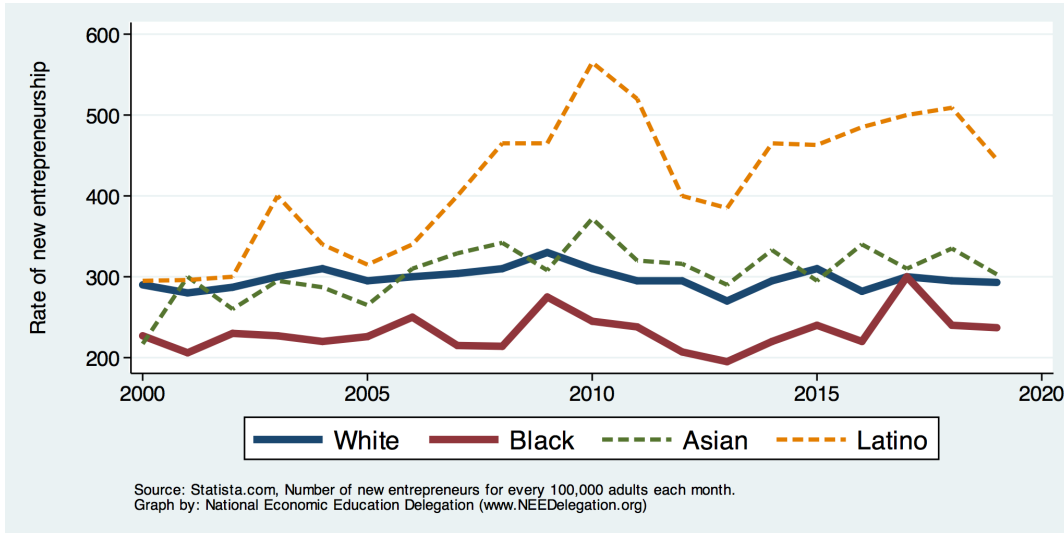
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Use of Payday Lenders



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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.

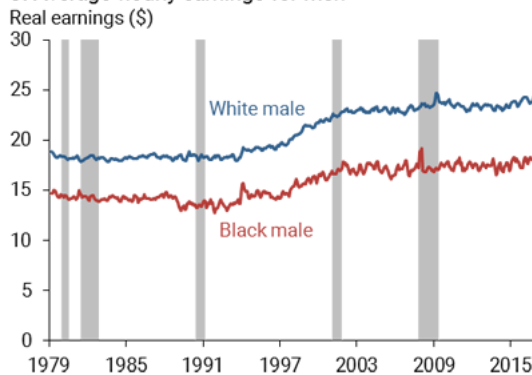
• Reality

- 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.

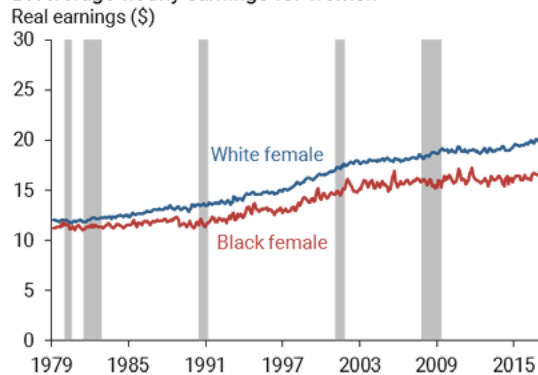
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Wage Gap

C. Average hourly earnings for men

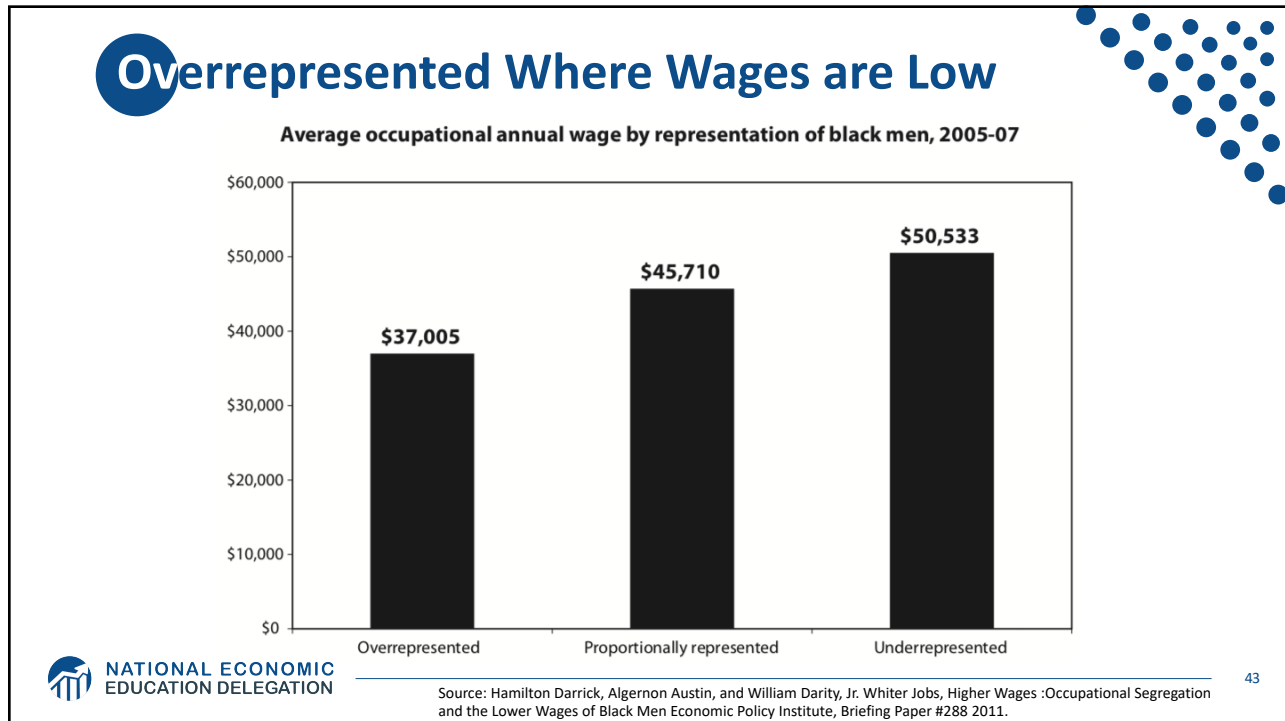


D. Average hourly earnings for women

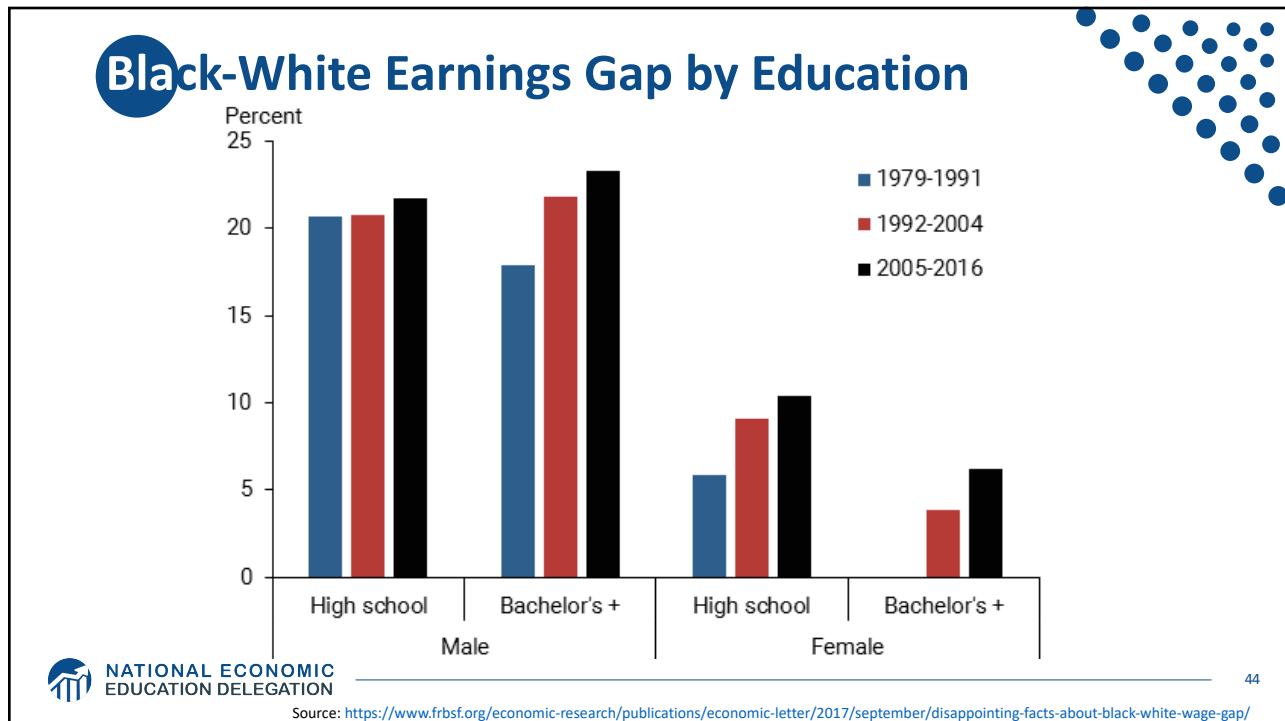


Source: <https://www.frbsf.org/economic-research/publications/economic-letter/2017/september/disappointing-facts-about-black-white-wage-gap/>

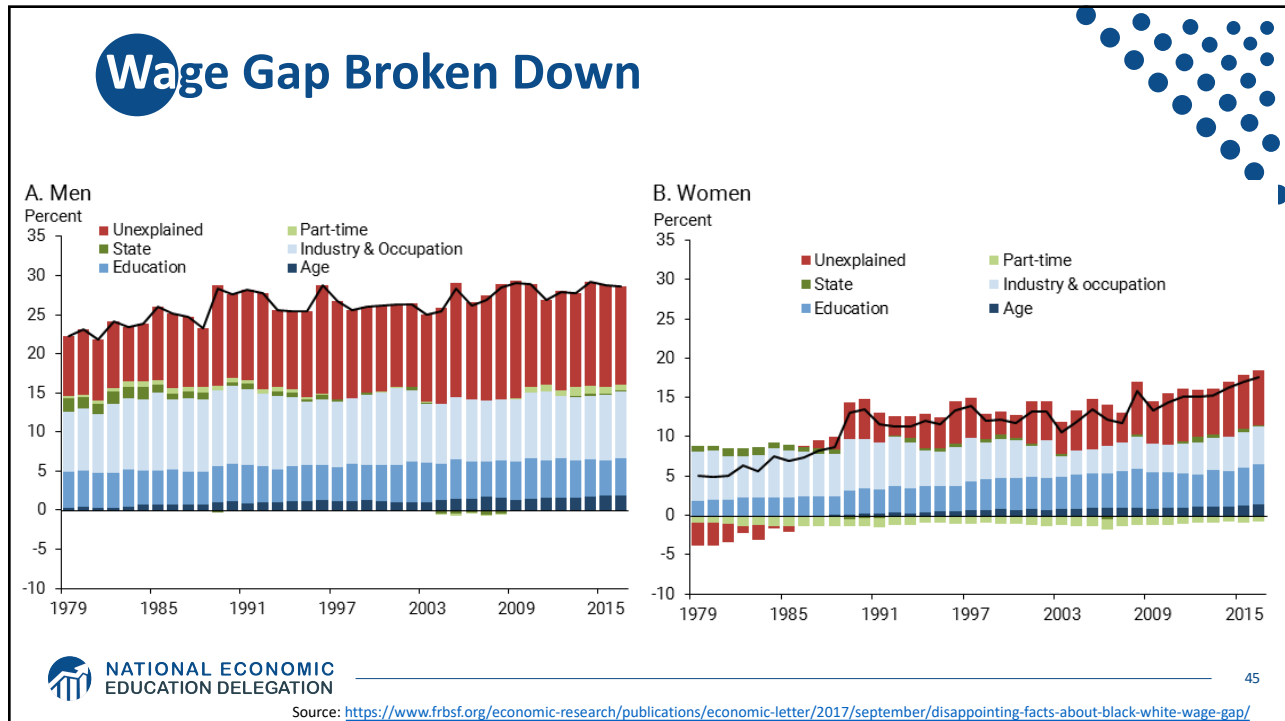
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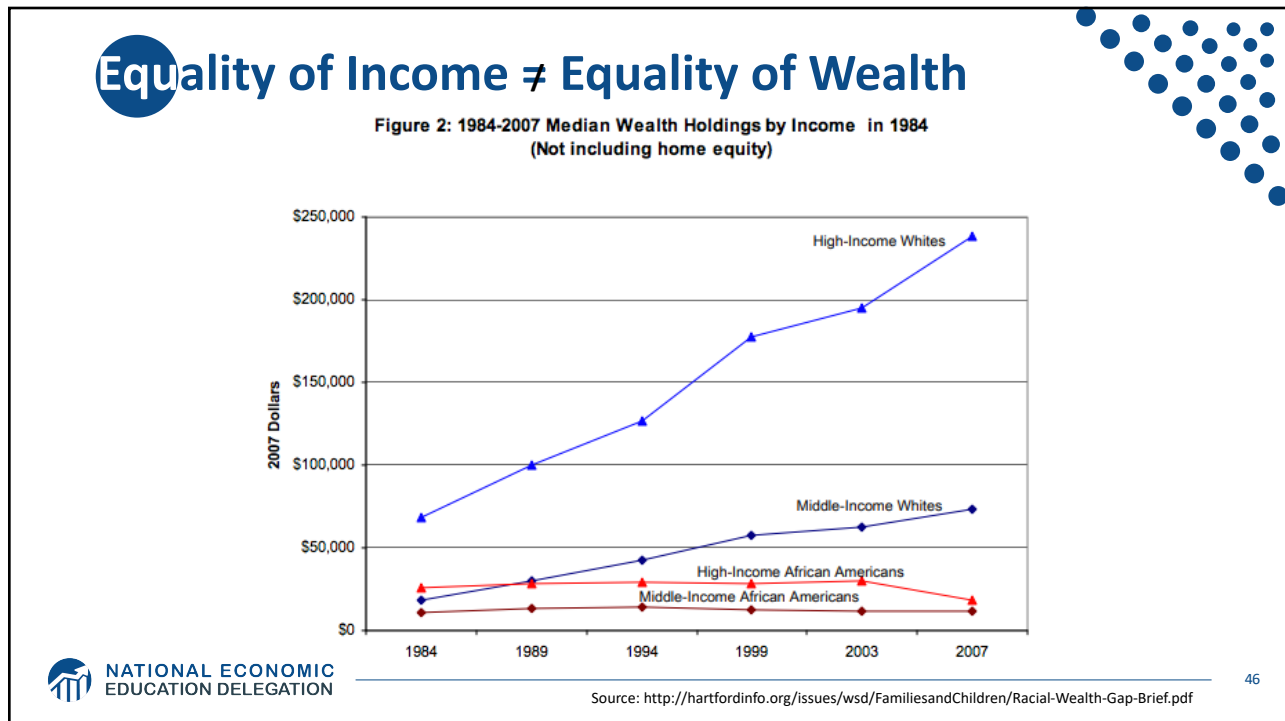
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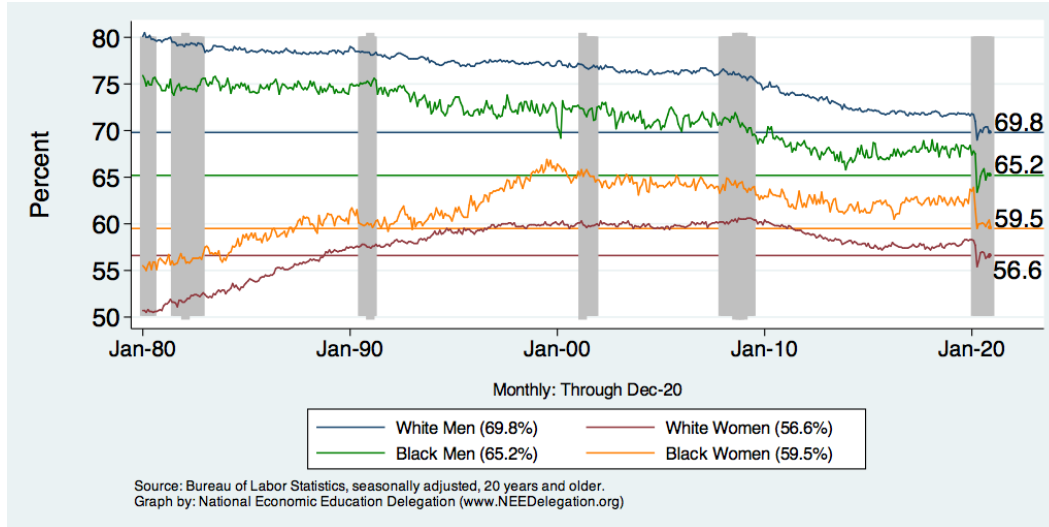


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Labor Force Participation

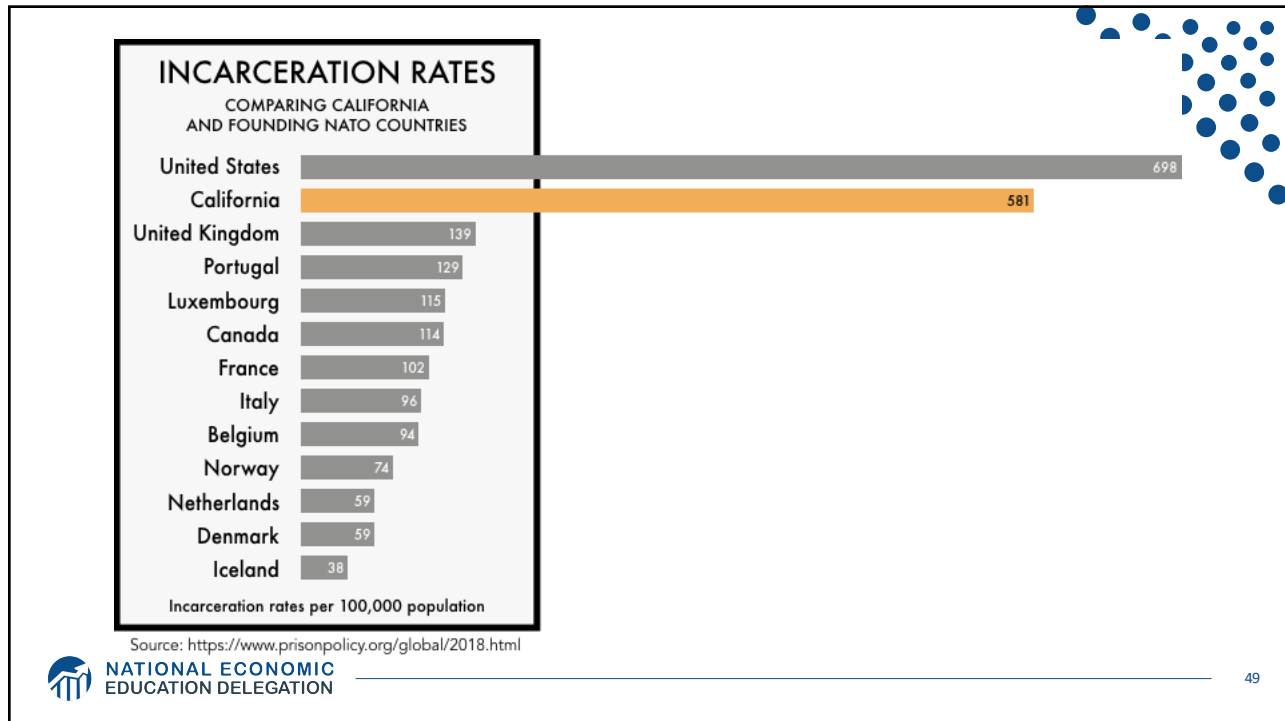


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Incarceration Likely Plays A Role



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Family Structure

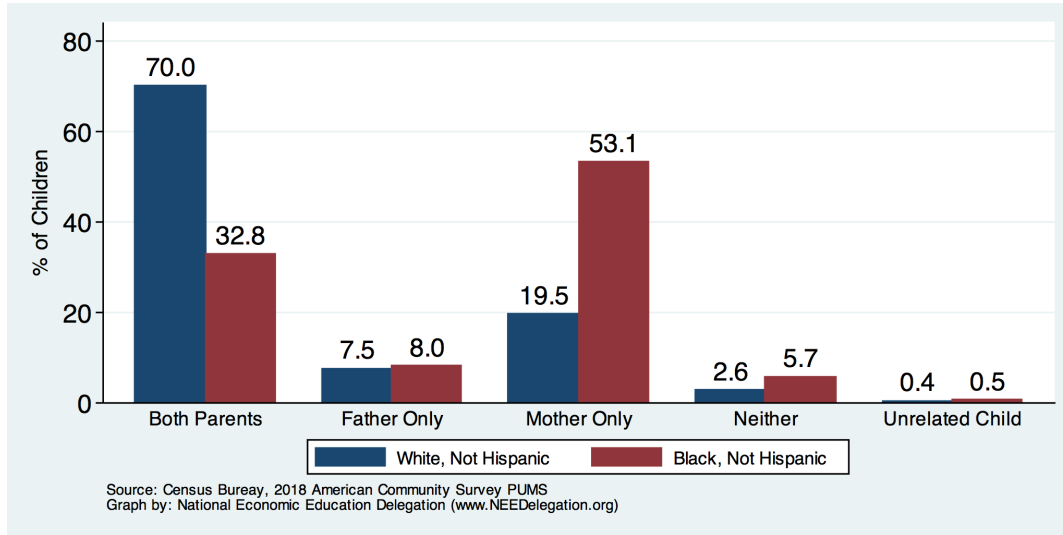
AGE	No Bachelor's Degree				With Bachelor's Degree			
	MARRIED		SINGLE		MARRIED		SINGLE	
	BLACK	WHITE	BLACK	WHITE	BLACK	WHITE	BLACK	WHITE
20-29	\$4,000	\$13,000	\$0	\$2,000	\$7,700	\$18,700	\$-11,000	\$3,400
30-39	\$12,000	\$33,450	\$0	\$0	\$-20,500	\$97,000	\$0	\$7,500
40-49	\$22,501	\$60,000	\$1,000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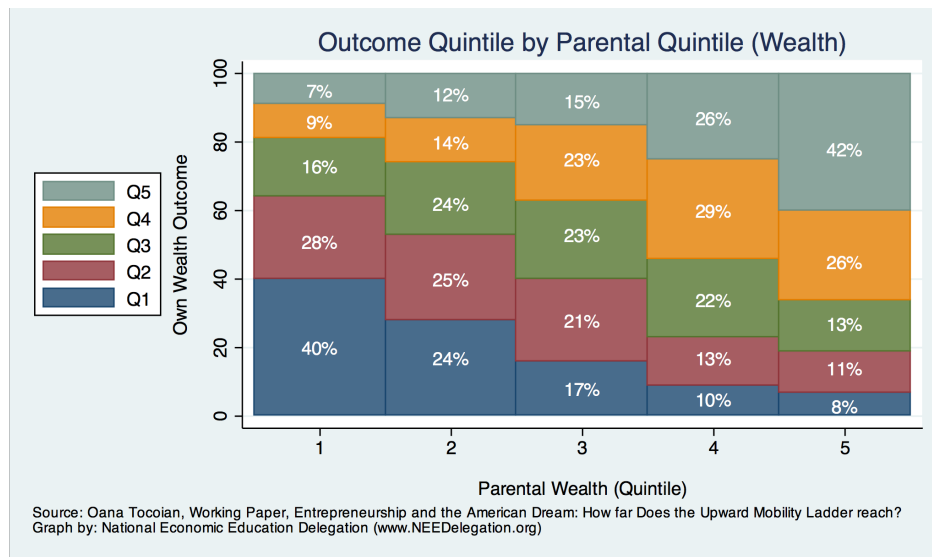
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Kids – Household Types



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Initial Endowment

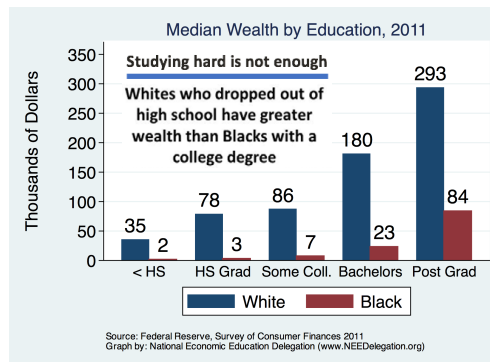
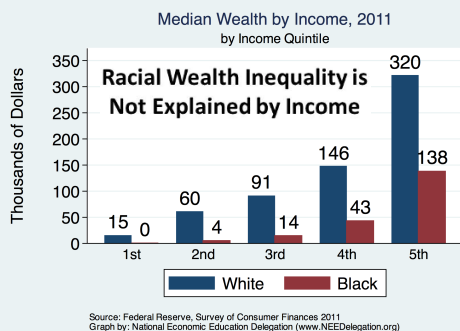
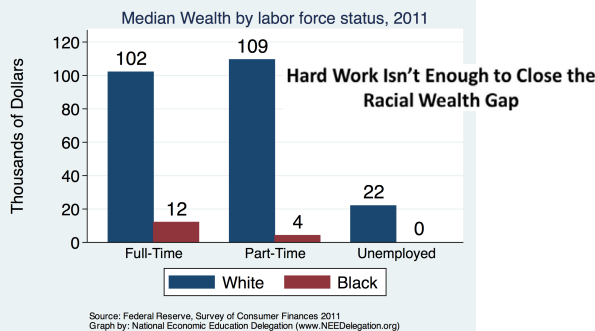


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What is Fundamentally Responsible?

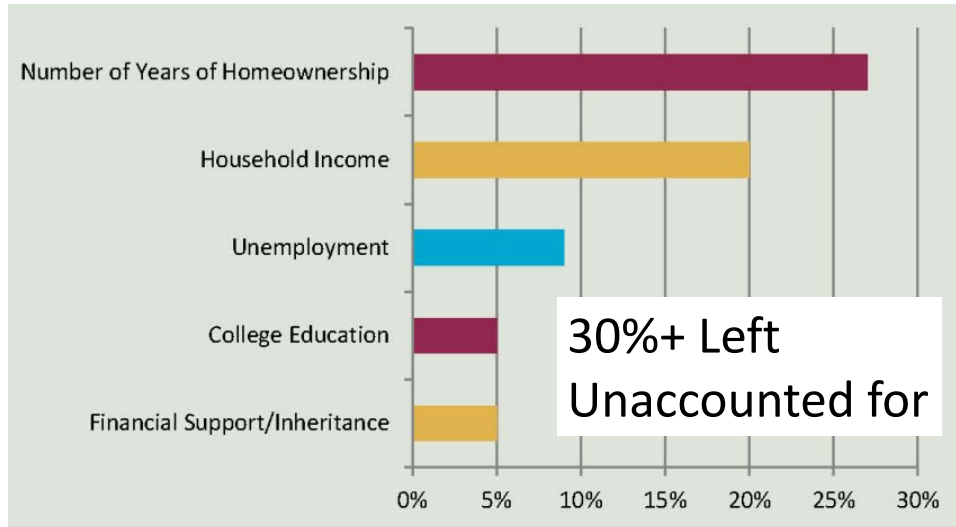
- Individual behaviors?
- Structural characteristics of the economy?
- History – policy and otherwise?

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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.
- **Transportation**
 - Interstate system
- **Broadband**
 - Access is inversely related to regional income.
- **Education**
- **Workforce**
- **Income support and stability**
- **Asset accumulation**



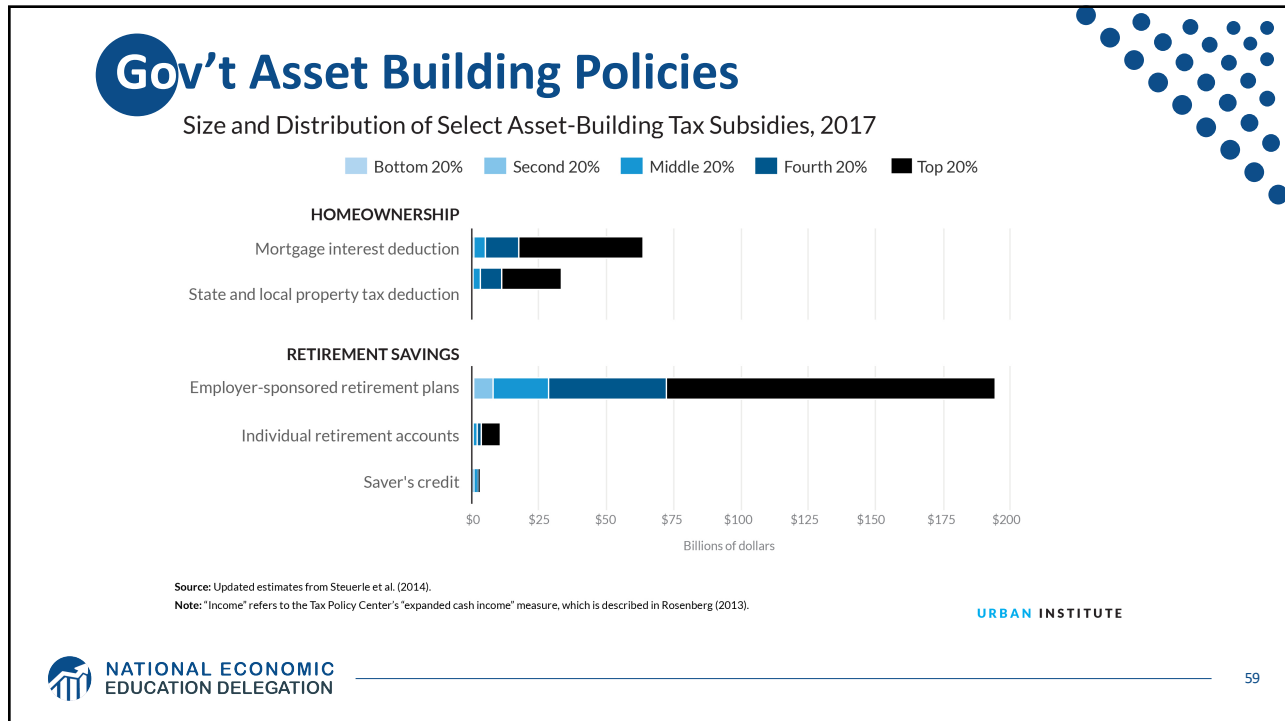
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Specific Policy Options

- **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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- ## 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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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



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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.



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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.



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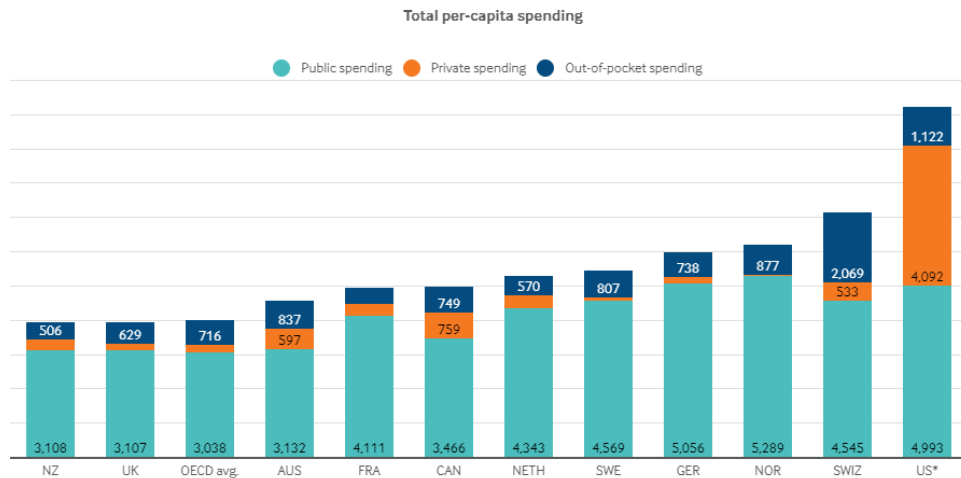
Summary

- **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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Health Economics: Veronika Dolar Next Week

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



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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
- Minimum Wage
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- Autonomous Vehicles



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