



The Black-White Wealth Gap

American Association of University Women
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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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- 2 Fed Chairs: Janet Yellen, Ben Bernanke
- 6 Chairs Council of Economic Advisers
 - o Furman (D), Rosen (R), Bernanke (R), Yellen (D), Tyson (D), Goolsbee (D)
- 3 Nobel Prize Winners
 - o Akerlof, Smith, Maskin

- **Delegates: 649+ members**

- At all levels of academia and some in government service
- All have a Ph.D. in economics
- Crowdsource slide decks
- Give presentations

- **Global Partners: 48 Ph.D. Economists**

- Aid in slide deck development



Available NEED Topics Include:

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



Credits and Disclaimer

- **This slide deck was authored by:**
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 - Patrick Mason, Florida State University
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- **Disclaimer**
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Outline

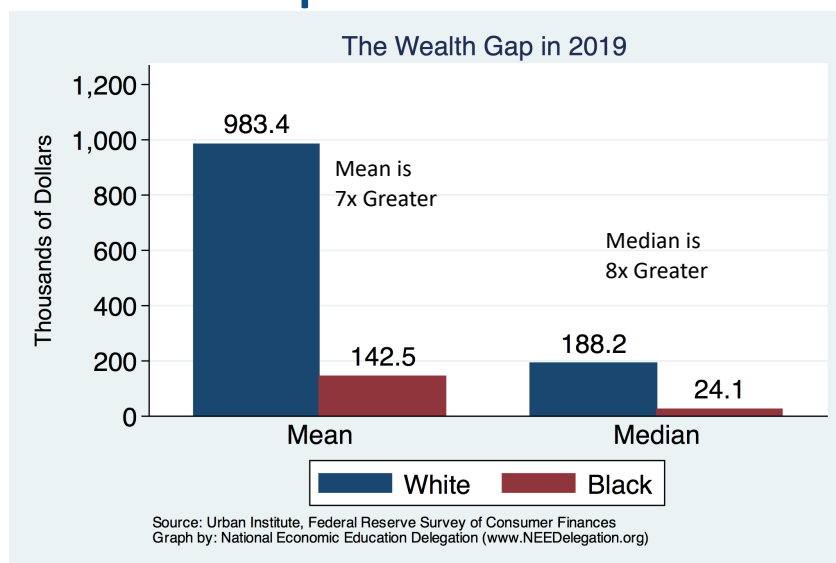
- Evidence of disparities
- Why wealth is important
- Sources of disparities
- Policy solutions

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Evidence

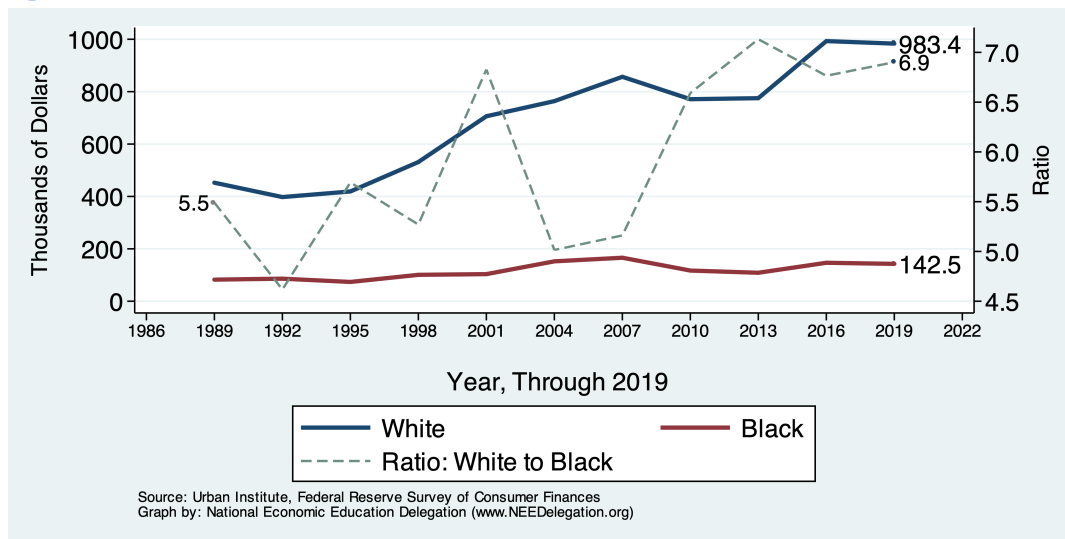
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Evidence of the Gap



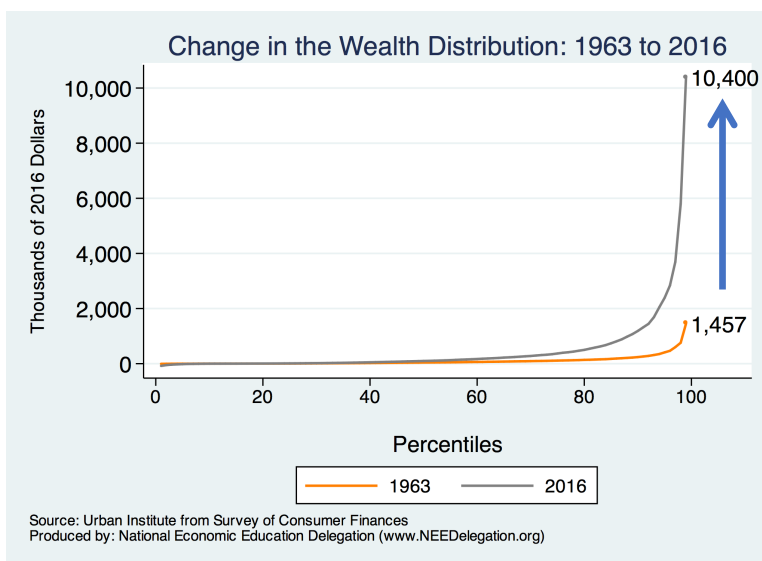
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Wealth Gap Over Time: Mean



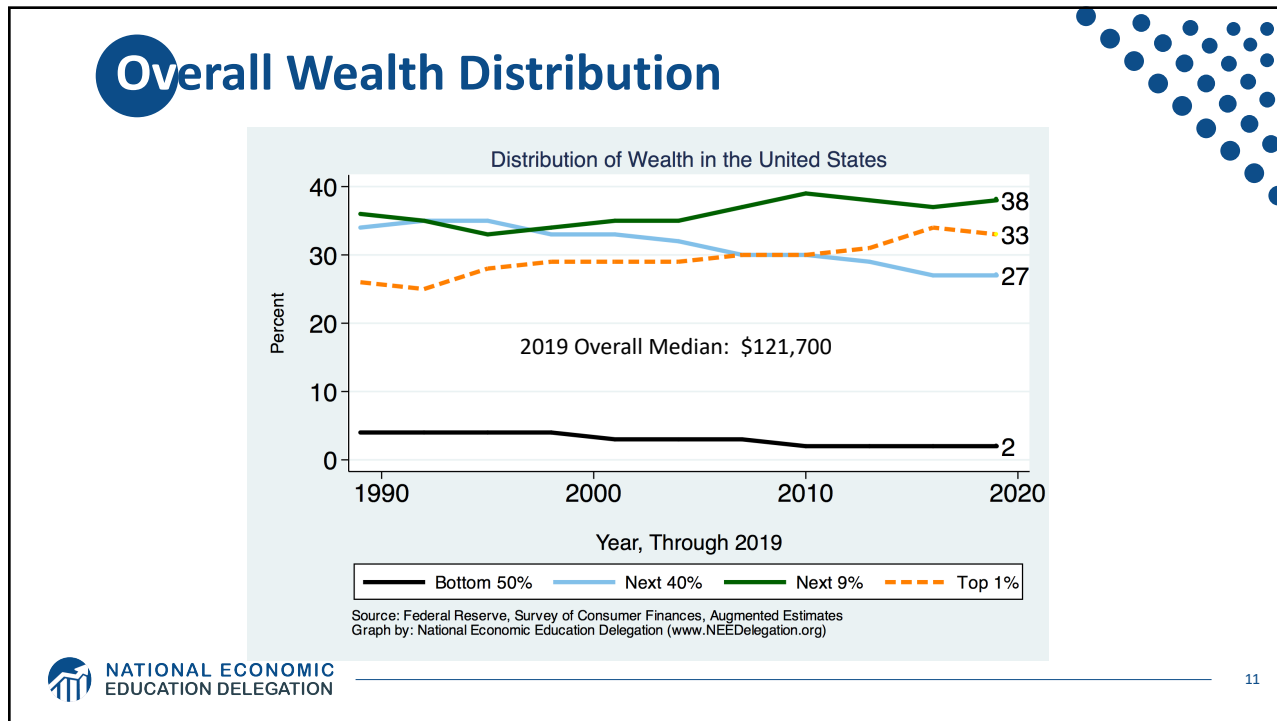
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Wealth is More and More Concentrated

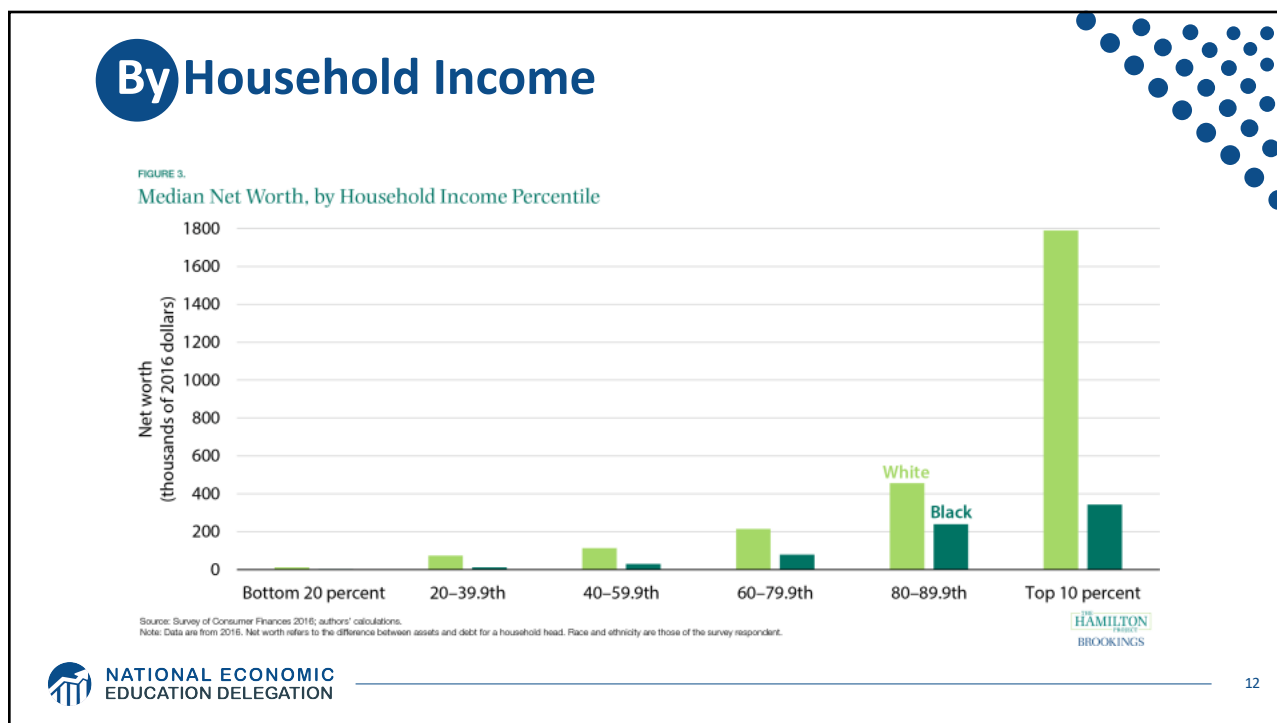


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Source: Urban Institute



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Why Wealth is Important



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Household Level Benefits

• Choices/Life Agency

- Finance high quality 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

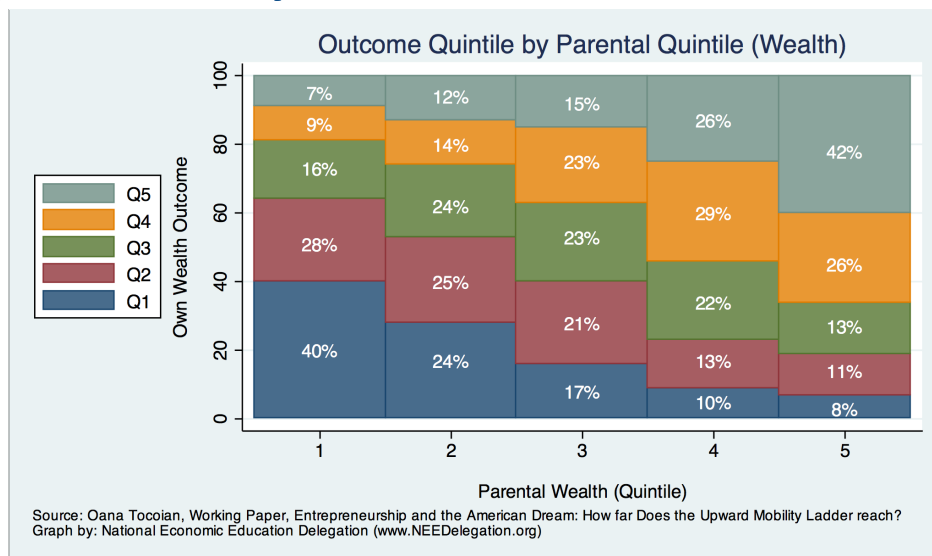
• Wealth is iterative

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



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Wealth Mobility



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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

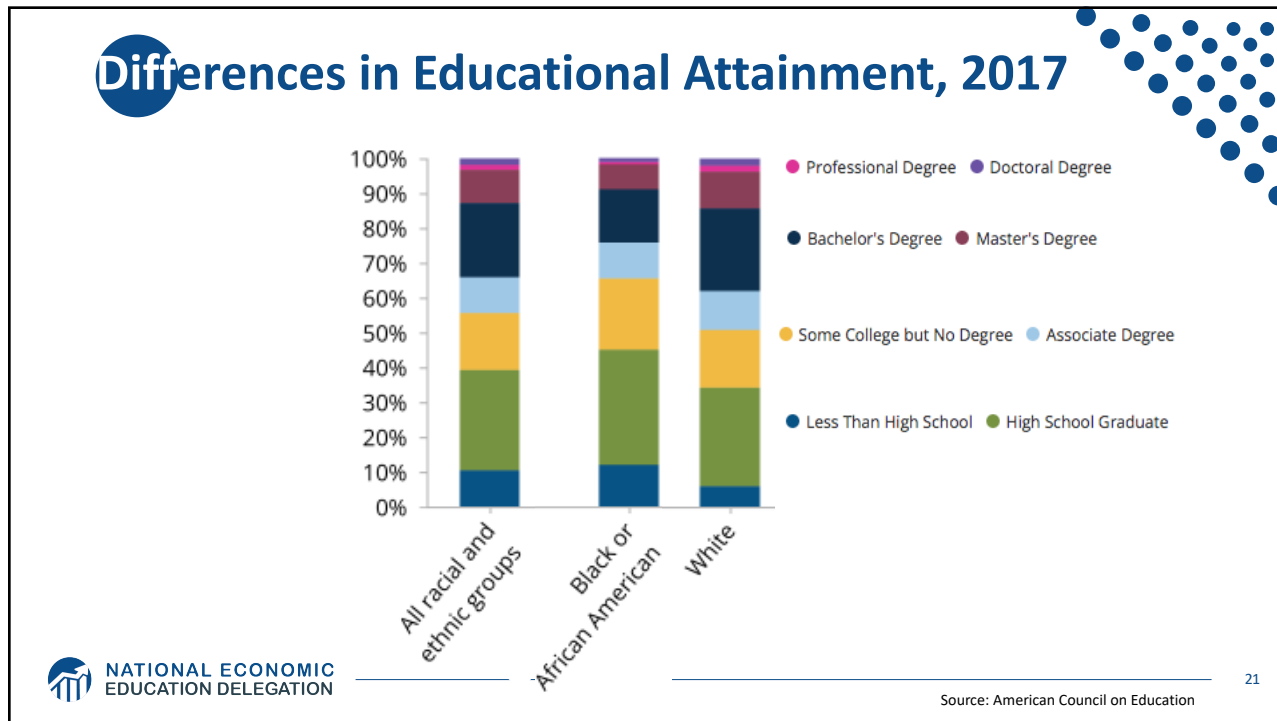
- **Much lower accumulation of wealth than among White families.**
- **Implications:**
 - Less financial contribution from parents to children.
 - More difficult access to higher education.
 - Less access to capital for business formation.
 - More likely to live in disadvantaged neighborhoods
 - Fewer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

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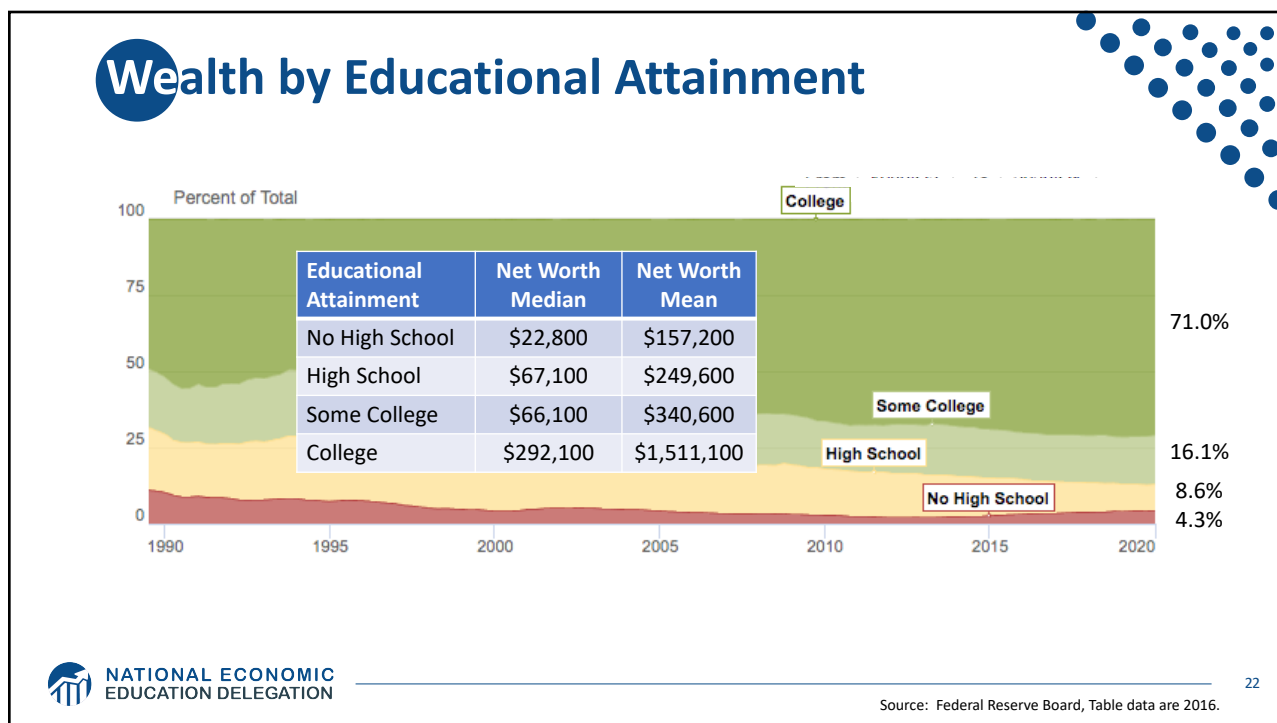
Potential Explanations: Differences in...

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

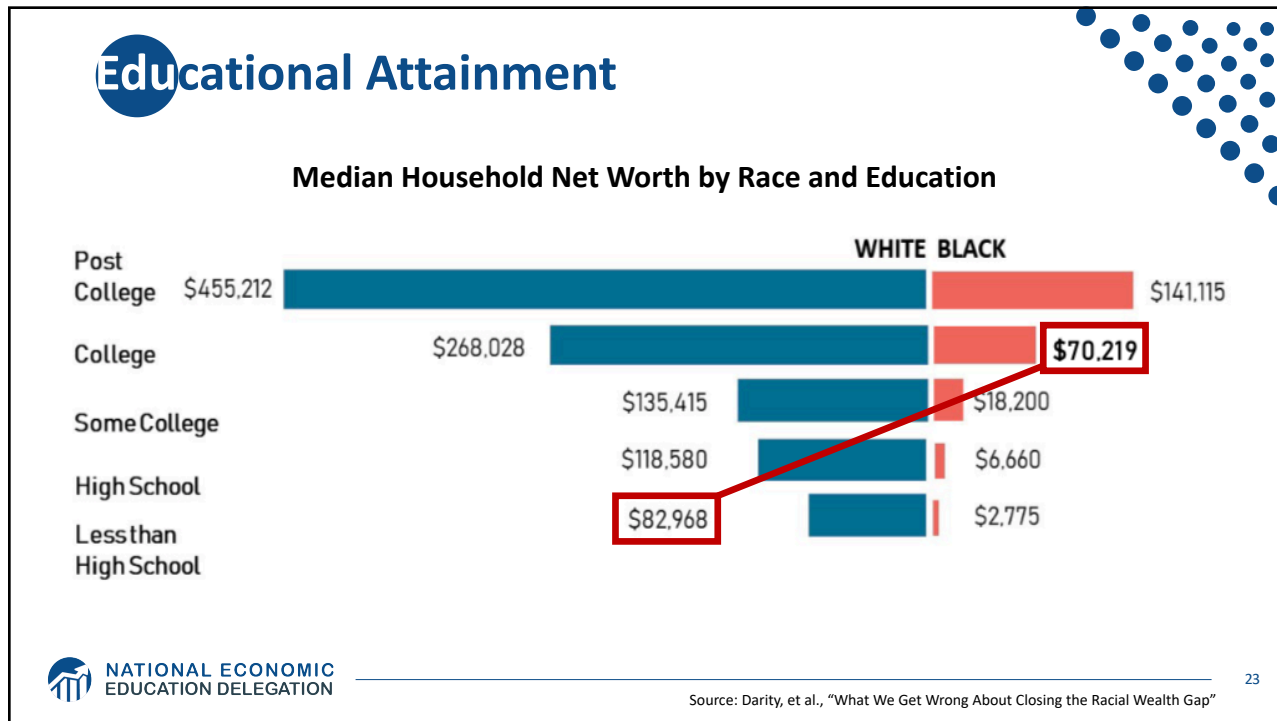
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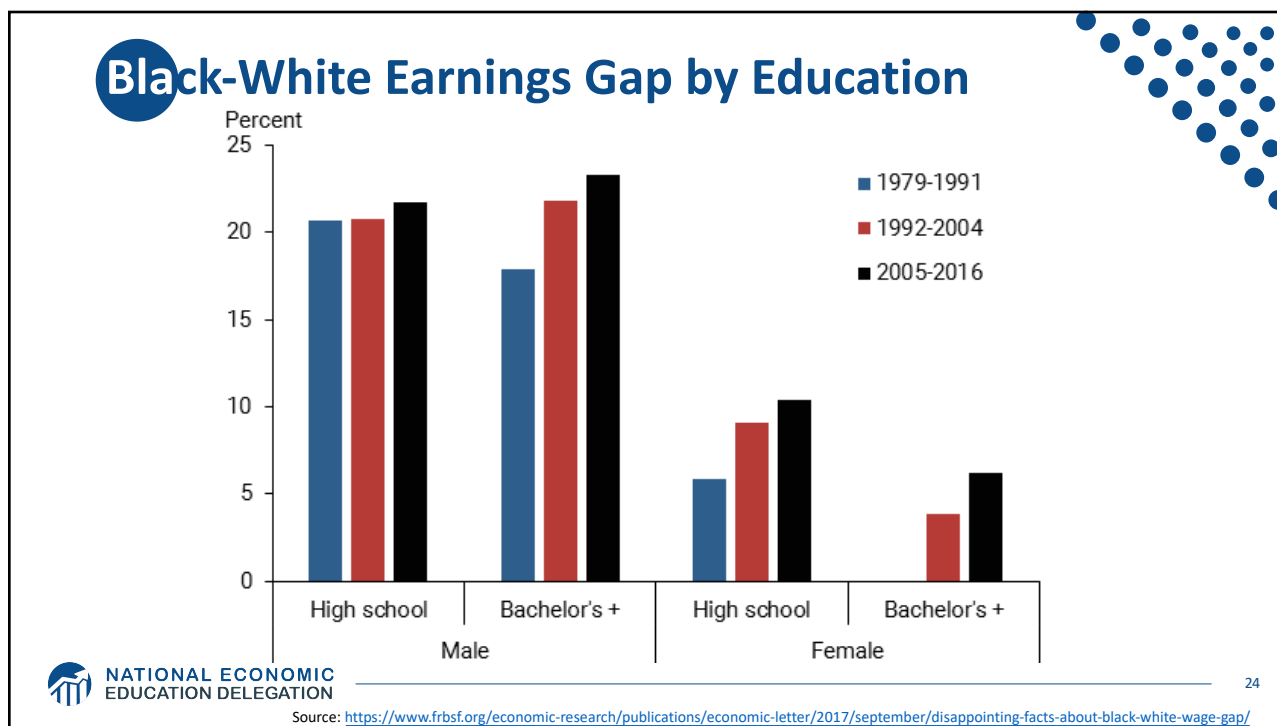
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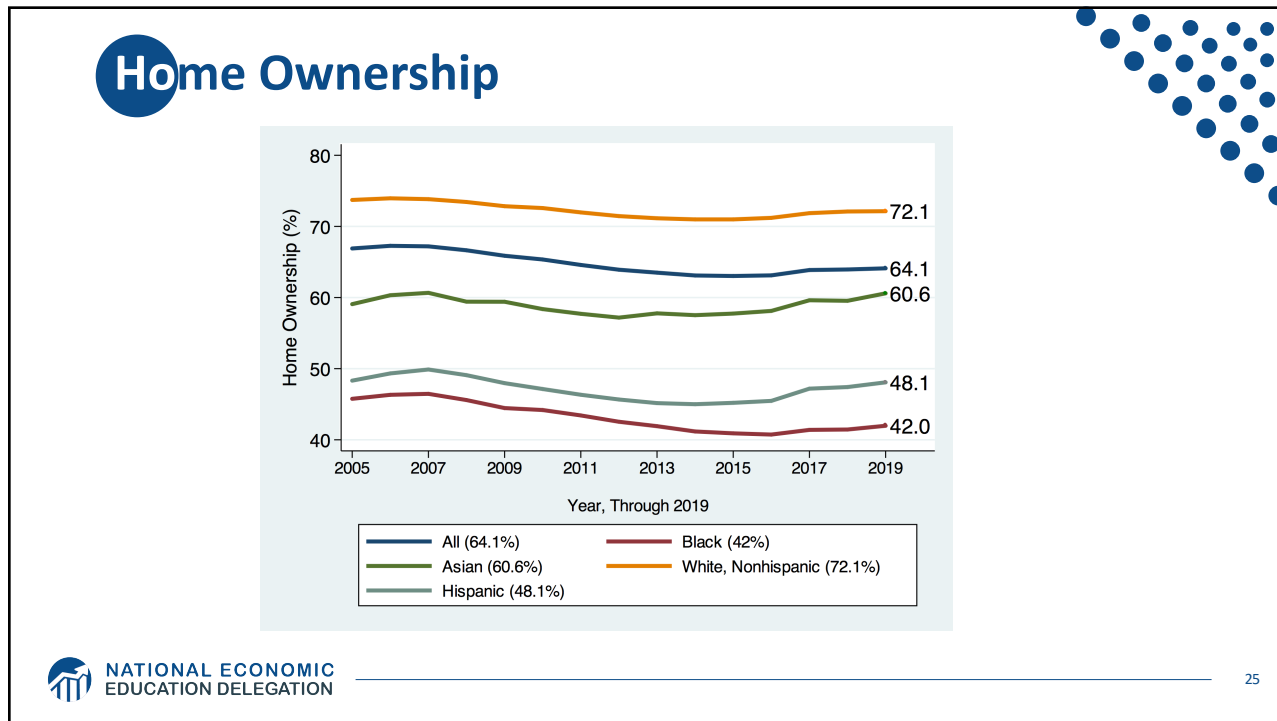
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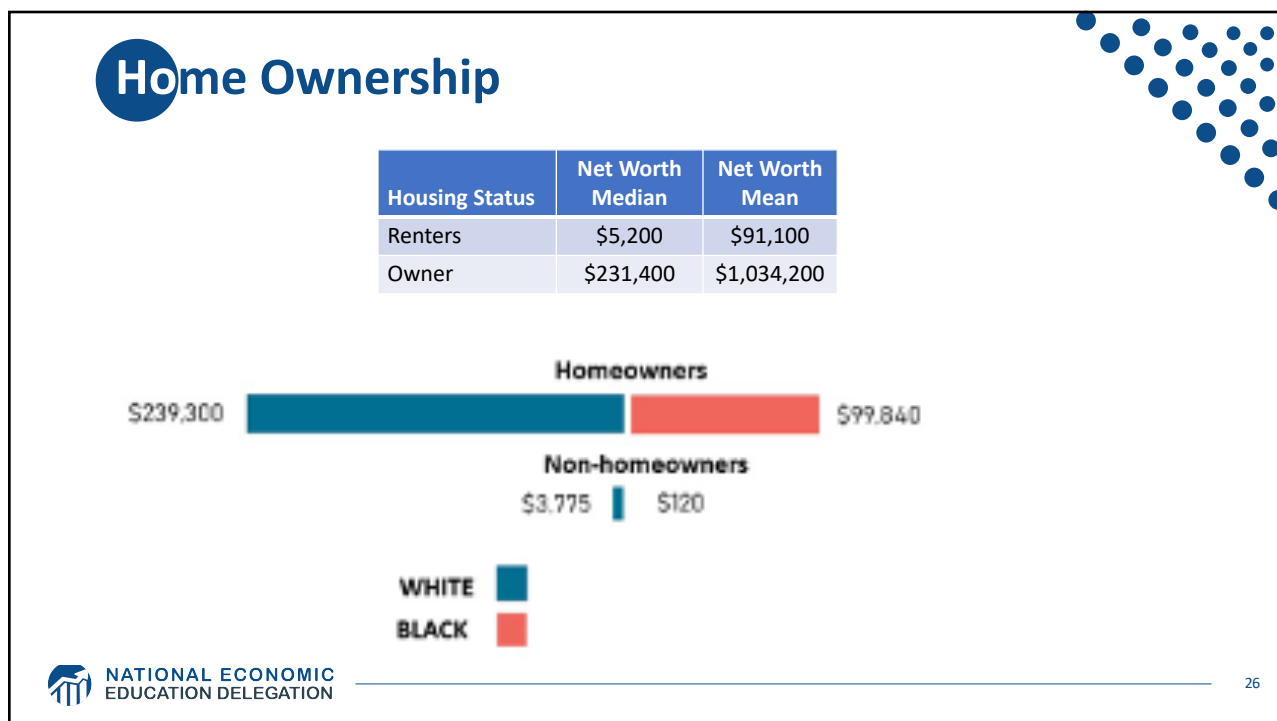
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Wealth Equality Through Home Ownership?

- **Well-documented evidence of historical and ongoing housing and lending discrimination.**
- **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.
 - 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**

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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.
- **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.

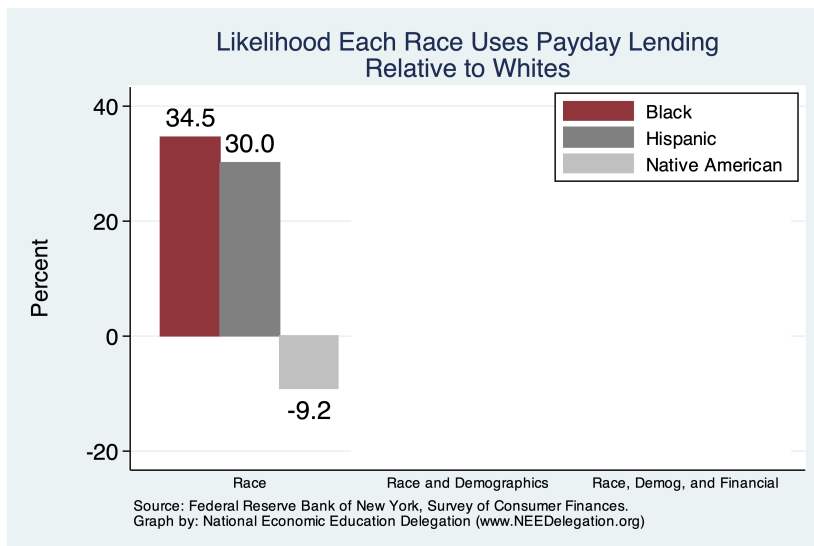


Financial Literacy

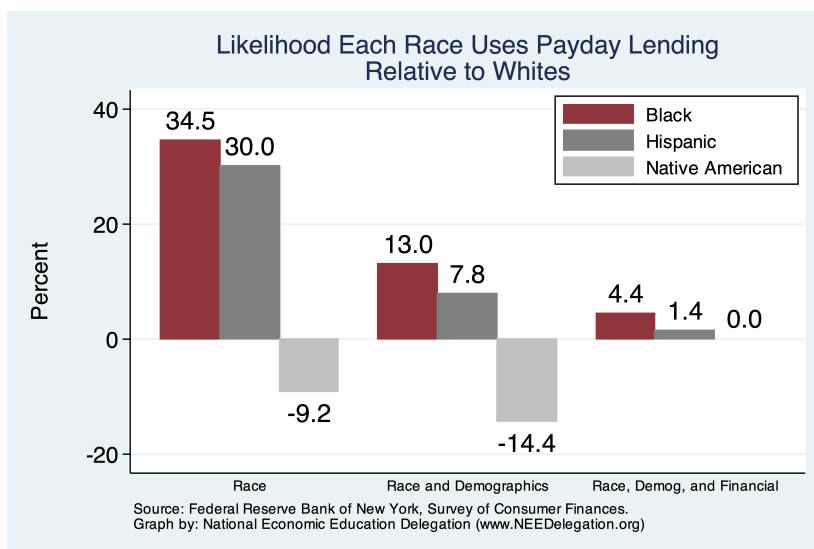
- **Financial literacy doesn't matter that much when you don't have any finances to manage.**
- **Controlling for household income, there is no difference in rates of asset appreciation between Black and White households.**



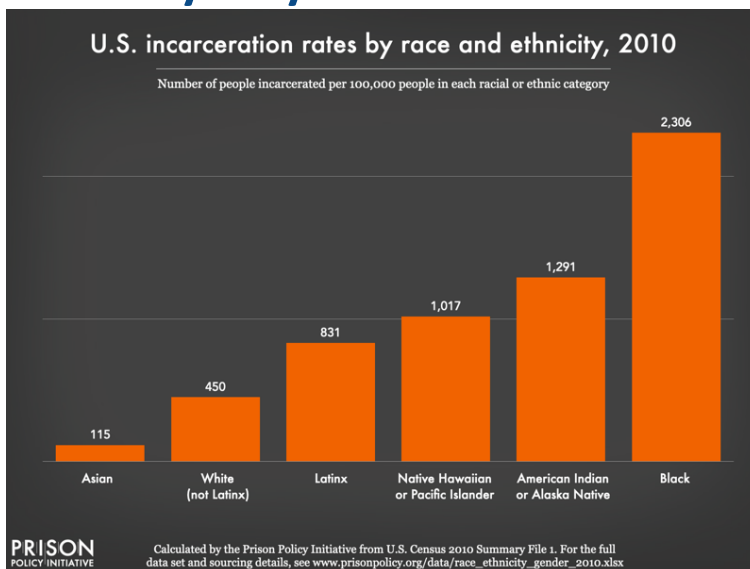
Use of Payday Lenders



Use of Payday Lenders



Incarceration Likely Plays A Role



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INCARCERATION RATES

COMPARING CALIFORNIA AND FOUNDING NATO COUNTRIES



Source: <https://www.prisonpolicy.org/global/2018.html>

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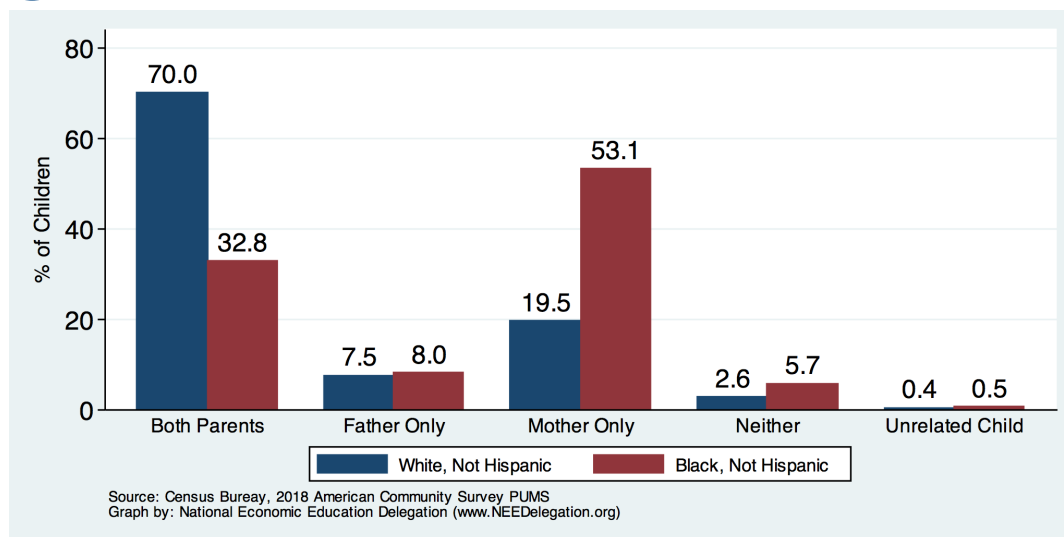
Family Structure

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.

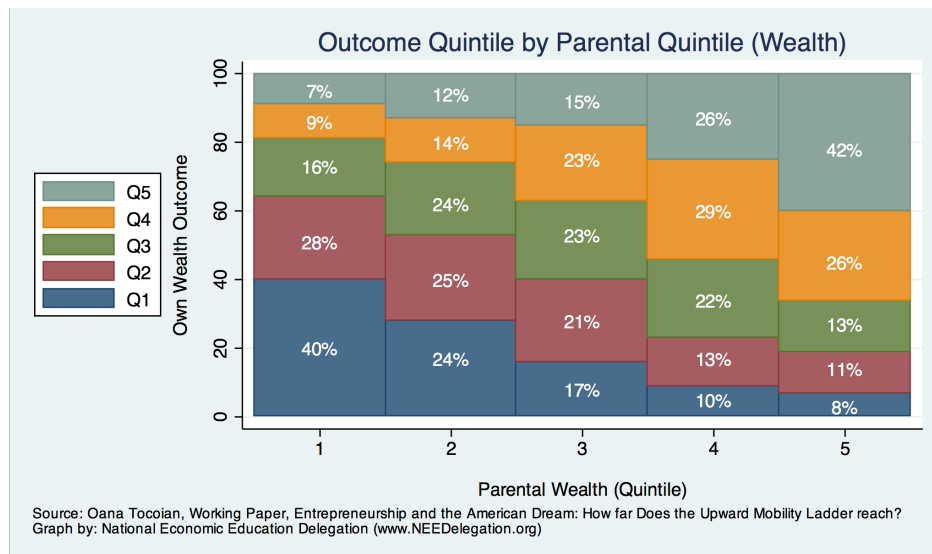
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Kids – Household Types



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Initial Endowment



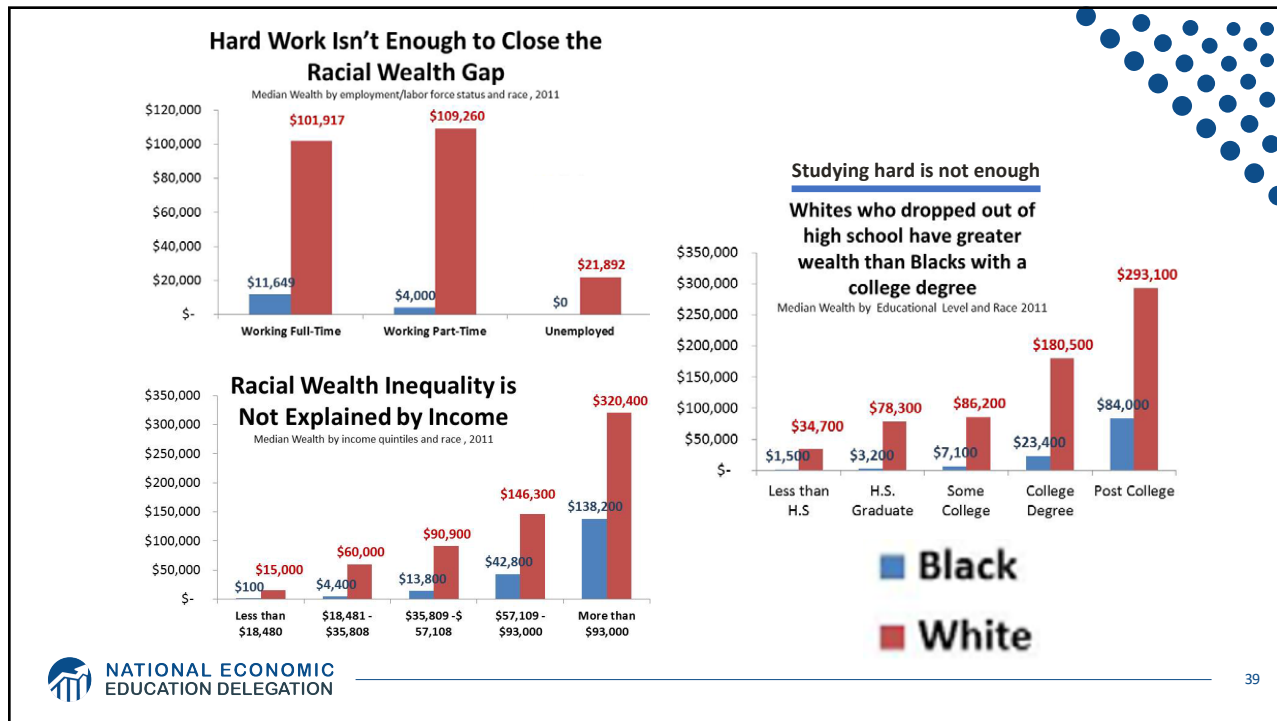
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What is Fundamentally Responsible?

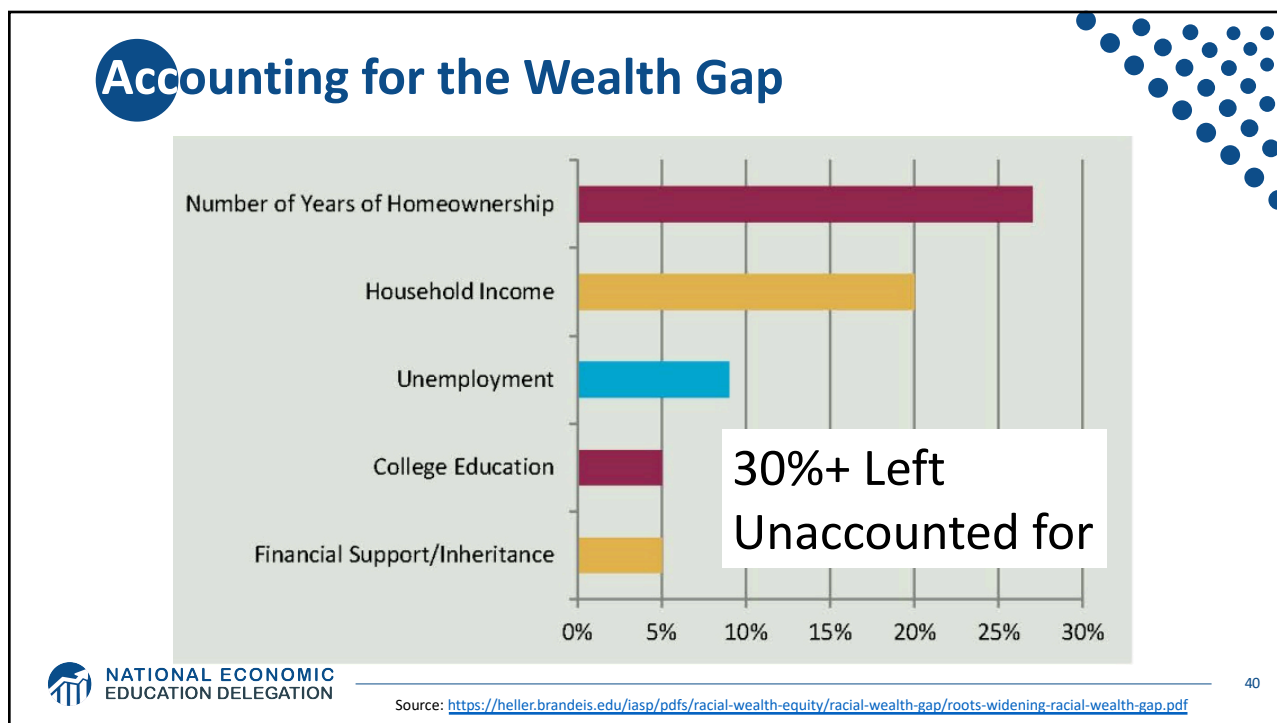
- Individual behaviors?
- Structural characteristics of the economy?
- History – policy and otherwise?



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Policy Options



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Categories of Policy Areas

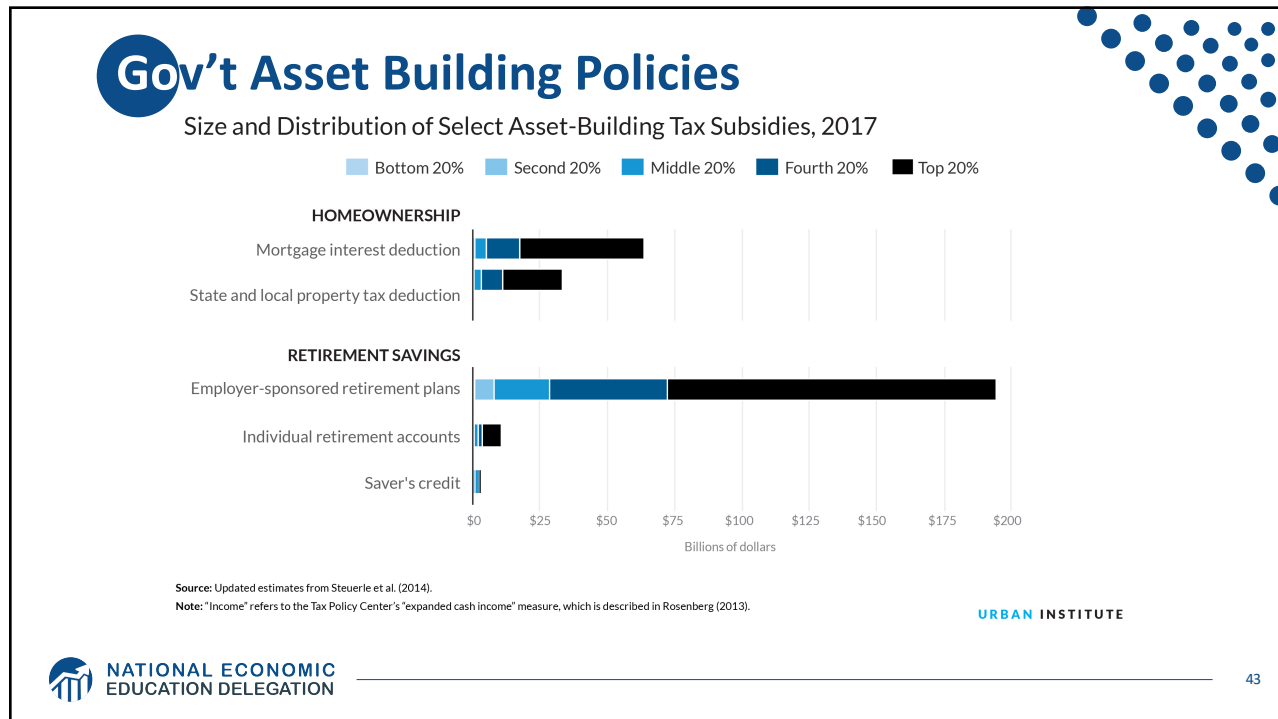
- **Housing**
 - FHA and redlining
- **Health Care**
- **Incarceration**
 - Black incarceration rates are very high.
- **Transportation**
 - Interstate system
- **Broadband**
 - Access is inversely related to regional income
- **Education**
- **Workforce**
- **Income support and stability**
- **Asset 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.
 - 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

- **Assertion: Marshalling the enormous purchasing power of the Black community will drive progress.**
 - More than \$1.3 trillion in buying power.*
- **Assertion: Banking is a source of wealth creation.**
 - Combining the wealth of Black Americans in Black banks could be a source of wealth creation.
- **Problem: Multipliers are short circuited.**



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* Source: <https://www.newswise.com/articles/minority-markets-have-3-9-trillion-buying-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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Thank you!

Any Questions?

www.NEEDelegation.org

Jon Haveman, Ph.D.

Jon@NEEDelegation.org

Contact NEED: info@needelegation.org

Submit a testimonial: www.NEEDelegation.org/testimonials.php

Become a Friend of NEED: www.NEEDelegation.org/friend.php



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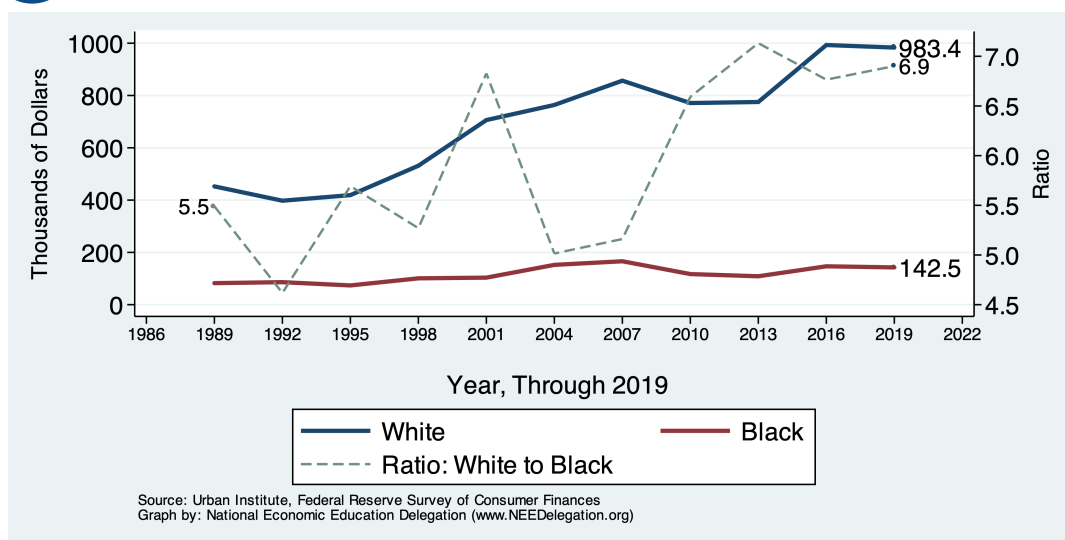
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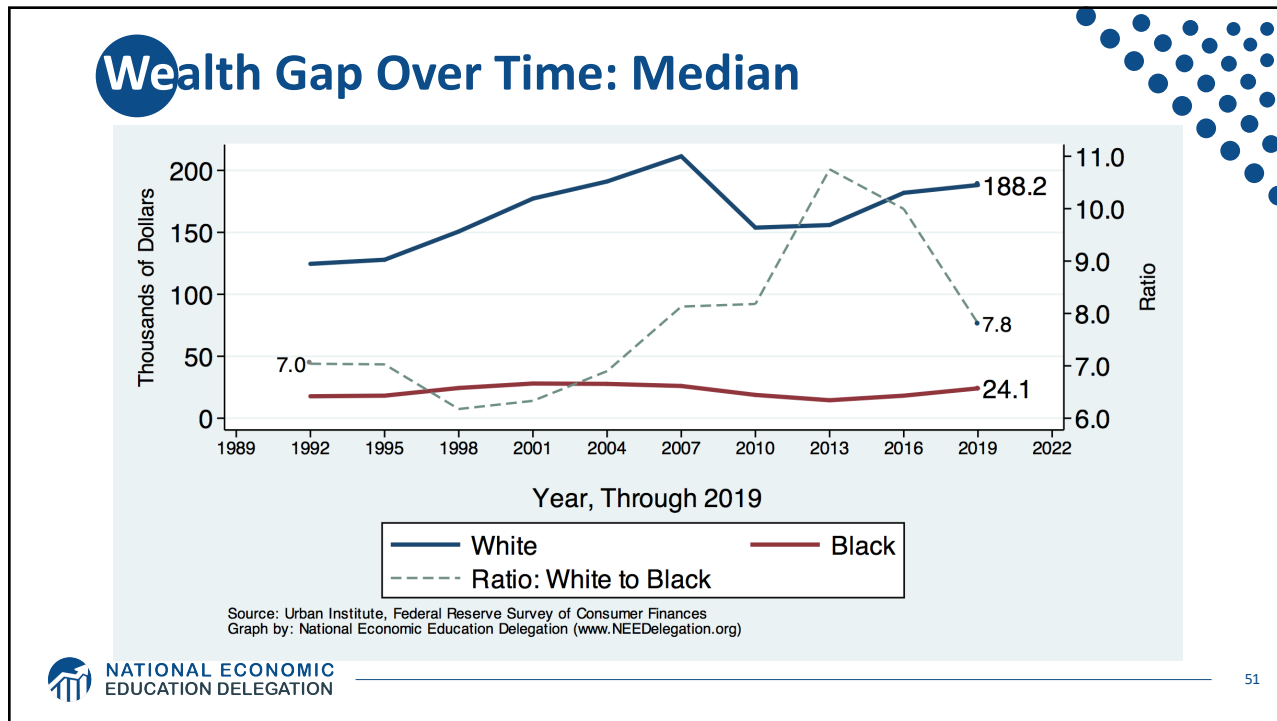
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Wealth Disparities, 2019

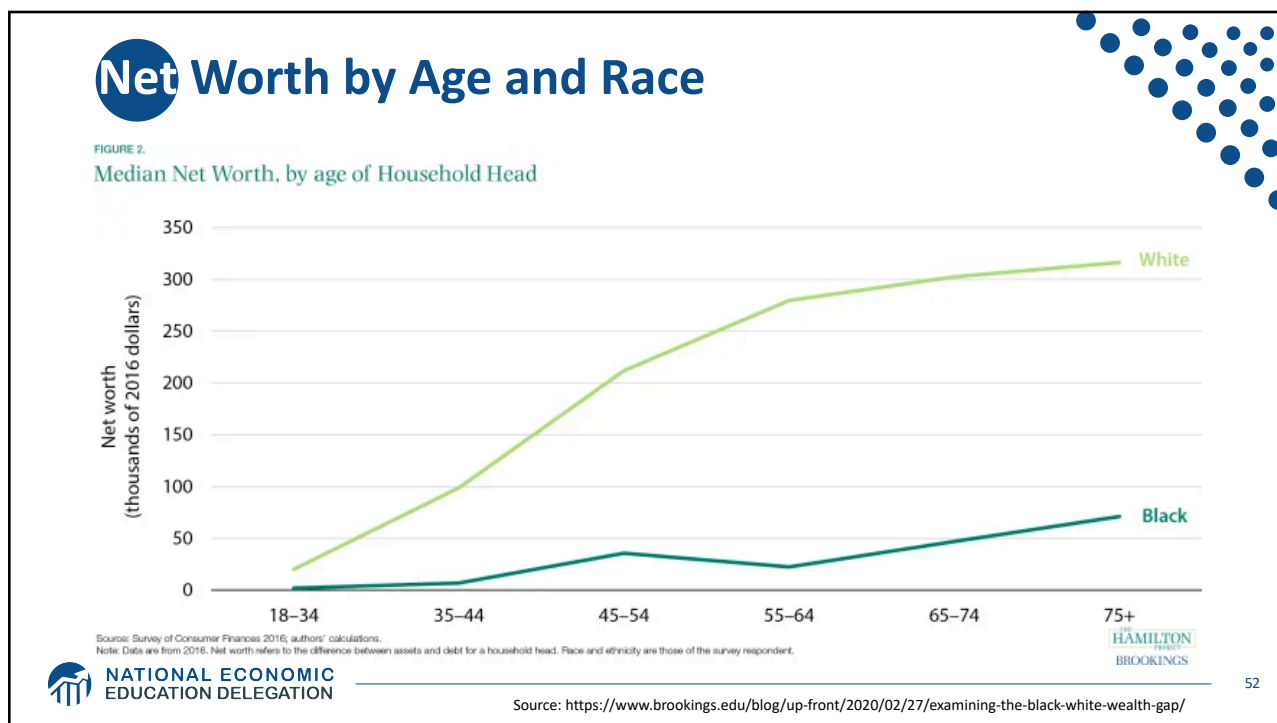
Race/Ethnicity	Mean Wealth	Share of Families	Share of Wealth	Ratio of Shares
White, non-Hispanic	983.4	64.9	94.6	1.5
Black, non-Hispanic	142.5	14.2	3.0	0.2
Hispanic or Latino	165.5	9.6	2.4	0.2
Other or Multiple Race	657.2	11.3	11.0	1.0

Wealth Gap Over Time: Mean





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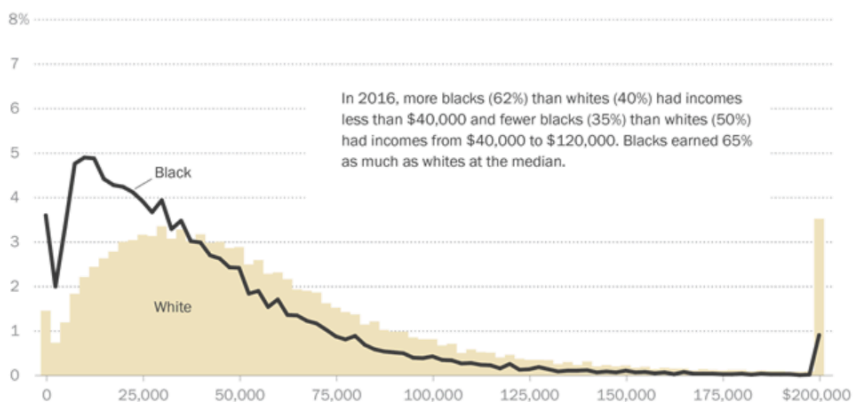
Educational Attainment: Policy

• 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

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**



Soft Skills and Personal Responsibility

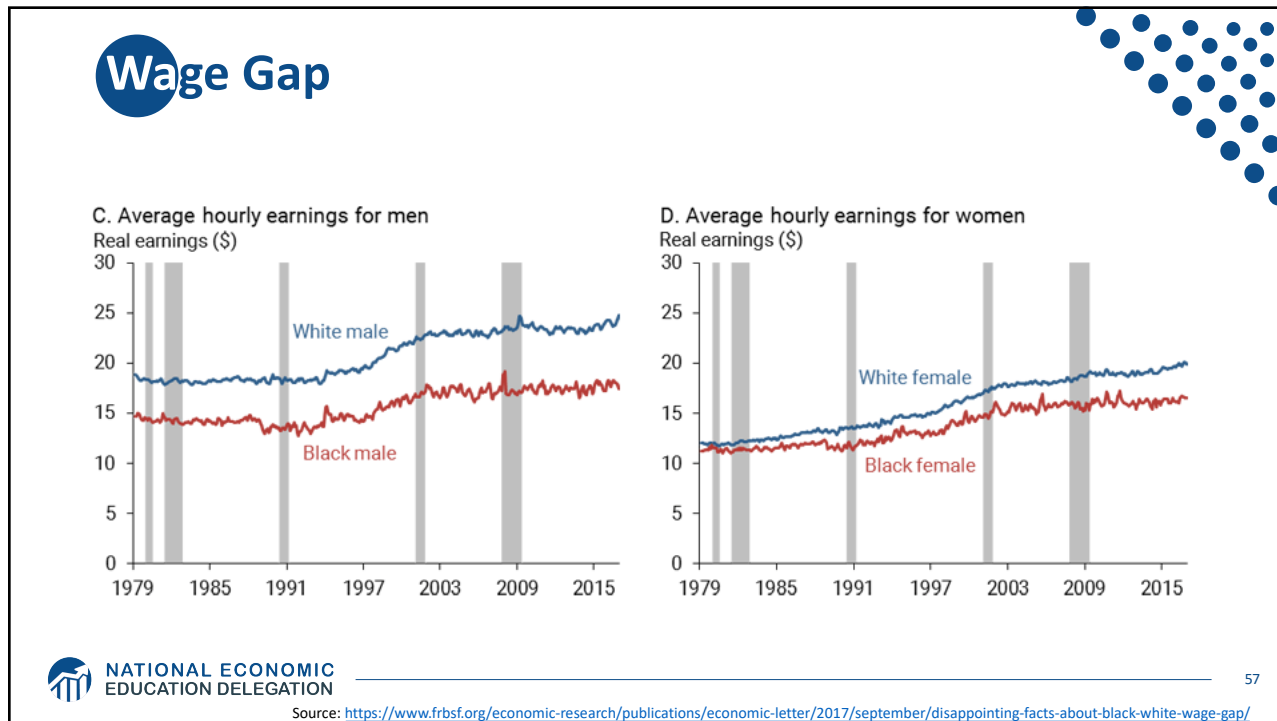
- **Employability**

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

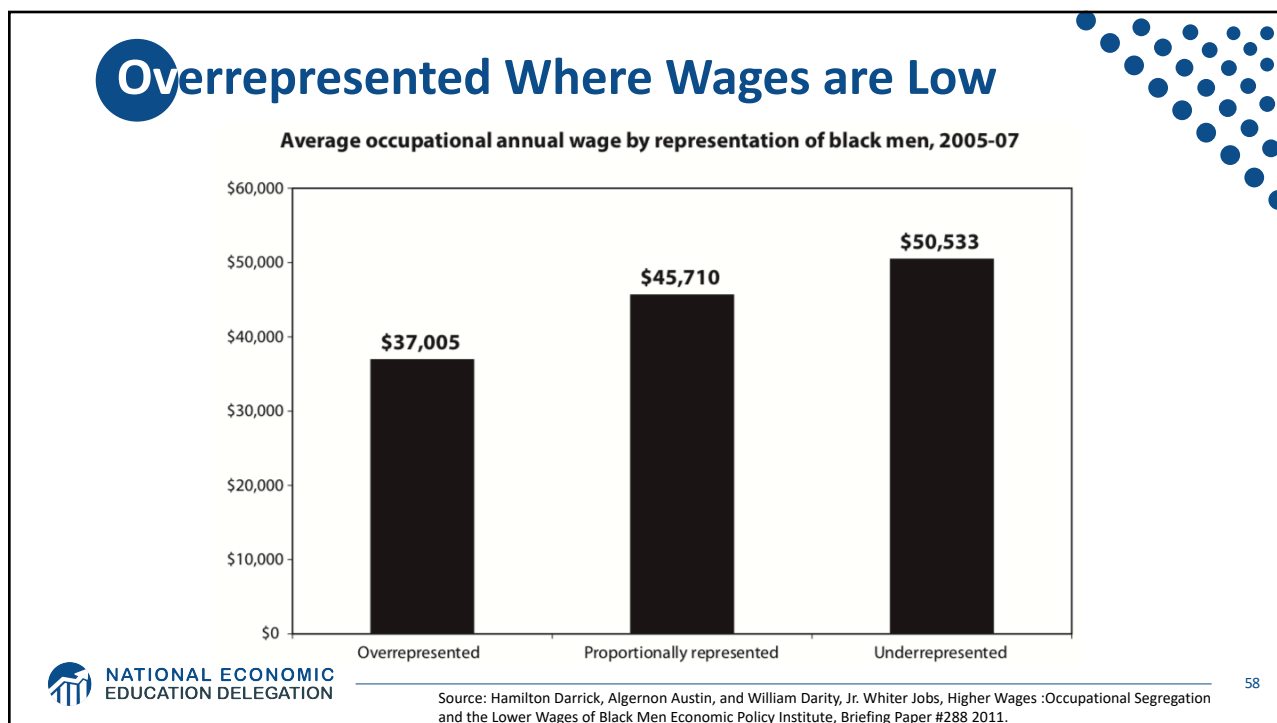
- **Reality**

- 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.

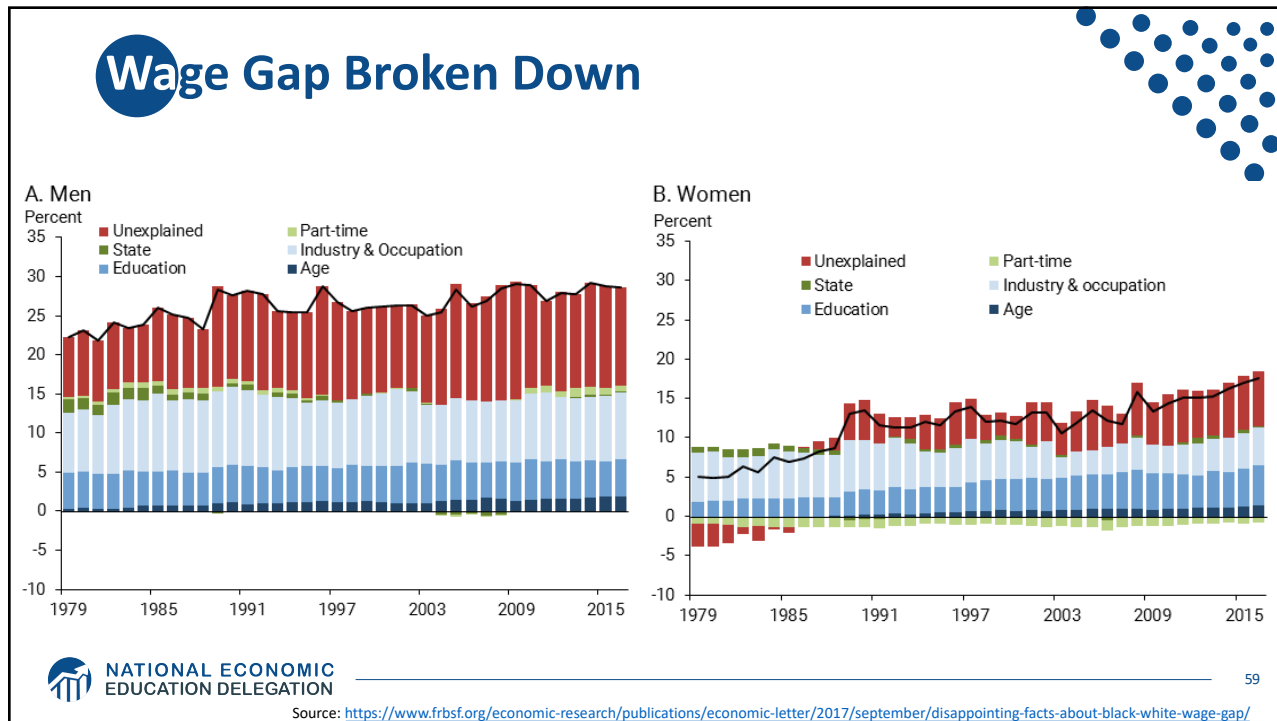




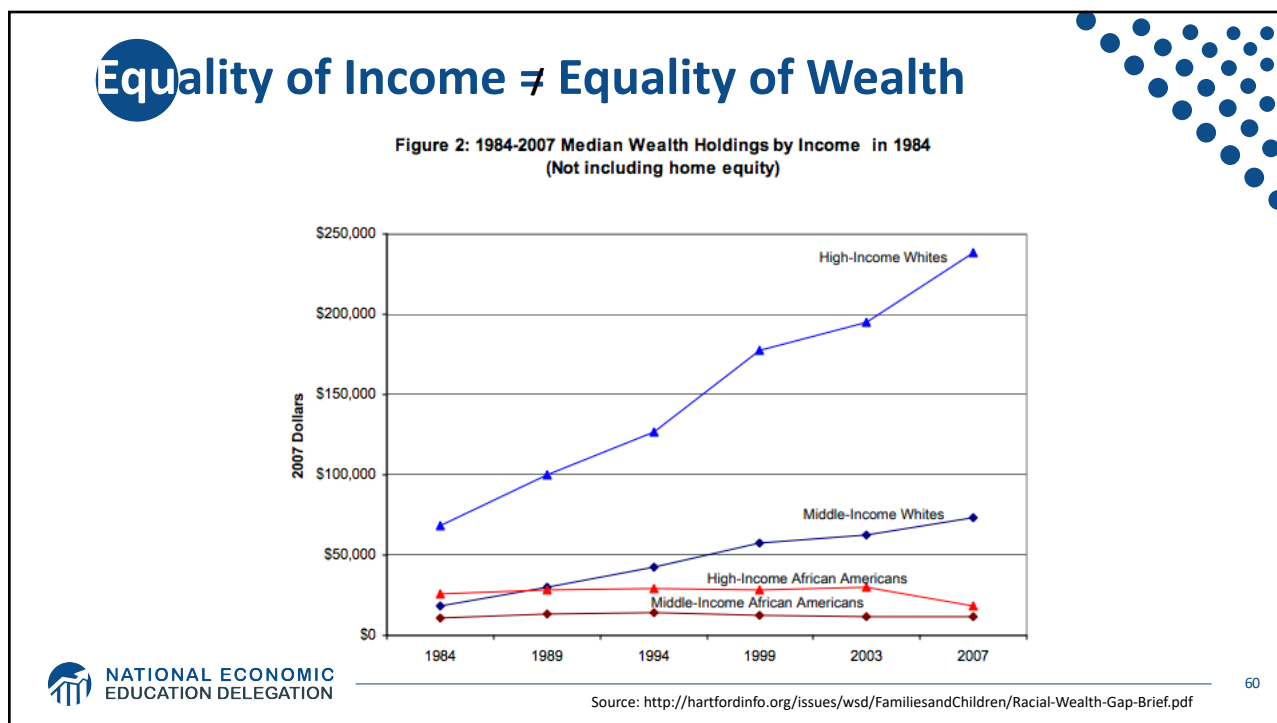
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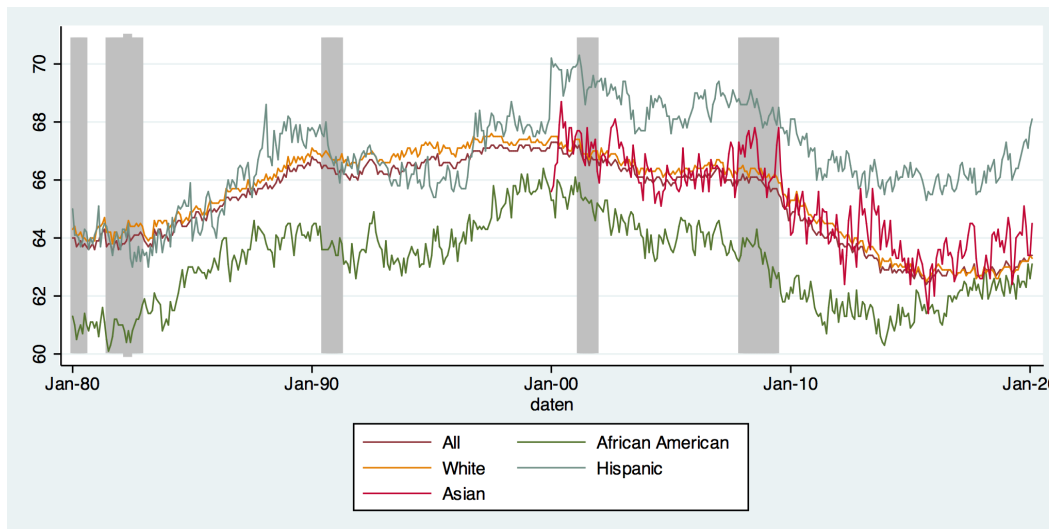


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Labor Force Participation



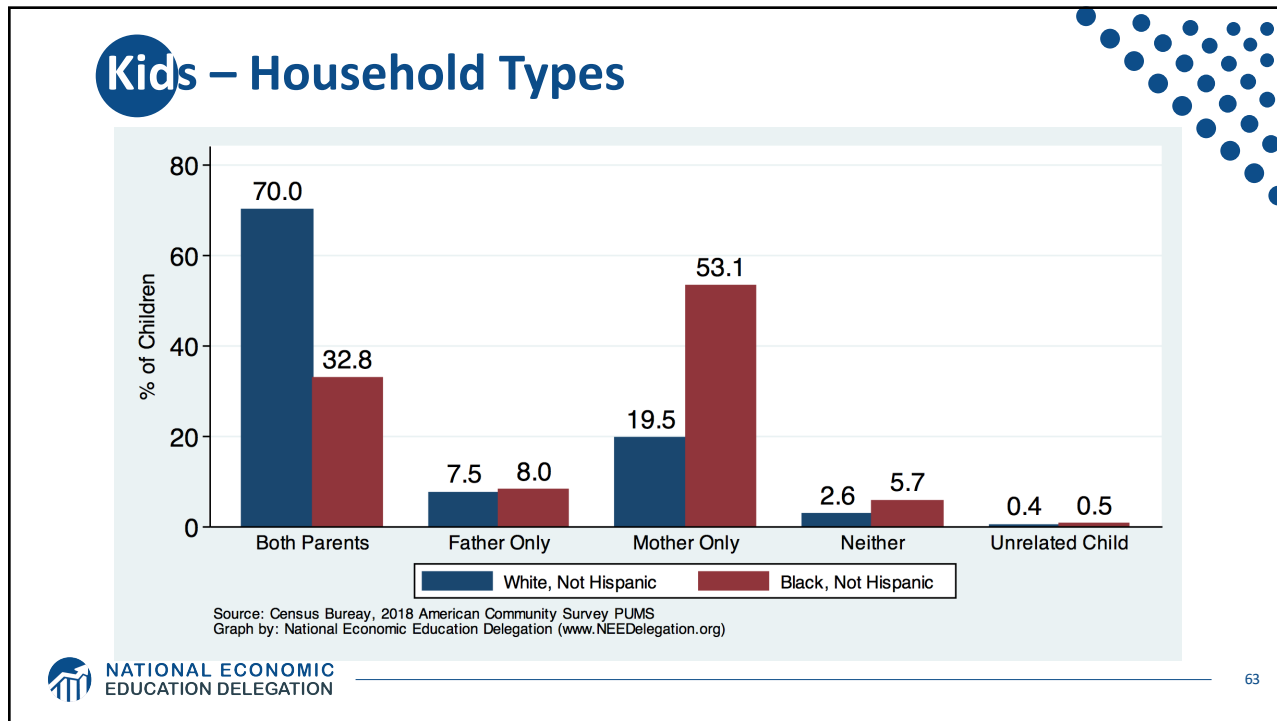
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The Nature of Wealth Holdings

- **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%	98%	88%	11%	25%	86%	80%	58%	31%
Black	79%	42%	71%	2%	12%	62%	55%	32%	9%

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 into 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....
- **This is how wealth is created in the banking system.**

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 go now 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.**

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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.
- **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.**

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