



The Black-White Wealth Gap

Fidelity
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Jon Haveman, Ph.D.
Executive Director, NEED



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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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Who Are We?

- **Honorary Board: 54 members**

- 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: 590+ 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: 45 Ph.D. Economists**

- Aid in slide deck development

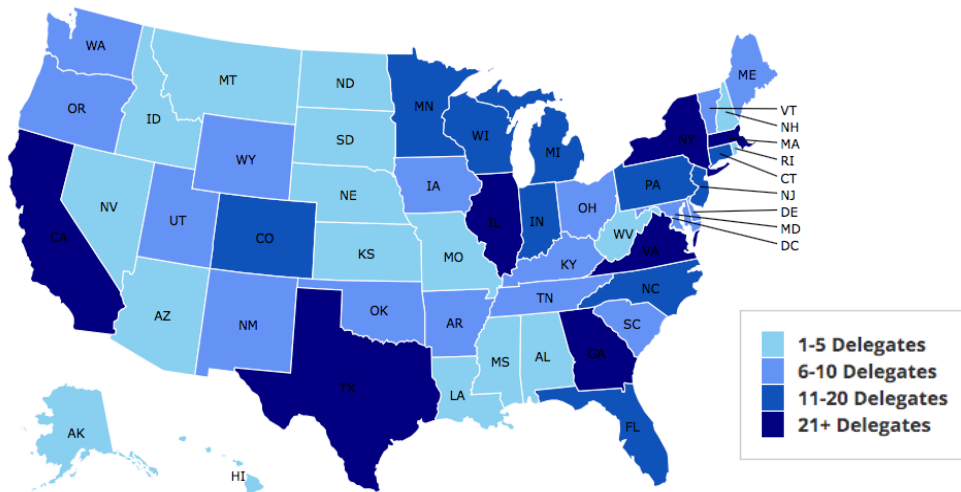


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Where Are We?



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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**
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 - It is, however, inevitable that the presenter will be asked for and will provide their own views.
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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.**
 - o The value of all assets minus the value of all debts.

- **Assets include:**

- Owned homes, cars, stocks, businesses, savings and checking accounts, pensions, life insurance...

- **Debts include:**

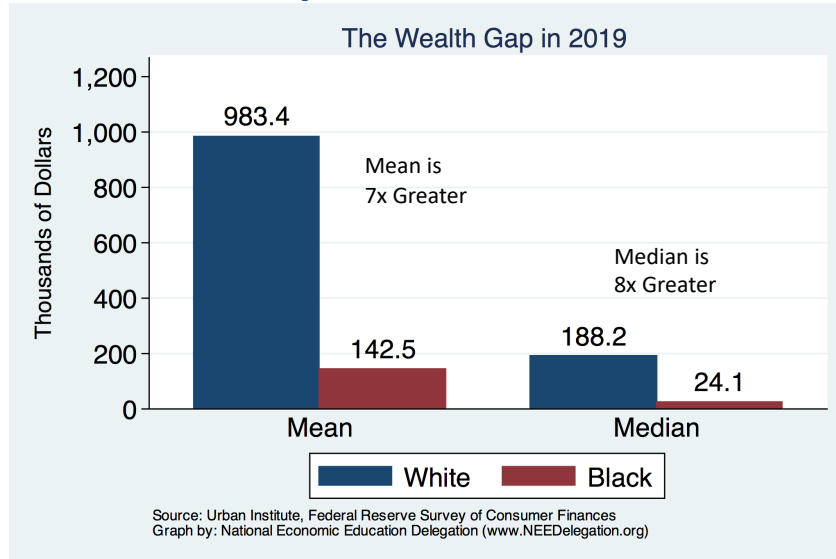
- Home mortgages, car loans, credit cards, and any other significant financial obligations (excl regular bills)...

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Evidence

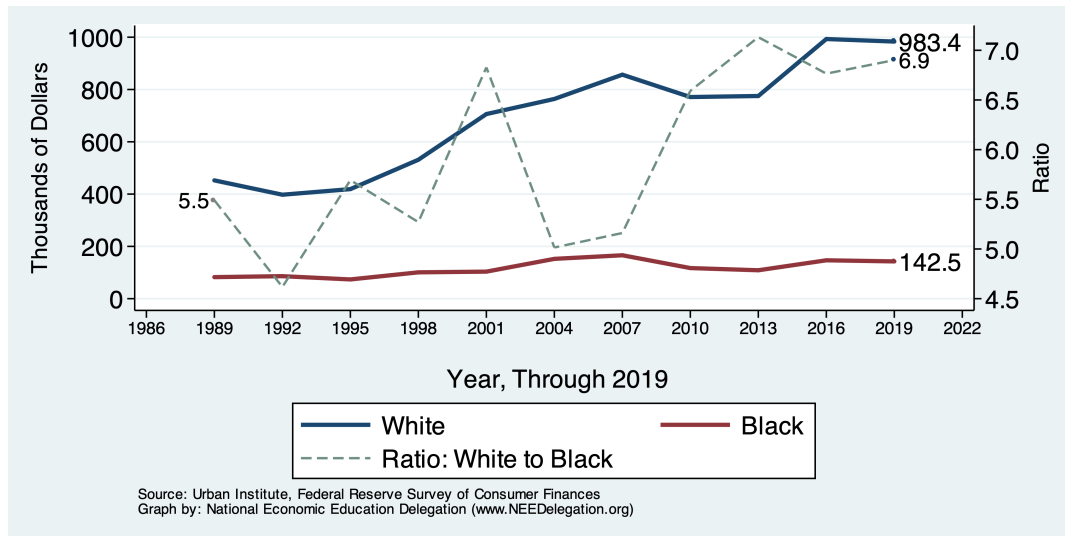
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Evidence of the Gap



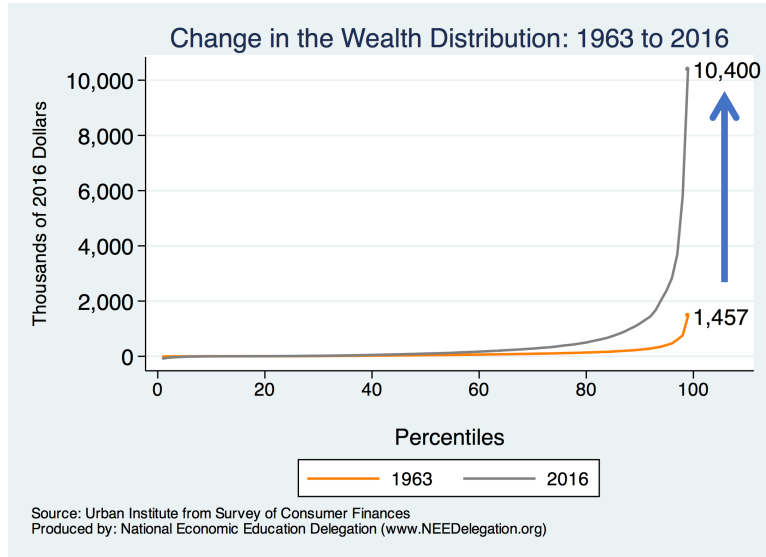
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Wealth Gap Over Time: Mean



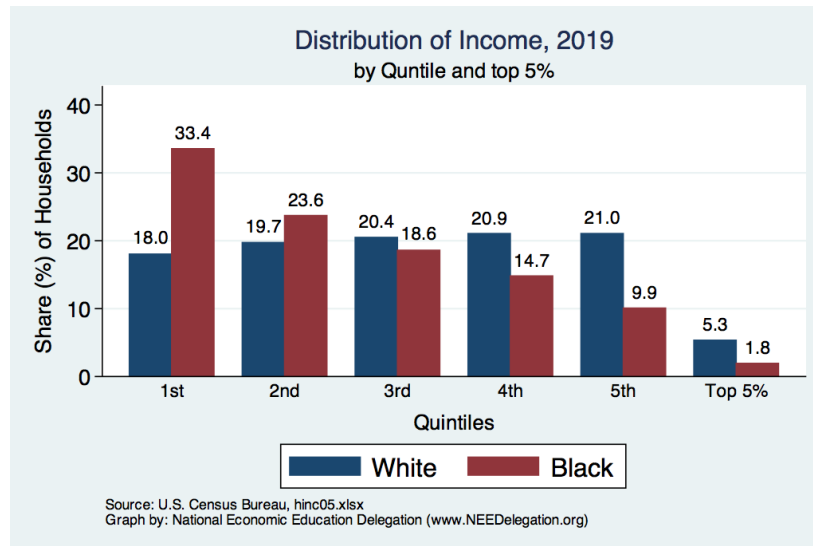
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Wealth is More and More Concentrated

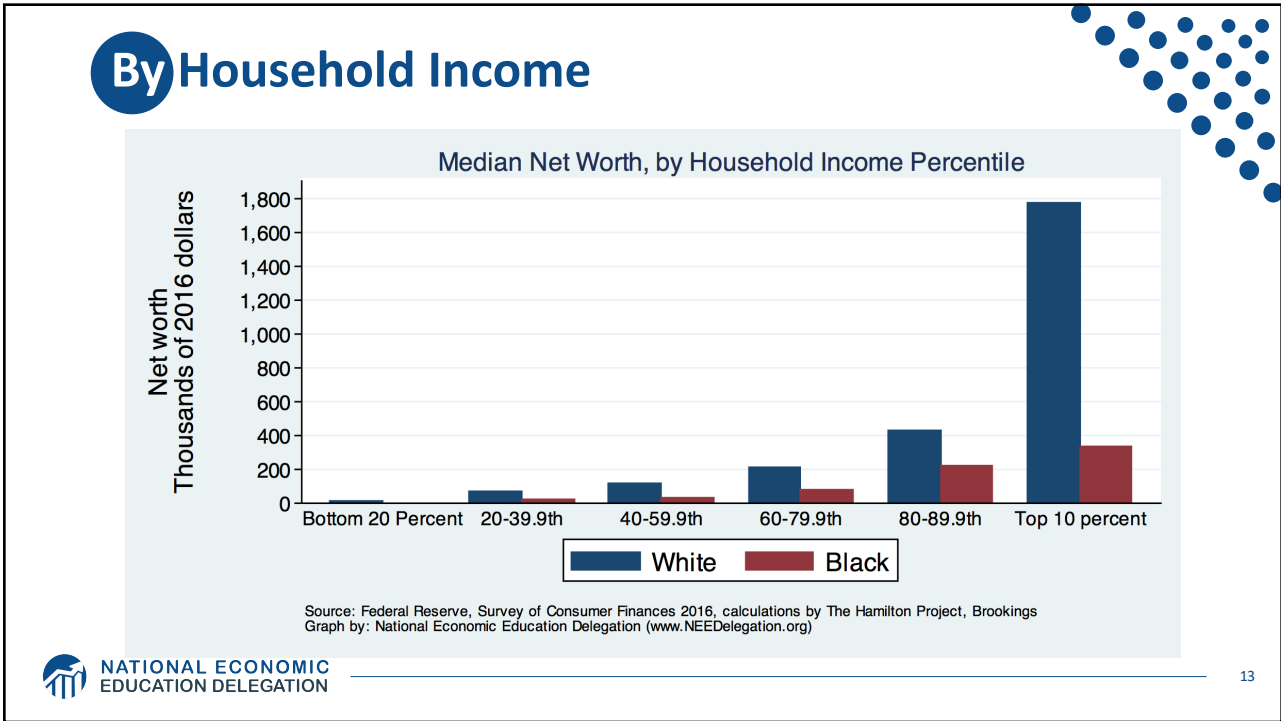


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Black Household Incomes Relative to White



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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
 - 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.



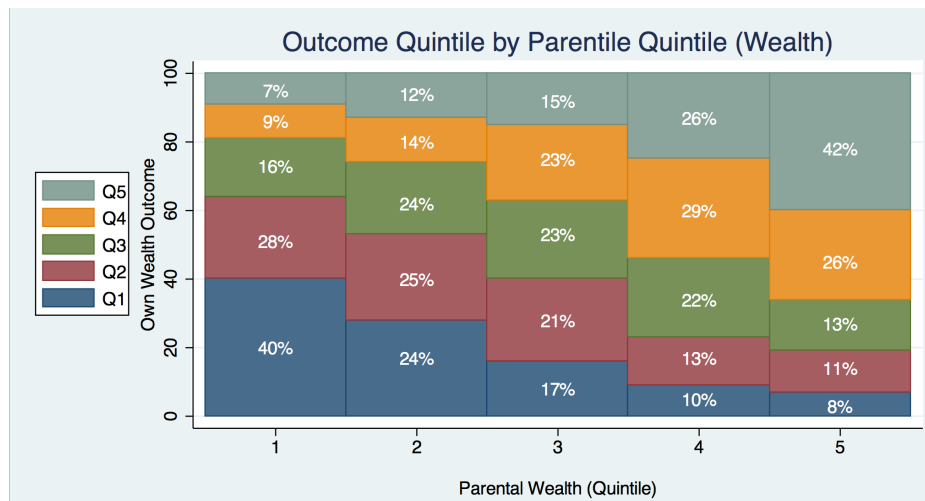
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Parental Wealth is Important

- **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



Source: Oana Tocoian, Working Paper, Entrepreneurship and the American Dream: How far Does the Upward Mobility Graph by: National Economic Education Delegation (www.NEEDelegation.org)

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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
- 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.***



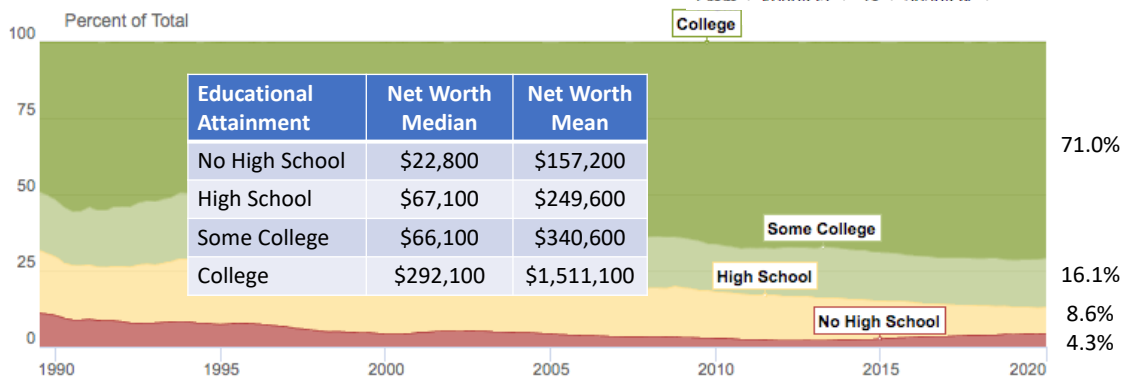
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Potential Explanations: Differences in...

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

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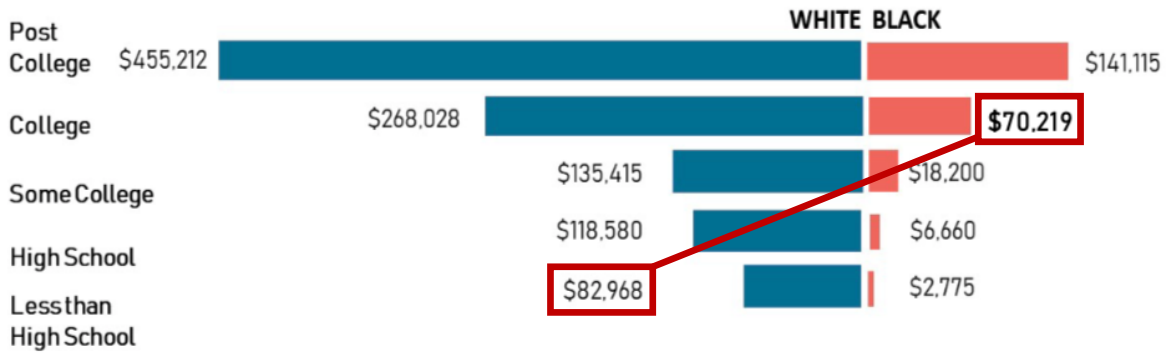
Wealth by Educational Attainment



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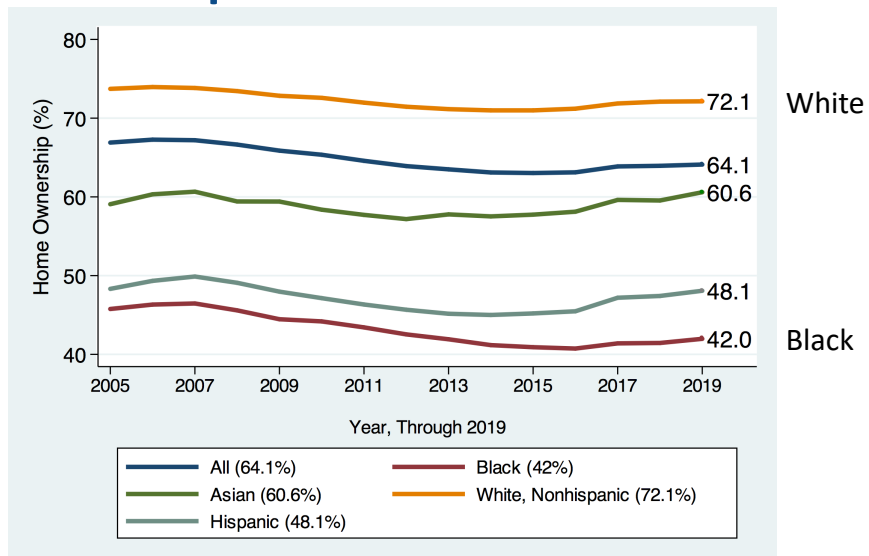
Educational Attainment

Median Household Net Worth by Race and Education

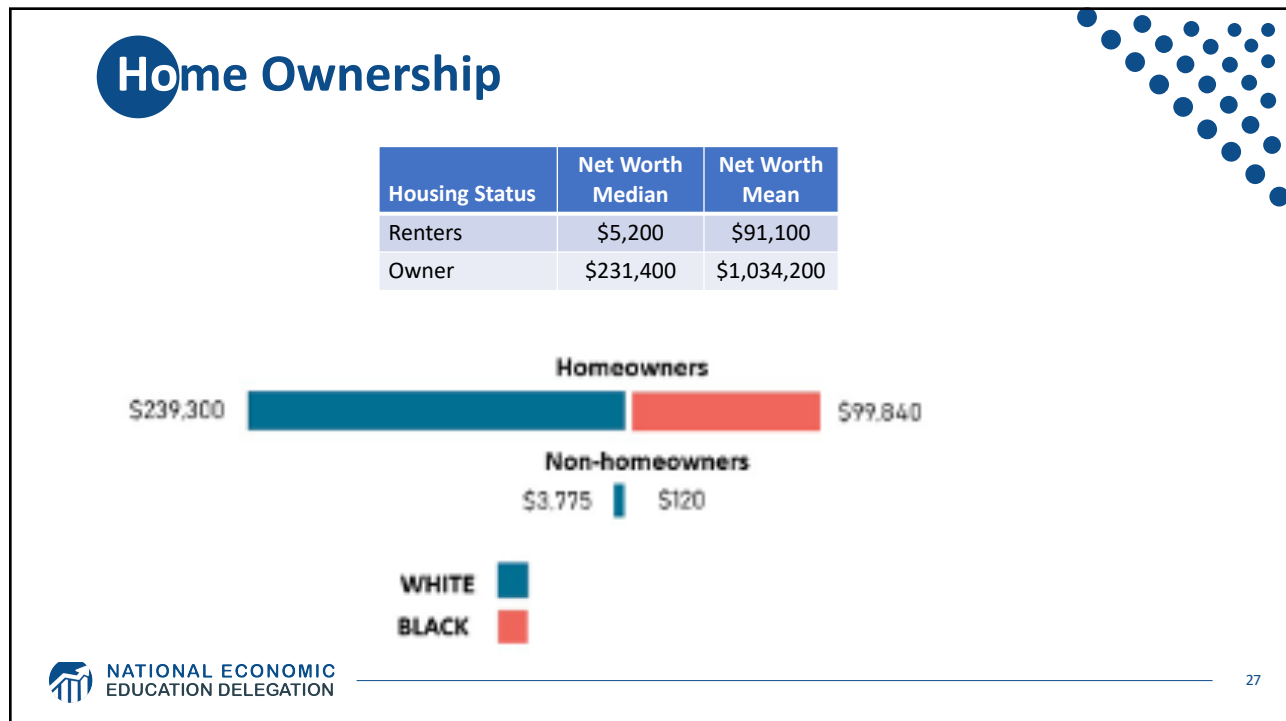


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Home Ownership: Households



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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 (often by income).**
- **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.
- **Do White investors have a greater tolerance for risk?**
 - Controlling for income, this is not clear.
 - Access to and tolerance for higher risk investments is clearly correlated with income.



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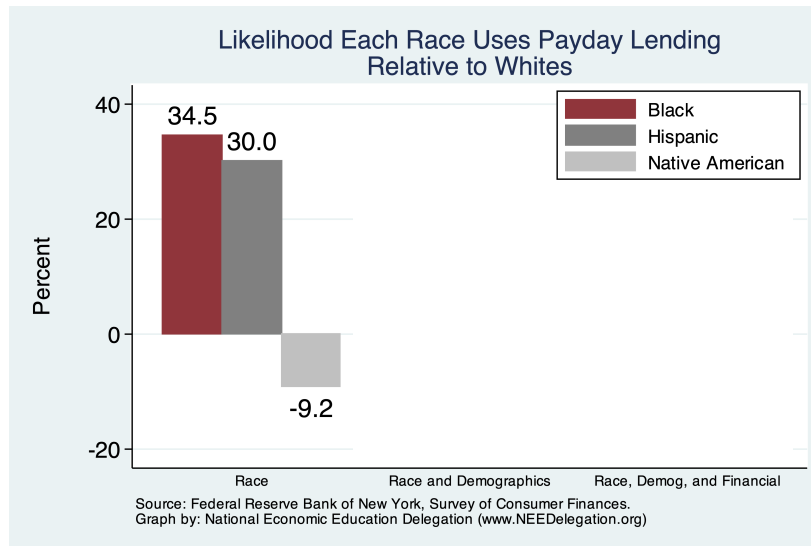
Financial Literacy

- **Financial literacy helps explain individual wealth differences within racial groups, but NONE of the wealth differences between racial groups.**
 - 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.**

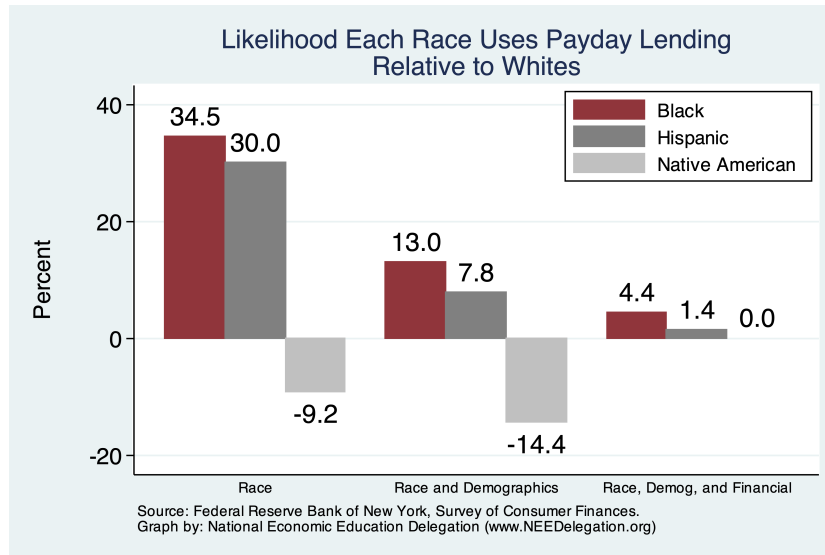
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Use of Payday Lenders



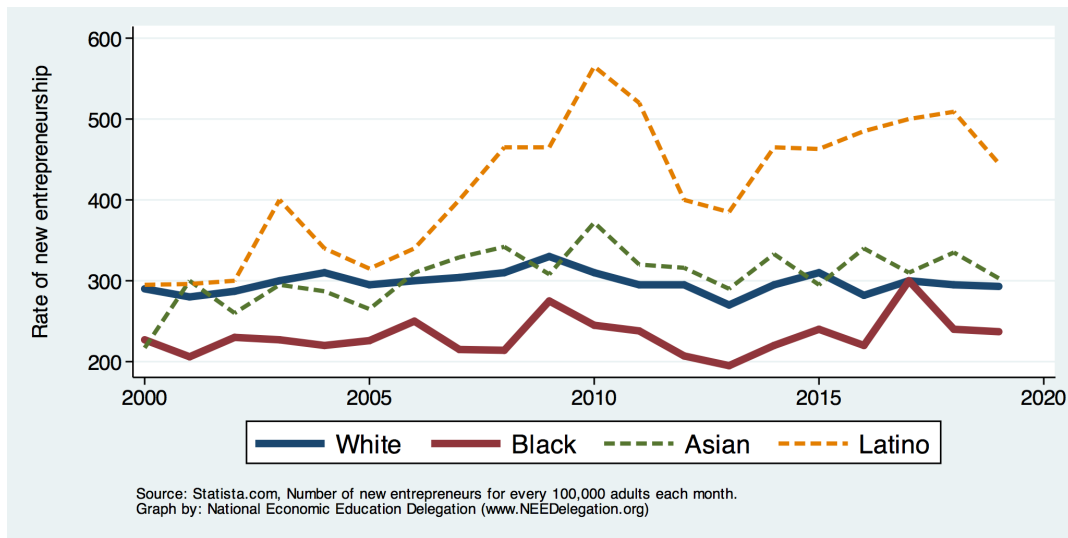
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Use of Payday Lenders



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Entrepreneurship: Rate of New Entrepreneurs



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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 int rates and more likely to be declined.
- Less access to venture funds.

- **Generally lower levels of education.**

- **Previous business ownership by family.**

- **Different stocks of relevant social capital.**



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Soft Skills and Personal Responsibility

- **Employability**

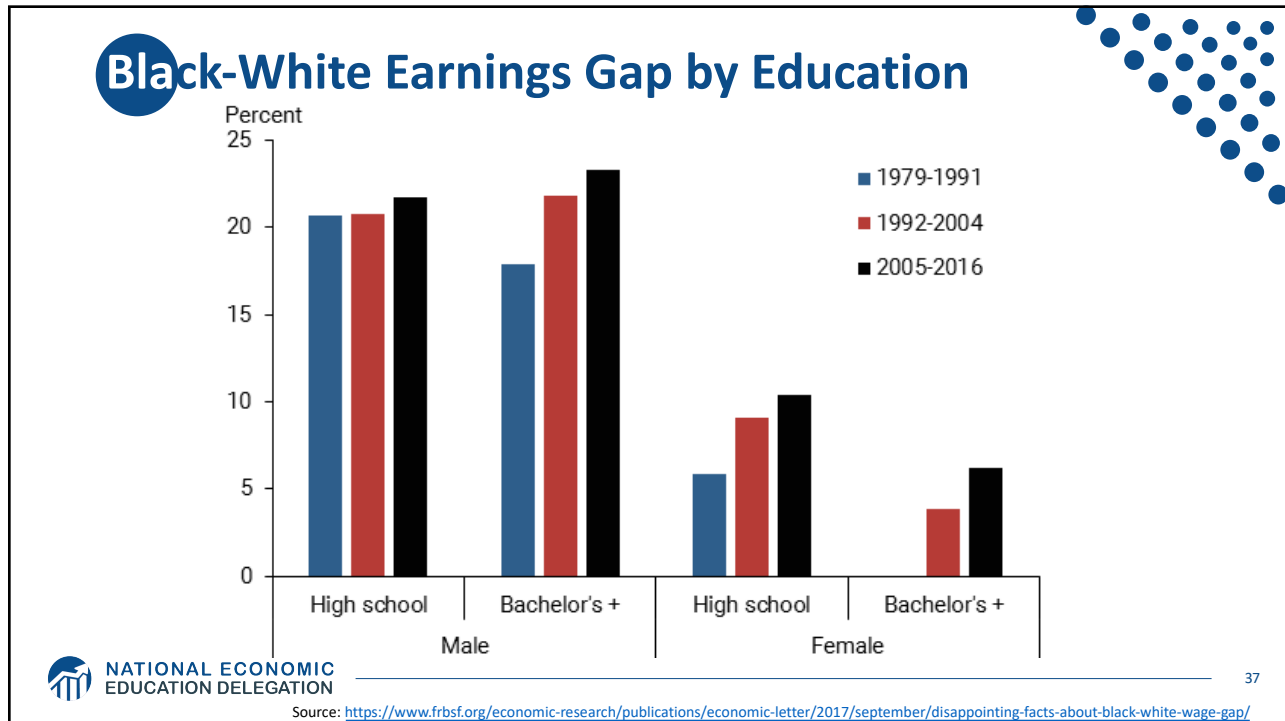
- Show up on time
- Eye contact with customers
- Dress well
- Collaborative skills

- **Reality**

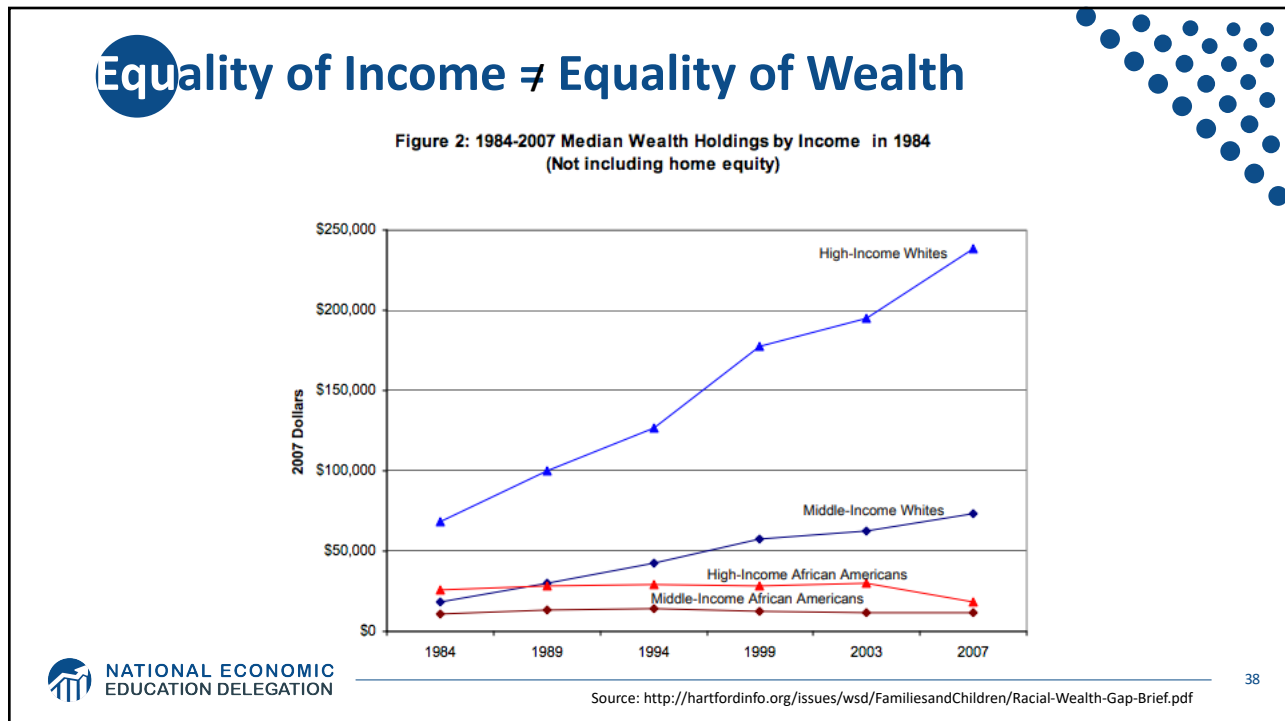
- Black workers are crowded into service sector jobs.
- Well represented in service, sales and office, and production, transportation, and material moving
- Relatively less well represented in construction, extraction, and maintenance.



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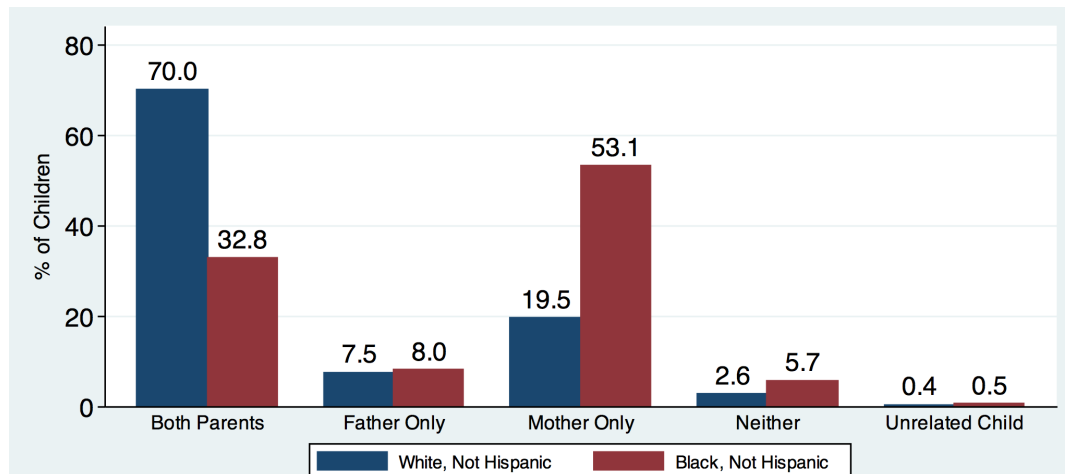
Family Structure

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



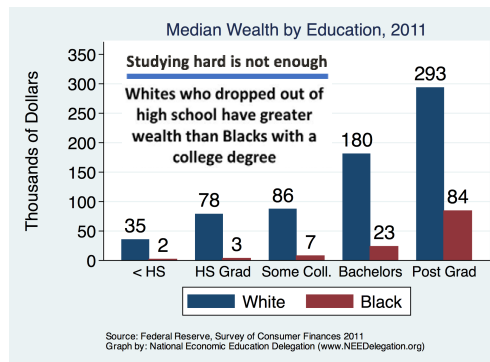
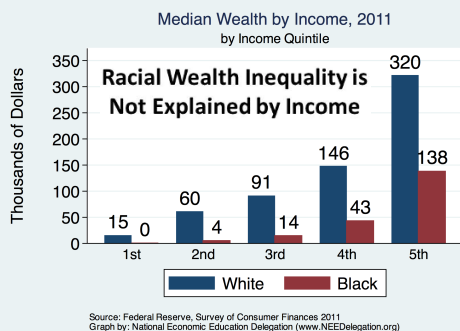
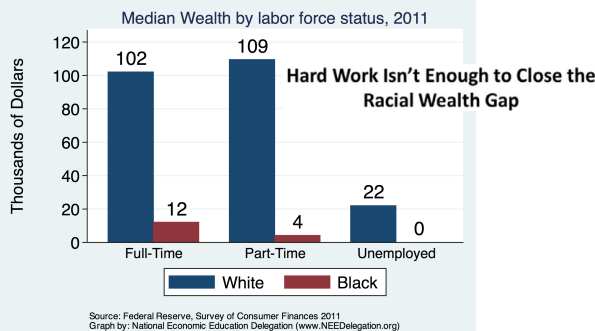
Source: Census Bureau, 2018 American Community Survey PUMS
Graph by: National Economic Education Delegation (www.NEEDelegation.org)

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What is Fundamentally Responsible?

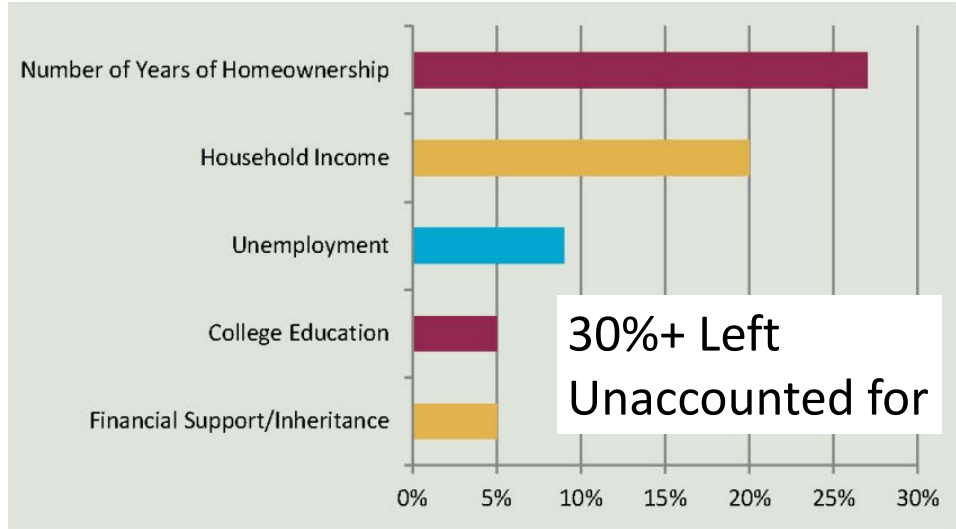
- Individual behaviors?
- Structural characteristics of the economy?
- History – policy and otherwise?

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Accounting for the Wealth Gap



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Policy Options

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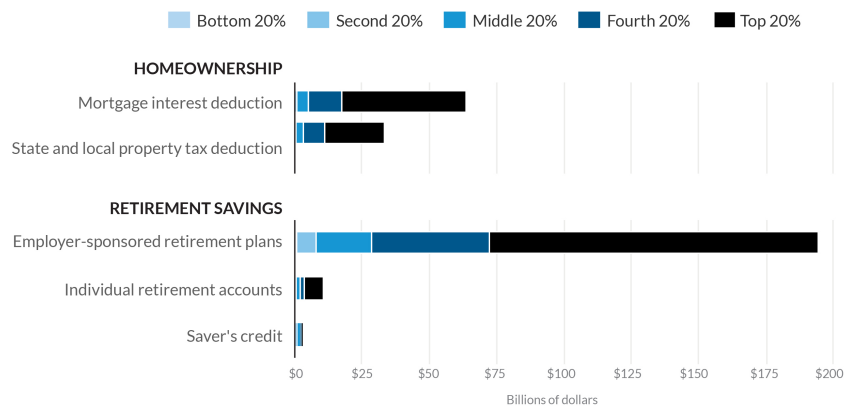
Categories of Policy Areas

- **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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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).

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Policy Options

- **Global solutions that affect all source areas**
 - Child Trust Accounts – “Baby Bonds”
 - Guaranteed minimum income
- **Addressing racial disparities directly**
 - Reparations
 - Aggressive affirmative action.
 - A new Homestead Act.
 - Heavily investing in Black communities.
 - Labor and other laws that address discrimination
 - Enforce more aggressively and make adjustments where necessary to increase efficacy.
 - Fundamental reorientation of asset building agenda.



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More Specific 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

- **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.

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

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 to this gap.**
 - Racial dehumanizing permitted these policies.
- **Wealth endowments (parental wealth) are very important for determining own wealth in adulthood.**
 - Policies that address this relationship are most likely to be effective.
- **Policy intervention is likely necessary to close the gap.**



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Bottom Line

- **Evidence suggests:**
 - **CULTURE** has little to do with it.
 - **ACCESS** to wealth building resources explains a lot.
 - Birth endowment.
 - Other resources (e.g., education and social capital).
 - **History**, policy and otherwise, and current structural issues influence access.



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Thank you!

Any Questions?

www.NEEDelegation.org
Jon Haveman
Jon@NEEDelegation.org

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- Federal Budgets
- Federal Debt
- The Black-White Wealth Gap
- Autonomous Vehicles

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