

The Black-White Wealth Gap

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Outline

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



What is Wealth?

- **Income vs Wealth**

- Income is the flow of funds into a household 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:**

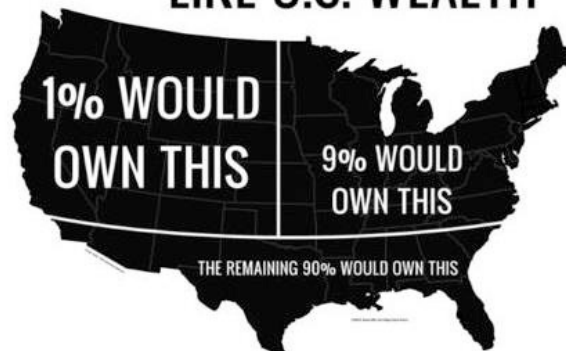
- Home mortgages, car loans, credit cards, and any other significant financial obligations (excl regular bills)...



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Wealth inequality in America

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

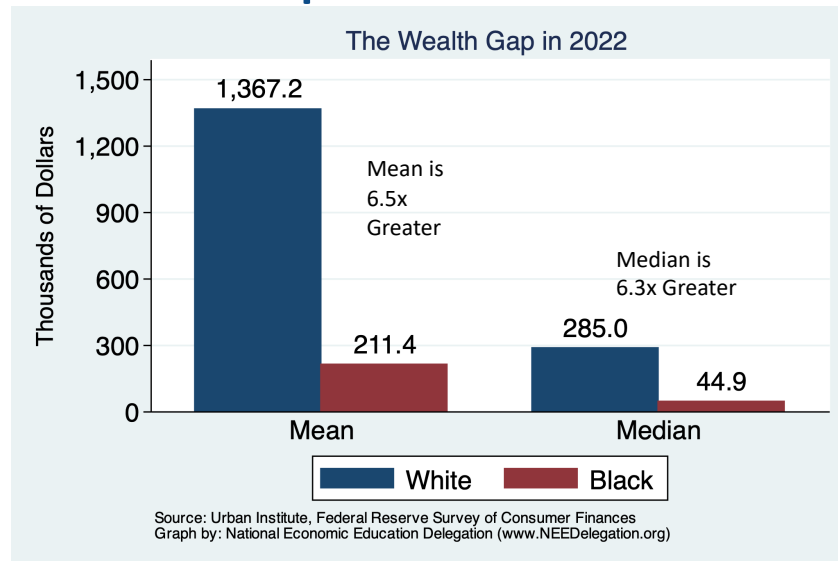


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Black-White Wealth Gap

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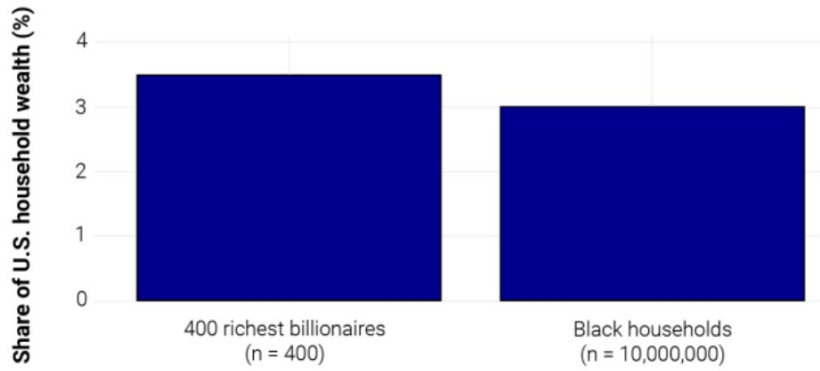
Evidence of the Gap



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More Concretely...

Figure 2: Shares of U.S. household wealth, Forbes 400 and Black households

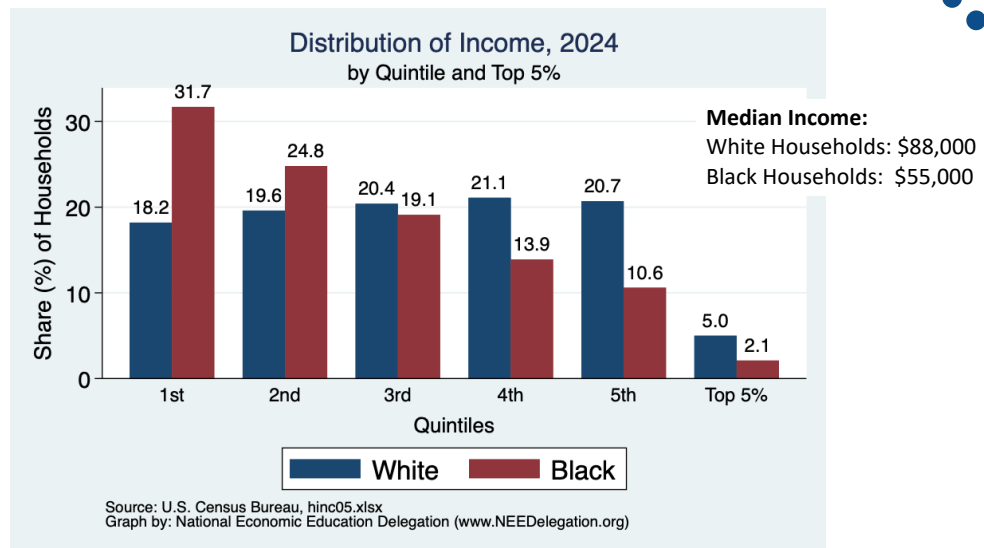


Source: Saez and Zucman 2019; Darity and Mullen 2020.

BROOKINGS

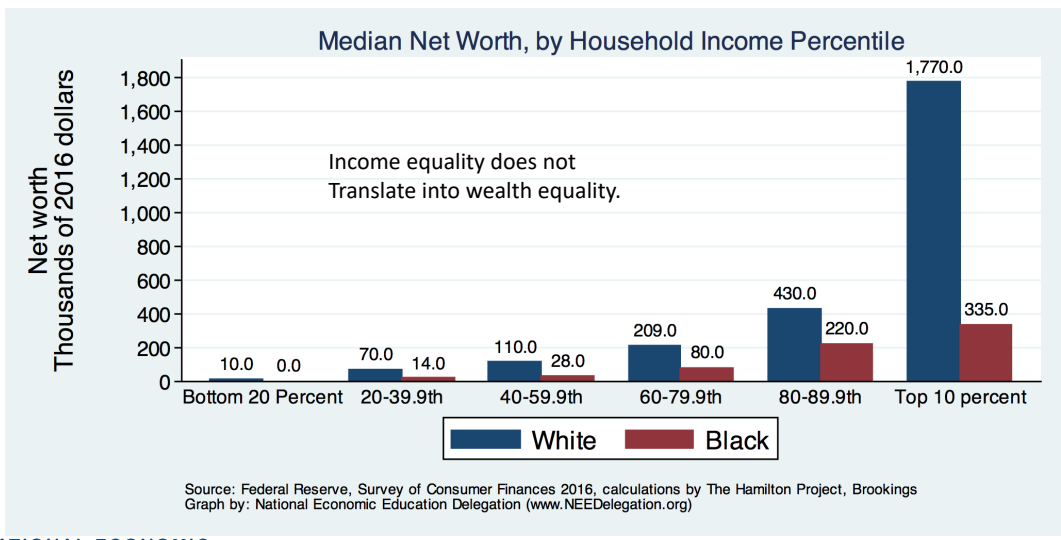
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Black Household Incomes Relative to White



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By Household Income



Why Wealth is Important

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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Tangible Benefits for the Broader Economy

- More human capital development
- Increased entrepreneurship
- Healthier labor force
- 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.
- **Freedman's Savings 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.**

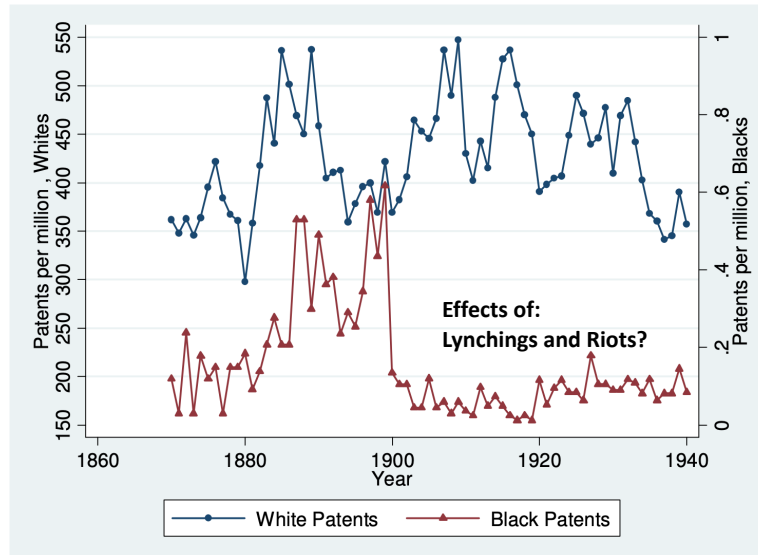


Results for Black Families

- **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.***



Tangible: Effect on Patenting/Innovation



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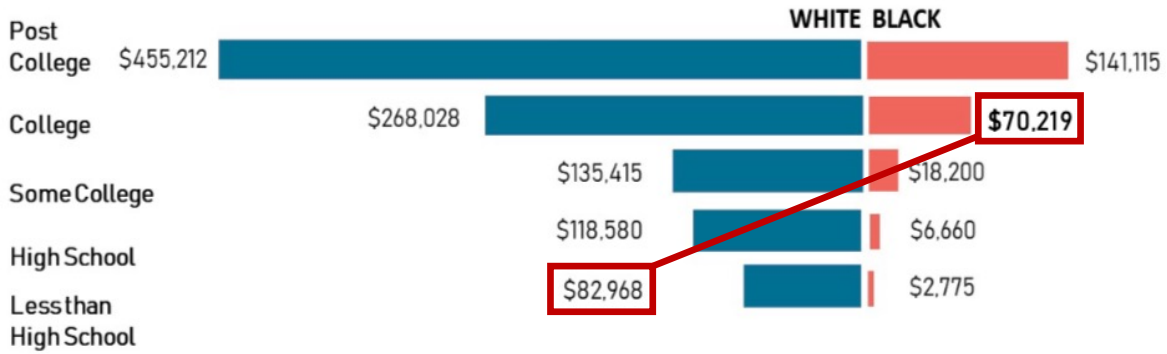
Potential Explanations: Differences in...

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

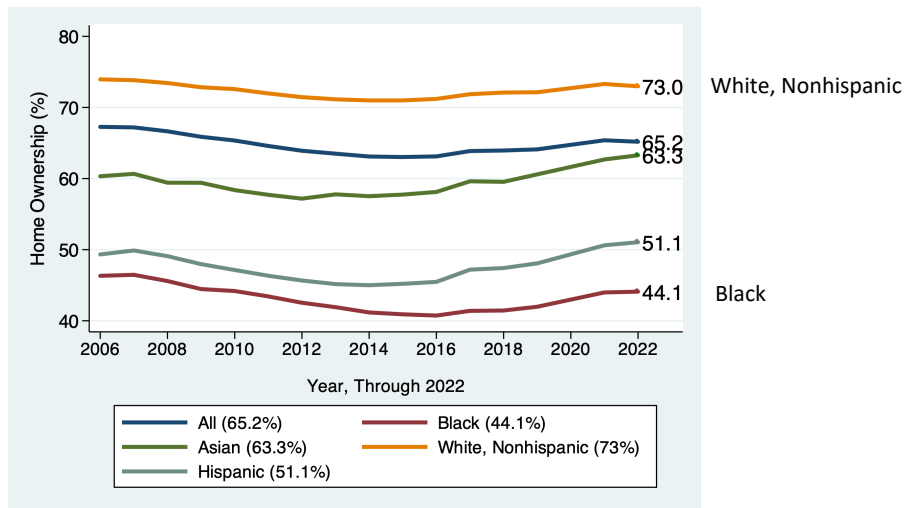
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Educational Attainment

Median Household Net Worth by Race and Education

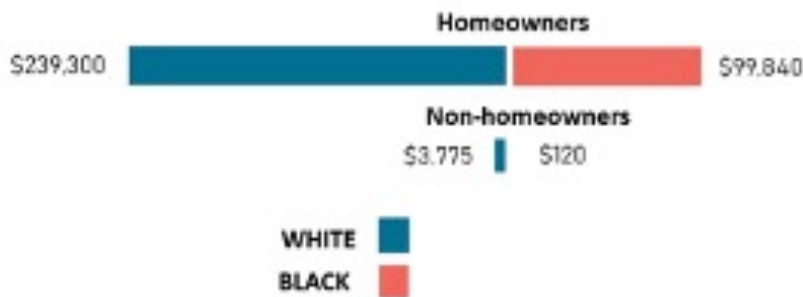


Home Ownership



Home Ownership: 2016

Housing Status	Net Worth Median	Net Worth Mean
Renters	\$5,200	\$91,100
Owner	\$231,400	\$1,034,200



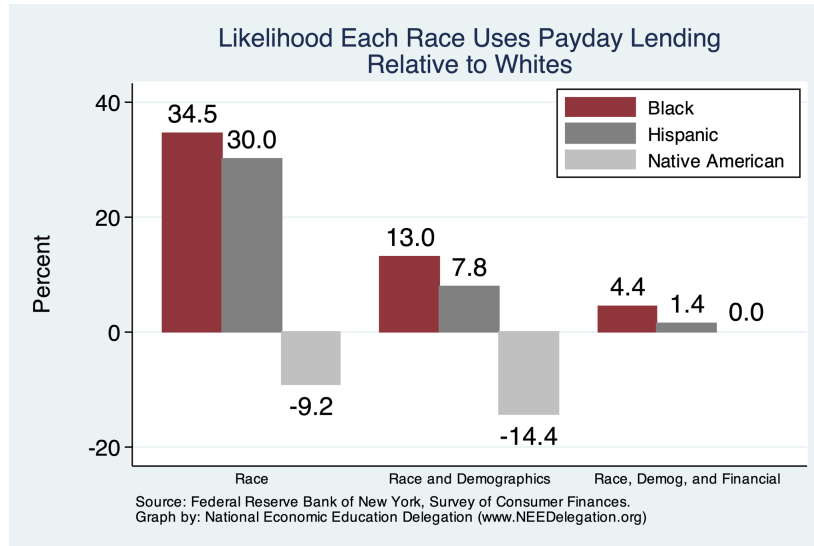
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Financial Literacy

- **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.
 - o 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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Soft Skills and Personal Responsibility

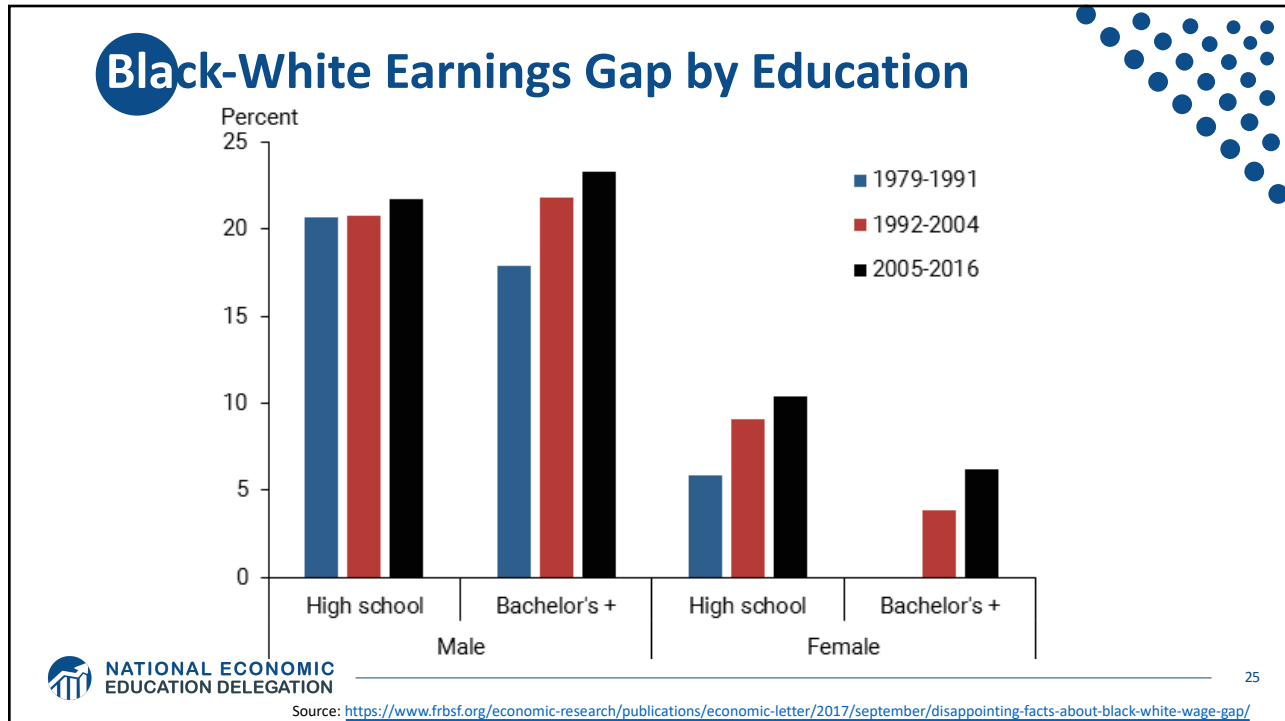
• Employability

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

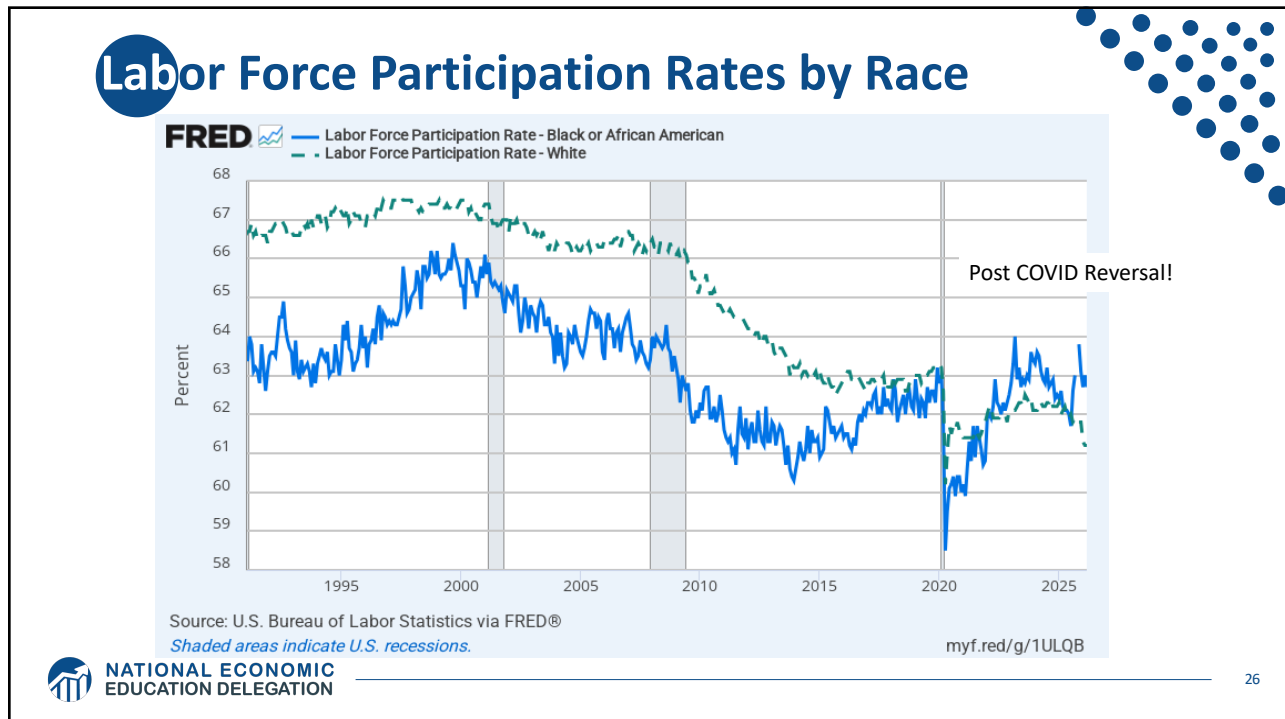
• Reality

- 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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Incarceration Likely Plays A Role



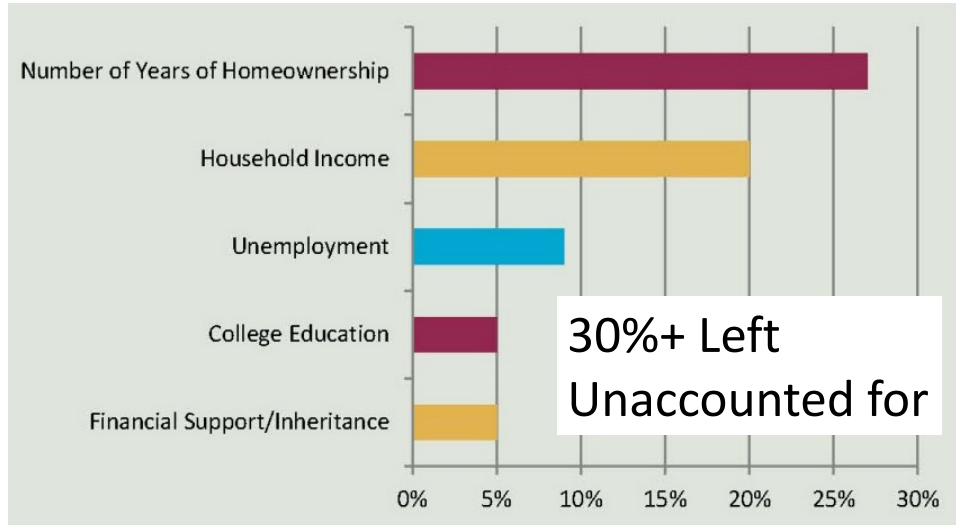
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What is Fundamentally Responsible?

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

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Accounting for the Wealth Gap



Policy Options

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**



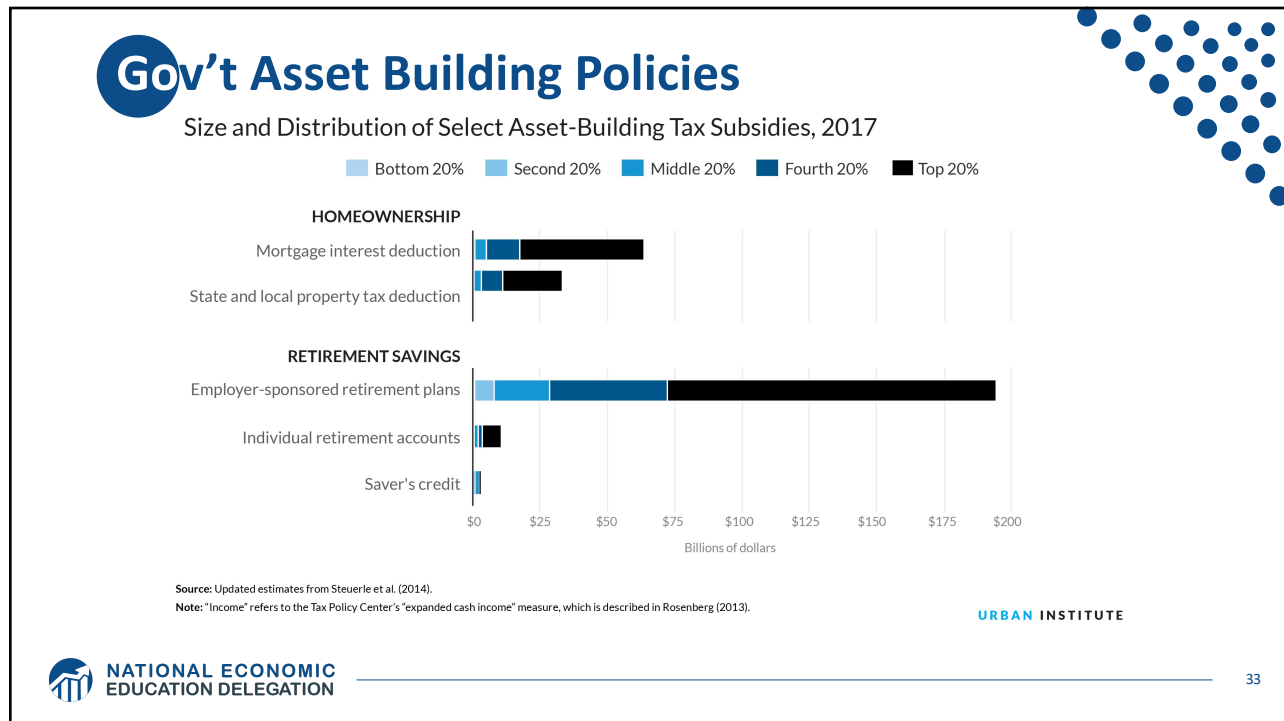
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Specific Policy Options

- **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.
 - Differential tax treatment.
 - 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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Summary

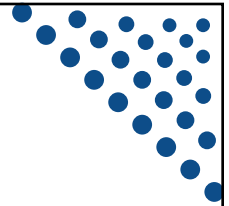
- **The Black White wealth gap is enormous (2022)**
 - Mean: White wealth is 6.5x Black wealth.
 - Median: White wealth is 6.3x Black wealth.
- **There are many explanations in the common narrative.**
 - Many do not stand up to scrutiny.
- **Government policies have contributed enormously this gap.**
- **Wealth endowments (parental wealth) are enormously important for determining own wealth in adulthood.**
 - Policies that address this relationship are most likely to be effective.
- **Some form of policy intervention is necessary if the gap is to be closed.**

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Thank you!



Any Questions?



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