



# *Osher Lifelong Learning Institute, Fall 2022* **Contemporary Economic Policy Issues**

Eckerd College  
Fall, 2022

Jon Haveman, Ph.D.  
National Economic Education Delegation



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## **Available** NEED Topics Include:

- US Economy
- Healthcare Economics
- 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
- Healthcare Economics



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# Course Outline

## • Contemporary Economic Policy

- Week 1 (10/4): U.S. Economic Update
- Week 2 (10/11): Economic Inequality
- **Week 3 (11/15): The Black-White Wealth Gap**

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# The Black-White Wealth Gap

OLLI – Eckerd University  
November, 2022

Jon Haveman, Ph.D.  
National Economic Economic Delegation

**Wealth Concentration  
Widens the  
Racial Wealth Divide.**

Significantly raising taxes on the ultra-wealthy would generate the necessary revenue for more fair and equitable wealth building programs.



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## Credits and Disclaimer

- **This slide deck was authored by:**
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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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## 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)...

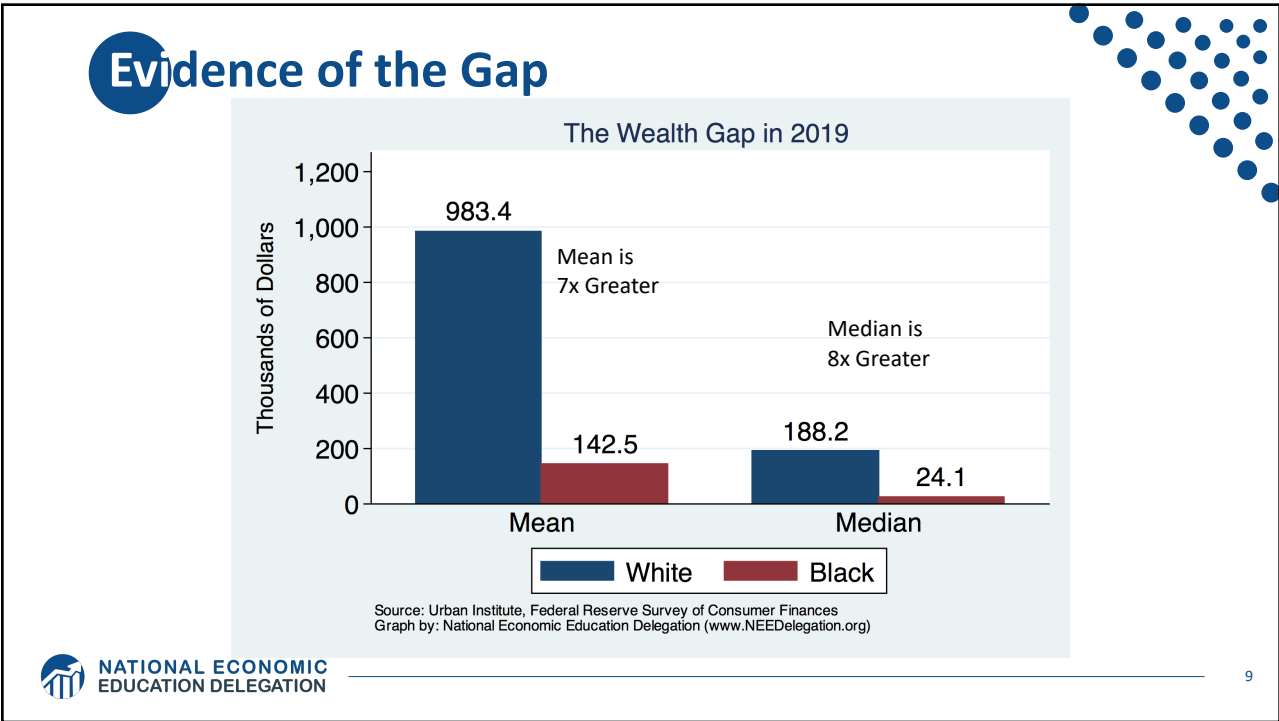


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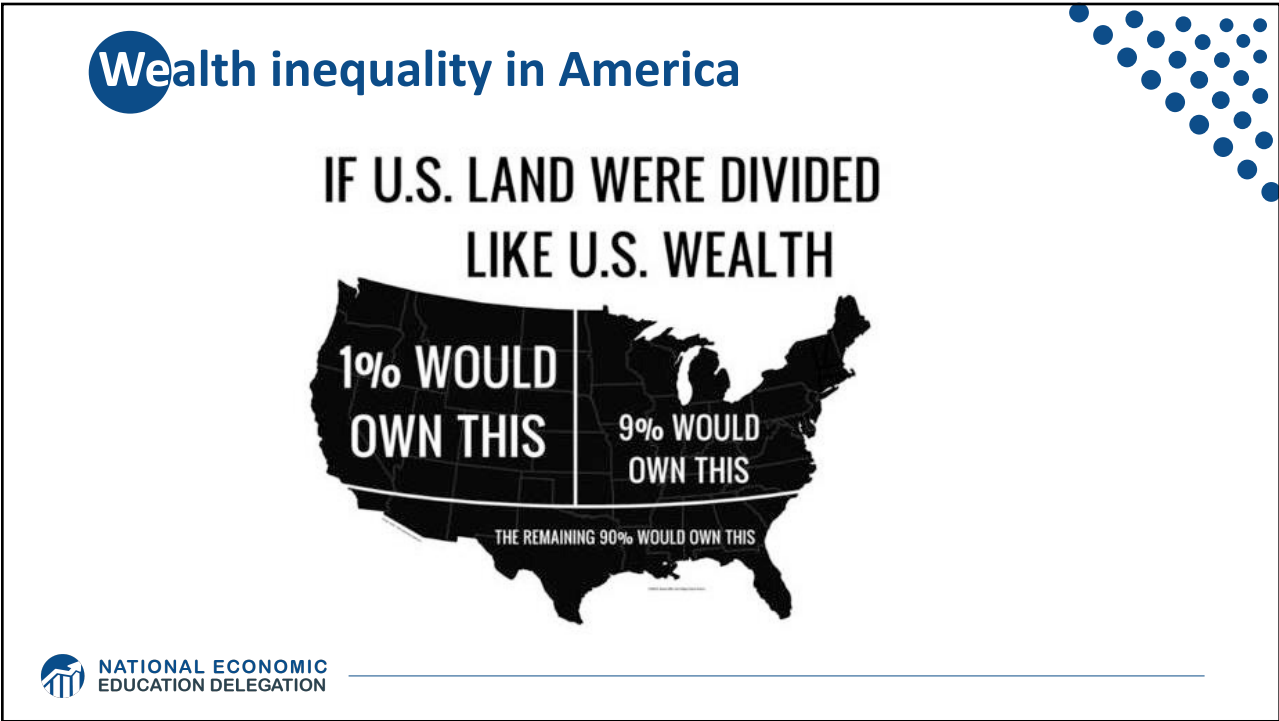
## Evidence



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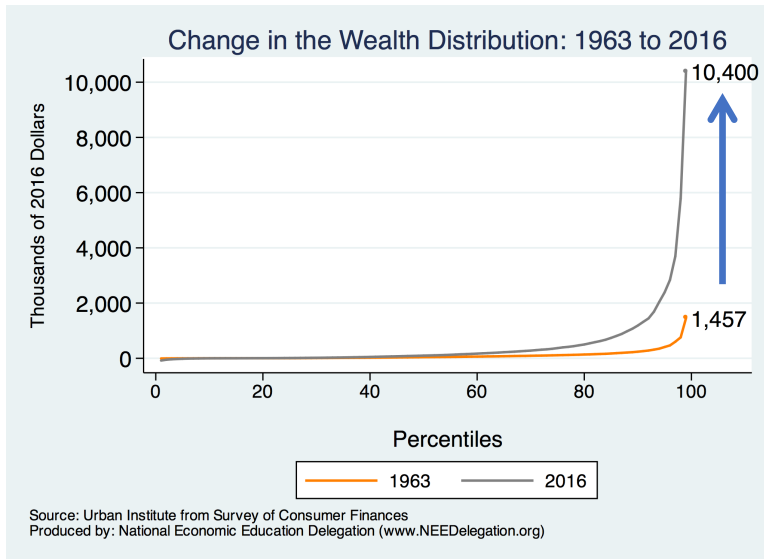


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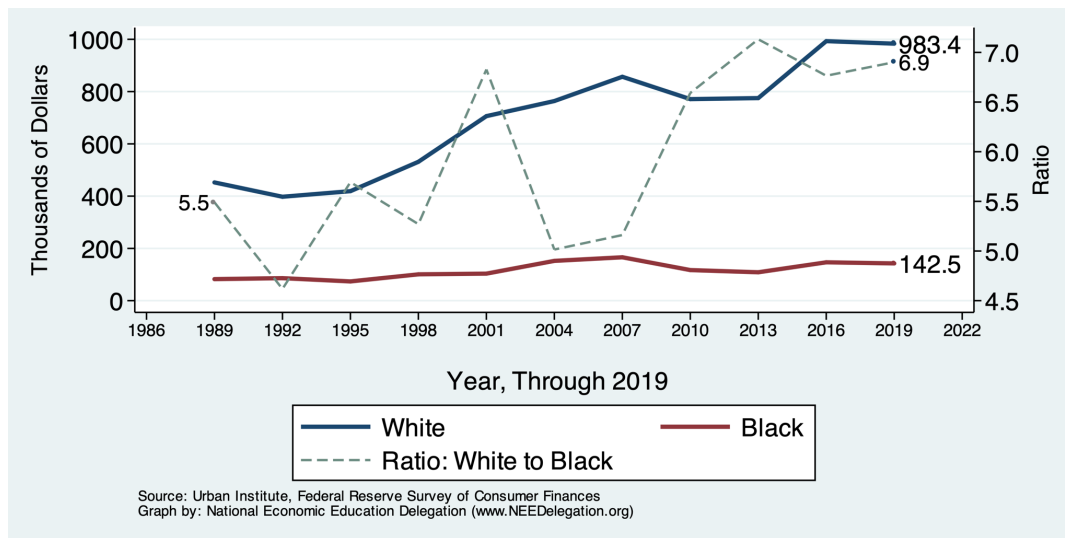
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## Wealth is More and More Concentrated



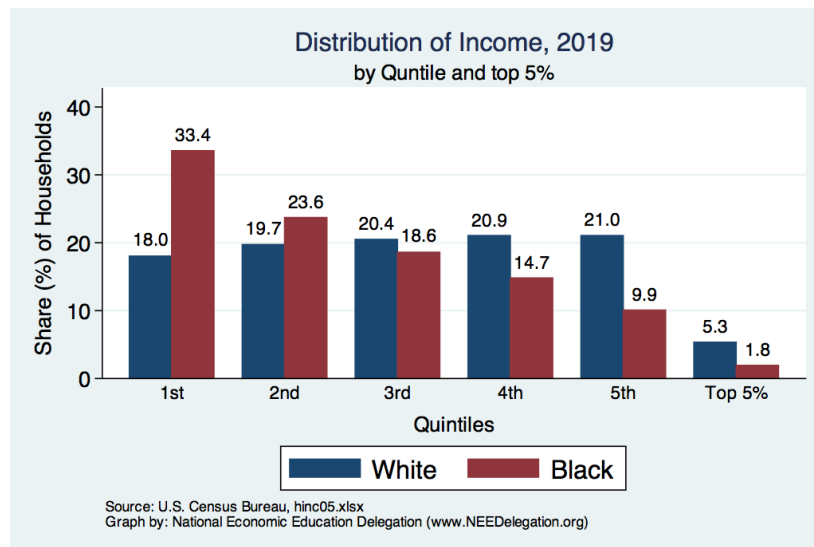
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## Wealth Gap Over Time: Mean



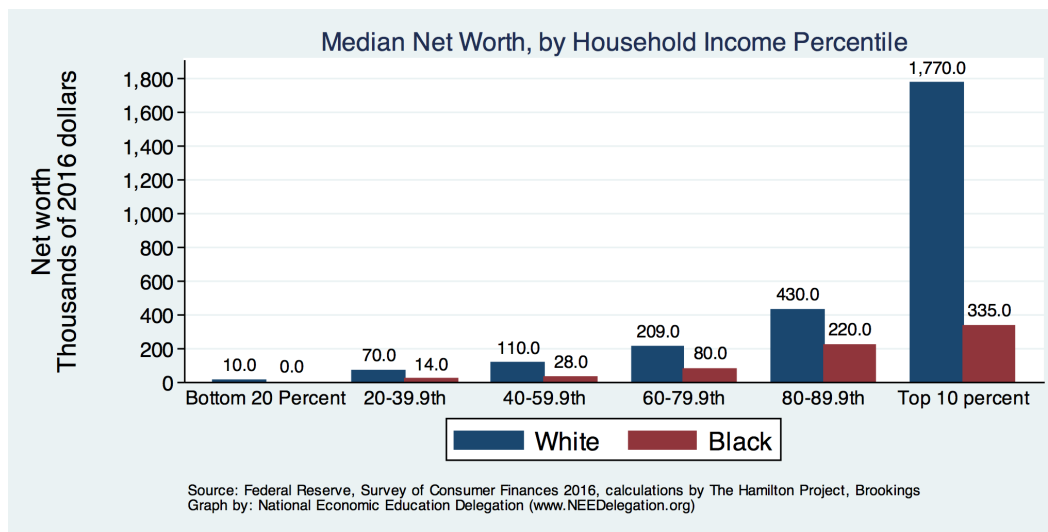
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## Black Household Incomes Relative to White



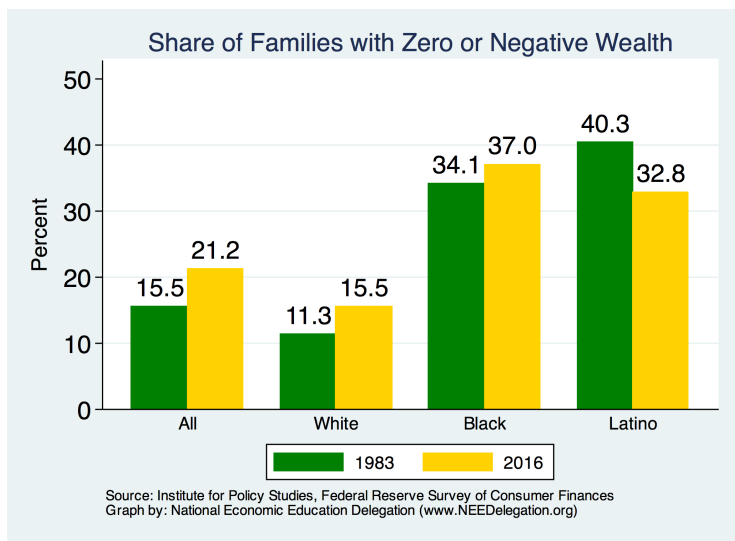
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## By Household Income



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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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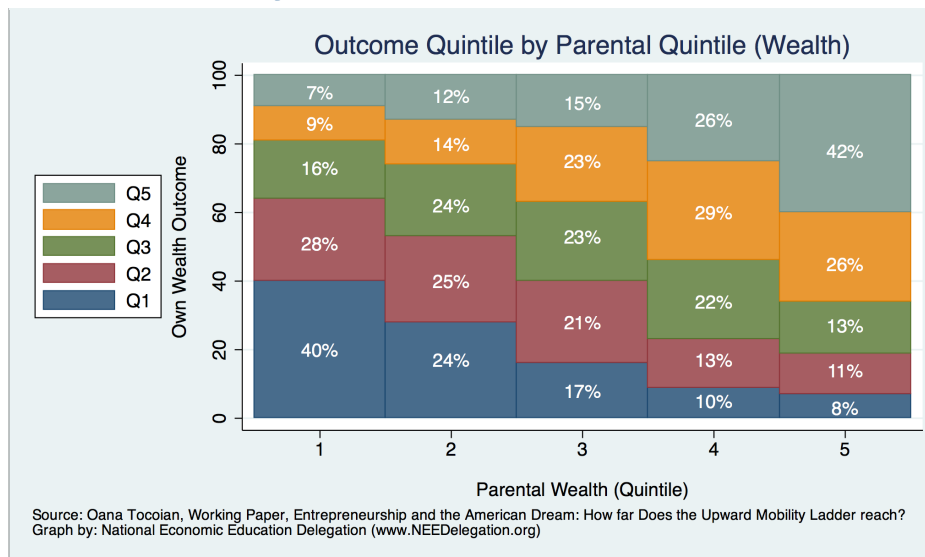
## Parental Wealth is Important

- **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 role.**



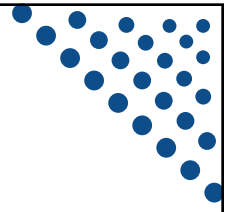
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## Wealth Mobility



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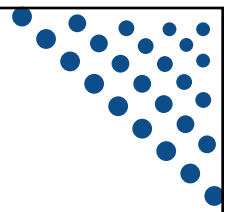
## Tangible Benefits for the Broader Economy



- More human capital development
- Increased entrepreneurship
- Healthier labor force
- Less social unrest
- Less reliance on social programs
- Smaller stock of student loans



## Sources of Disparities



## 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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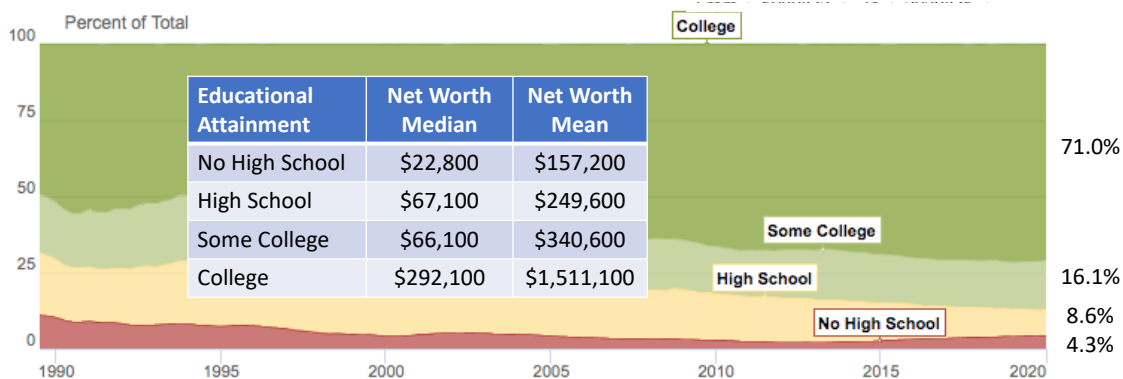
## Potential Explanations: Differences in...

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



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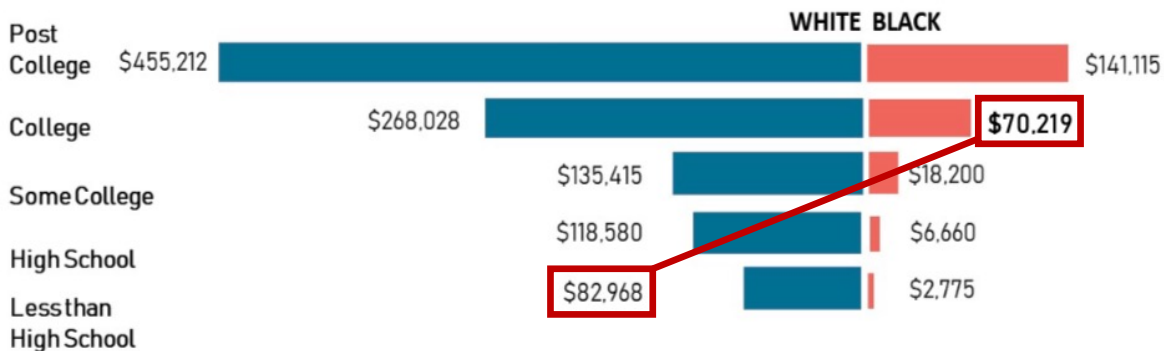
## Wealth by Educational Attainment



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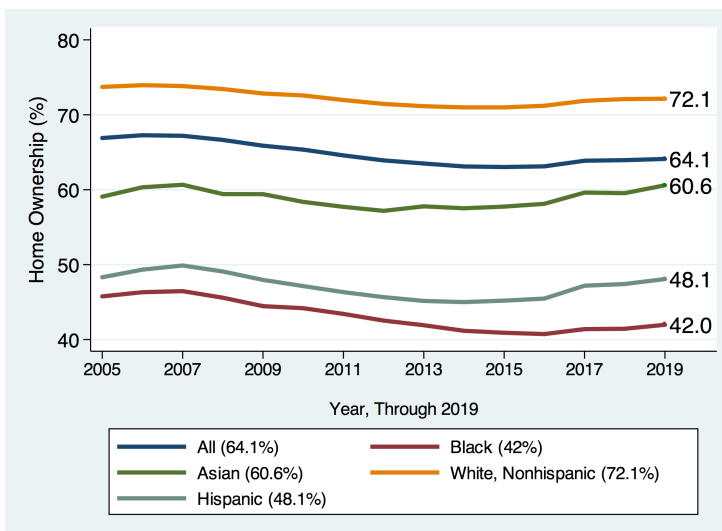
# Educational Attainment

Median Household Net Worth by Race and Education

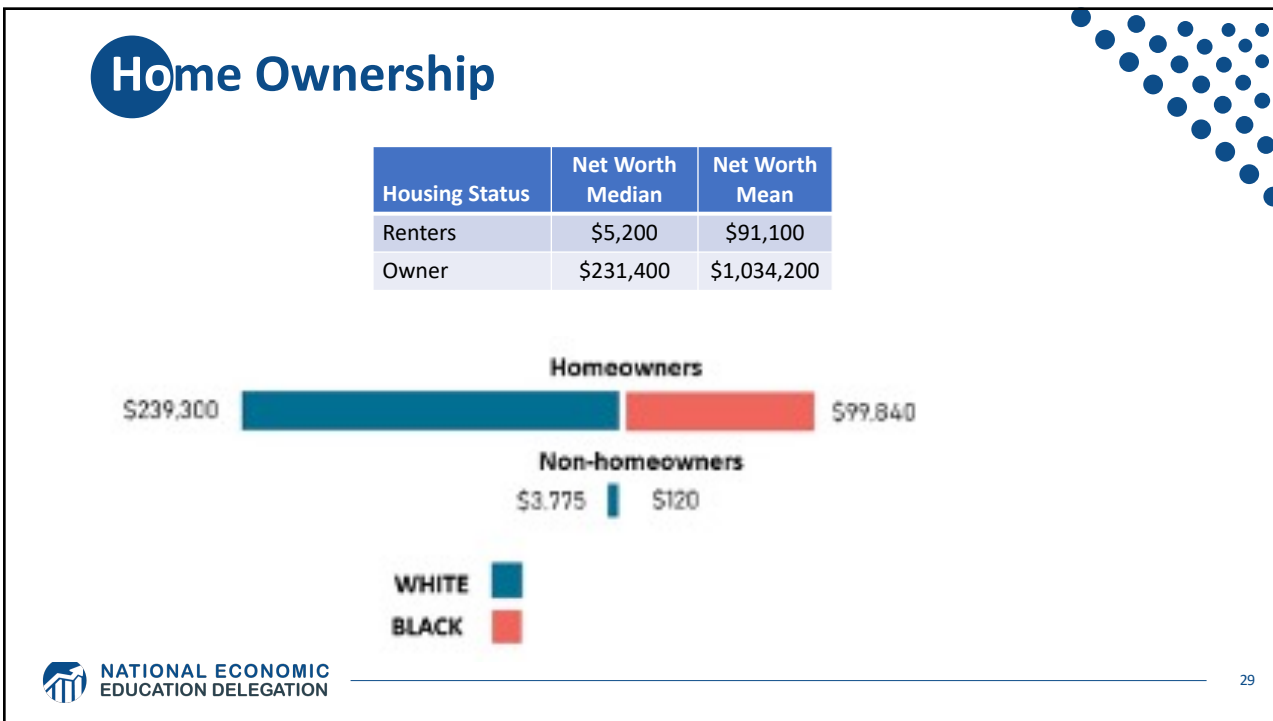


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# Home Ownership by Race



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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.
    - 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**



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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.



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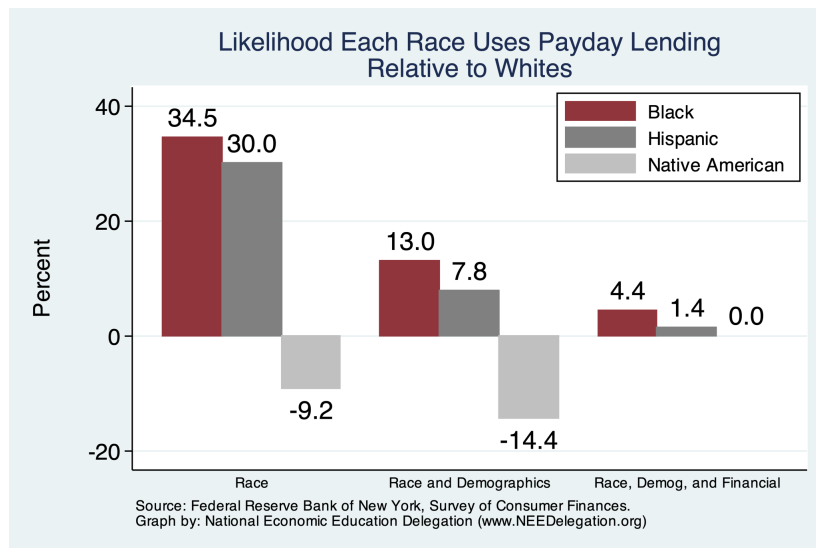


# Financial Literacy

- 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.

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# Use of Payday Lenders



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## 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**



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## Soft Skills and Personal Responsibility

- **Employability**

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

- **Reality**

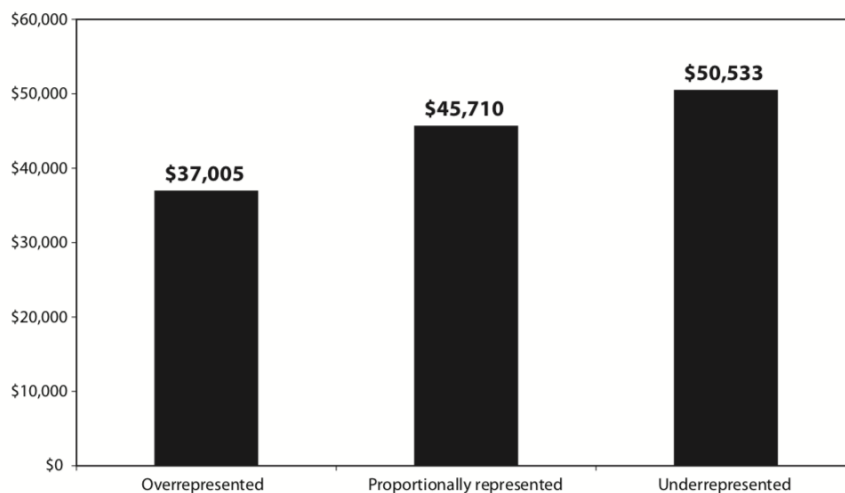
- Black workers are crowded into service sector jobs.
- Well represented in service, sales and office, and production, transportation, and material moving
- Relatively less well represented in construction, extraction, and maintenance.



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# Overrepresented Where Wages are Low

Average occupational annual wage by representation of black men, 2005-07



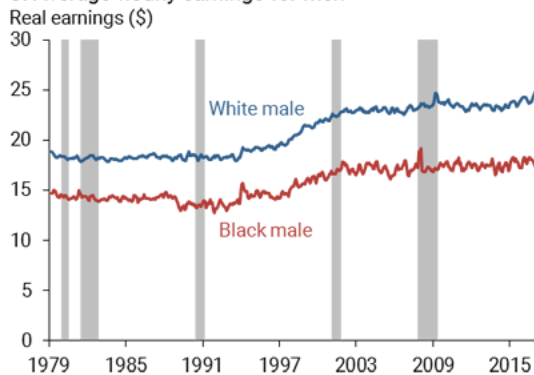
Source: Hamilton Darrick, Algernon Austin, and William Darity, Jr. Whiter Jobs, Higher Wages :Occupational Segregation and the Lower Wages of Black Men Economic Policy Institute, Briefing Paper #288 2011.

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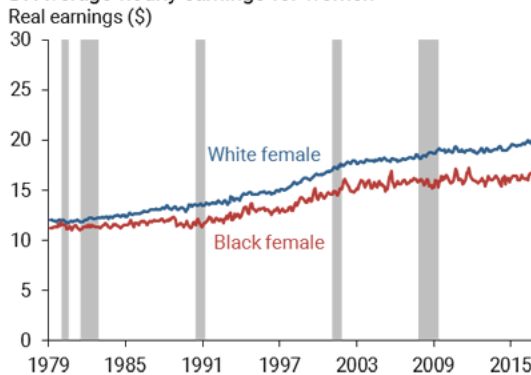
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# Wage Gap

C. Average hourly earnings for men



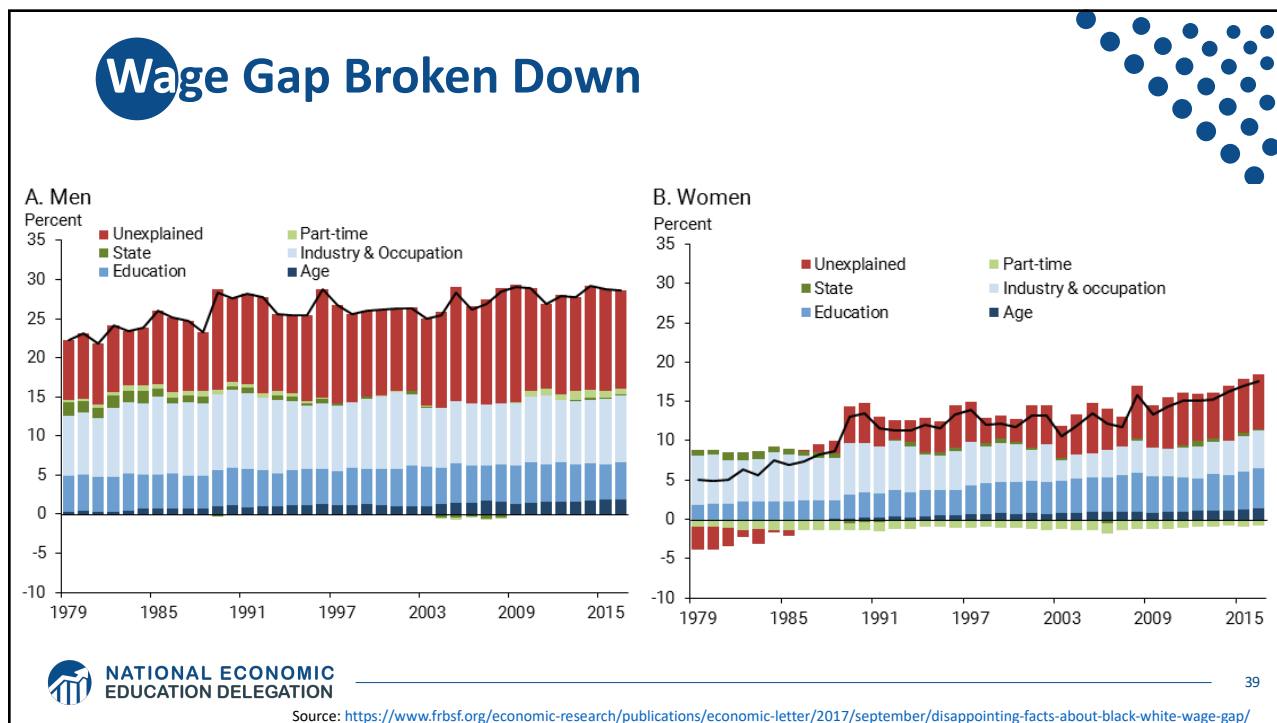
D. Average hourly earnings for women



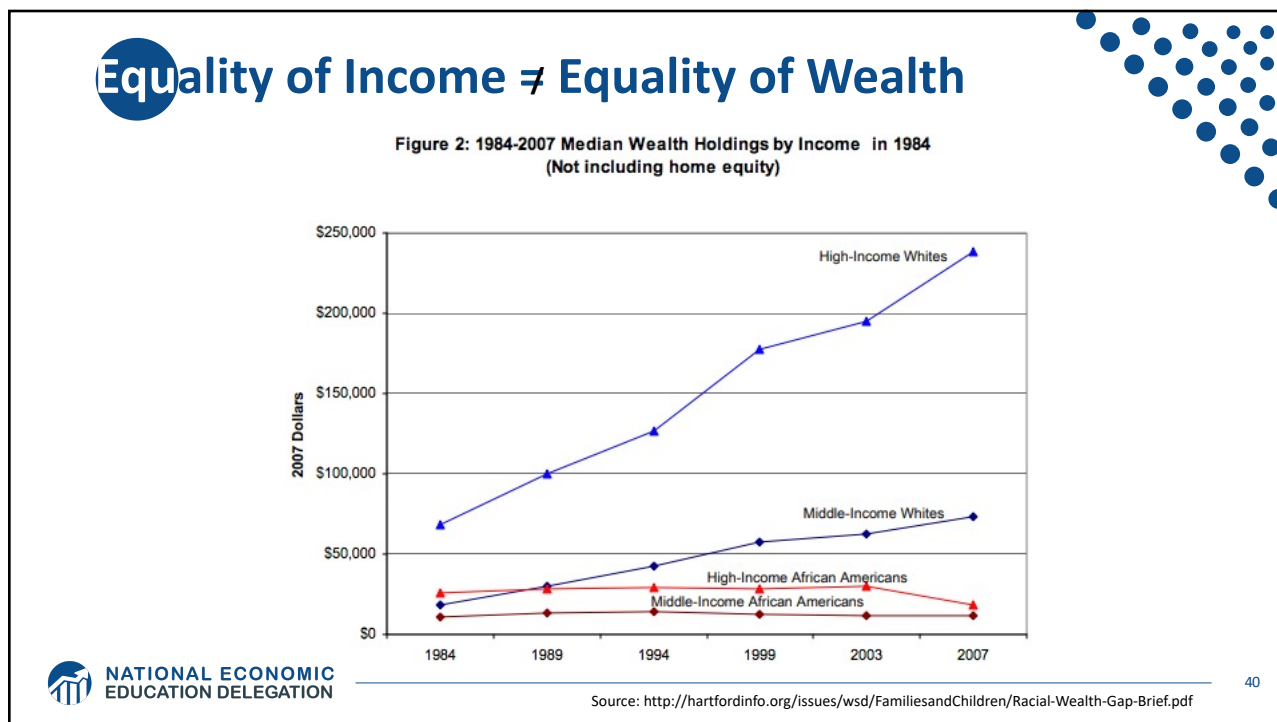
Source: <https://www.frbsf.org/economic-research/publications/economic-letter/2017/september/disappointing-facts-about-black-white-wage-gap/>

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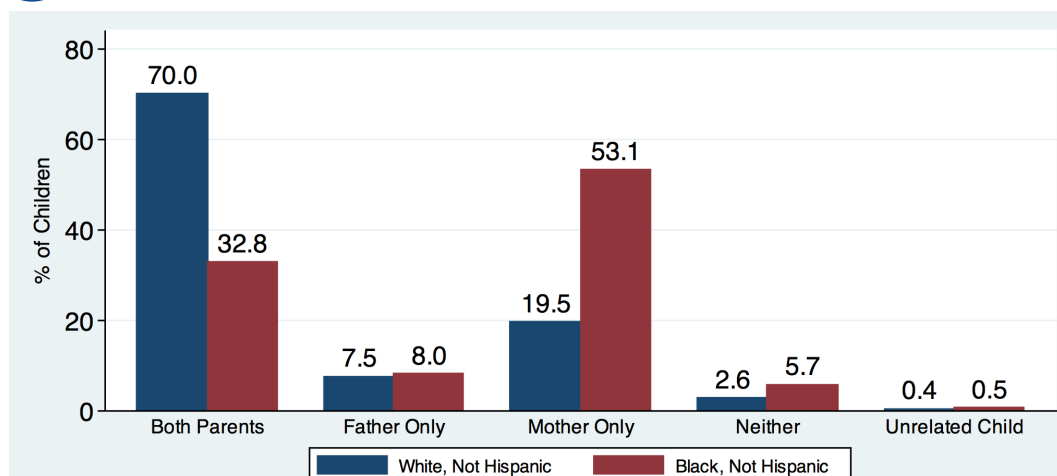
## Family Structure

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](http://www.NEEDelegation.org))

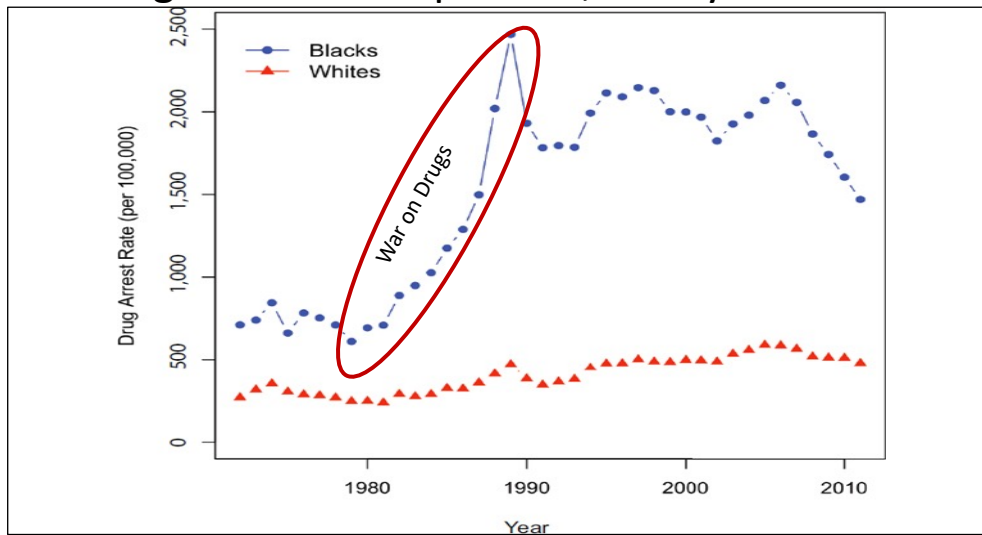
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# Incarceration Likely Plays A Role

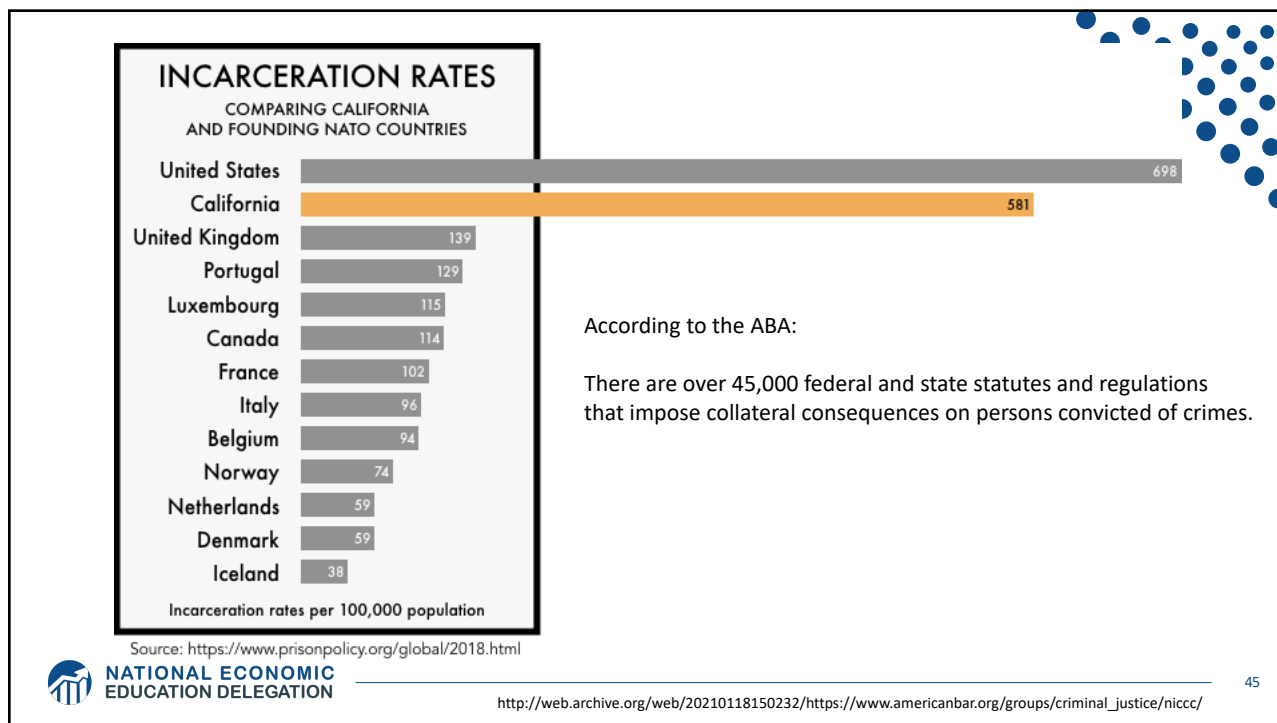


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# US Drug Arrest Rates per 100,000 by Race



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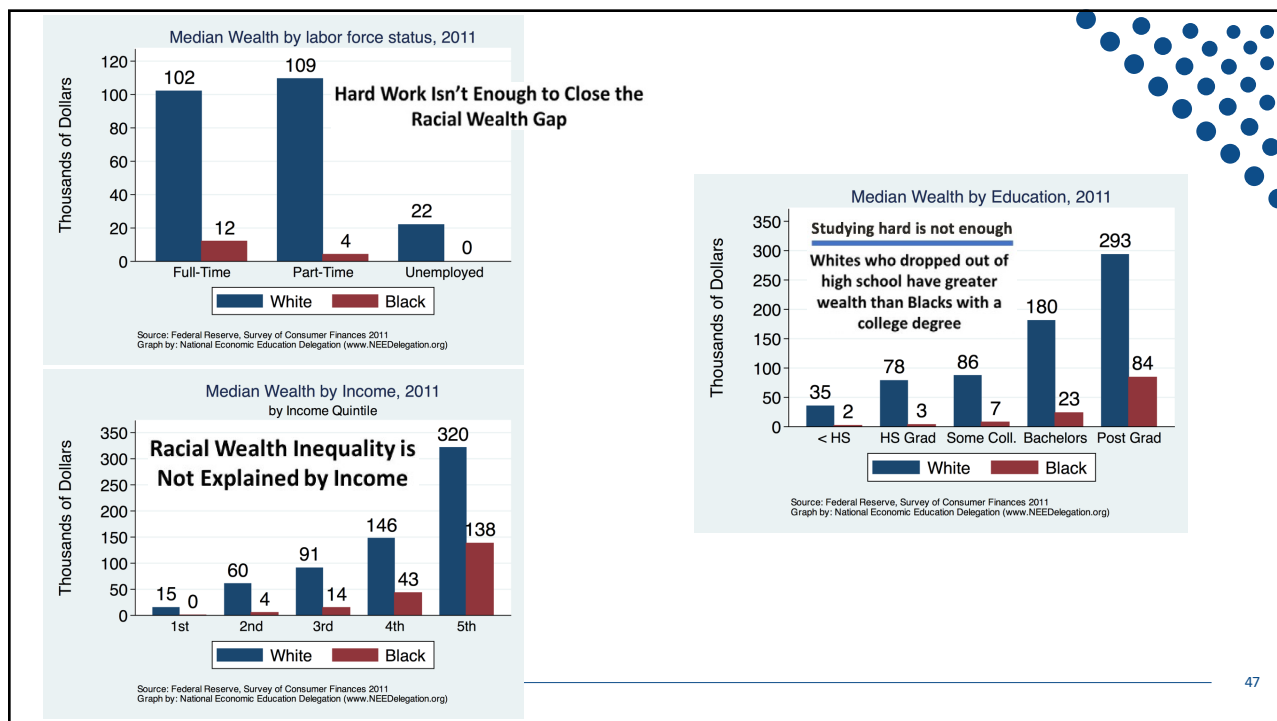
## What is Fundamentally Responsible?

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

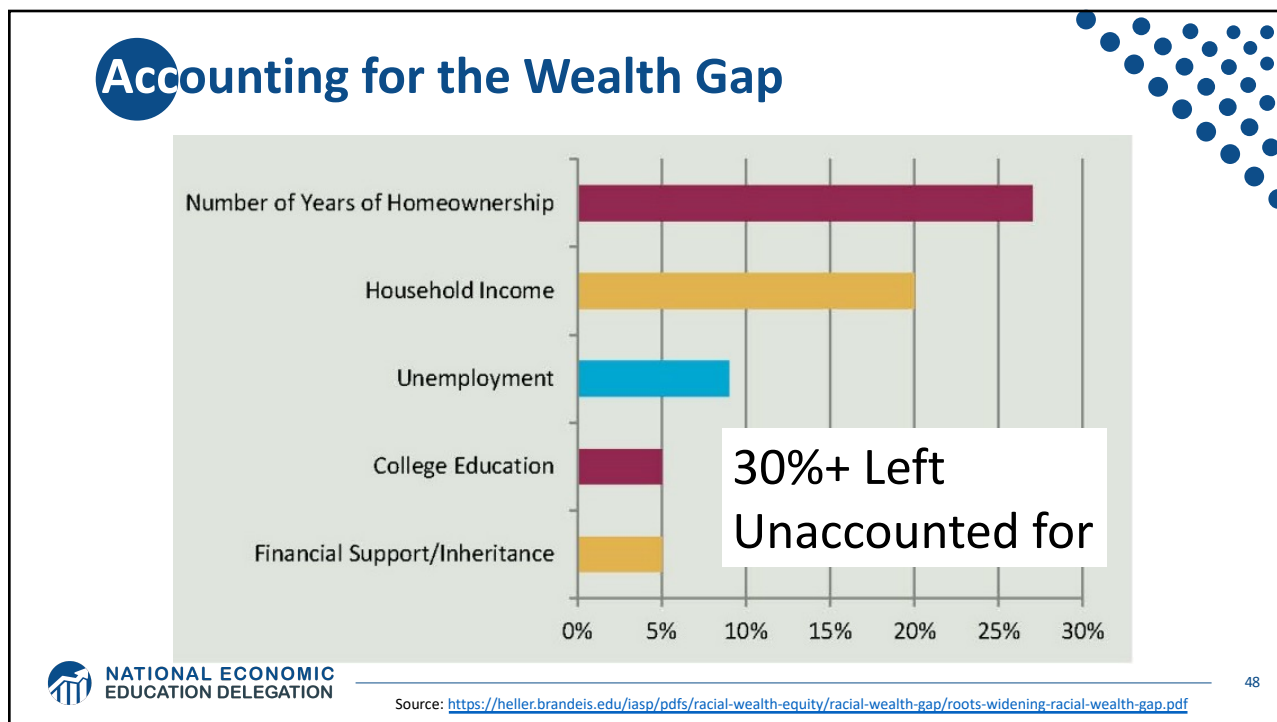
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# Policy Options



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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**

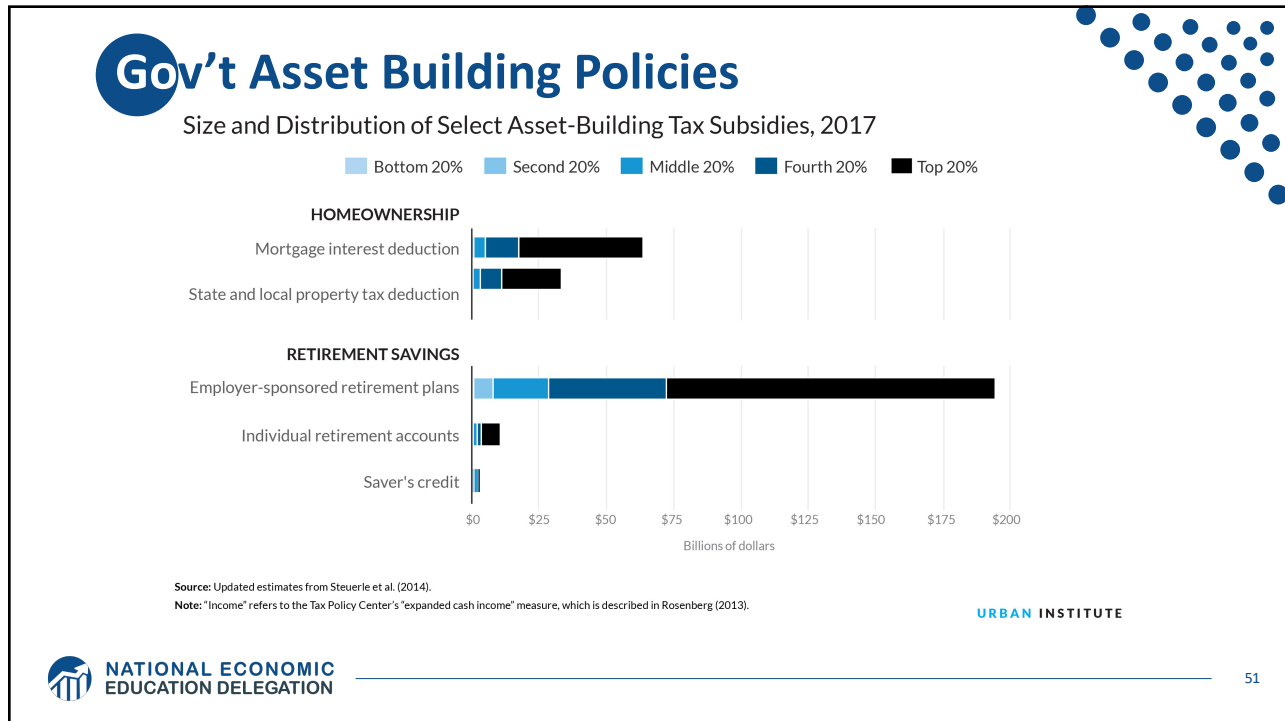
- **Workforce**

- **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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## 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](http://www.NEEDelegation.org)

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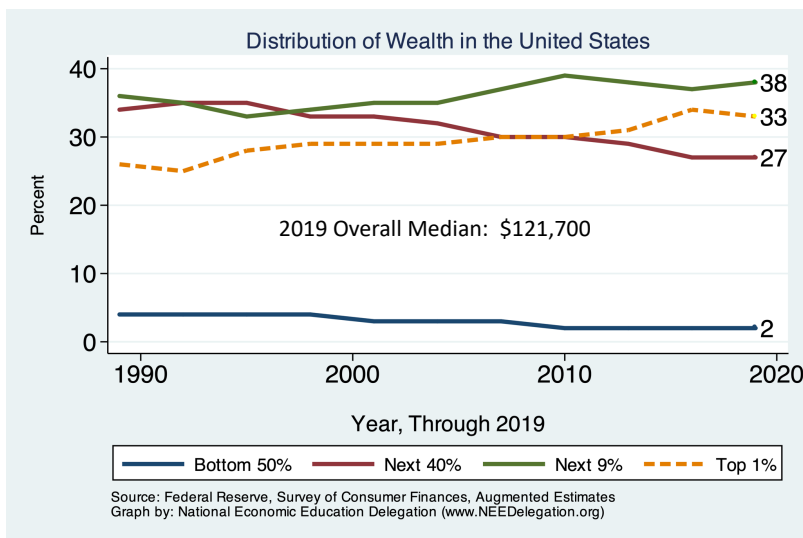
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# Overall Wealth Distribution



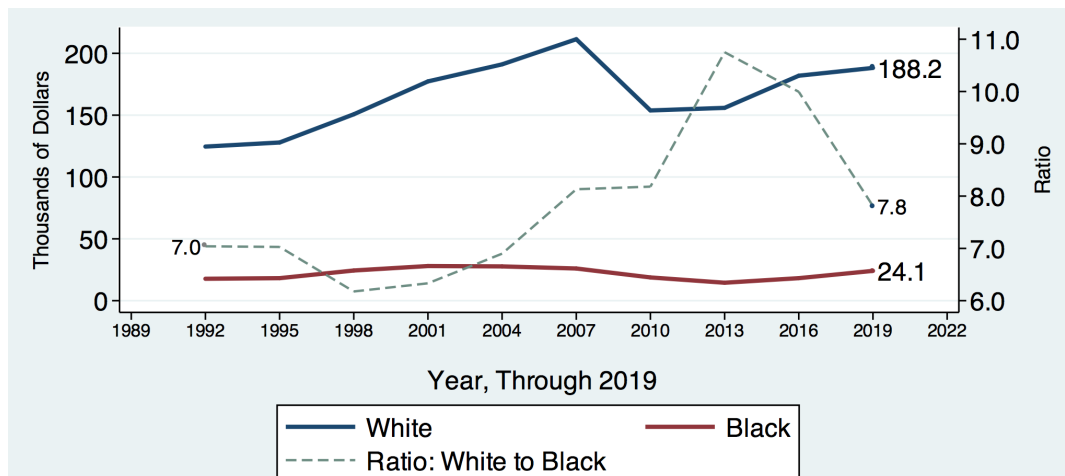
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## Wealth Disparities, 2019

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

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## Wealth Gap Over Time: Median

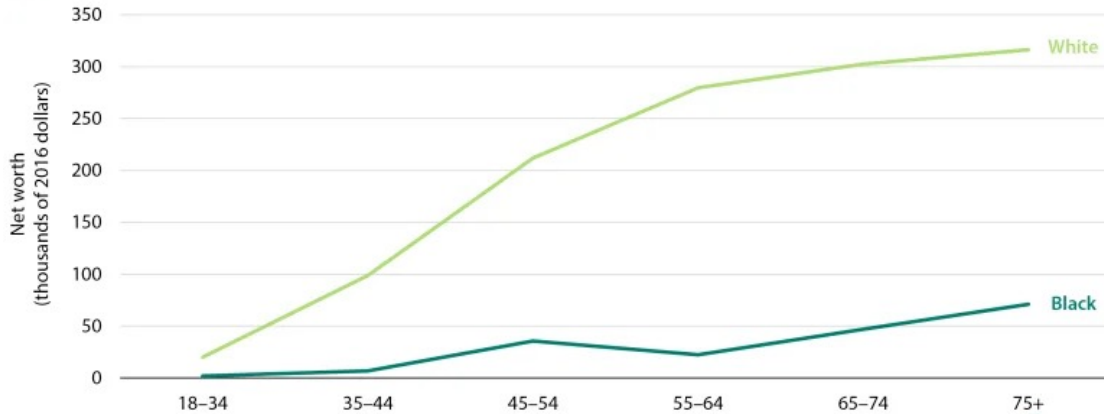


Source: Urban Institute, Federal Reserve Survey of Consumer Finances  
Graph by: National Economic Education Delegation ([www.NEEDelegation.org](http://www.NEEDelegation.org))

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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.



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

# Educational Attainment: Policy

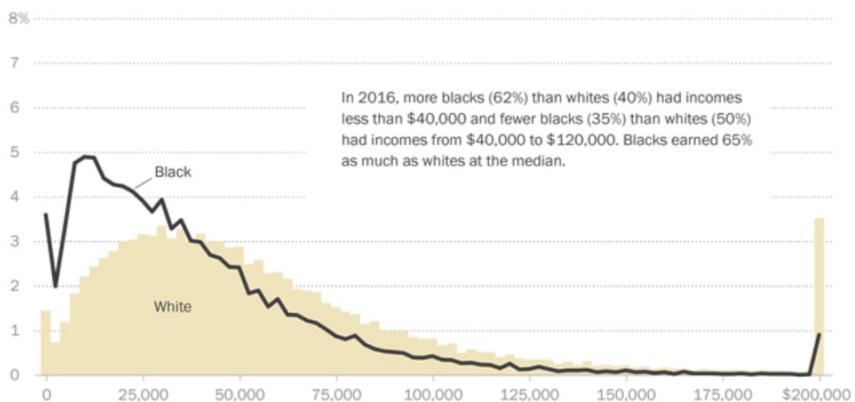
- **How do we increase educational attainment?**
  - Increase universal quality of public schools.
  - Increased/improved counseling in high schools.
  - Reduce costs (including living) of attending college.
  - Increased access to funds for education



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# 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).

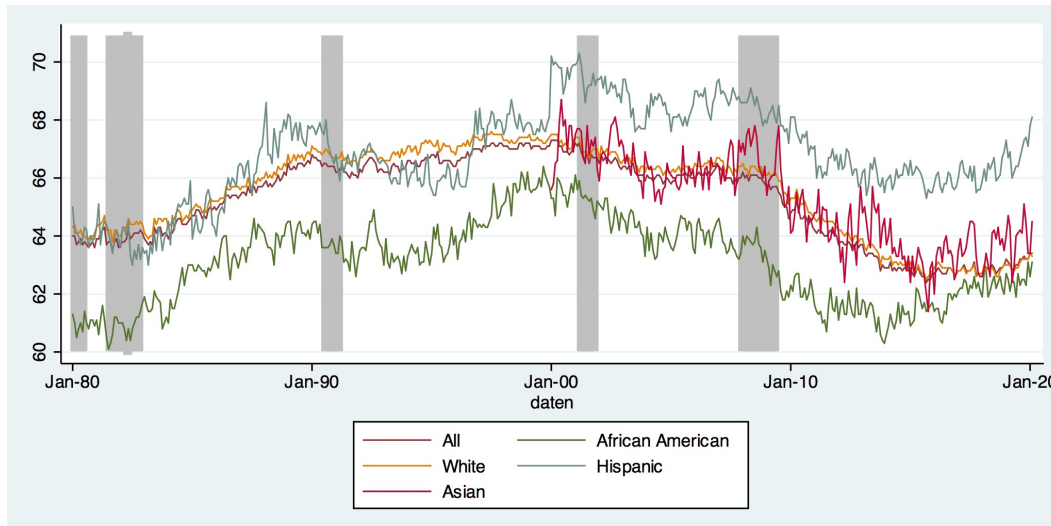
"Income Inequality in the U.S. Is Rising Most Rapidly Among Asians"



Source: pewsocialtrends.org

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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
<b>Total</b>	90%	61%	85%	9%	22%	81%	74%	51%	25%
<b>White</b>	94%	98%	88%	11%	25%	86%	80%	58%	31%
<b>Black</b>	79%	42%	71%	2%	12%	62%	55%	32%	9%

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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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## 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.**



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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 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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