


The Black-White Wealth Gap

OLLI – University of Massachusetts
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Jon Haveman, Ph.D.
National Economic Education Delegation

Wealth Concentration Widens the Racial Wealth Divide.

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



INEQUALITY Institute for Policy Studies



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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)
- 4 Nobel Prize Winners
 - o Akerlof, Smith, Maskin, Bernanke

- **Delegates: 652+ 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: 49 Ph.D. Economists**

- Aid in slide deck development



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Available NEED Topics Include:

- Healthcare Economics
- 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



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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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 - 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).



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Outline

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

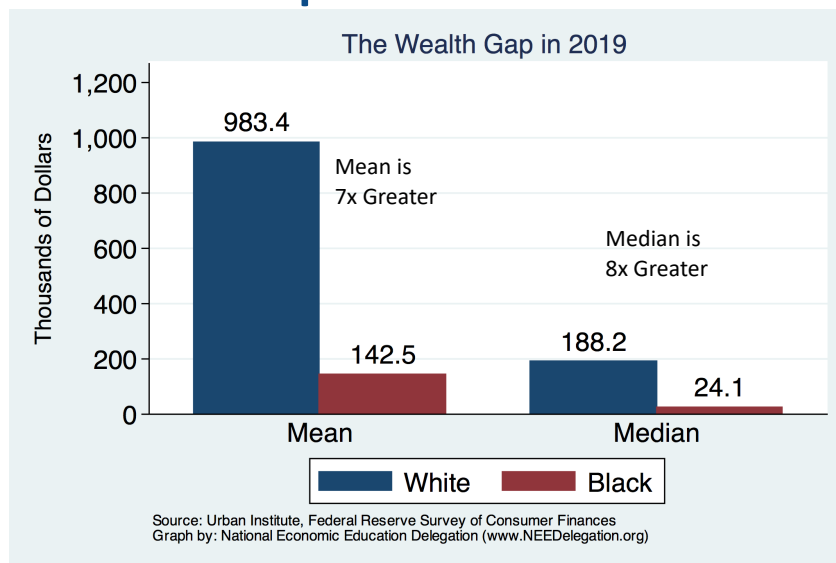


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Evidence

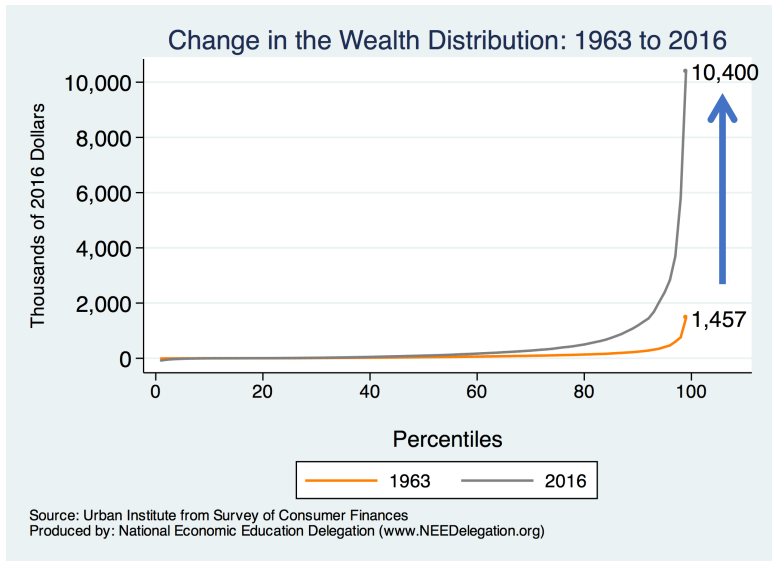
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Evidence of the Gap



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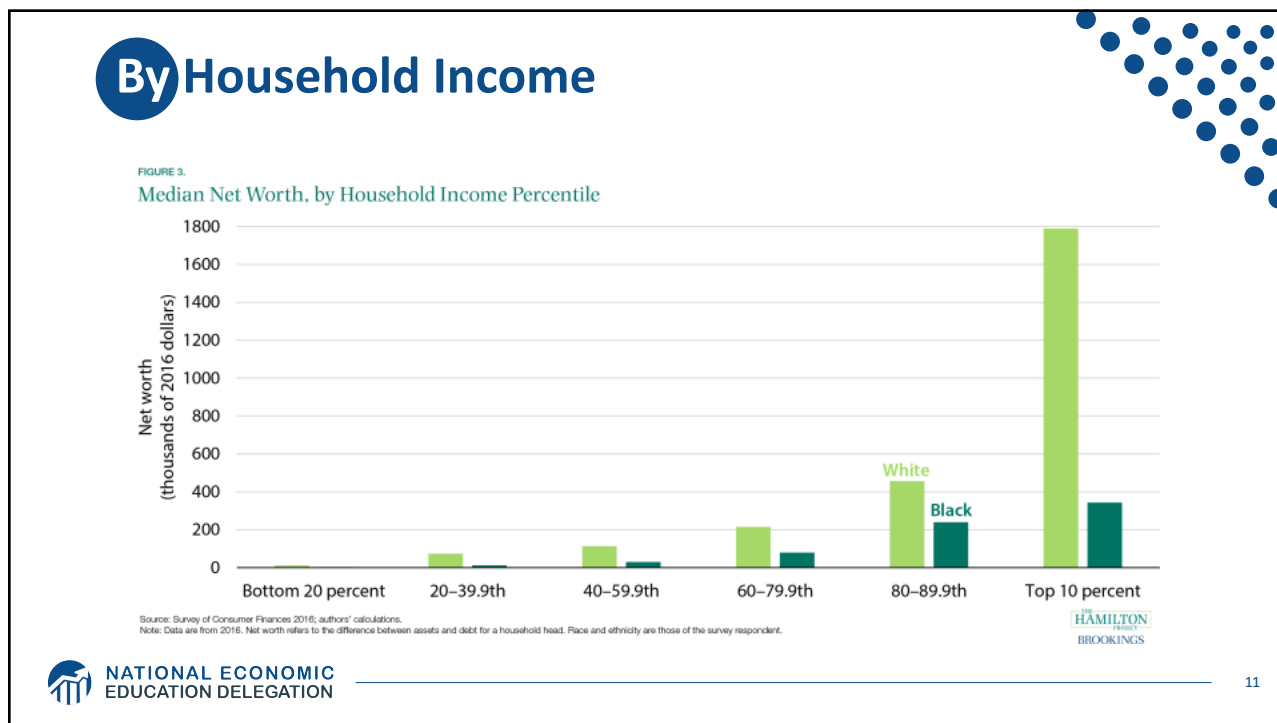
Wealth is More and More Concentrated



Wealth inequality in America

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





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Why Wealth is Important

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Household Level Benefits

- **Choices/Life Agency**

- Finance elite 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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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...

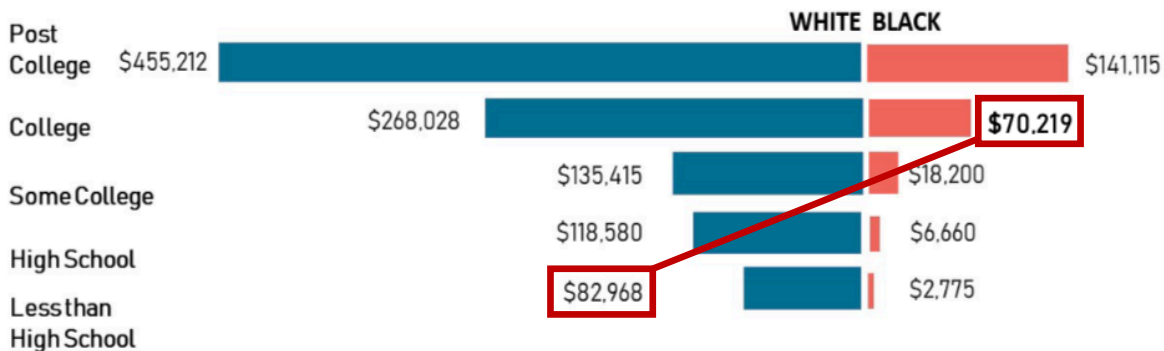
- Educational attainment
- Home ownership
- Increased savings
- Financial literacy
- Entrepreneurship
- Incarceration
- Soft skills and personal responsibility
- Wages
- Labor force participation
- Family structure
- Initial endowment



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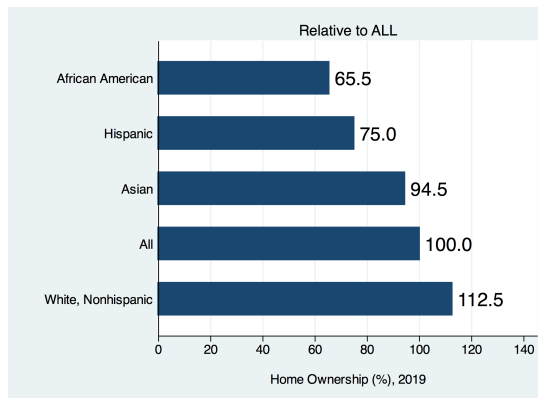
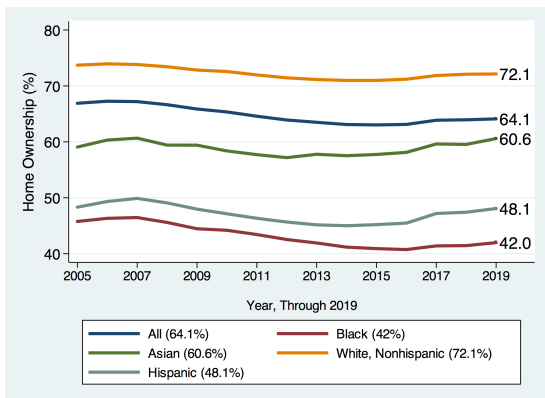
Educational Attainment

Median Household Net Worth by Race and Education

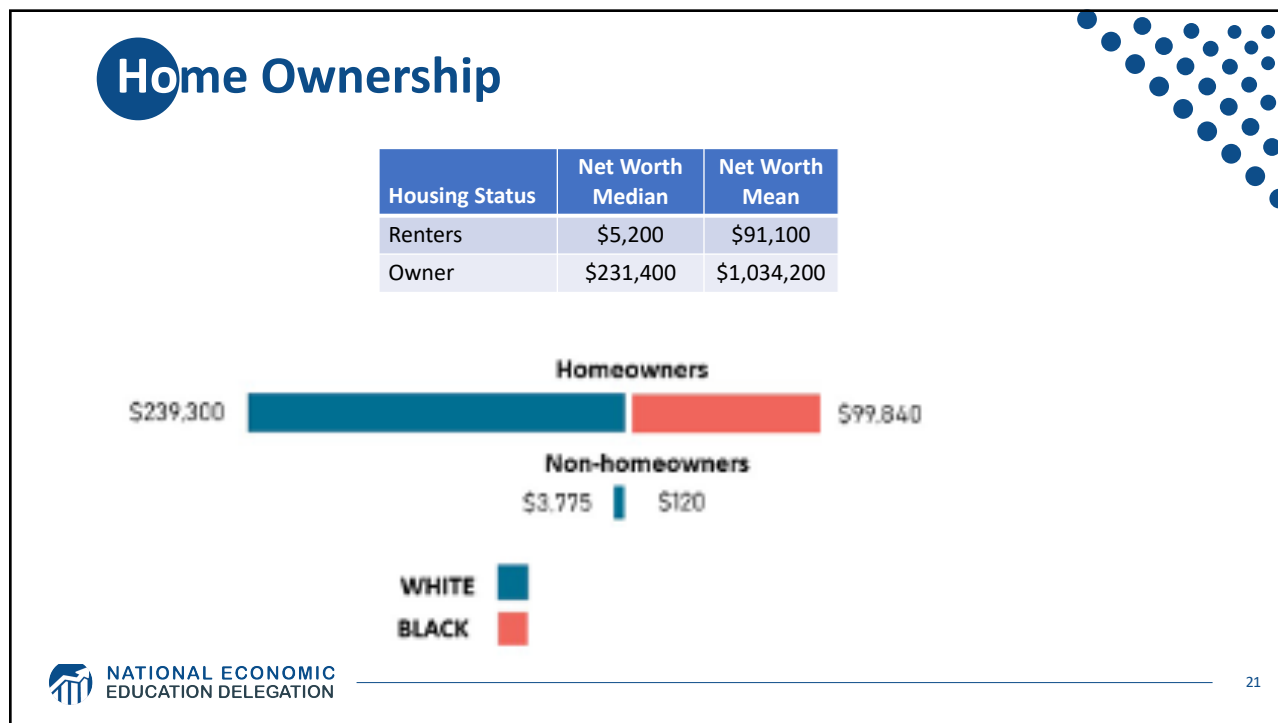


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Home Ownership



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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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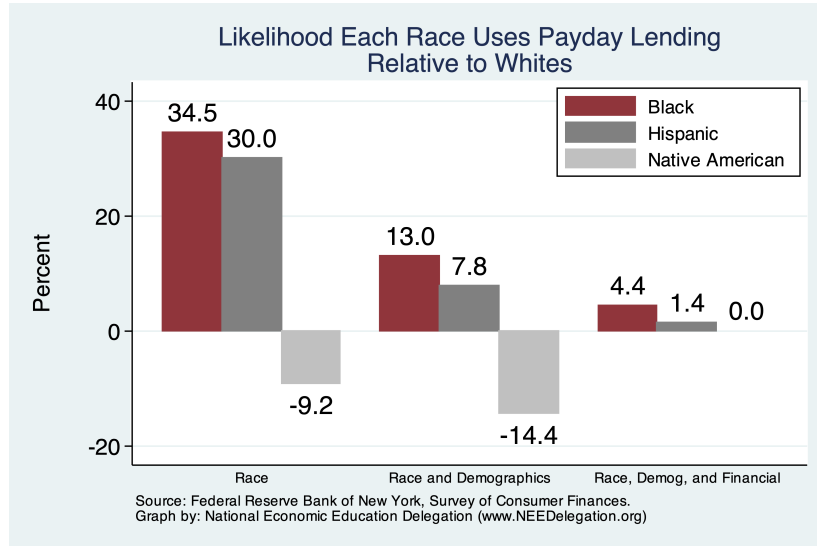
Financial Literacy

- **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



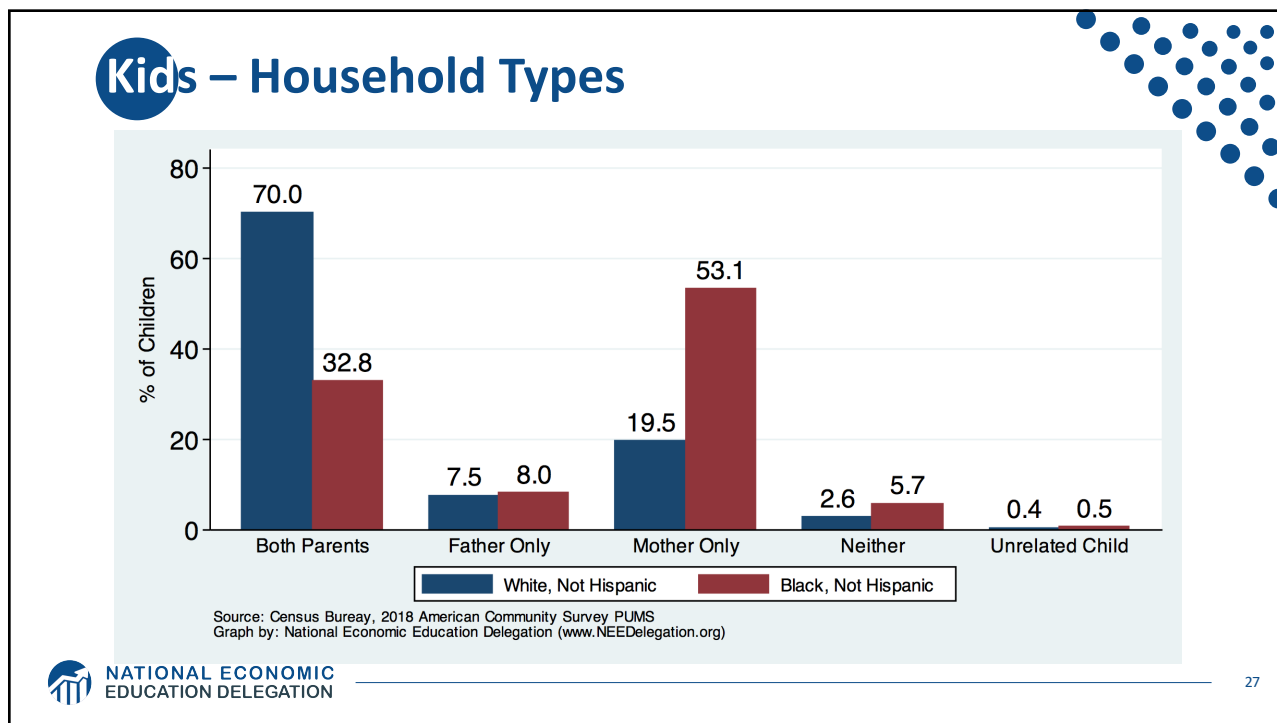
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Family Structure

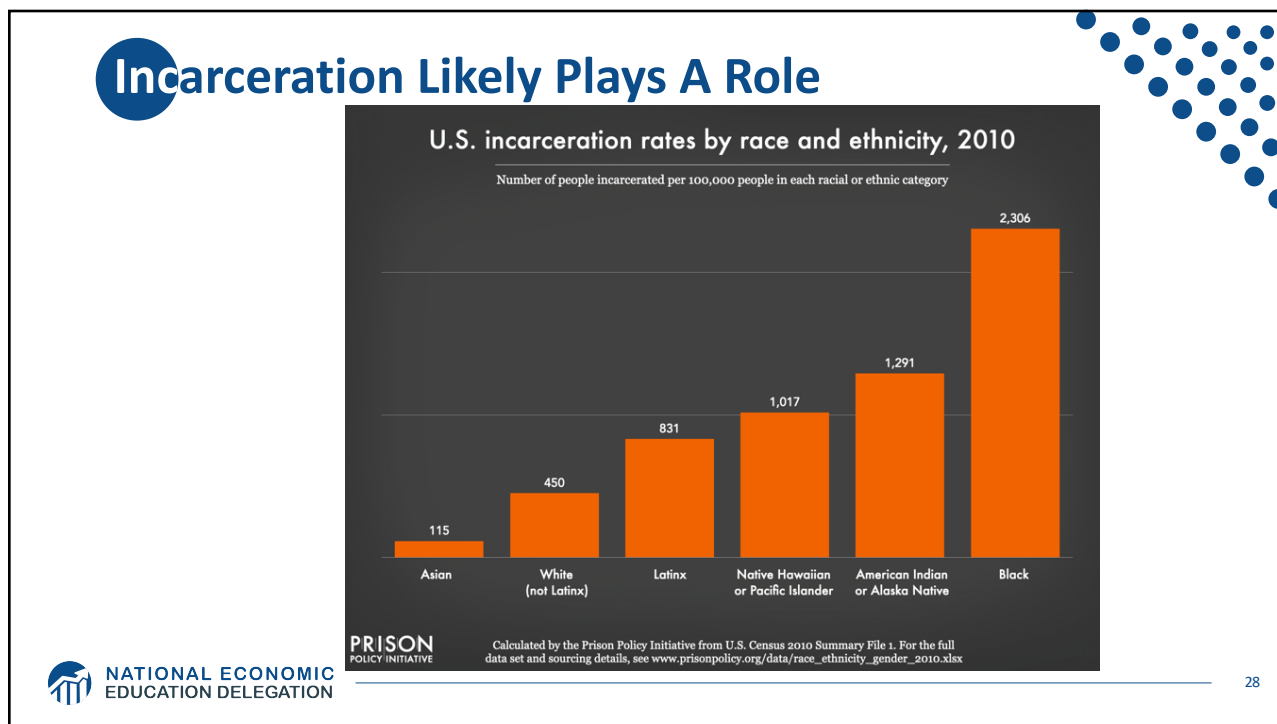
AGE	No Bachelor's Degree				With Bachelor's Degree			
	MARRIED		SINGLE		MARRIED		SINGLE	
	BLACK	WHITE	BLACK	WHITE	BLACK	WHITE	BLACK	WHITE
20-29	\$4,000	\$13,000	\$0	\$2,000	\$7,700	\$18,700	\$-11,000	\$3,400
30-39	\$12,000	\$33,450	\$0	\$0	\$-20,500	\$97,000	\$0	\$7,500
40-49	\$22,501	\$60,000	\$1,000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

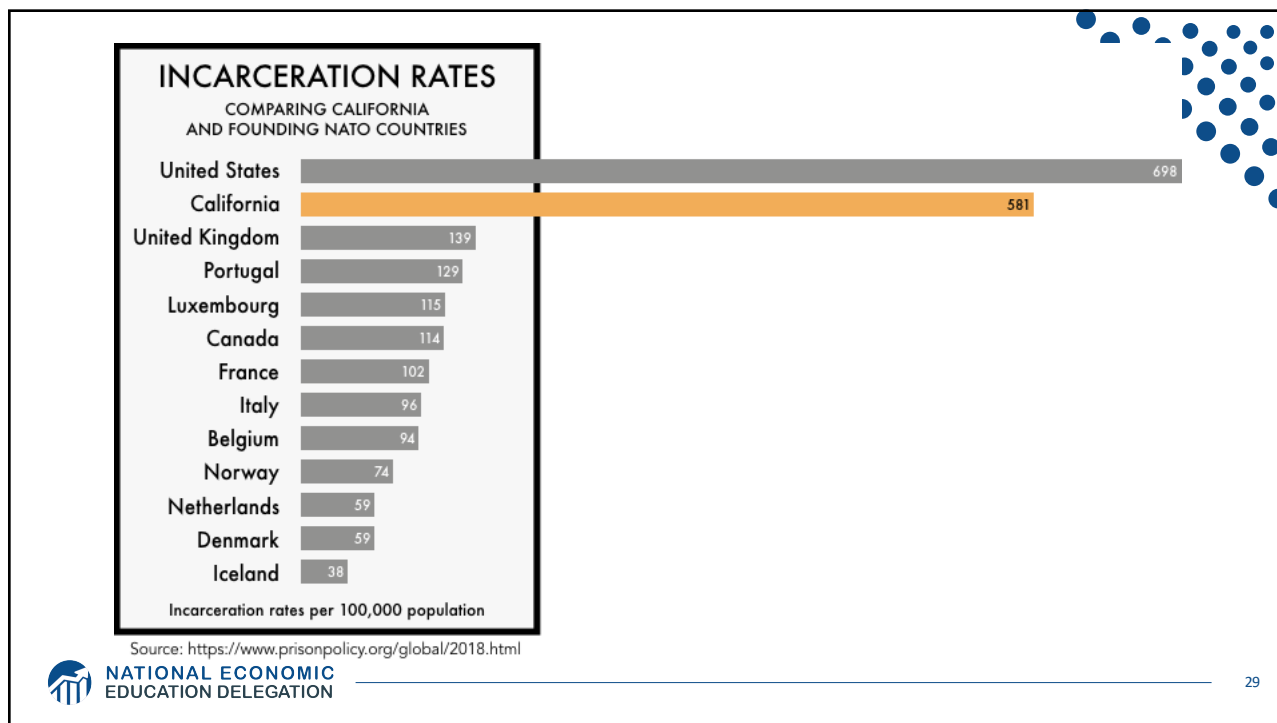
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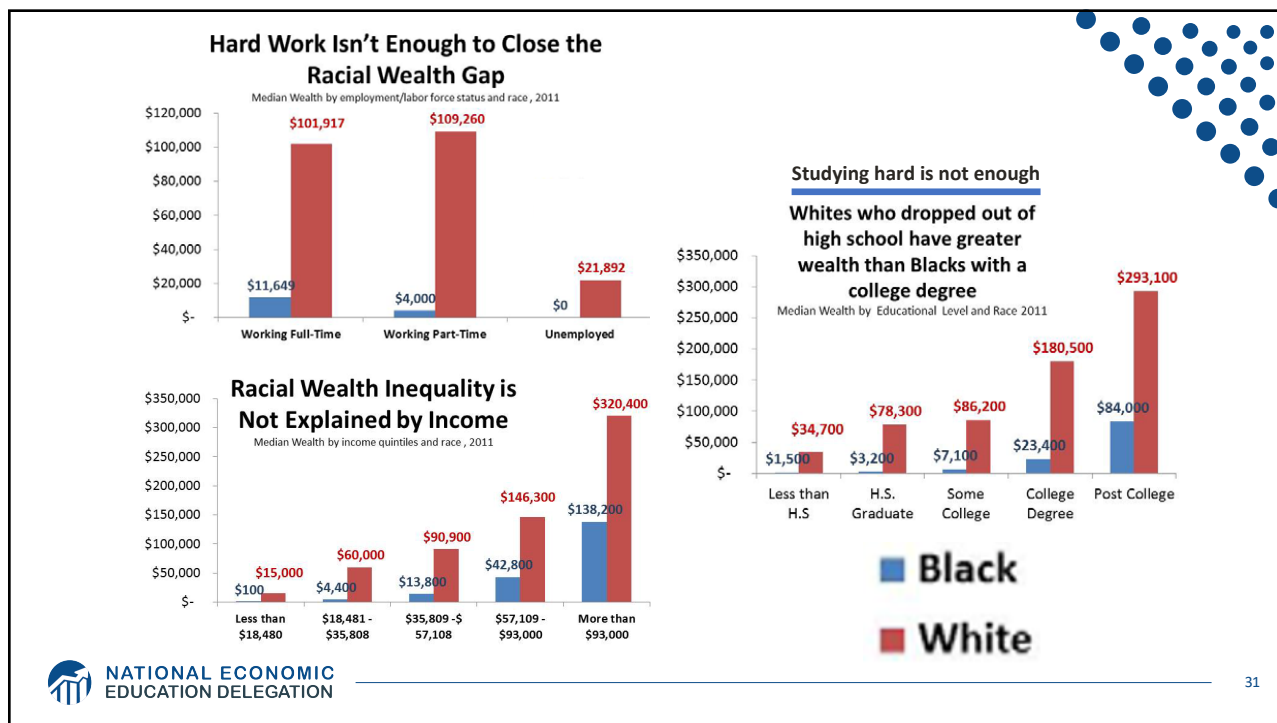
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What is Fundamentally Responsible?

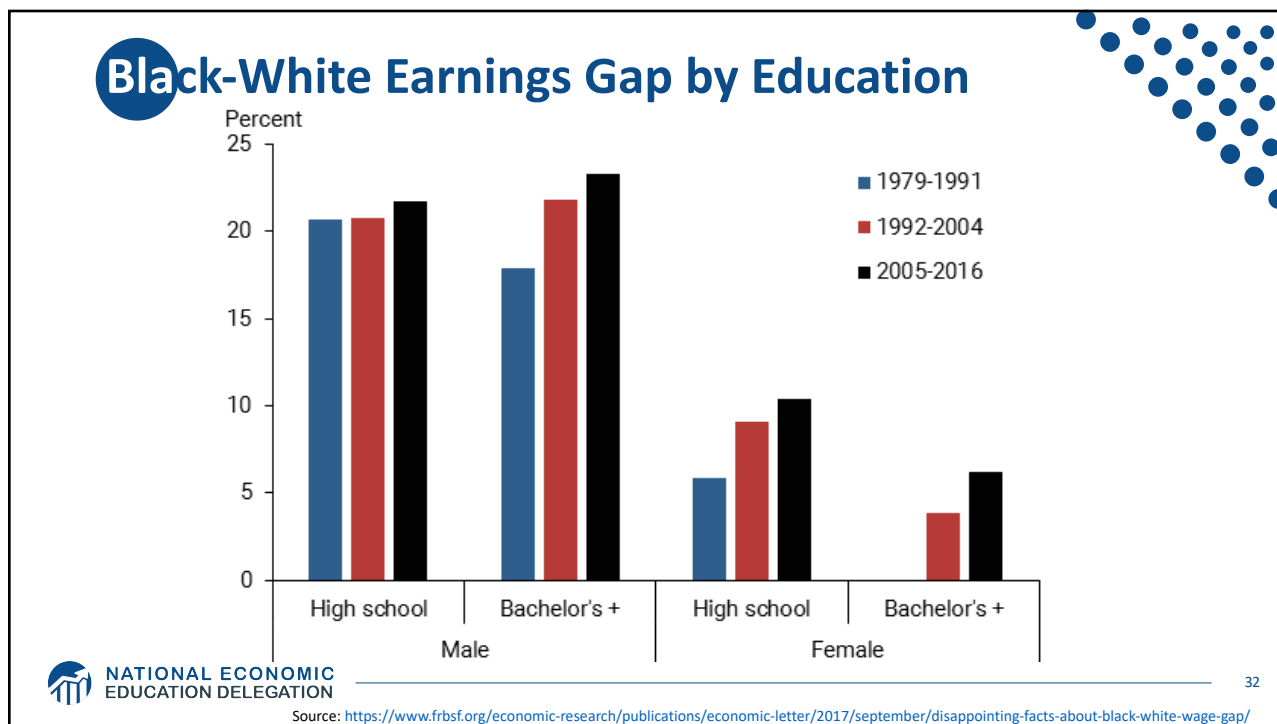
- Individual behaviors?
- Structural characteristics of the economy?
- History – policy and otherwise?

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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**

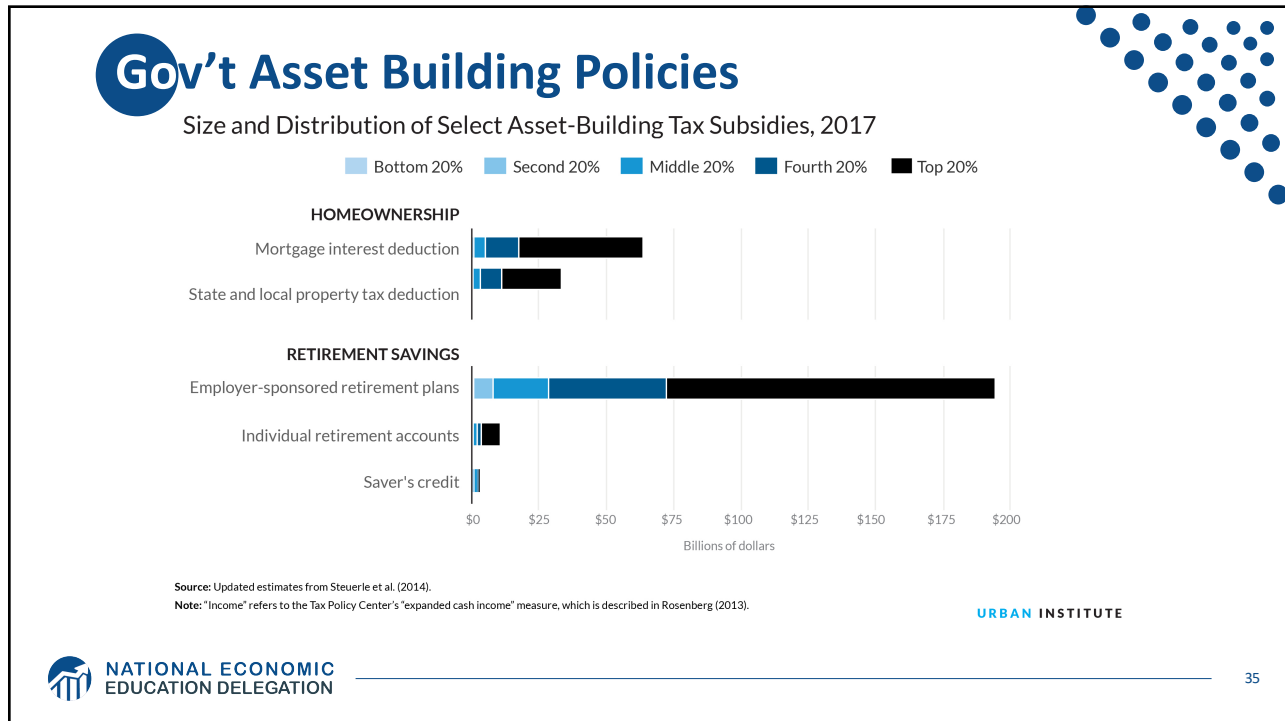
- **Workforce**

- **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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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?

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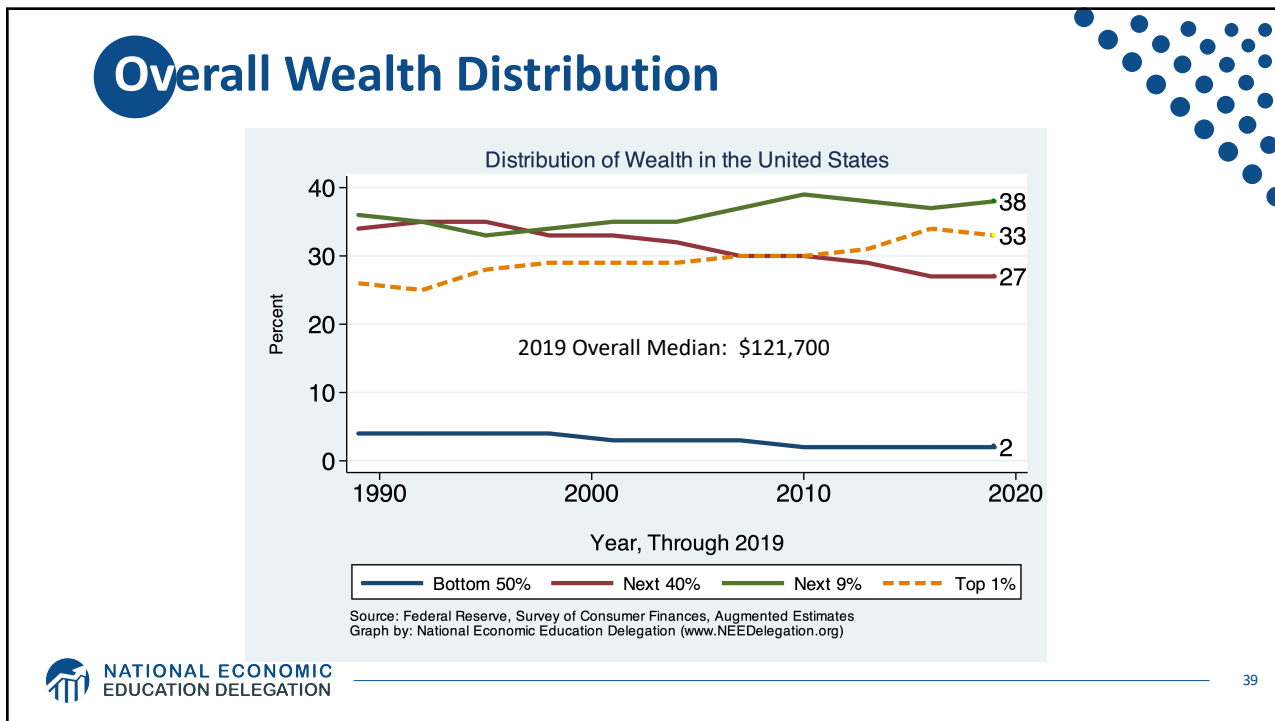
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Wealth Disparities, 2019

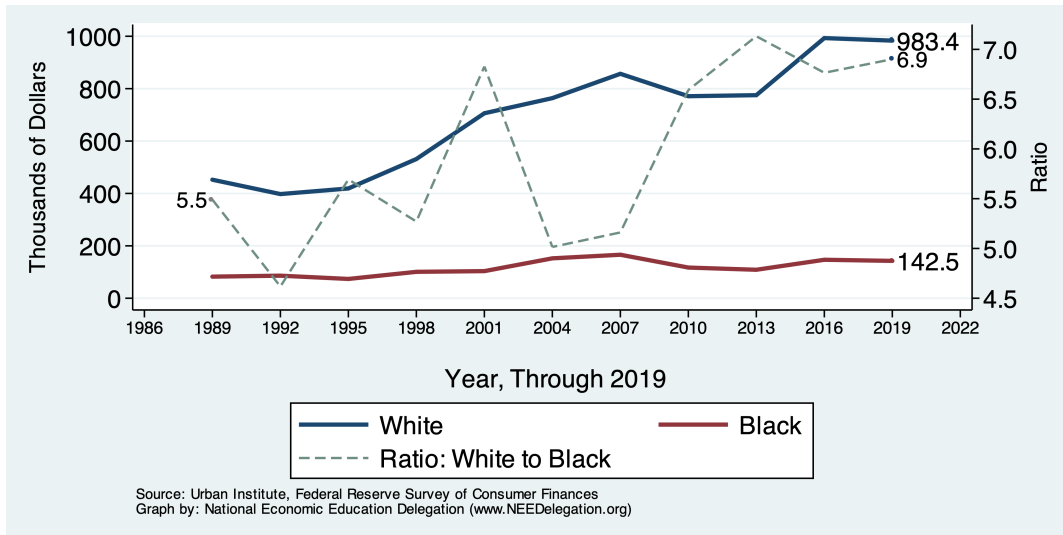
Race/Ethnicity	Mean Wealth	Share of Families	Share of Wealth	Ratio of Shares
White, non-Hispanic	983.4	64.9	94.6	1.5
Black, non-Hispanic	142.5	14.2	3.0	0.2
Hispanic or Latino	165.5	9.6	2.4	0.2
Other or Multiple Race	657.2	11.3	11.0	1.0

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Source: Federal Reserve, Survey of Consumer Finances

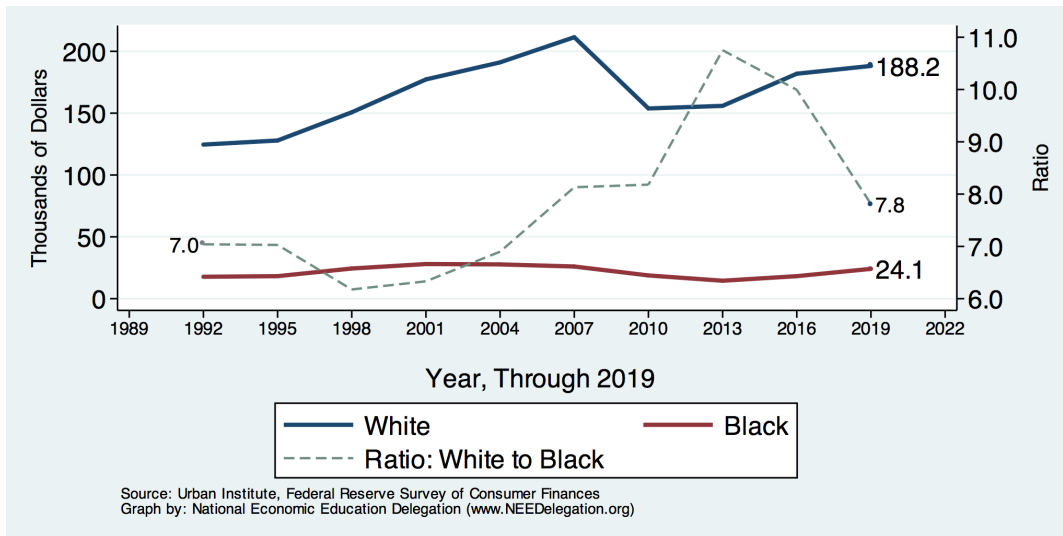
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Wealth Gap Over Time: Mean

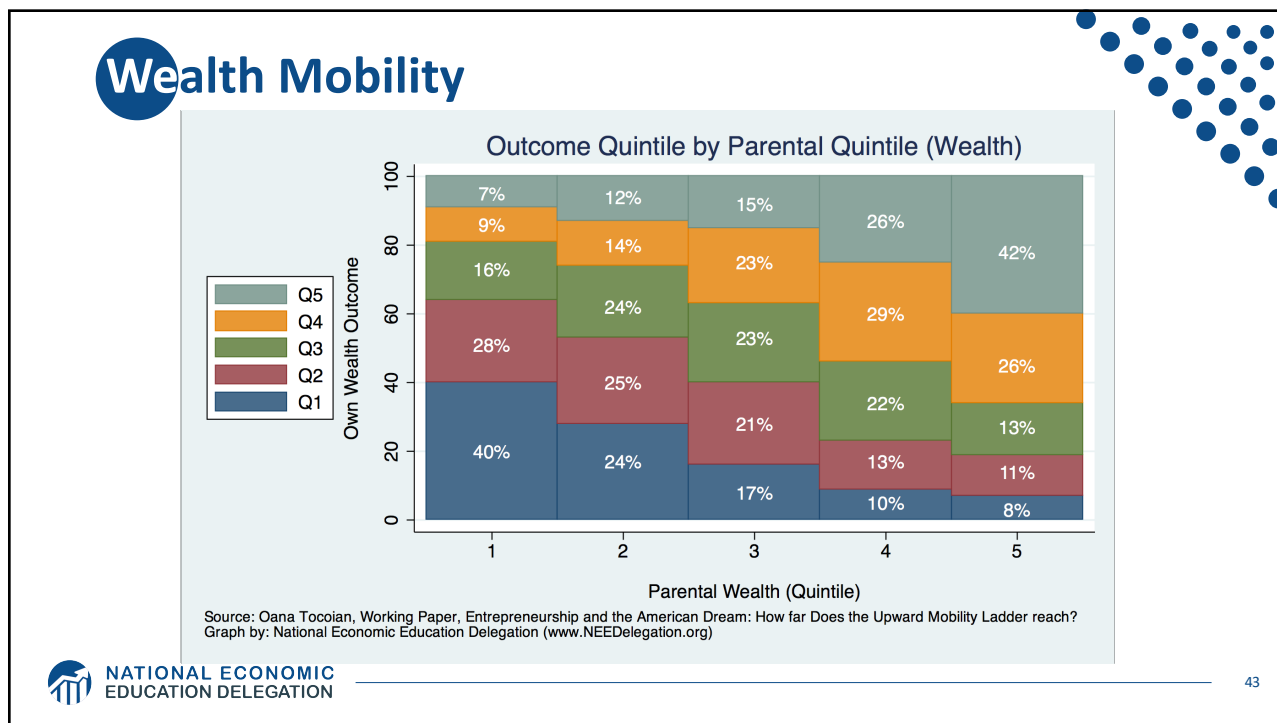


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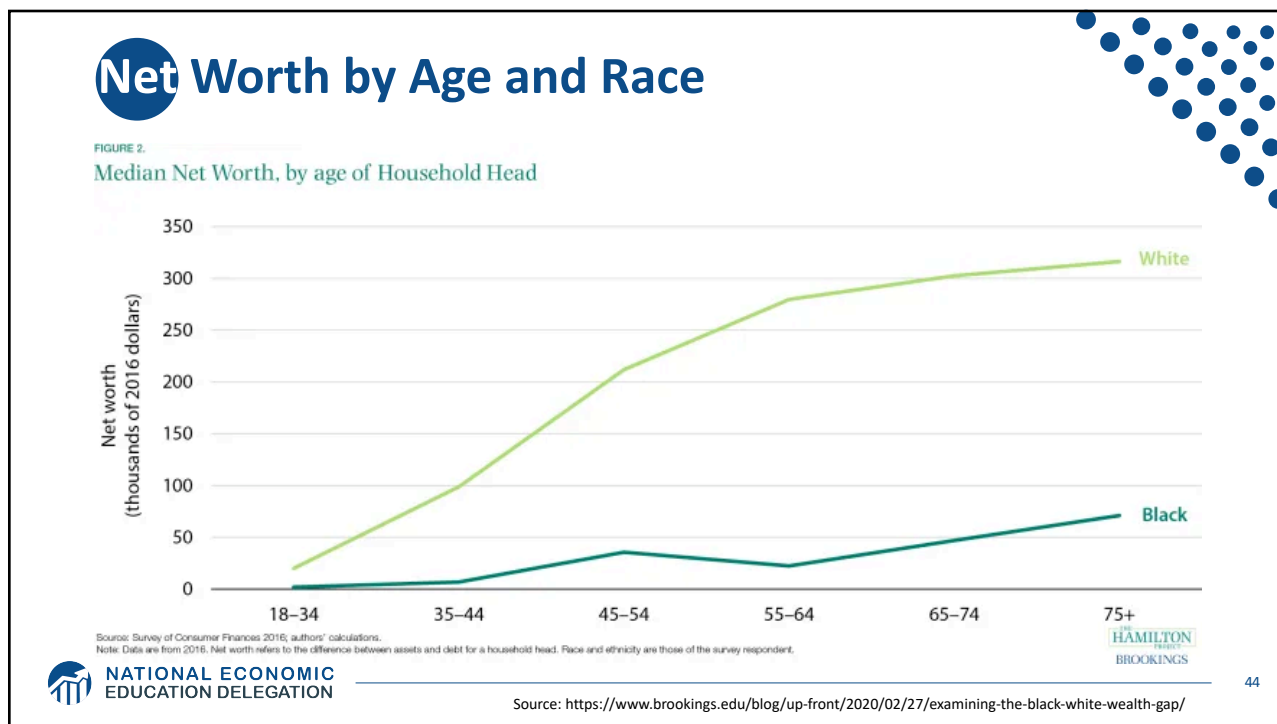
Wealth Gap Over Time: Median



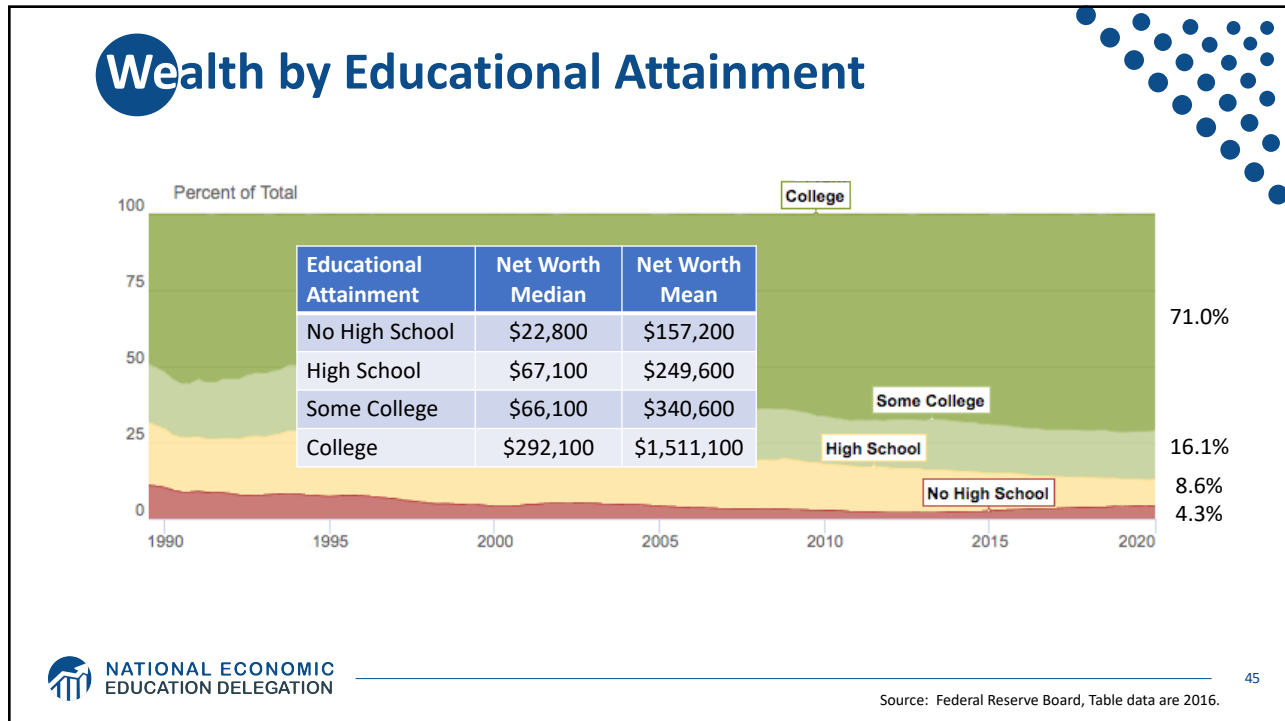
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Educational Attainment: Policy

- **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

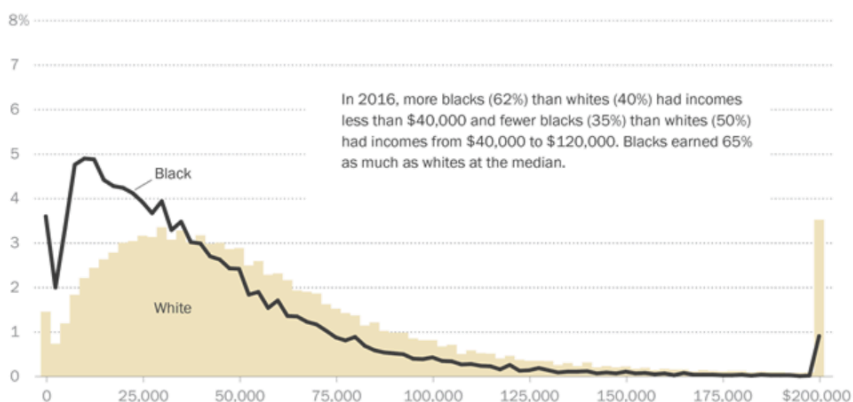
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Financial Literacy

- 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.

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

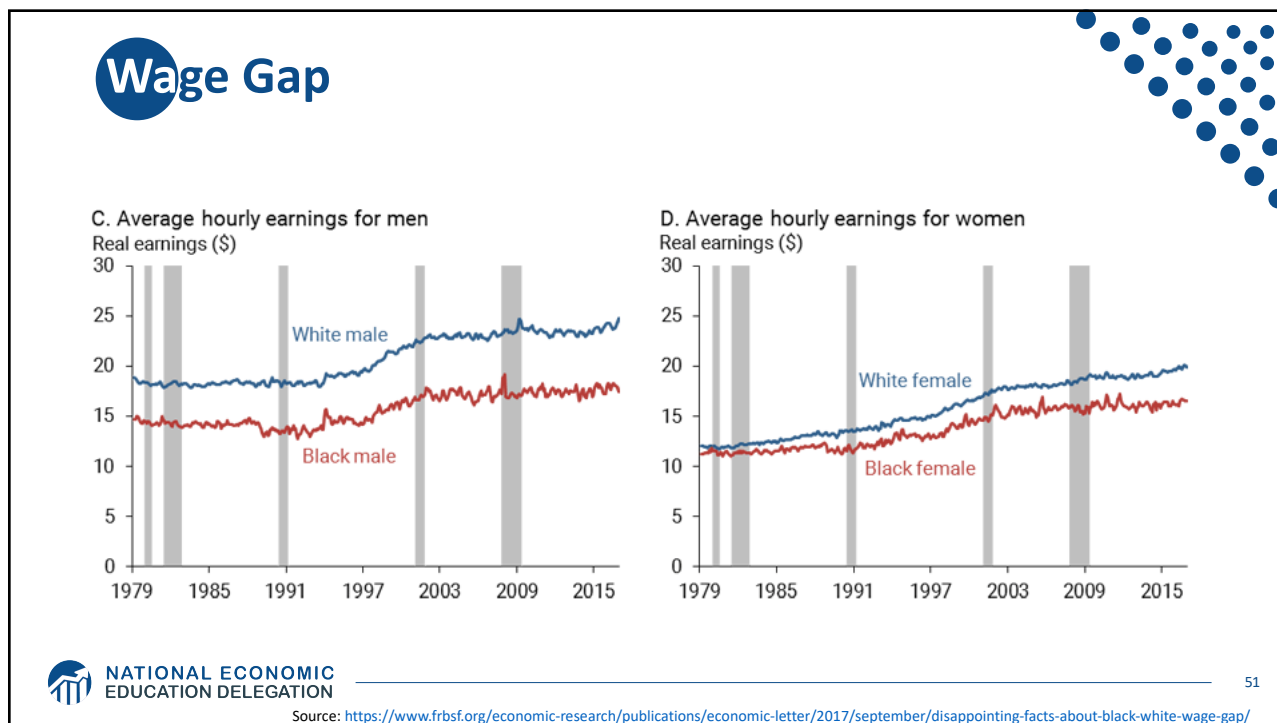
- **Employability**

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

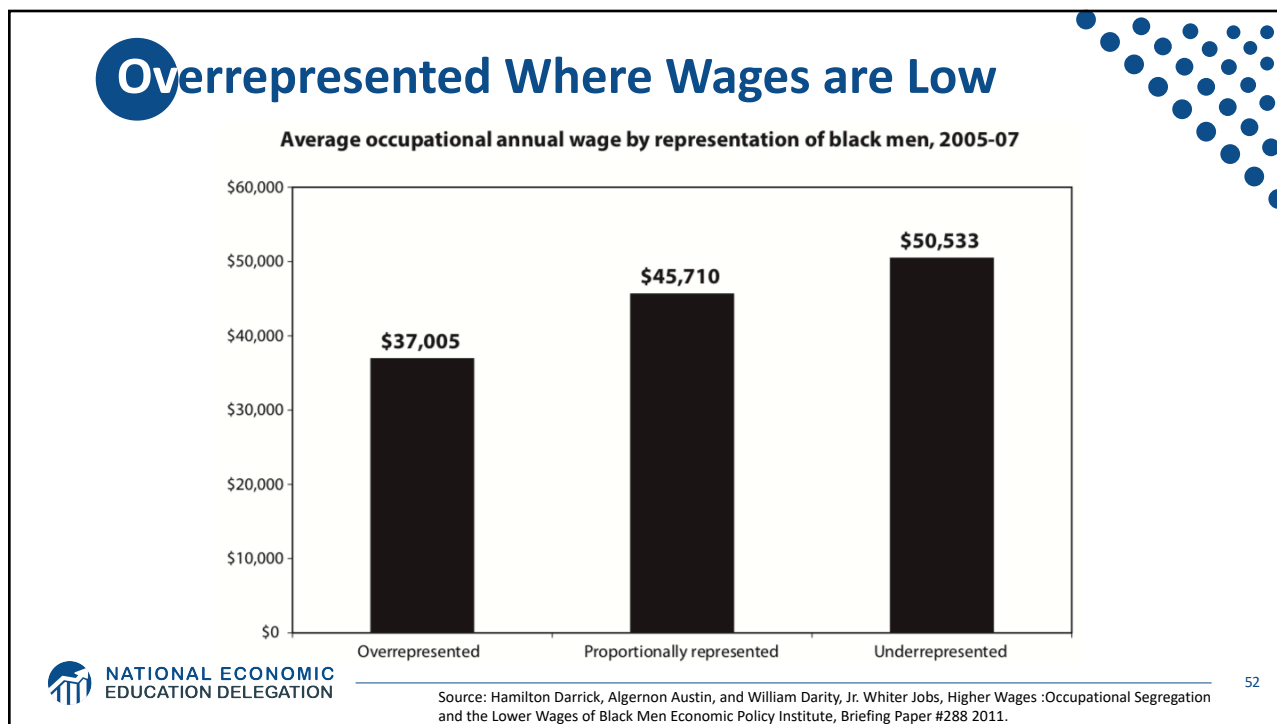
- **Reality**

- 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.

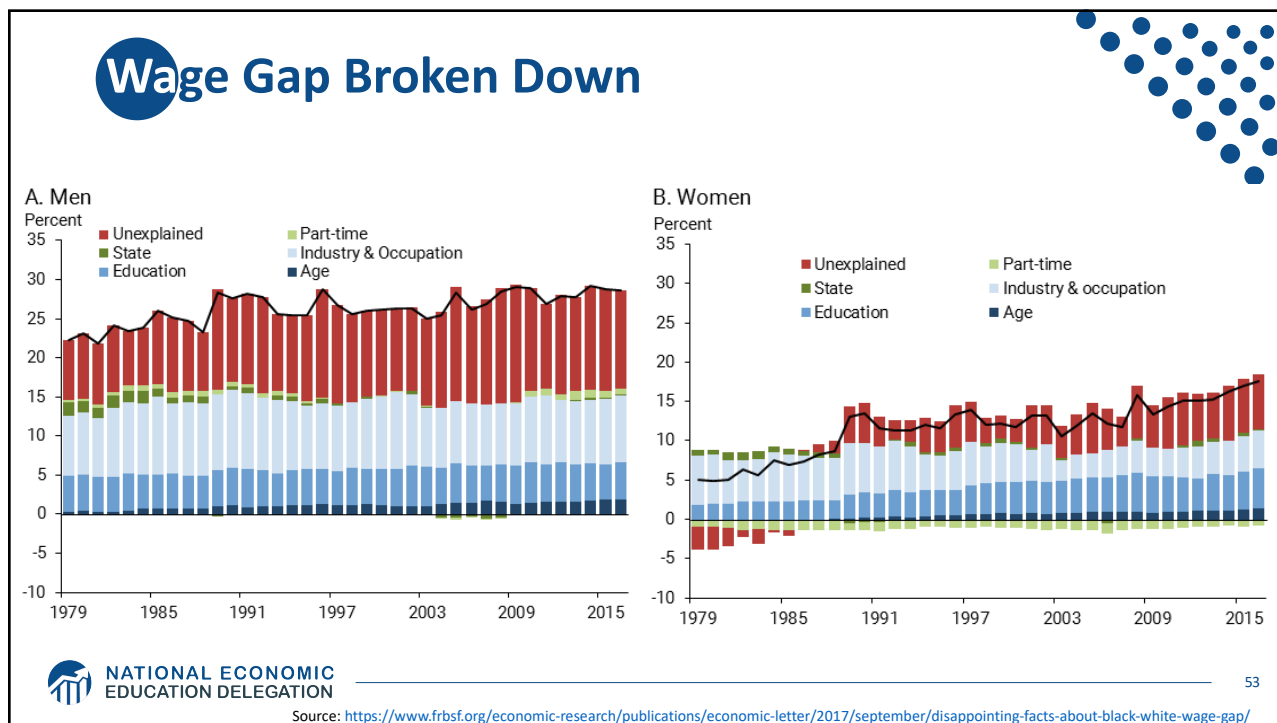




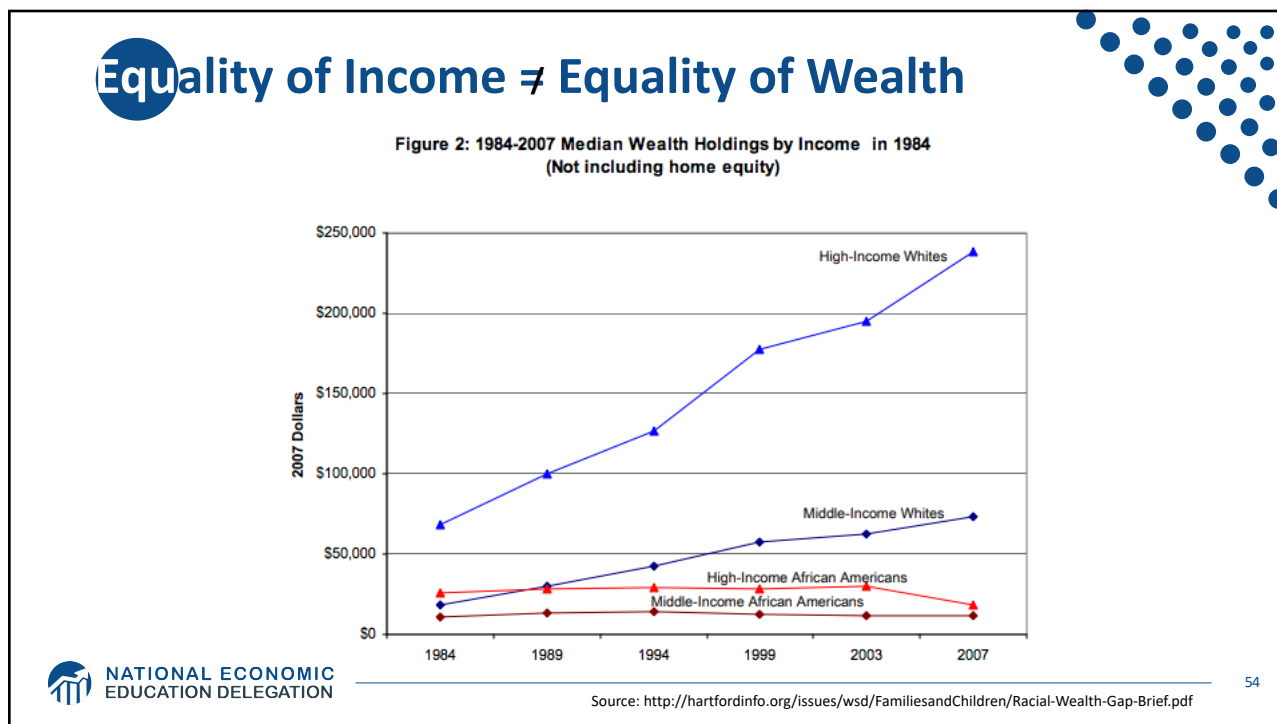
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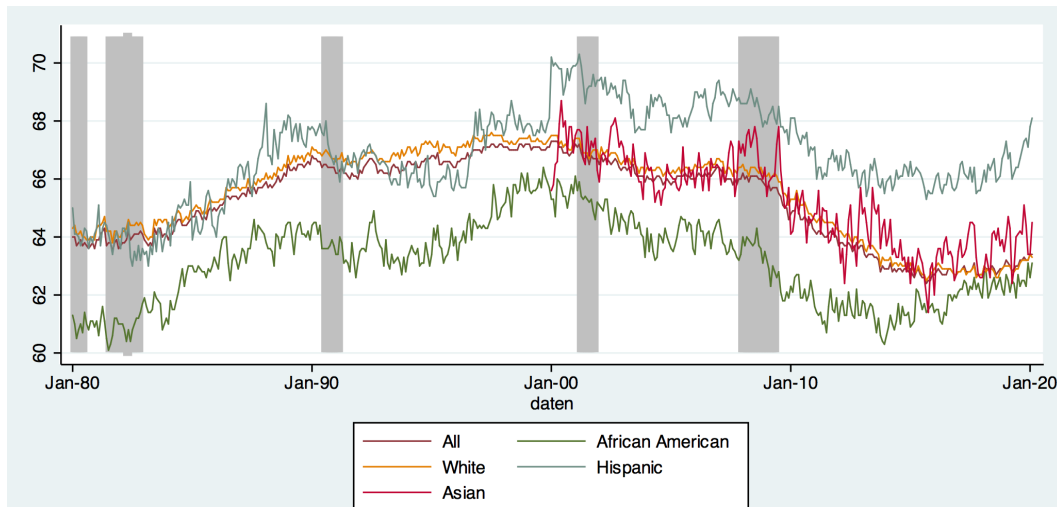


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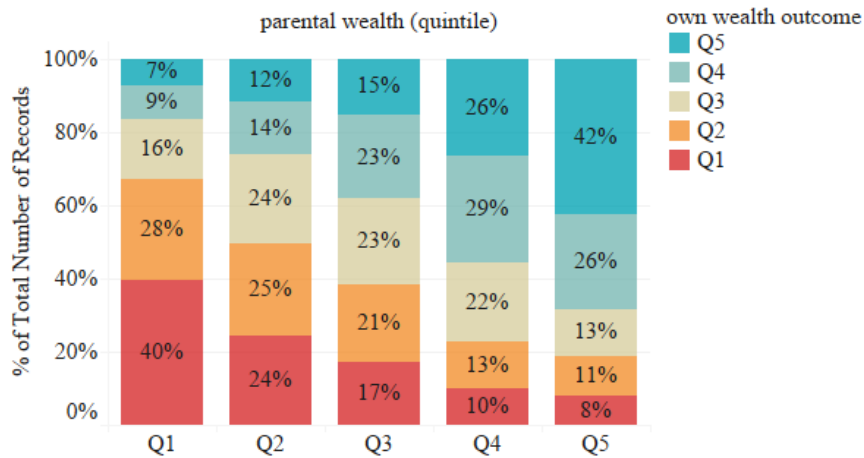
Labor Force Participation



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Initial Endowment

Outcome quintile by parental quintile (wealth)



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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%

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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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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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