

# 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



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## 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



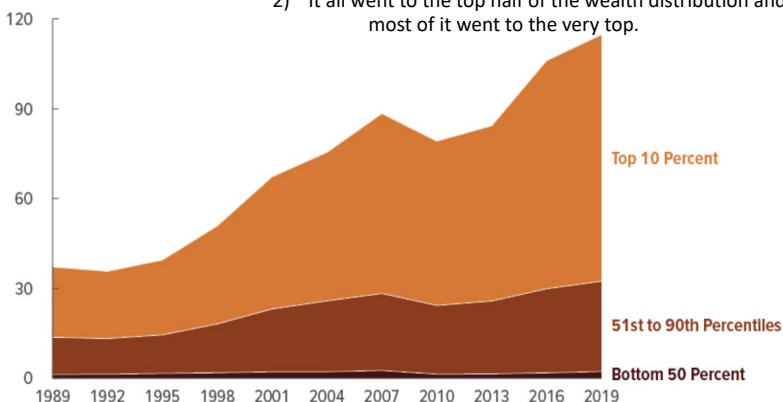
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## Total Family Wealth, by Wealth Group

Trillions of 2019 Dollars

Notes:

- 1) Tremendous growth in wealth between 1989 and 2019.
- 2) It all went to the top half of the wealth distribution and most of it went to the very top.

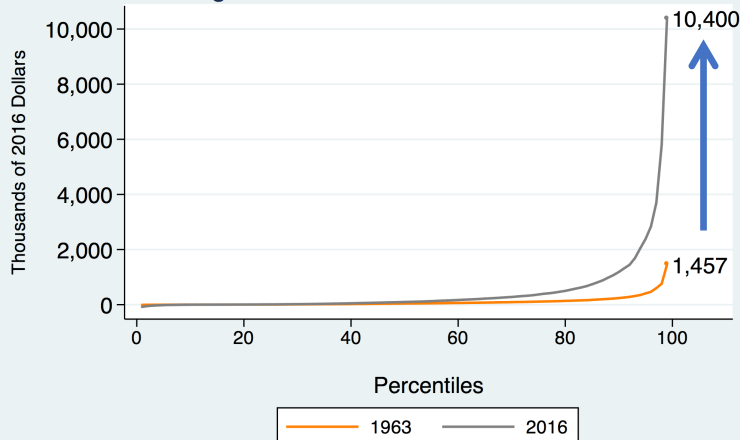


From 1989 to 2019, the total wealth held by families in the top 10 percent of the wealth distribution increased from \$24.3 trillion to \$82.4 trillion (or by 240 percent), the wealth held by families in the 51st to 90th percentiles increased from \$12.7 trillion to \$30.2 trillion (or by 137 percent), and the wealth held by families in the bottom half of the distribution increased from \$1.4 trillion to \$2.3 trillion (or by 65 percent).

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## Wealth is More and More Concentrated

Change in the Wealth Distribution: 1963 to 2016



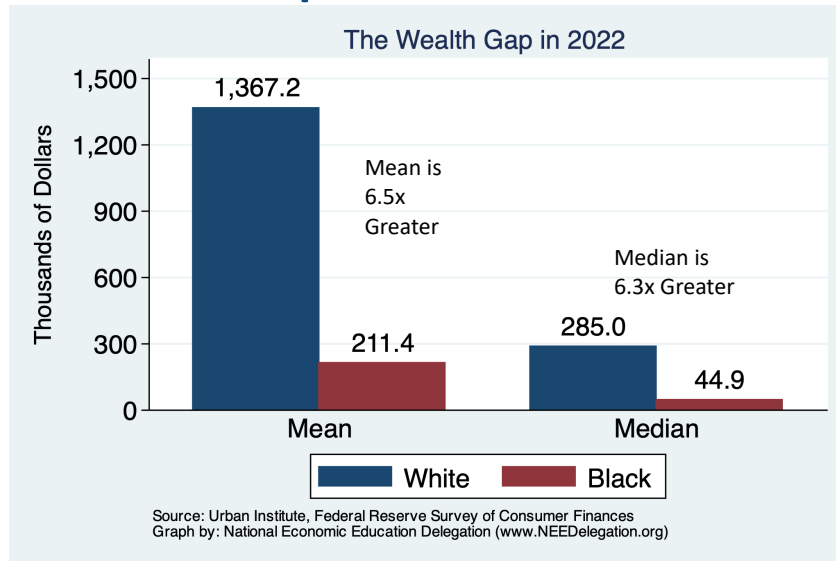
99<sup>th</sup> Percentile 2016 = 7x 1963

Source: Urban Institute from Survey of Consumer Finances  
Produced by: National Economic Education Delegation ([www.NEEDelegation.org](http://www.NEEDelegation.org))

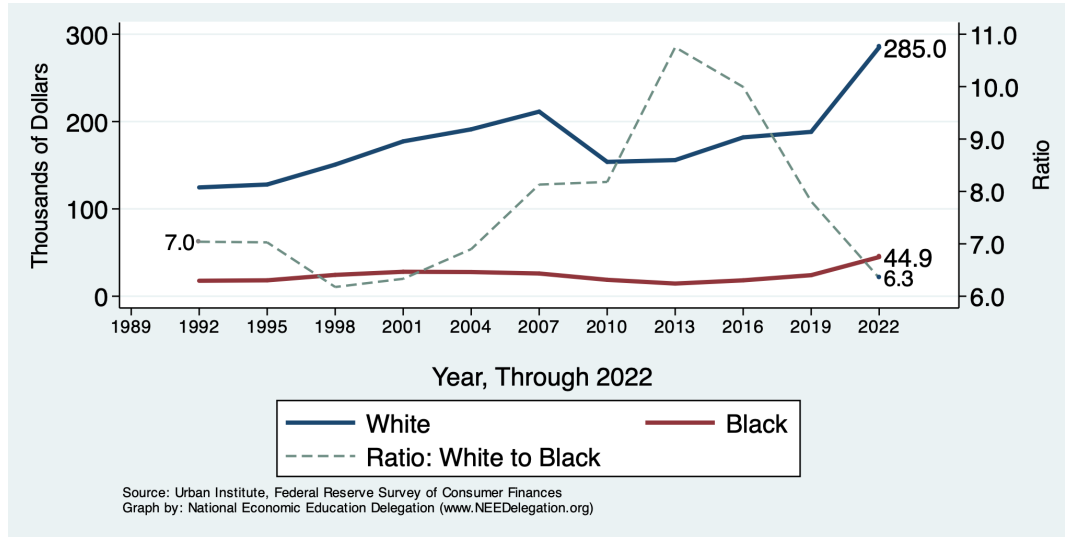
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# Black-White Wealth Gap

## Evidence of the Gap

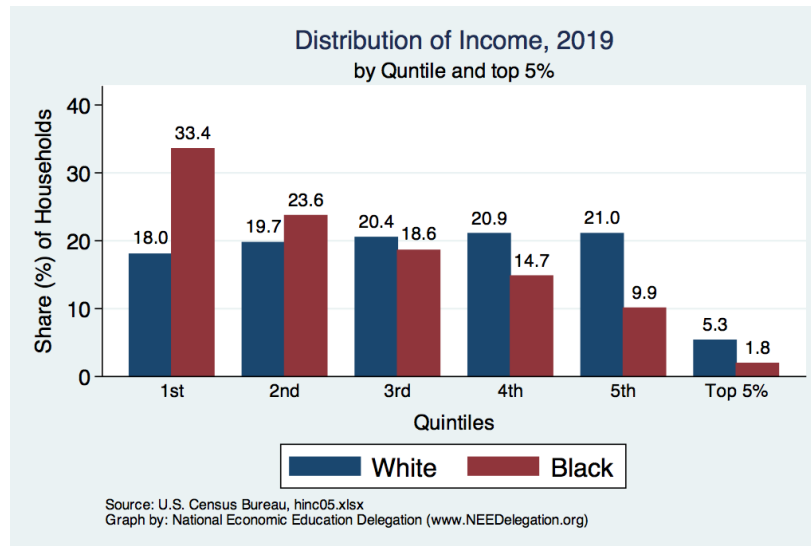


## Wealth Gap Over Time: Median

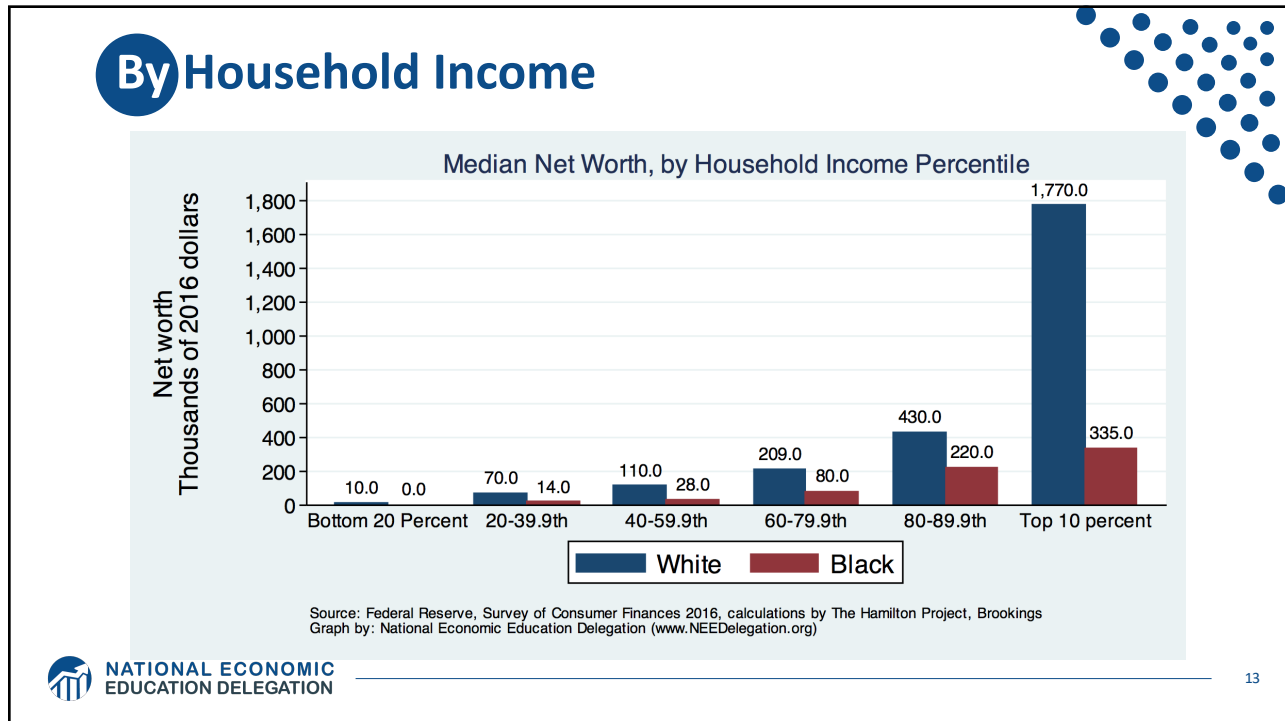


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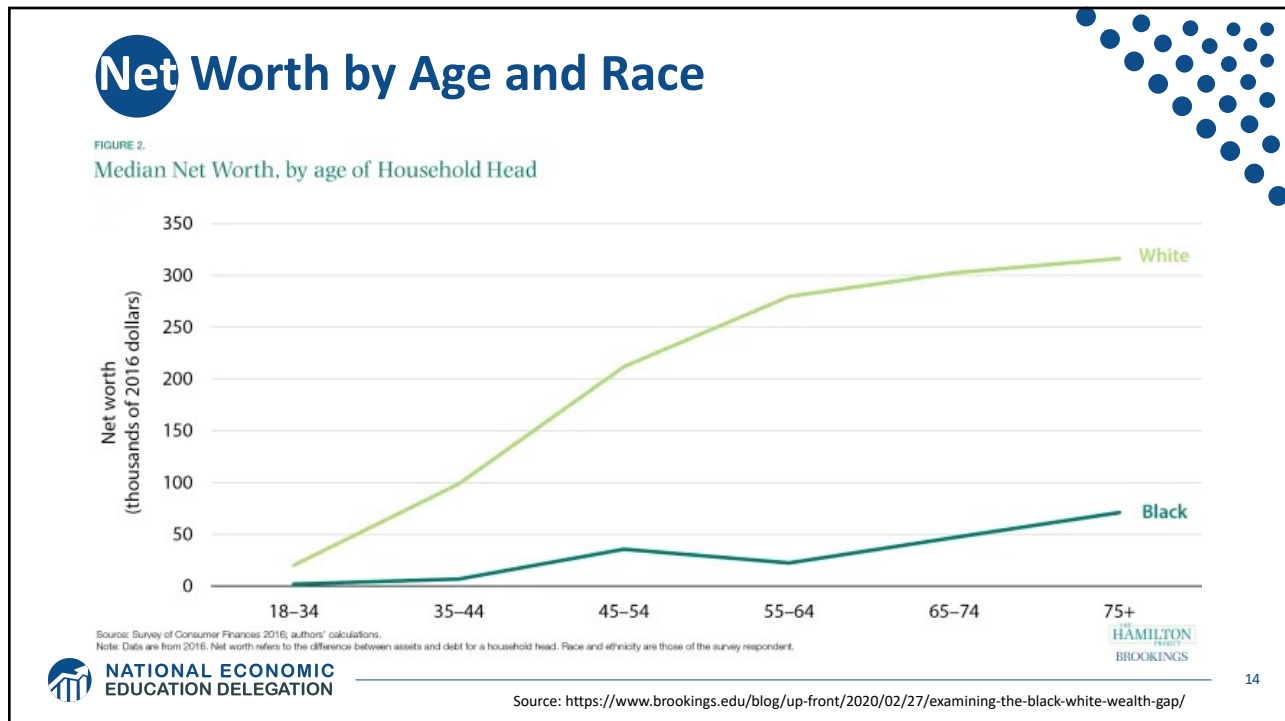
## Black Household Incomes Relative to White



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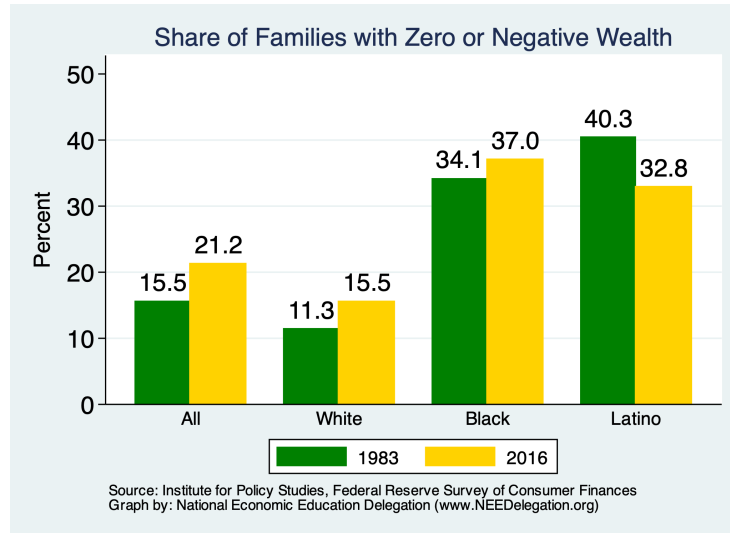


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## Evidence of Disparities: Zero Wealth



## 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.



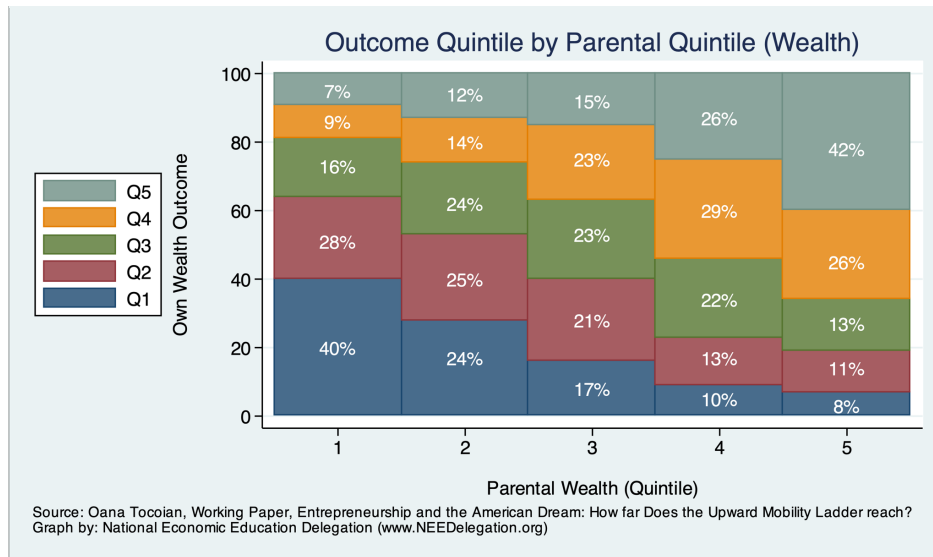
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# Parental Wealth is Important

- **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



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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.***



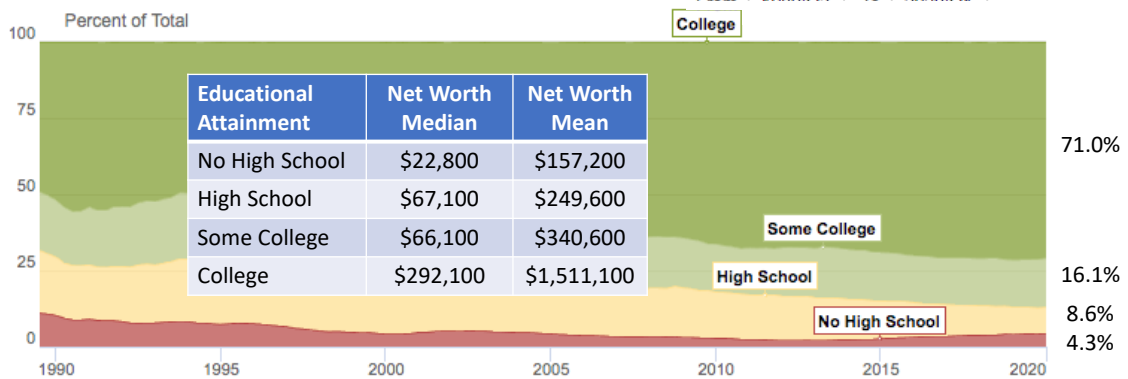
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## Potential Explanations: Differences in...

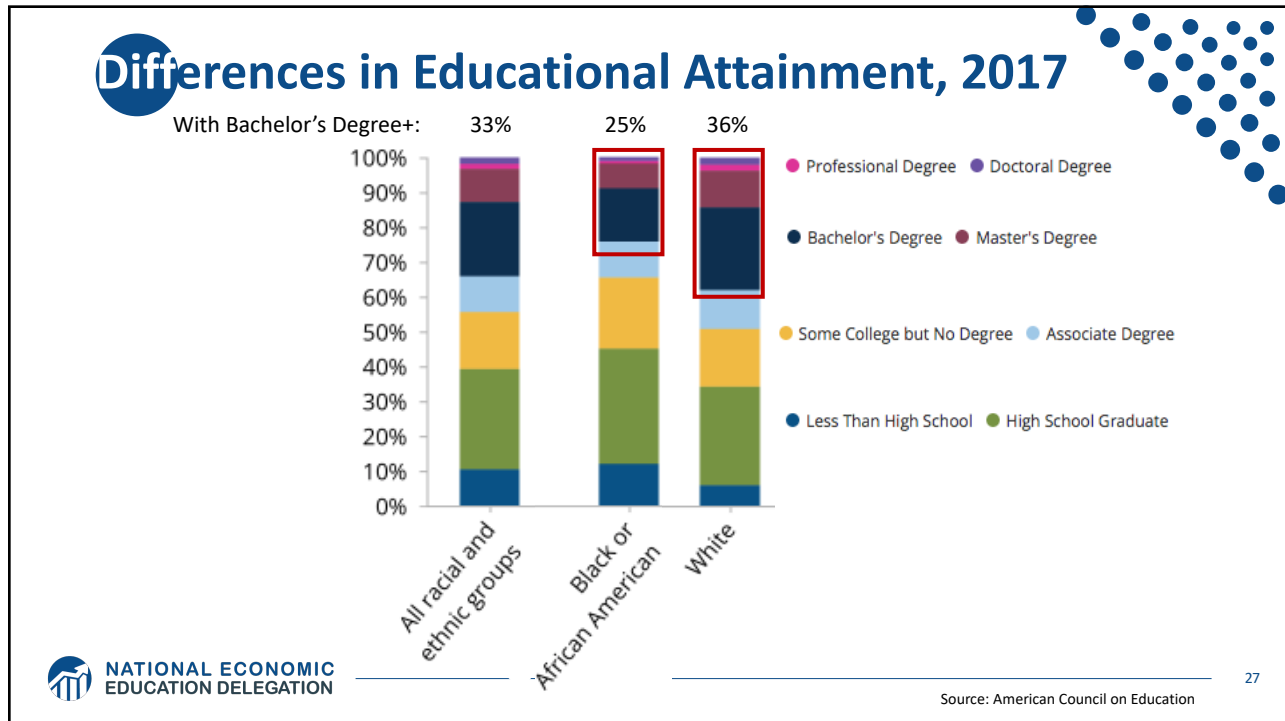
- Educational attainment
- Home ownership
- Increased savings
- Financial literacy
- Entrepreneurship
- Soft skills and personal responsibility
- Wages
- Labor force participation
- Family structure
- Initial endowment

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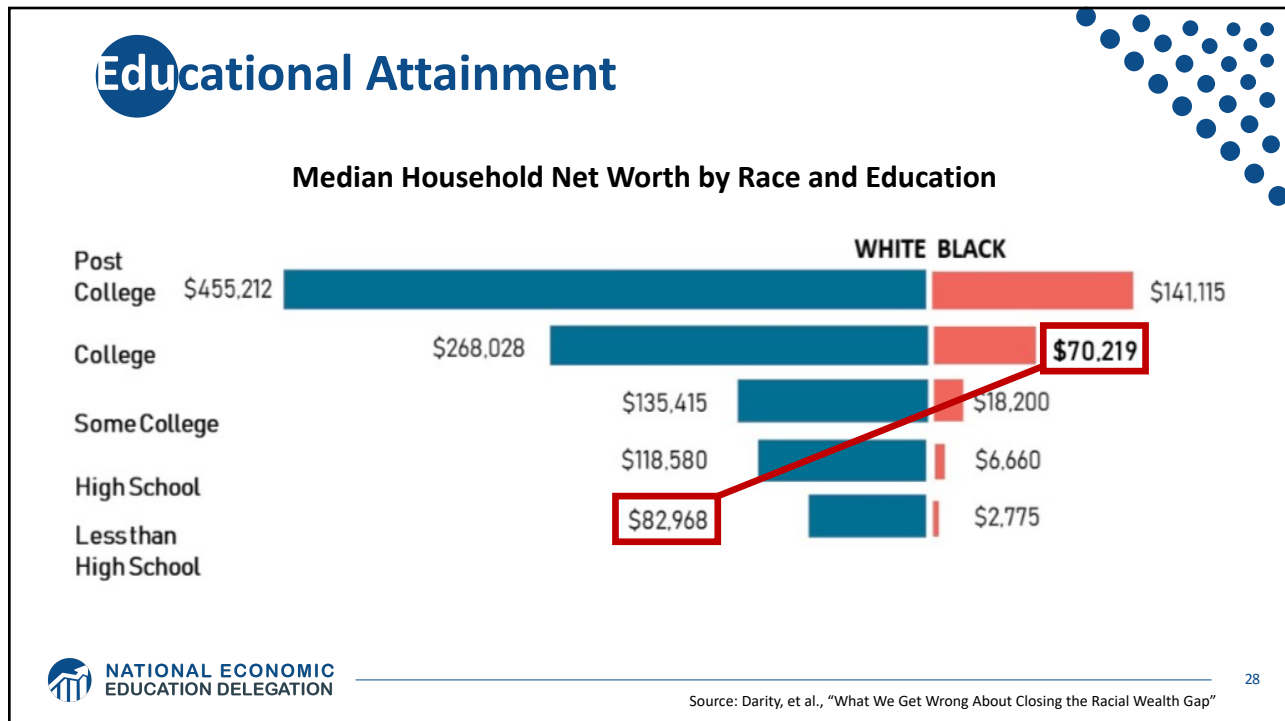
## Wealth by Educational Attainment



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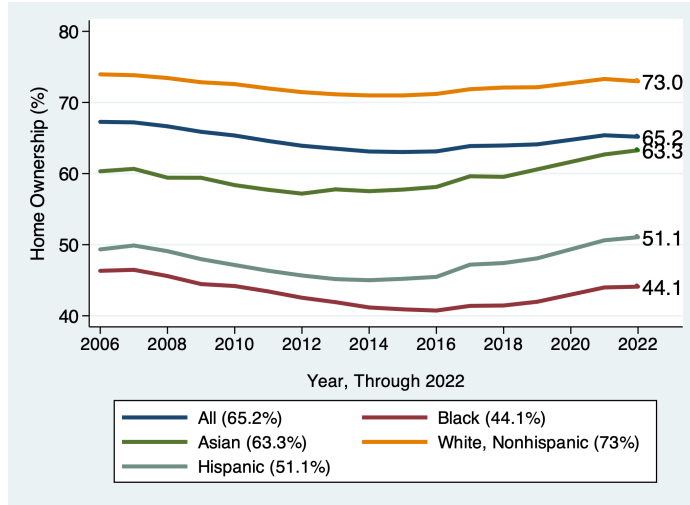


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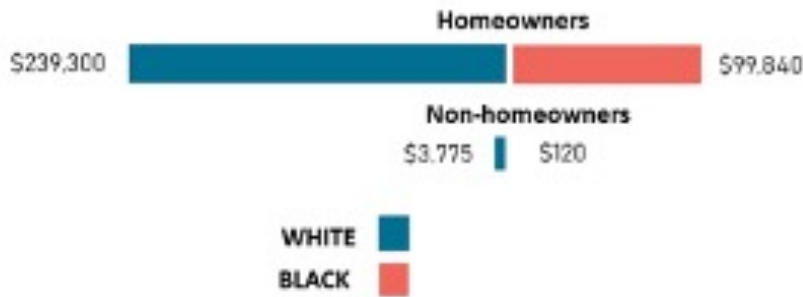
# Home Ownership



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# 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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## 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.
    - 23% lower 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.**
  - This makes it a less attractive investment.



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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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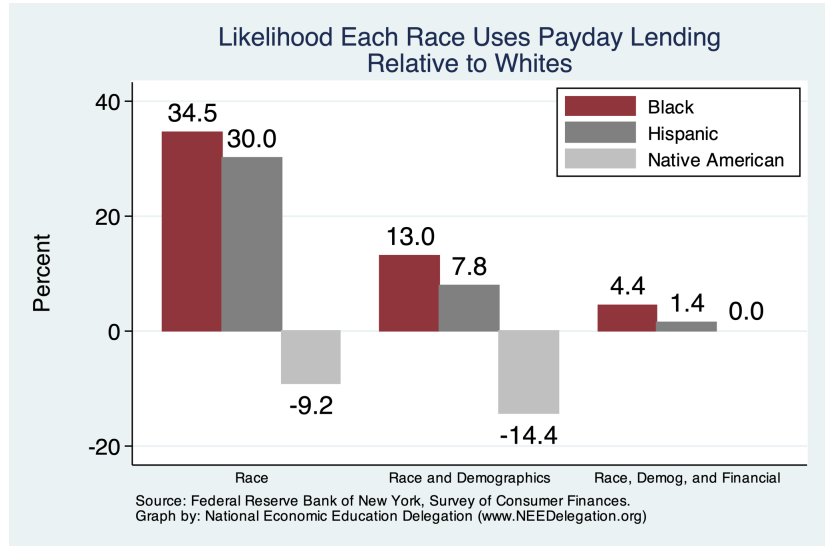
## Financial Literacy

- **Financial literacy 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

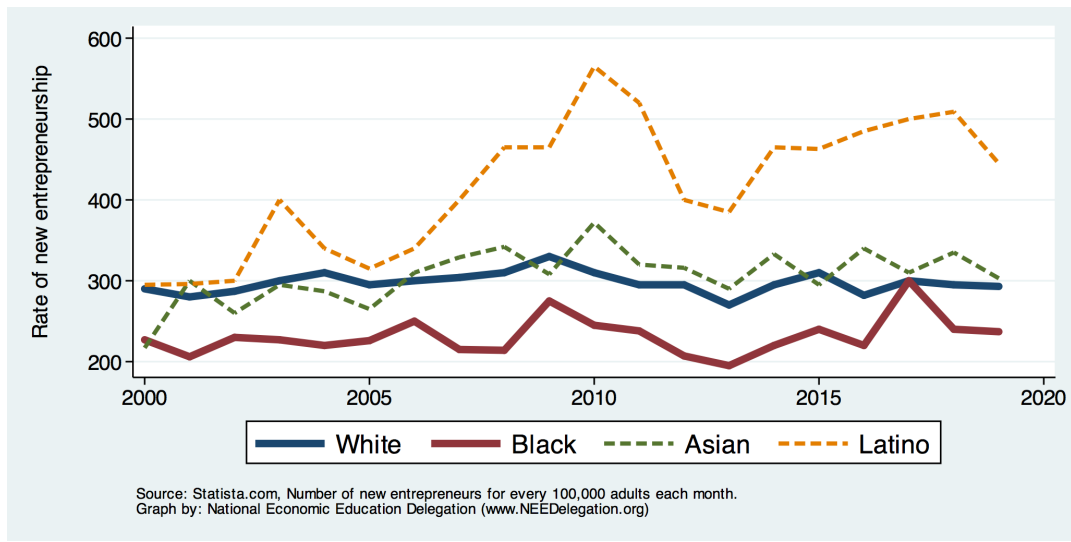


Source: Federal Reserve Bank of New York; Survey of Consumer Finances

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## Entrepreneurship: Rate of New Entrepreneurs



Source: Statistica

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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**

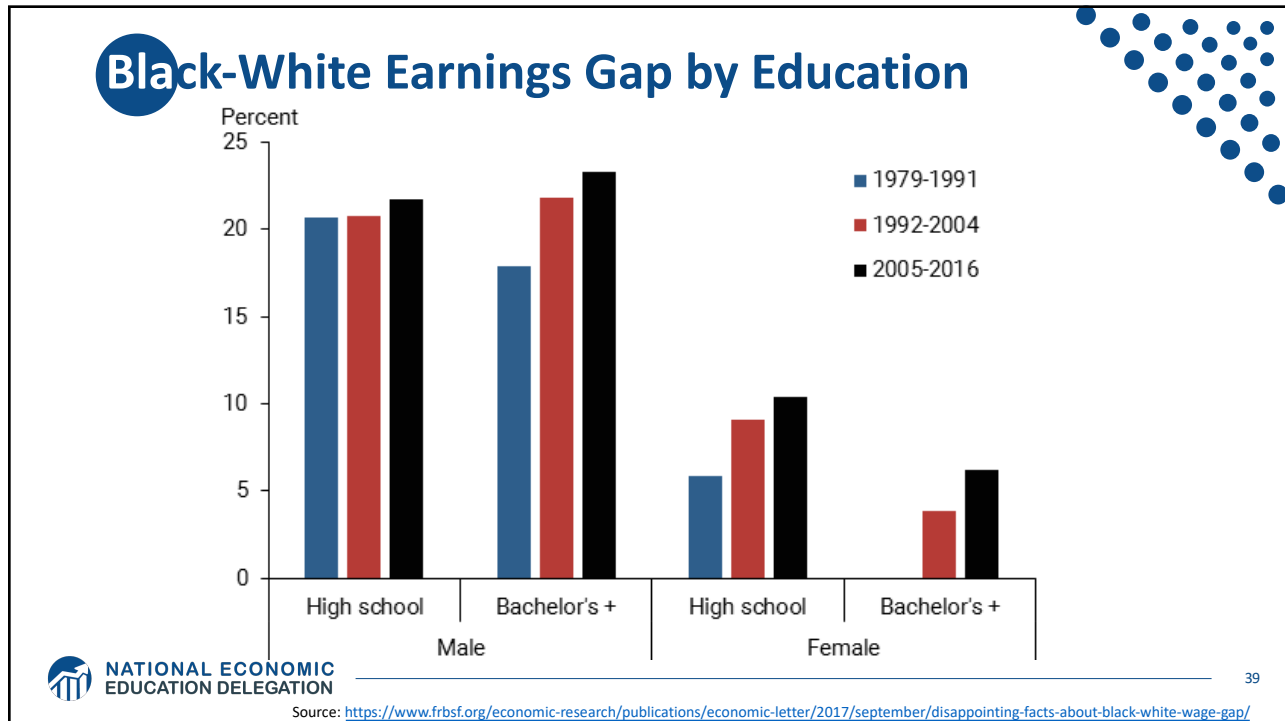
- Show up on time
- Eye contact with customers
- Dress well
- Collaborative skills

- **Reality**

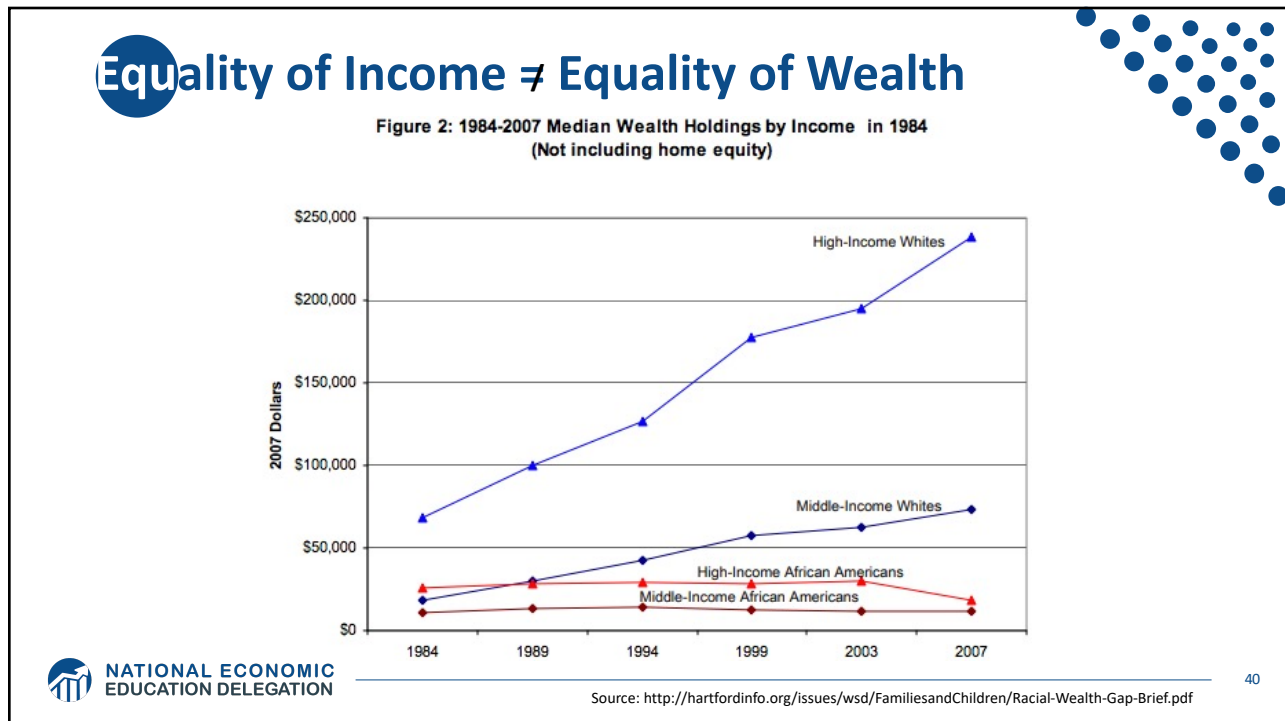
- Black workers are crowded into service sector jobs.
- Well represented in service, sales and office, and production, transportation, and material moving
- Relatively less well represented in construction, extraction, and maintenance.



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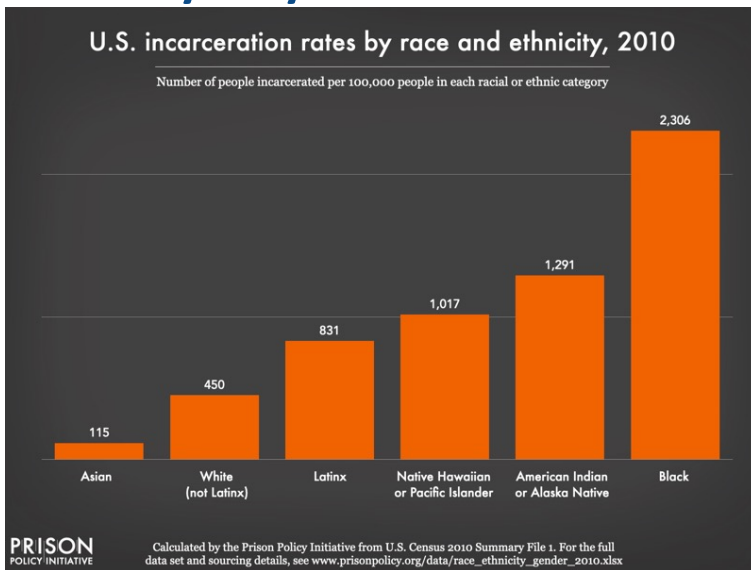


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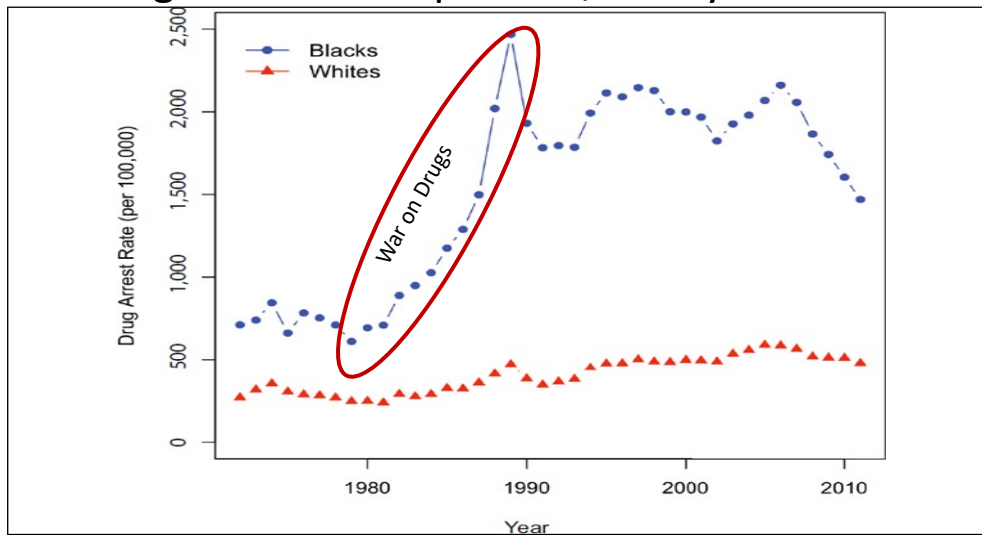
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# Incarceration Likely Plays A Role

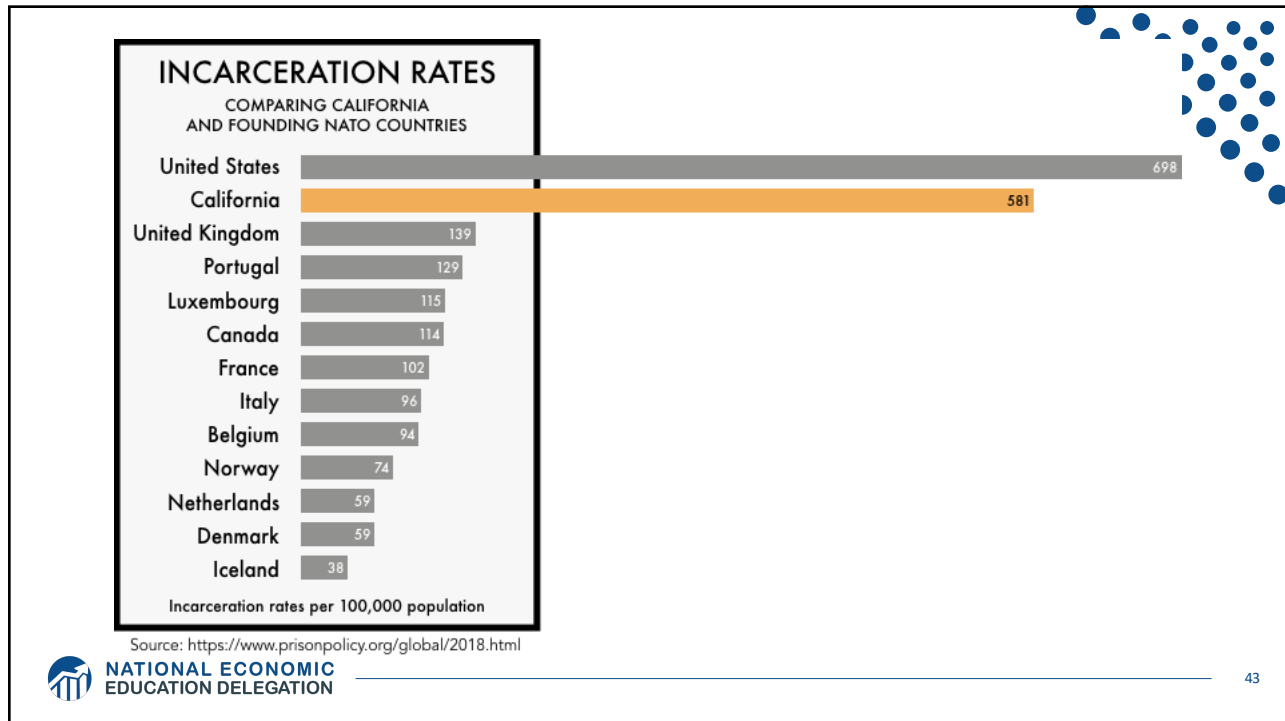


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# US Drug Arrest Rates per 100,000 by Race



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## Family Structure

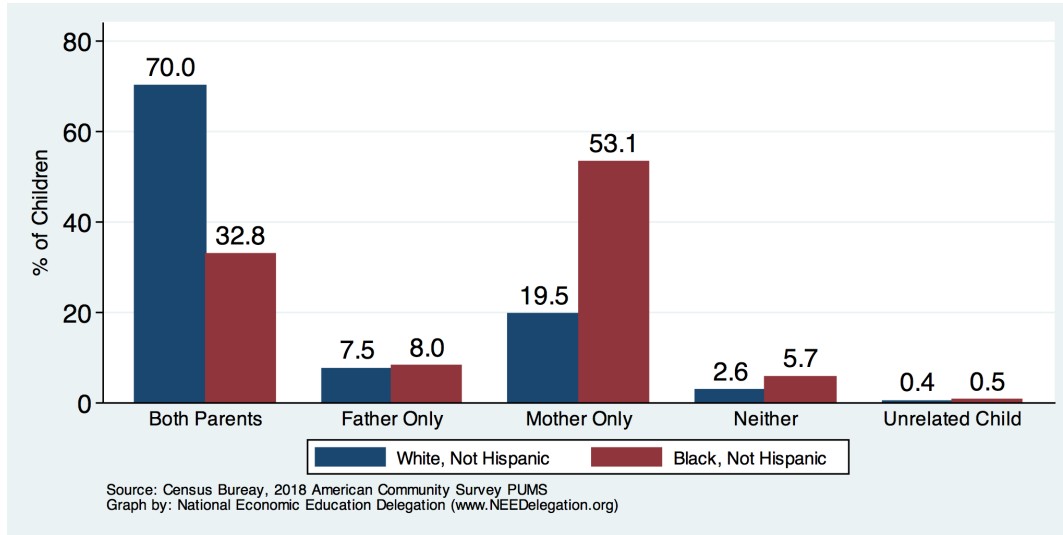
AGE	No Bachelor's Degree				With Bachelor's Degree			
	MARRIED		SINGLE		MARRIED		SINGLE	
	BLACK	WHITE	BLACK	WHITE	BLACK	WHITE	BLACK	WHITE
20-29	\$4,000	\$13,000	\$0	\$2,000	\$7,700	\$18,700	\$-11,000	\$3,400
30-39	\$12,000	\$33,450	\$0	\$0	\$-20,500	\$97,000	\$0	\$7,500
40-49	\$22,501	\$60,000	\$1,000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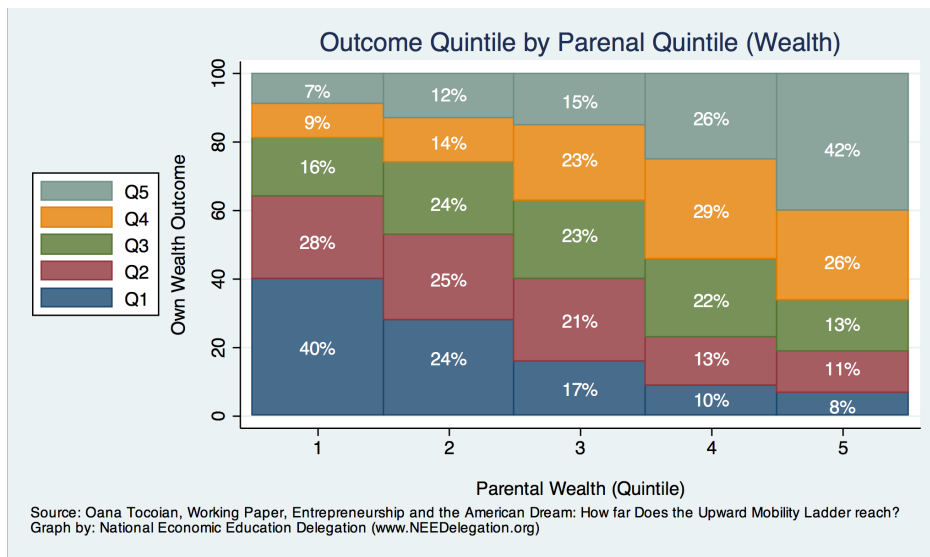
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## Kids – Household Types



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## Wealth Mobility

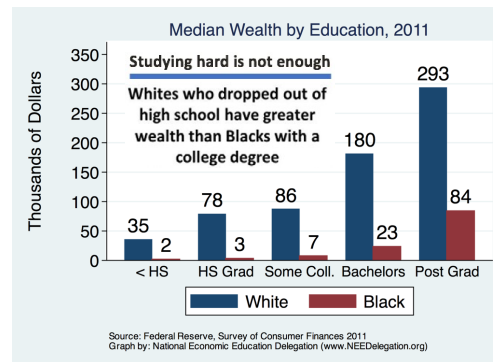
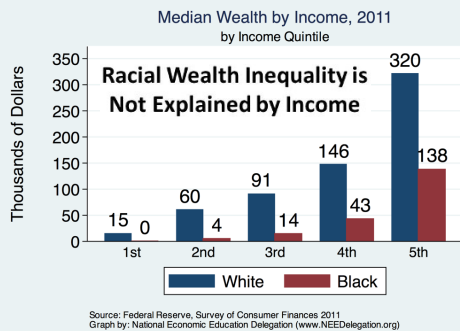
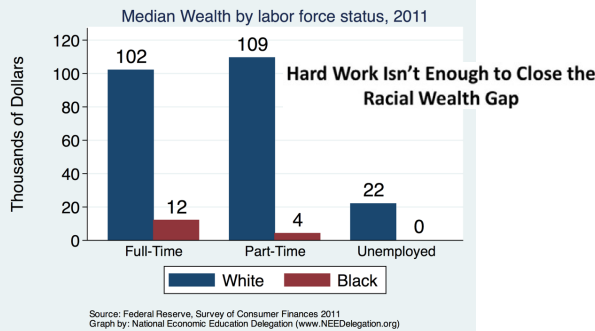


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# What is Fundamentally Responsible?

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

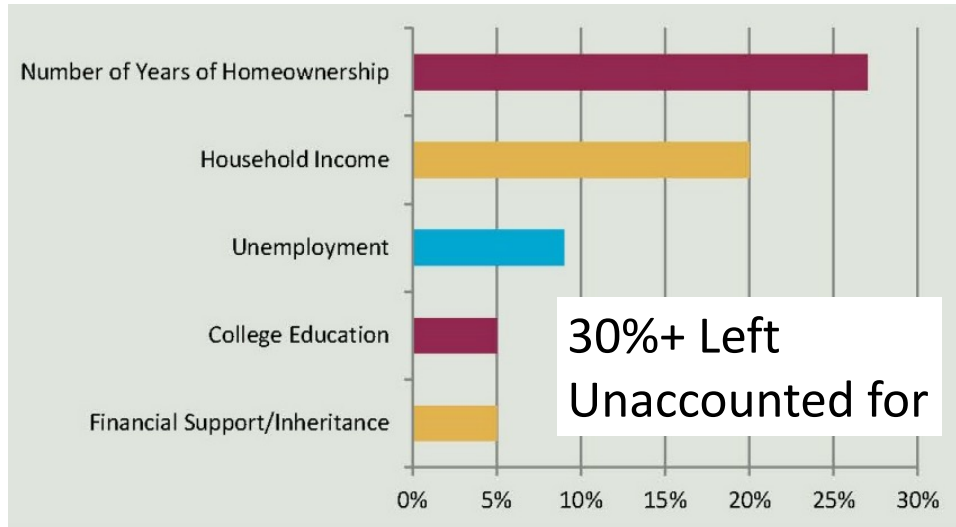
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## Accounting for the Wealth Gap



## 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**



## Reform Criminal Justice System

- **Legal restrictions on the rights of people who have had contact with the criminal justice system, particularly contact resulting in conviction.**
- **Usually placed in civil and regulatory codes, collateral consequences may limit a person's:**
  - ability to vote
  - live in public housing
  - qualify for an occupational license
  - serve in the military
  - receive public benefits (Food Stamps, housing vouchers)
  - sit on a jury
  - borrow money for college
  - And many more



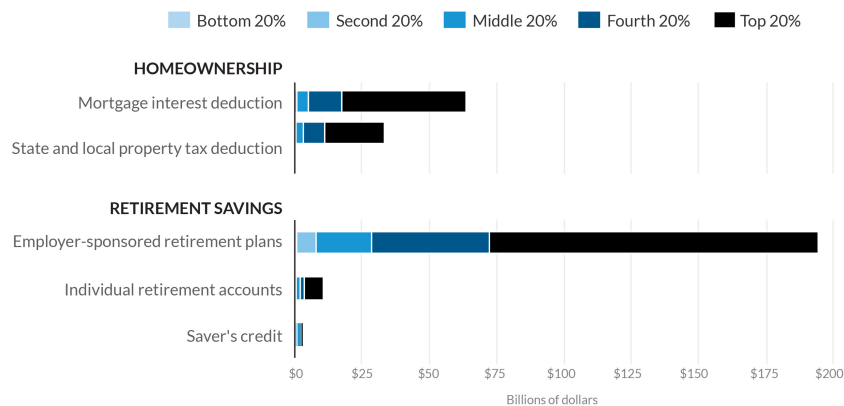
## Specific Policy Options

- **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.
    - o Differential tax treatment.
  - 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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## Gov't Asset Building Policies

Size and Distribution of Select Asset-Building Tax Subsidies, 2017



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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 (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.**
  - 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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