


# The Black-White Wealth Gap

Kiwanis Club of San Jose  
May 10, 2021


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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.



**INEQUALITY** Institute for Public Policy




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1

1

# 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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2

2

## 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



## Available NEED Topics Include:

- **Coronavirus 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**



## Credits and Disclaimer

- **This slide deck was authored by:**

- Darrick Hamilton, Ph.D., The New School
- Jon Haveman, Ph.D., NEED

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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).

5

## Outline

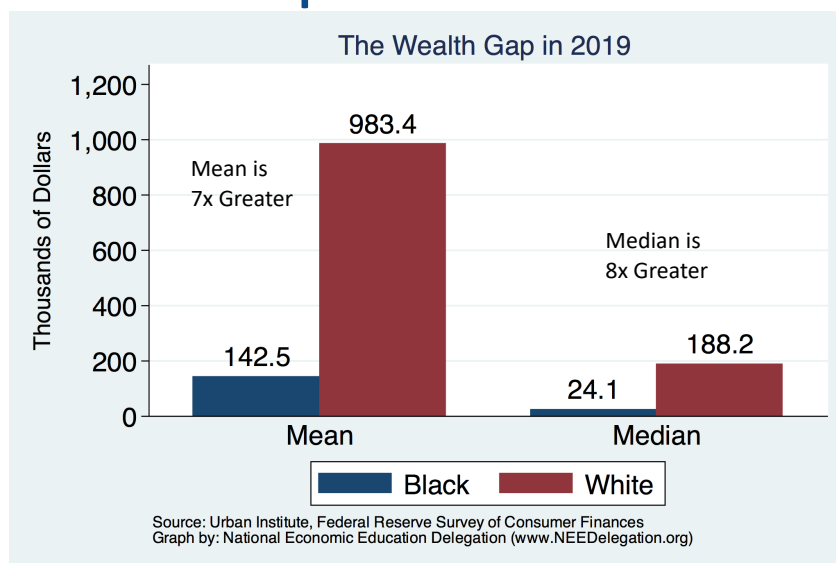
- **Evidence of disparities**
- **Why wealth is important**
- **Sources of disparities**
- **Implications of disparities**
- **Policy solutions**

6

# Evidence

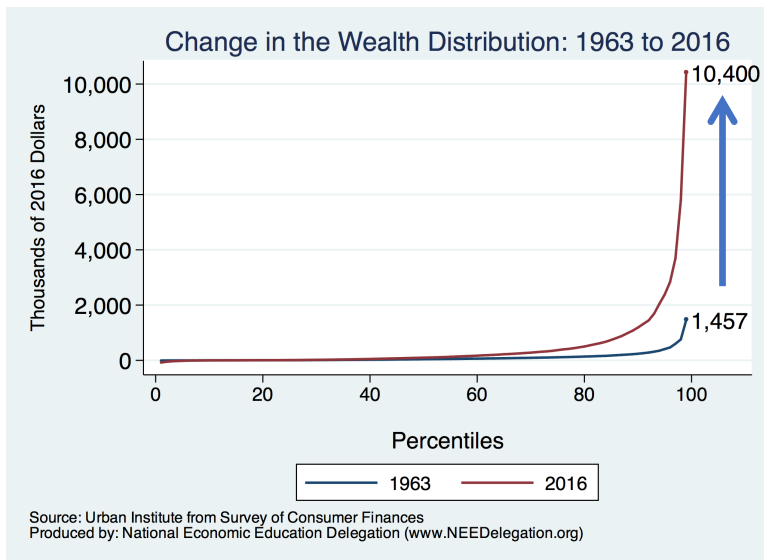
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## Evidence of the Gap



8

# Wealth is More and More Concentrated



# Why Wealth is Important

## Household Level Benefits

- **Choices/Life Agency**

- Finance elite 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

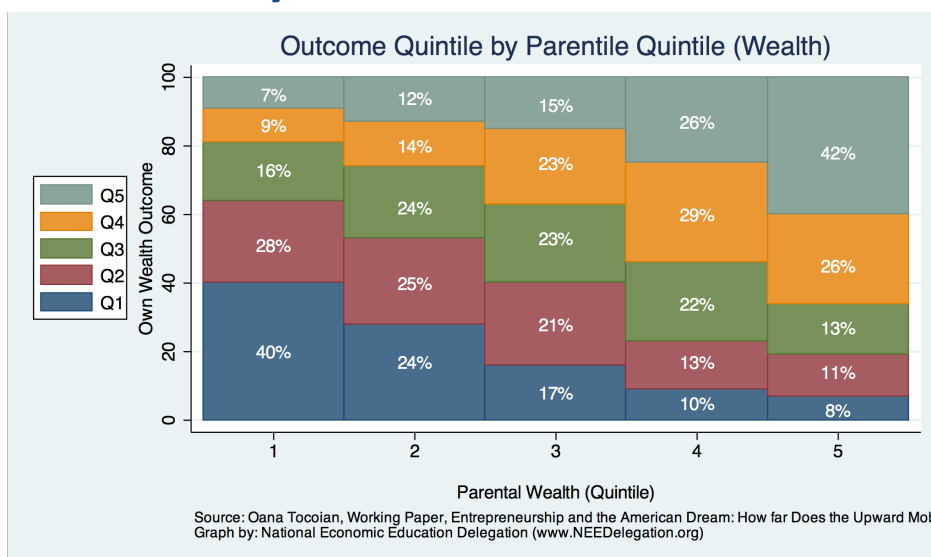
- **Wealth is iterative**

- Wealth begets more wealth.
  - o Access to higher return investments.
- Wealth transfers across generations.
  - o Wealth is sticky.



11

## Wealth Mobility



12

## 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

13

## Sources of Disparities

14

## 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.**



## 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.***



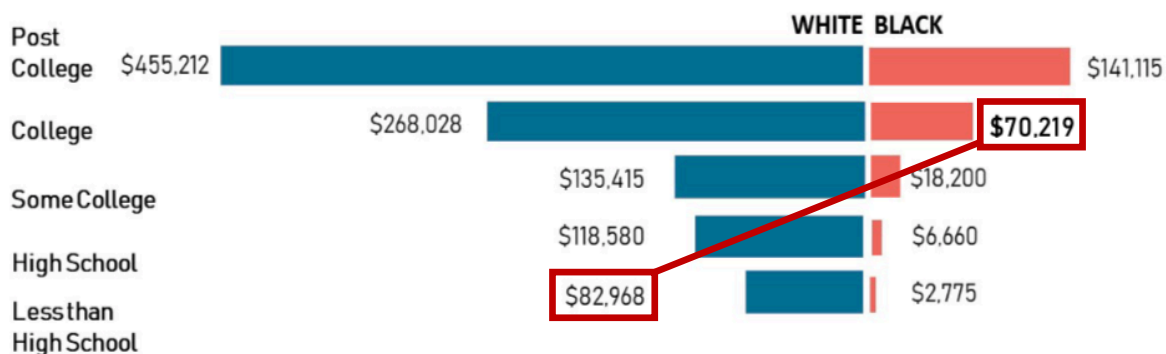


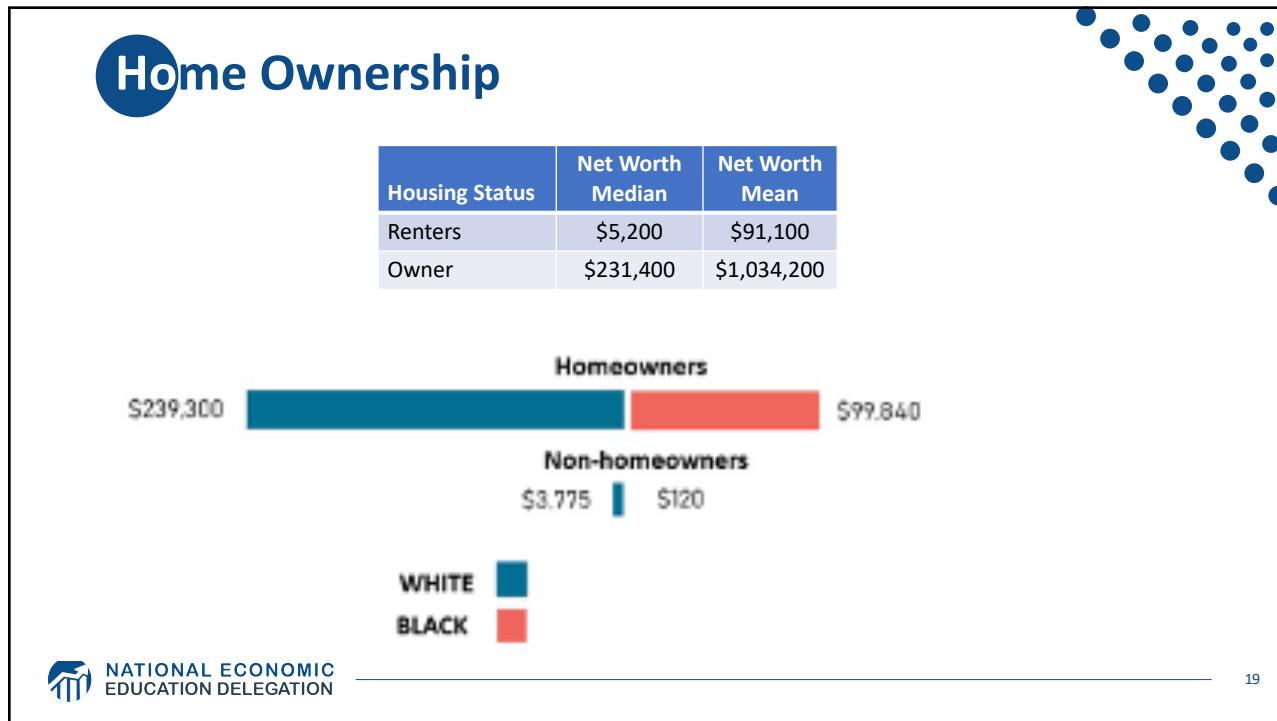
## Potential Explanations: Differences in...

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

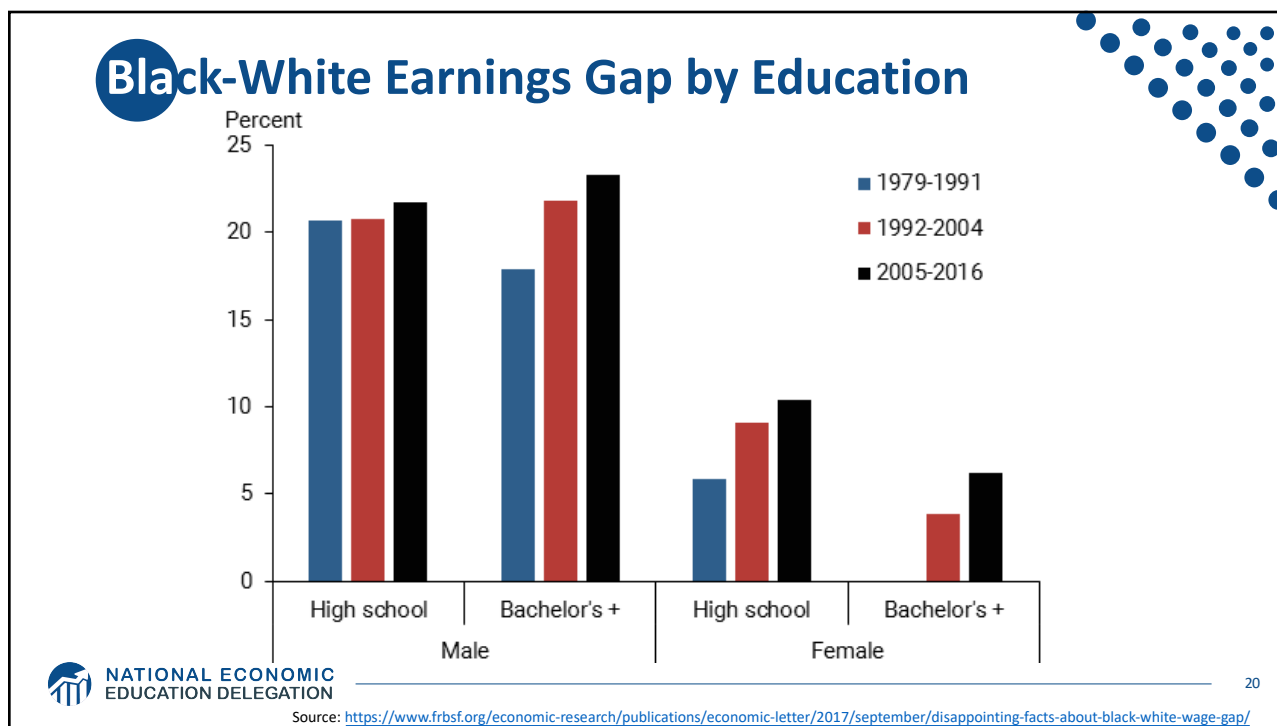
## Educational Attainment

Median Household Net Worth by Race and Education





19



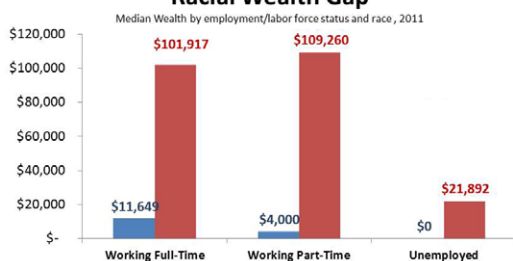
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# What is Fundamentally Responsible?

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

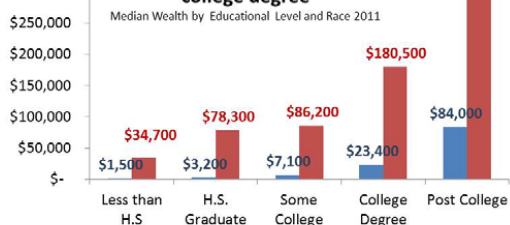
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## Hard Work Isn't Enough to Close the Racial Wealth Gap

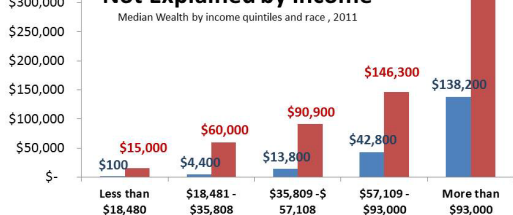


## Studying hard is not enough

Whites who dropped out of high school have greater wealth than Blacks with a college degree



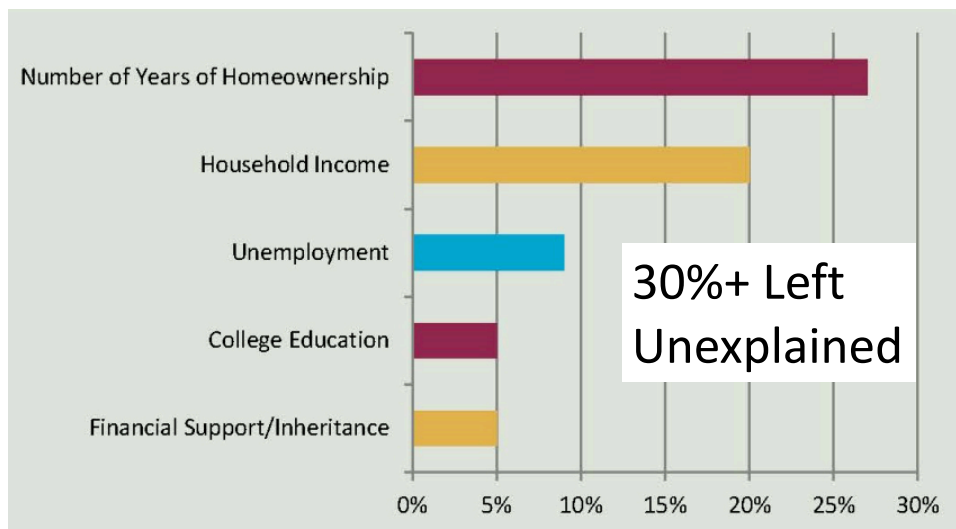
## Racial Wealth Inequality is Not Explained by Income



■ Black  
■ White

22

## Accounting for the Wealth Gap



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Source: <https://heller.brandeis.edu/iasp/pdfs/racial-wealth-equity/racial-wealth-gap/roots-widening-racial-wealth-gap.pdf>

23

23

## Policy Options



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24

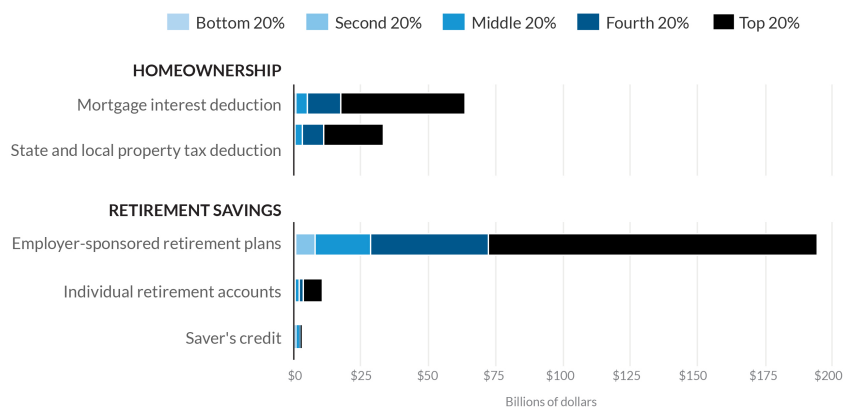
24

## 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**

## 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).

## 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.
  - Labor and other laws that address discrimination
    - Enforce more aggressively and make adjustments where necessary to increase efficacy.
  - Fundamental reorientation of asset building agenda.

27

## 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.

28

## 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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29

29

## Thank you!

# Any Questions?

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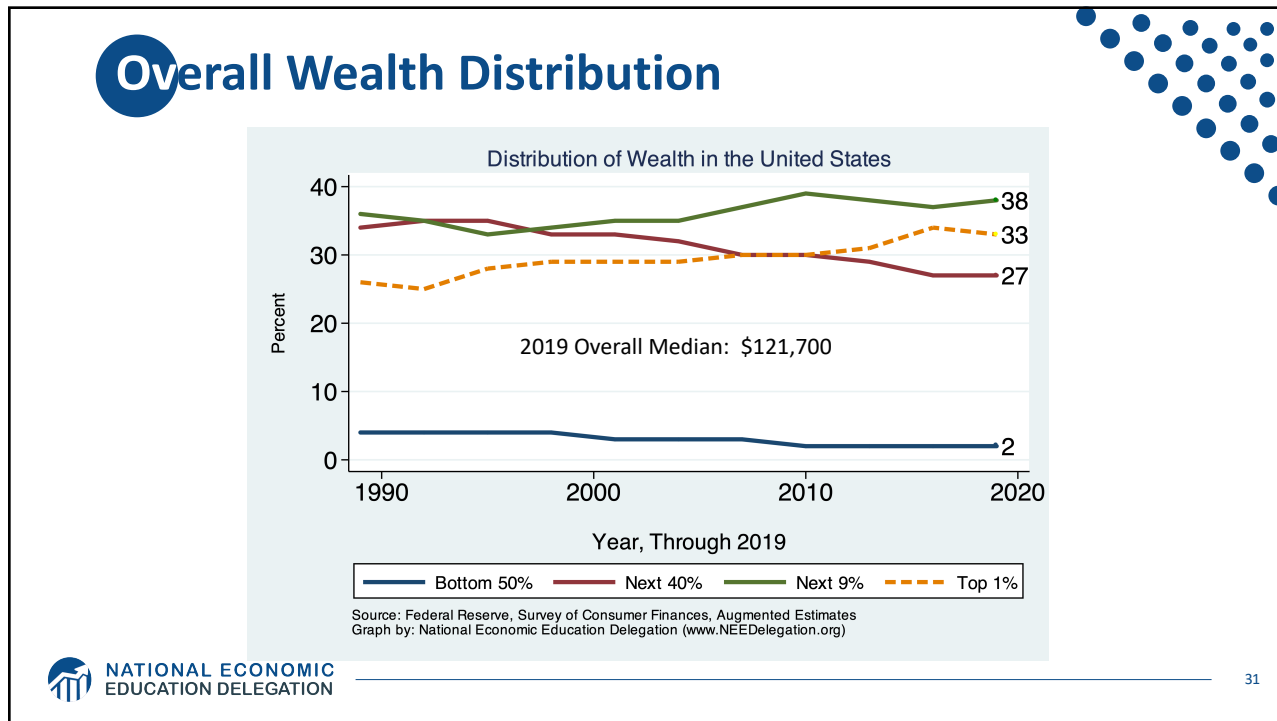
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31

## 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

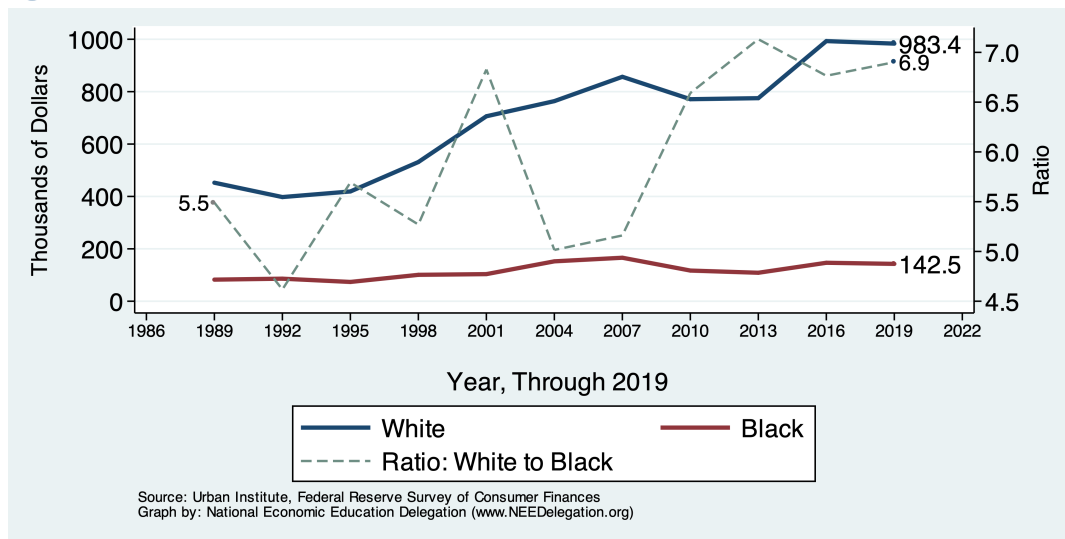
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Source: Federal Reserve, Survey of Consumer Finances

32



## Wealth Gap Over Time: Mean

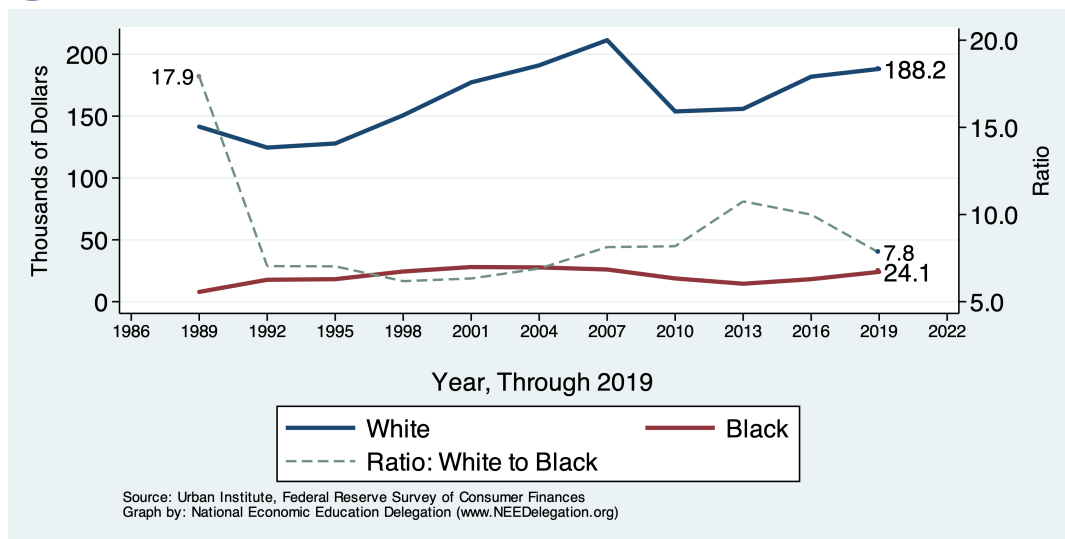


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33

33

## Wealth Gap Over Time: Median



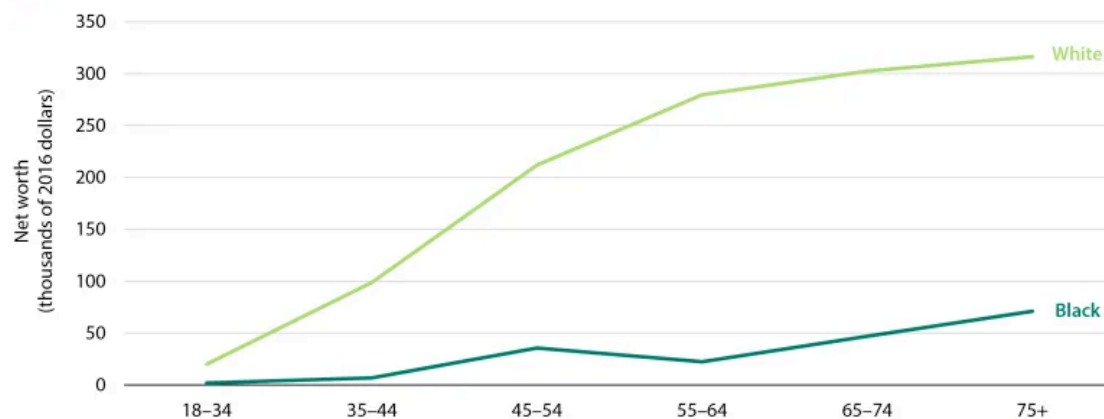
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34

34

# 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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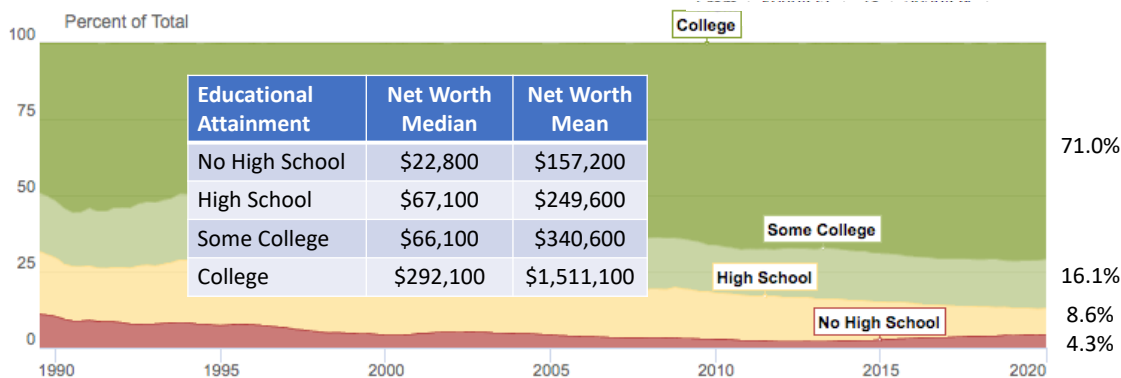


Source: <https://www.brookings.edu/blog/up-front/2020/02/27/examining-the-black-white-wealth-gap/>

35

35

# Wealth by Educational Attainment



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Source: Federal Reserve Board, Table data are 2016.

36

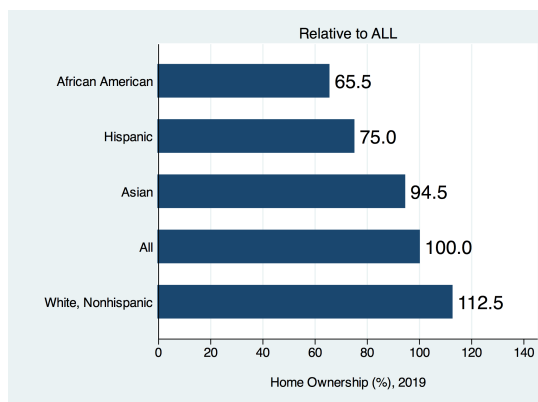
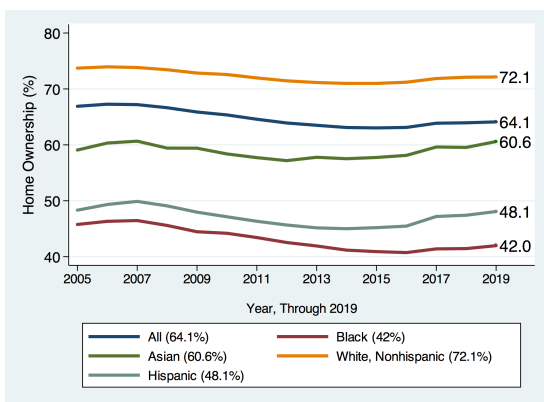
36

# 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

# Home Ownership



## 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.

39

## 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**

40

## 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.

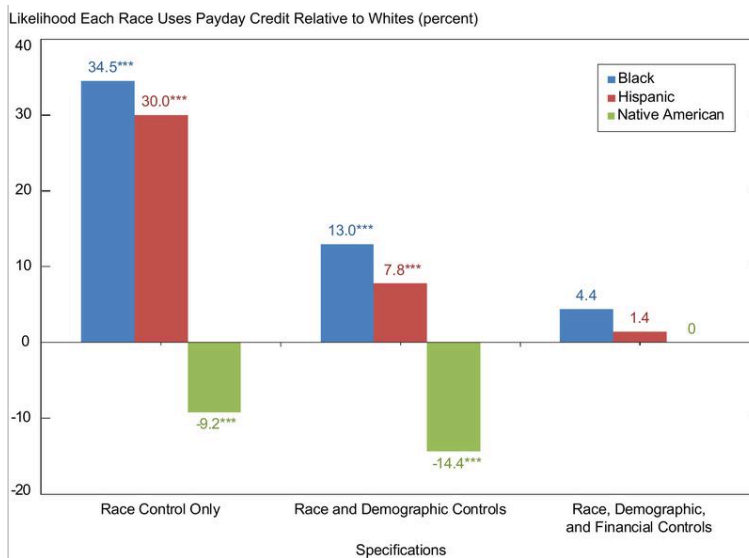
41

## 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.**

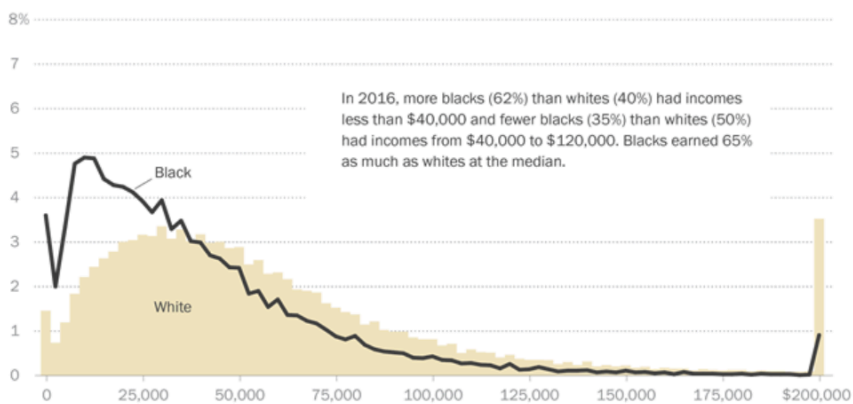
42

## Use of Payday Lenders



## Black Household Incomes Relative to White

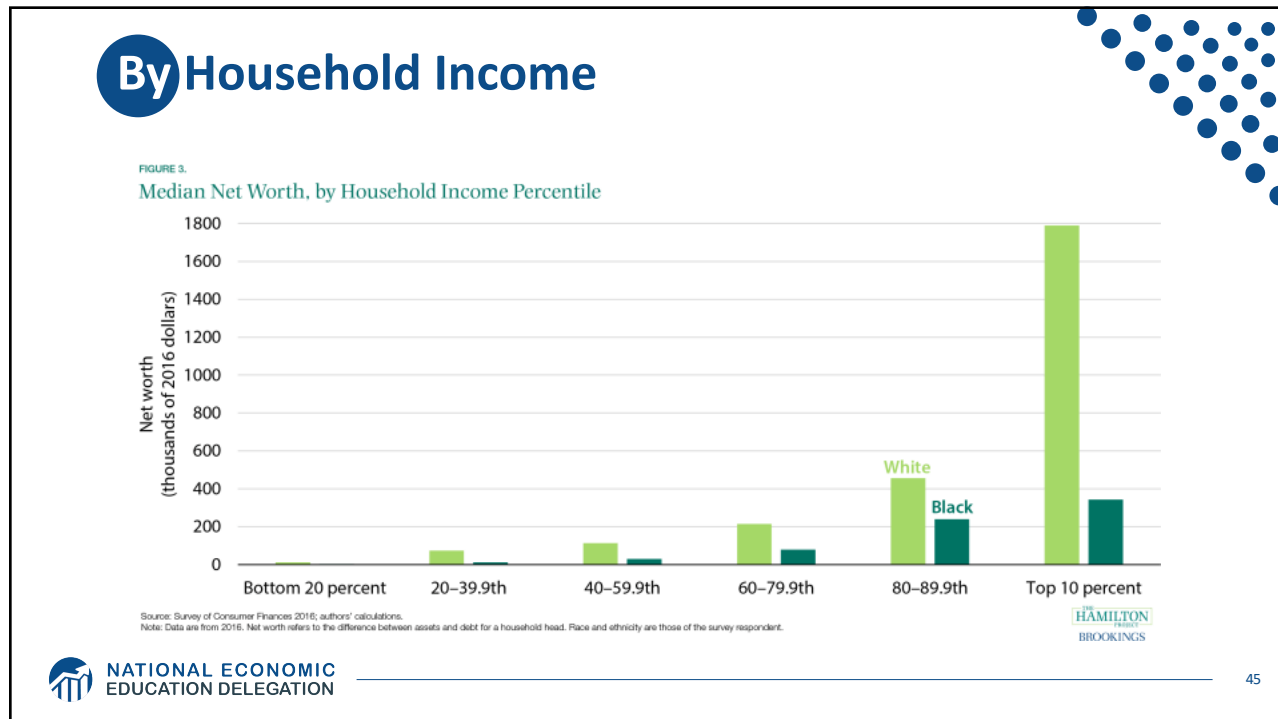
Shares of whites and blacks with a given level of income, 2016



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\*



45

## Entrepreneurship

- **Disparities in access to capital**
  - Wealth disparities
    - Specifically differences in home equity.
    - 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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46

## 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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47

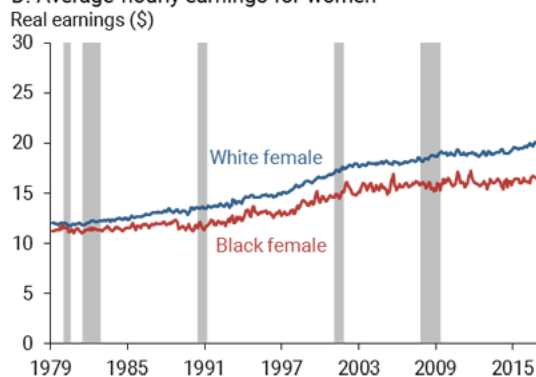
47

## Wage Gap

C. Average hourly earnings for men



D. Average hourly earnings for women



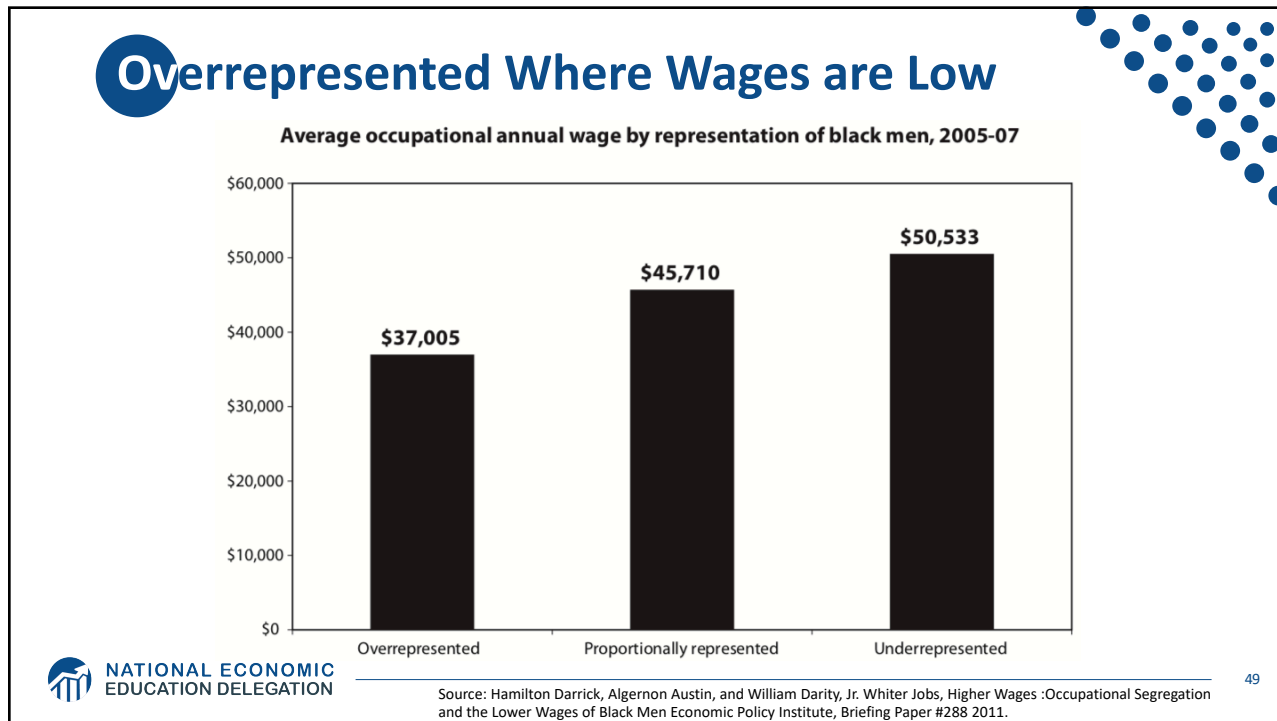
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48

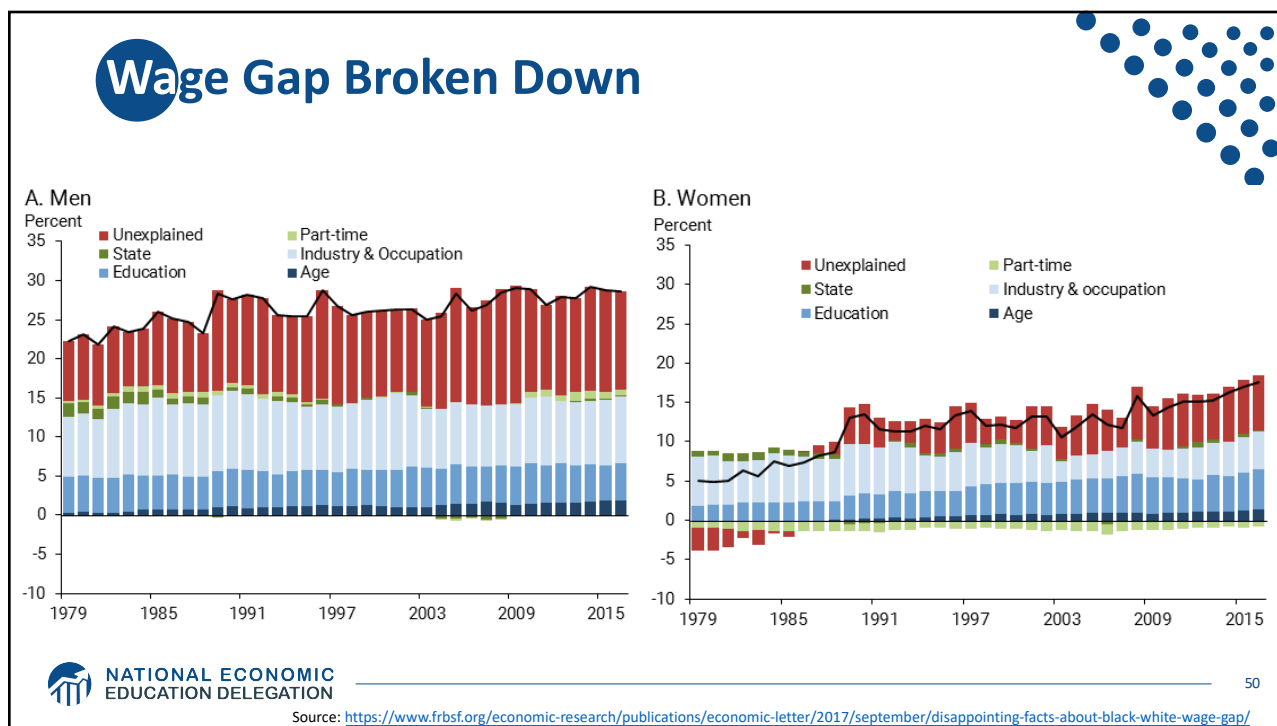
Source: <https://www.frbsf.org/economic-research/publications/economic-letter/2017/september/disappointing-facts-about-black-white-wage-gap/>

48





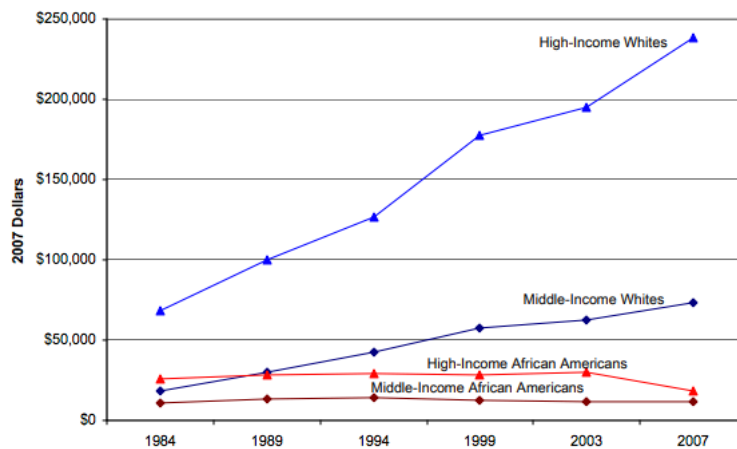
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50

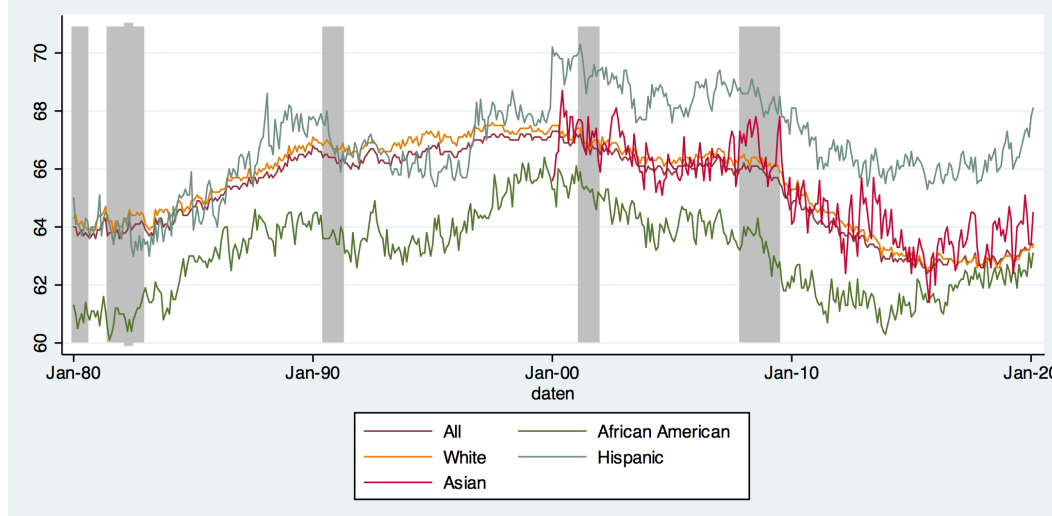
# Equality of Income ≠ Equality of Wealth

Figure 2: 1984-2007 Median Wealth Holdings by Income in 1984  
(Not including home equity)



51

# Labor Force Participation



52

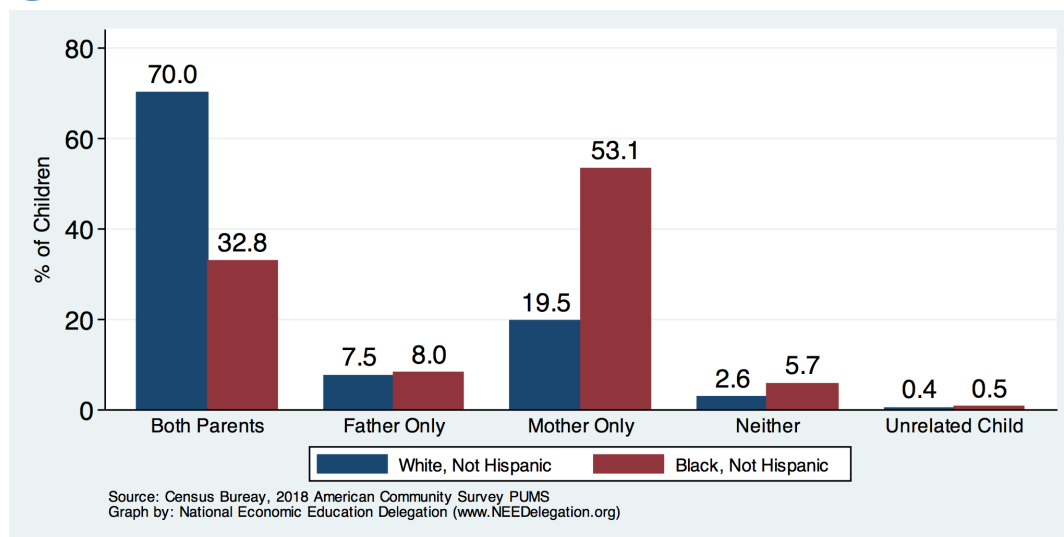
## Family Structure

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.

53

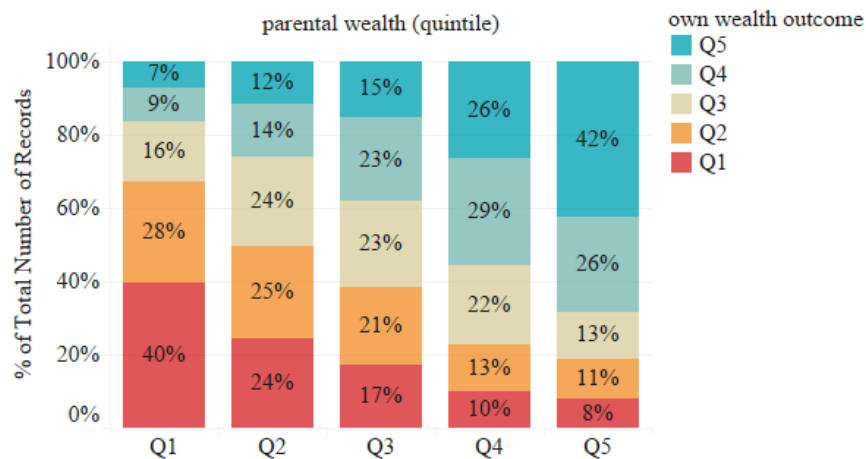
## Kids – Household Types



54

## Initial Endowment

Outcome quintile by parental quintile  
(wealth)



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55

## The Nature of Wealth Holdings

- Liquid assets
- Interest bearing accounts
- Financial accounts



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56

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

57

## 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.**

58

## 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.**



59

## 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.**



60

## 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.**

