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**National Economic Education Delegation**

**The Black-White Wealth Gap Narrative**

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Slides:

1. **Opening slide**

Data from 2019 indicate that at that time, White households had an average of 6.9 times more wealth than Black households. This is the difference between average wealth of $983,000 versus $142,500—an enormous difference.

Note that what we are talking about is wealth, or the net stock of assets that families have. This is the difference between the total value of all assets – houses, cars, businesses, stocks, etc. – and the value of all debts – credit cards, mortgages, and other loans.

This is distinct from income, which is a flow of funds and comes from wages and salaries and other earnings, including interest on assets.

Because of this enormous difference in wealth, the lived experience and lifetime agency of Black and White households are very different. With higher wealth comes a larger set of choices about where to live, whether or not to get more education, and whether and how to finance a new business, which are all influenced by the wealth of one’s family and close friends.

This talk explores the nature of this difference, some of the possible sources, and some policy responses that could help to reduce this gap.

(from: “The Roots of the Widening”) Wealth—what we own minus what we owe—allows families to move forward by moving to better and safer neighborhoods, investing in businesses, saving for retirement, and supporting their children’s college aspirations. Having a financial cushion also provides a measure of security when a job loss or other crisis strikes.

Our analysis found little evidence to support common perceptions about what underlies the ability to build wealth, including the notion that personal attributes and behavioral choices are key pieces of the equation. Instead, the evidence points to policy and the configuration of both opportunities and barriers in workplaces, schools, and communities that reinforce deeply entrenched racial dynamics in how wealth is accumulated and that continue to permeate the most important spheres of everyday life.

1. DO NOT DELETE: National Economic Education Delegation
	1. Brief discussion of what NEED is and NEED does
	2. Use your judgement for what should be said.
2. Who we are?
	1. 45 honorary board – 3 Nobel prize winners, 6 former chairs of council, and 2 former Chairs of the Federal Reserve.
	2. 367 delegates, one in each state.
	3. 42 Global Partners
3. Where are we?
4. DO NOT DELETE: Credits and Disclaimer
5. Outline:

Key Findings:

1. Tracing the same households over 25 years, the total wealth gap between White and Black families nearly tripled, increasing from $85,000 in 1984 to $236,500 in 2009.
2. The biggest drivers of the growing racial wealth gap are: years of homeownership; household income; unemployment, which is much more prominent among Black families; a college education; inheritance, financial supports by families or friends, and preexisting family wealth.
3. Equal achievements, such as income gains, yield unequal wealth rewards for Whites and Blacks.
4. **What is Wealth?**

The first thing to deal with is to make sure that we are all on the same page with regard to wealth and what it is exactly.

Important is the distinction between income and wealth. Income is the flow of funds through a household in a given period, say a year. It is generally derived from working or from revenues, interest or dividends from asset holdings.

Wealth is the stock of NET asset holdings. That is, it is the value of owned assets minus any debt obligations the household has.

Assets include a wide variety of things, both tangible (a house or car) and intangible (stocks and bonds).

Liabilities are any debts that the household has incurred, perhaps in the purchase of an asset – house, car, business – or because its expenditures have exceeded its income, credit card balances.

Wealth is simply the value of all assets minus the value of all liabilities.

1. **Evidence**

This first part of the talk lays out some of the evidence on differences in wealth between White and Black households. We look at the mean, median, and trends over time.

It is also worth taking a moment to discuss why we care about wealth disparities. There are a great many outcome disparities between Black and White individuals, however, the wealth gap embodies within it most of the other disparities. Many of the other disparities are a result of the wealth gap and the wealth gap is in no small measure the result of past U.S. economic policies, which we will discuss more fully later on in the talk. Finally, wealth has

Accordingly, wealth inequality stands out as a comprehensive measure of

1. **Wealth Disparities**

Across racial and ethnic categories, there are enormous gaps in wealth. There are great gaps in mean wealth across groups and great gaps in shares of the population—represented here as shares of families. Multiplying mean wealth by the number of families in each group gives the share of all wealth that is held by each group.

White households hold the vast majority of the wealth in the country, nearly 95%, but account for 65% of the families. This makes their share of wealth 50% higher than their share of families.

For Black families, the opposite is true. Their share of wealth, 3%, is one-fifth of their share families. There are many reasons for this, such as family composition. There are many more single-parent households in the Black community than in the White community, but these factors do not explain the massive gap.

Furthermore, there is a massive gap in this ratio between White families and all other groups. Explaining this by referring to demographic characteristics raises more questions than it answers. In particular, what is it about our society that enables White families to have more wealth creation than other race/ethnic groups?

*Source*: SCF 2019 Spreadsheet, various worksheets.

1. **Evidence of the Gap**

The gap in wealth between Black and White families is enormous. As measured by median wealth, whereas White households have nearly $150,000 in net worth or wealth, the median Black household has less than $4,000. This is an enormous difference.

What’s more, the gap has been increasing. The figures in the graphic are all adjusted for inflation and indicate that, although median wealth for White households has increased, it has fallen by more than 50% for Black households.

More in a minute on trends over time.

1. **Overall Wealth Distribution**

Enormously concentrated distribution of wealth in the United States. Dearth of Black families in the top 10% and median black wealth is $24k, so majority of Black families are in the bottom 50%.

1. **Wealth Is Increasingly Concentrated**

Just another way of depicting the changing distribution of wealth. Highlights:

1. Obviously, the extreme growth at the top
2. Extreme growth between the top and the median
	1. Median hasn’t changed much.
3. **Wealth Gap Over Time: Mean**

Trends over time are similar, however, an upward trend is much more obvious for White households than Black households. The gap is now bigger than at any time in the past 30 years. Though highly variable, the gap was nearly 40% wider in 2016 than in 1983. At its peak in 2013, the ratio was 7.0, 52% more than at its trough in 1992.

Household wealth for both Blacks and Whites has fluctuated with the business cycle, though the fluctuations are much smaller for Black households.

Among all races and ethnicities, wealth fell in the wake of the global financial crisis, largely due to declines in home values. However, for White households, wealth started to recover between 2010 and 2013, but for Black households this recovery did not begin until after 2013.

1. **Wealth Gap over Time: Median**

Measured by median wealth, the wealth of the households in the middle of the distribution, we see a similar trend, but not a similar increase in the ratio. The ratio increased by just 25% between 1983 and 2016.

However, the gap is enormous, with median wealth nearly 10 times higher among White households than Black households.

1. **Net Worth by Age and Race**

Part of the wealth gap can be explained by the fact that life expectancy is higher among Whites than Blacks. In 2014, life expectancy was 73.4 years among Black men compared with 76.8 years among White men—a difference of more than three years. White women live the longest, 81.2 years, whereas Black women have a life expectancy of 78.6 years—the same three-year difference.

Wealth tends to increase with age, so it is worthwhile to take a look at the influence of age on household wealth. Up to age 34, both Black and White households start off with relatively little wealth. However, over the next 20 years, it accelerates for white households but not for black households. An increase is seen between age 44 and 54, followed by a decline in the subsequent 10 years.

The longer relative lifespan among White heads of households likely plays little or no role in explaining the wealth gap.

1. **Black Distribution of Income Relative to White**

For a great many statistics on differences between White households and Black households, it is very important to compare households with similar levels of income. This is particularly true, for example, in payday lender statistics. Lower income households, on average, tend to make greater use of these businesses than do higher income households.

If White households have significantly higher income than Black households, then without controlling for income, it appears as though Black households use payday lenders much more often than do White households.

However, the graphic here presents the distribution of household incomes for Black and White households. There is a heavier concentration of Black households at the lower end of the distribution, suggesting that a greater proportion of Black households is likely to use a payday lender.

This does not mean that the behavior of Black households is different from that of White households. As we saw, White households at the same income level as Black households use payday lenders at about the same rate.

1. **Black Household Incomes Relative to White**

This is just a different way of expressing the same notion as on the previous slide. Black households are disproportionately found in the lower part of the income distribution.

Included here because some have had trouble with the graph on the previous slide. Presenters discretion which one or neither is presented.

1. **By Household Income**

Another potential contributor to the gap is income. Households with a higher income have a greater capacity to accumulate wealth. Here, too, the wealth gap exists at all levels of income but is the most pronounced in the top 10%, at the top of the income distribution.

1. **Evidence of Disparities: Zero Wealth**

The median value in the previous graphic illustrates what is happening in the middle of the distribution. A household in the middle gained among White households but falls among Black households.

This graphic looks, instead, at the bottom of the distribution. It illustrates trends in the number of households, by race, who have negative (i.e., less than zero) net worth. This share has increased for both White and Black households, more so for White households.

1. **Why Is Wealth Important**

Let’s talk about exactly why we care about wealth. It is obvious that wealth is an important indicator of economic circumstance and security. But let’s look more closely at what wealth disparities mean, for both an individual household and the broader economy.

Wealth is important in any society. It influences access to capital for new businesses, is a source of political and social influence, and provides insurance against fluctuations in labor market income. It influences the quality of housing, neighborhoods, and schools a family has access to as well as the ability to finance higher education. The fact that friendships and family ties tend to be within racial groups serves to amplify the effect of the race gap in wealth on the financial, social, and political resources available to blacks relative to whites. (Altonji et al., 2000)

1. **Widespread Household Wealth Pays Dividends**

Of course, money is not everything, but it certainly helps. Money brings with it choices, access to health care, and access to resources that give people the ability to pursue their goals. Those goals might be related to education, starting a business, or helping family members. For all of those goals and others, having a baseline of wealth is helpful.

It is also true that wealth gives people access to investments that are otherwise out of reach. These investments could be education, higher-quality housing, starting or investing in a business, or financial instruments with a high rate of return. If you ask an average person, certainly an average economist, they will respond that more of these types of investment are good for the economy at large. This suggests that increasing wealth at the bottom of the distribution would be good for not only the individual household, but for the economy overall as well.

1. **Household-Level Benefits**

As mentioned in the previous slide, having a stock of wealth has two types of benefits for households or families:

1. Choices/life agency
	1. Essentially, having some wealth increases the number of choices available to an individual.
	2. Although broader than this, many of the items listed here are choices that facilitate the development of more wealth.
		1. Access to better education, access to capital, and health maintenance, to name a few.

This leads us to the second way in which wealth is important at the individual or household level.

1. Wealth is iterative.
	1. This essentially means that the best way to become wealthy is to start out wealthy. Wealth begets more wealth, again, through the choices that are available to you.
	2. Wealth also perpetuates itself within a family through bequests and financing of higher education.

Again, wealth at the household level gives members of that household choices—choices that are ultimately very important for future economic success.

1. **Parental Wealth Is Important**

There is strong evidence that parental wealth plays a significant role in own adult wealth. This effect happens both in childhood and in adulthood.

First, during childhood, parental wealth affects the resources that are available to influence development. These resources include access to good education, tutors, health care, and neighborhoods where public resources are plentiful. (Black, et al., 2020)

In adulthood, parental wealth plays a role in a variety of different ways. First, through bequests and in vivo transfers they facilitate investments in education, new businesses.[[1]](#footnote-1) In short, they enhance agency in their adult offspring. Second, wealthier parents often have a better set of business contacts. There is ample evidence that these contacts play a role in the success of adult children.

The evidence at the beginning of this talk details the persistent difference in average Black and White wealth. The enormity of this gap speaks to the difference in wealth held by Black relative to White parents. To the extent that it is important, and it is, parental wealth differences play an enormous role adult outcomes of Black relative to White individuals and households.

A relatively new literature strongly suggests that this importance is nurture and not nature. That is, wealthy parents may have gotten that way because of some particular trait, but the importance of that wealth for their children has more to do with the kids lived experiences than any trait inherited from their parents. It has more to do with inherited wealth.

1. **Wealth Mobility**

The top and bottom of the wealth scale are very sticky. We like to believe in the American Dream and the Horatio Alger stories, but it turns out to be very difficult to pull yourself up by your bootstraps.

If you are born to a wealthy family, in the top quintile, your chances of ending up there in adulthood are very good: 42% of children born wealthy remain wealthy.

If you are born to a family with low wealth, your chances of ending up with low wealth are also pretty high: 40% of those born to a family in the bottom quintile end up in the bottom quintile.

Black families are primarily at the low end of the wealth distribution, so the deck is stacked against their moving up the ladder very quickly. Many individuals have done it, but not that many, which indicates the difficulty of succeeding.

1. **Tangible Benefits for the Broader Economy**

Few would quibble with the notion that wealth is important for the individual holding it. What is less considered, and perhaps more controversial, but no less true, is that the broader economy accrues benefits from having fewer people with low or no wealth holdings.

As we will see, wealth disparity has enormous implications for Black Americans. They attain less education and participate less fully in the entrepreneurial nature of the US economy through less contribution to innovation and less formation of new businesses. Though the connection with wealth is less direct, labor force participation among Black men, in particular, is relatively low.

The lack of access to resources by the Black community is clearly associated with less economic achievement. And this smaller economic achievement has significant consequences not only for the individuals involved but for society as a whole.

An increase in wealth mobility likely has significant benefits for an economy, though, of course, there are limits to this. Where mobility is already pretty high, an increase may well not return dividends. However, Horatio Alger stories notwithstanding, in the United States, mobility has become fairly low.

1. **Sources of the Gap**

The amount of wealth accumulated by households varies greatly. Even when we consider only White households, we see an enormous gap between the haves and the have nots. As we saw earlier, more than 13% of White households have no wealth, and the median household has just $171,000 in wealth whereas the average is more than $900,000.

So, some reasons for wealth differentials transcend race, but others are unique to the Black experience in the United States. After a brief discussion of this experience, we will parse the general determinants of wealth and how the two interact to result in a relatively low level of wealth among Black households.

In this section, we explore both.

1. **Events/Policies with Wealth Implications**

Over the past 400 years, many policies and public attitudes have hindered the accumulation of wealth in the Black community, beginning with the arrival of the first enslaved person from Africa in North America, during the colonial period. The first deprivation consisted of being separated from land and property in Africa and forced into slavery in a distant land.

The extended period of slavery continued this deprivation, largely by hindering enslaved Black people from making decisions about their economic lives or accumulating assets.

Following the Civil War, General Grant engineered a program whereby freed slaves could be allocated up to 40 acres of land that was previously held by slave owners. Many were granted this land, but in another deprivation, following the assignation of President Lincoln, President Jackson changed federal policy and returned the land to the previous slave owners.

As an aside, slave owners were granted payment (reparations…) for the loss of their property, the slaves.

Many subsequent policies or actions deprived Black Americans either of their wealth or of the opportunity to build wealth. Many of these policies were implicitly and by design racist, if not explicitly racist. The Homestead Act, the GI Bill, Redlining and housing policy, to name but a few. Labor policies enacted during the Great Depression also implicitly (or by design) and in effect served to the benefit of White Americans over Black.

1. **Results for Black Families**

The wealth gap in the data stem in part from these policies, and more, which created a playing field that is tilted against Black Americans. These policies have made it more difficult for them to obtain land and homeownership, they have made entrepreneurship harder, and they have made it more difficult for Black Americans to participate fully in the economy.

As a result, lower accumulation of wealth in one generation make it harder for the next generation to accumulate wealth. Parents simply have fewer resources for supporting their children, whether in education or entrepreneurship.

In addition, even when they can buy a home, it is more likely to be in a disadvantaged neighborhood. Evidence suggests that both racial and income segregation remain a significant issue and drive many Black and Latino households into neighborhoods with lower median incomes than for White households, given a level of household income. This means that Black children will grow up with fewer role models and less access to good-quality education, among many other disadvantages.

Disparities in the availability of resources for building wealth lead to differences in wealth accumulation.

1. **Potential Explanations: Differences in …**

*Note to presenter*: This slide is setting up straw men, listing conventional arguments for self-sufficiency in the Black community. Forthcoming slides discuss each issue and briefly evaluate its veracity.[[2]](#footnote-2)

Many reasons have been put forth about why the wealth gap is as big as it is. Most of these explanations rely on changes in behavior within the Black community to close the gap.

Potential sources of the gap are listed here, and we will go through many of them to evaluate their potential for showing how to reduce the gap.

1. **Wealth through Educational Attainment**

As data from the Federal Reserve Board make clear, educational attainment and net worth are strongly linked. On average, those with a college degree have net worth that is nearly ten times that of someone who did not finish high school. It is also more than four times that of somebody who started college but did not finish it.[[3]](#footnote-3)

The link is obvious. More education brings access to a wider variety of jobs, many of which pay more. Income is a key component of wealth accumulation as it facilitates saving.

Of course, education might be correlated with wealth for other reasons as well. These include things such as innate ability, family history, wealth, and the longer lifespan associated with higher income and education.[[4]](#footnote-4)

Enhancing access to education, therefore, appears to be a key component in reducing the wealth gap. However, clearly this is not the entire solution.

1. **Educational Attainment**

It seems intuitive that if Black Americans had better access to and attained a higher level of education, that would reduce the wealth gap. It is true that the gap would narrow somewhat, but education is clearly not the only source of the wealth gap. Even when the educational attainment (figure) is controlled for, an enormous gap remains. Even at the highest level of education, the ratio of wealth between White households and Black households is greater than 3.

<click>

Even a Black household headed by a college graduate has less median wealth than a White household head who has not completed high school.

Evidence in social science research confirms that when it comes to educational attainment, Black students and their families are doing more with less. Research by economist demonstrates that Blacks attain more years of schooling and credentials than Whites in families with comparable resources. Clearly, the notion that Black families do not value education is a myth, but societal overemphasis on the economic returns to education as the panacea to address socially constructed structural barriers to racial economic inclusion is also problematic.[[5]](#footnote-5)

1. **Educational Attainment: Policy**

How do we increase access to education for Black students?

This is primarily a story about financial ability, rather than intellectual ability, though access to good K–12 education is certainly a part of it.

1. **Homeownership**

Government policy has long emphasized homeownership, primarily because of the belief that it is good for asset accumulation. Basic statistics seem to bear this out. In 2016, both median and mean net worth were dramatically higher for homeowners than for renters.[[6]](#footnote-6)

In 2018, the Census Bureau reported that whereas more than 7 in 10 White households own their home, but only 4 in 10 Black households are homeowners.[[7]](#footnote-7)

If it is indeed true that homeownership is a substantial driver of asset and wealth accumulation, this would seem a fruitful area for addressing the Black-White wealth gap.

1. **Homeownership**

It is true that homeowners tend to have a higher level of overall wealth. Median net worth of owners is many multiples (40+) of the median net worth for renters and the mean net worth of owners is more than ten times that of renters.

<click>

In the context of closing the Black-White wealth gap, then, facilitating homeownership for Black families appears to be a valid policy prescription. However, a closer look takes some of the wind out of this particular sail.

Comparing wealth levels between Black and White families according to whether they rent or own reveals that enormous differences in wealth accumulation remains, even in these categories.

Among homeowners, the wealth gap is still 2.4 times higher for Black homeowners than White homeowners. Among renters, the ratio is much larger, more than 30.

Homeownership certainly matters, but it, too, is only a piece of the puzzle.

Homes account for 42 percent of the wealth of homeowners, so homeownership rates that are 20% higher for Whites than others really matter.

Homeownership is higher for Whites because of inheritance and family help. Both are bigger for White families than Black families, and that matters.[[8]](#footnote-8)

1. **Impediments to Wealth Equality through Homeownership**

This wealth gap exists even among homeowners for many explanations. Many of them stem from the widespread continuing discrimination in housing and lending markets. In particular,

* Access to homeownership in areas where property values are likely to increase is greater for White buyers than Black.
* During the housing bubble precursor to the Global Financial Crisis, it is clear that Black homebuyers were often steered toward riskier loans. The worse the terms of the loan, the less likely the home is to generate wealth for the buyer.[[9]](#footnote-9)
* It has been noted that the amount of time you stay in the home you own is related to wealth development. This explains culprits in the gaps in racial wealth and homeownership. Lower-income homeowners, which Black homeowners often are, tend to have shorter tenure in a home that they purchase.
* White families buy homes eight years earlier than Black families[[10]](#footnote-10)

Recent work by the Brookings Institution has found that 37% of Black families live in disadvantaged neighborhoods. It turns out that in most of these neighborhoods, home values are 50% lower than in other neighborhoods. Just 23% after adjusting for amenities and quality, but amenities and quality are endogenous – ie, they are driven by policies that are less likely to put amenities in these disadvantaged neighborhoods.[[11]](#footnote-11)

1. **What Determines Differences in Homeownership?**

Results suggest that differences in wealth in the previous generation have persistent effects; some of this wealth might have come from gifts for buying a home.[[12]](#footnote-12)

There are other explanations. Some focus on discrimination in the real estate market. Much of this discrimination is reasonably well documented. Often, Black applicants do not have access to loans on the same terms as Whites. Appraisals are often lower for Black-owned homes than White-owned homes.

Local ordinances (redlining) have historically made it difficult for Black buyers to purchase what and where they want. They are then often relegated to disadvantaged neighborhoods, where the appreciation rate is lower than in White-owned neighborhoods, for a variety of reasons, including the provision of amenities by local governments and the general condition of other real estate in the neighborhood. And if the appreciation rate is lower, the property is simply less desirable.

If the likelihood of appreciation is lower in neighborhoods where property can be purchased, it stands to reason that Black families will simply be less likely to buy a home than to rent.

So, there is an element of choice, but this element is driven by the options available. The point is, however, that Black buyers face a different menu of options than do White buyers. It is unclear whether a White buyer, if given the same choices, would make a different purchase decision.

1. **Increased Savings**

A wide variety of statistics suggest differences in behavior between White and Black Americans. Many of these differences are put forward as explanations for the gap, for example, savings rates.

Overall savings rates are lower for Black households than for White households. So, this would seem to be a logical explanation for the lower rate of wealth accumulation. However, a variety of studies have found that, after income is taken into account, savings rates among Black households are in fact higher than among White households.

Absent the expectation that Black households will increase their savings to even more than that of a White household with similar income, changing the rate of savings is not the solution to the problem.

It has also been found that Black investors tend to shy away from risky assets, with a higher rate of return. This, too, is likely a function of income. Even among White investors, investment risk rises with income or the capacity to absorb risk.

Given the significant differences in income between Black and White households, whenever comparisons are made, it is important to account for income. Inevitably, because of lower household income, Black households will not fare well in any comparison.

1. **Financial Literacy**

This argument relies on the following notions:

1. Black households have less awareness than White households about how to manage finances.
	1. They use payday lenders more that White households.
	2. Black households have lower rates of return on assets.
2. At similar income levels, White households would make different decisions.
	1. There is little evidence that this is true.

The evidence suggests that, after controlling for income, the rate of return on assets is no higher for White investors than Black investors.[[13]](#footnote-13)

1. **Use of Payday Lenders**

It is true that Black households are more likely to use payday lenders. Indeed, the graph suggests that they are 35% more likely than White households to borrow from a payday lender—the first blue bar.

<click to remove the white space covering up conditional results>

1. **Use of Payday Lenders**

<Note: same graphic w/o conditional results covered up.>

After demographic characteristics are taken into account, the difference shrinks by nearly one-third. And after income is taken into account, Black households still use payday lenders more than White households, but the estimate is both small (4.4%) and statistically insignificant.

Once again, controlling for income is very important when making inferences about differences in behaviors between Black and White families.

1. **Entrepreneurship**

This graph presents rates of entrepreneurship for members of different races and ethnicities. The statistics is the proportion of adults in each category that becomes an entrepreneur, primarily through the formation of a new business.

Hispanics have the highest rate of entrepreneurship, followed generally by Asians. White entrepreneurship (the blue line) is generally about 50% higher than the Black entrepreneurship line, indicating that White adults are about 50% more likely to become an entrepreneur than are Black adults, though the entrepreneurship rates for both are quite small, about 0.3% for White adults and .23% for Black.

Why does this disparity exist? There are a great many reasons and we will discuss some of them.

1. **Explaining Differences in Entrepreneurship**

It is often suggested that Black entrepreneurs could help to close the wealth gap by starting their own businesses at higher rates. However, access to capital is essential for starting and growing a small business. The evidence indicates that they have more difficulty in accessing capital than White entrepreneurs. Accordingly, startup and success rates are likely to be much lower for Black than White entrepreneurs.

Other factors that explain the difference include access to education and having role models for entrepreneurship. But such examples in their own family or social circle are less likely among Black potential entrepreneurs than White ones, so they have less support in the formation and success of a small business. This situation, in turn, might come from the higher likelihood they lived in a disadvantaged neighborhood while growing up and had peers who were less likely to become entrepreneurs.

1. **Soft Skills and Personal Responsibility**

One narrative about differences in wages and employment rates between Black and White adults related to having soft skills and a lack of personal responsibility.[[14]](#footnote-14)

Evidence against the notion that Black workers have an employability problem is that they tend to be overrepresented in highly customer facing industries and occupations—such as those in the service sector and sales.

And they tend to be underrepresented in jobs that are less likely to be customer facing, such as construction, extraction, and maintenance—which rely much more heavily on “hard,” rather than “soft,” skills.

1. **Wage Gap**

A key component of the education prescription for narrowing the wealth gap is that higher levels of education raise wages. However, a significant wage gap exists between Black and White workers, and it has been widening for both men and women. On average, Black men earn about $17/hour, while White men earn about $25/hour, a significant difference. In 1979, the average Black man in America earned about 80% of the average White man. By 2016, this gap had grown to 70%.

The gap for women is somewhat smaller: Black women earn about $16/hour, whereas White women earn closer to $20/hour. The gap has also grown for women. In 1979, Black women earned 95% of what White women earned. IN 2016, they earned just 82%.

This gap is for workers at all different levels of education, in all occupations and industries, and can be divided into its constituent parts. For instance, how much of this gap is due to differences in educational achievement?

1. **Overrepresented Where Wages Are Low**

Unfortunately, the job categories in which Black workers are overrepresented pay less than those in which they are underrepresented. (Hamilton, et al., 2011) Indeed, jobs in which Black workers are underrepresented pay wages that are more than 36% higher.

This leads us to drill down further into the considerable wage gap between Black and White workers.

1. **Black-White Earnings Gap by Education**

Over the past 40 years, the gap in earnings between Black and White workers within education categories has grown, both for those who have completed high school and for those with a college degree.

1. **Wage Gap Broken Down**

These graphs explain the gaps in income. They include five major explanations for the differences: state, education, part-time status, industry/occupation, and age.

Of these, only two explain a significant portion of the difference: the medium-blue section of the graph—education—and the light-blue section—industry and occupation. These calculations are consistent with the evidence on education, industry, and occupation, which indicates that Black men and women tend to have lower educational attainment than White men and women and that they tend to work in industries and occupations that pay lower wages.

A final section of the graphs, in maroon, is the portion of the gap that isn’t explained by the “usual suspects.”

What we learn from this exercise is that better access to education can certainly help, but it is not enough to solve the problem. Indeed, some research indicates that the wage gap, a large portion of which is unexplained, is the primary driver behind the wealth gap. (Aliprantis and Carroll, 2019). Focusing on the wage gap is then an important part of the policy solution, but is one of a broad set of issues that need to be addressed.

1. **Equality of Income <> Equality of Wealth**

Much has been made of income as an important determinant of wealth creation. However, evidence suggests that it is not a panacea for narrowing the gap. This graph illustrates that even if you control for income, a significant wealth gap remains.

The gap was much narrower in 1984 than in 2007, but still significant. Beginning in 1989, even middle-income Whites had higher wealth than high-income Blacks.

Clearly, something more is going on than a simple difference in income.

1. **Labor Force Participation**

The labor force participation rate indicates the share of the working-age population that is either working or actively engaged in looking for a job.

Historically, labor force participation among Black working-age adults has lagged that of White working-age adults. In recent years, however, this gap has closed. In February 2020, before the pandemic began, the two rates were almost equal. The Black labor force participation rate was 63.1, and the White labor force participation rate was 63.3.

1. **Family Disorganization**

This source of the wealth gap in statistics shows that kids tend to grow up in households with just one parent. To the extent that this is an income-based argument, a significant wealth gap remains between White and Black households, even within age groups, educational categories, and household type.

A significant difference in wealth is found between households whose head is married and those headed by a single parent. The difference by race is not seen until the head of the household is age 60 or more. More Black children than White children tend to grow up in households with a single parent.

<clicking brings on the rectangles to focus in on particular parts of the table>

1. **Kids and Household Types**

In 2018, the likelihood of living with both parents was 50% lower for Black children than White children, and Black children were nearly three times as likely to live in a household with only their mother present.

Clearly, household composition remains an issue for Black families, but the relationship between this issue and some of the other issues raised is not evident.

1. **Initial Endowment**

But let’s return to the evidence on wealth mobility, with a reminder of the enormous amount of stickiness. Black children, are much more likely to grow up in single family and hence low wealth households.

1. **What Is Fundamentally Responsible?**

Almost all these policy solutions put the onus on the Black community to change its collective behavior. They are asked to save more, when Black households already save more on an apples-to-apples basis, engage in more entrepreneurship, when access to capital is limited, and obtain more financial literacy, when their financial resources are too low to make literacy matters very much.

The other explanation is that impediments to wealth accumulation in the Black community result from structural economic characteristics—structures that have developed from 400 years of discriminatory policies toward Black Americans. One theme has been consistent since the first African was brought to the Americas to be enslaved: depriving Black people of their possessions and restricting their access to avenues for wealth creation through the Freedmen’s Bank, the GI Bill, and Homesteading.

The Freedmen’s Bank was originally set up by Congress to be a very safe savings bank for Black households. Originally the funds were invested solely un U.S. Treasuries, but corruption won the day and the funds were invested in railroads at a time of a large railroad bubble. Those investments and the close of the bank cost the Black community, by some estimates, half of its wealth.

The GI Bill and Homestead Acts gave individuals and families access to education and real estate. However, both were administered in such a way that they have been called affirmative action for white people. Black Americans were largely excluded from accessing each program.

The GI Bill, in particular, along with pro-union labor policies (that also discriminated against Black workers) was credited with being instrumental in growing the middle class in the wake of WWII.

A variety of policies prevented them from fully participating in the economic system of the United States even after slavery ended. Many of these policies were part of the New Deal legislation, but others date back to the late 1800s, when the Supreme Court declared in its ruling on *Plessy v. Ferguson* that the principle of “separate and equal” was constitutional. This decision paved the way for the Jim Crow laws that maintained separate accommodations for Black and White citizens and hindered their participation in the same economy.

1. **Not Enough**

In terms of individual behavior, it is clear that hard work isn’t enough to close the gap.

<click>

Eliminating income differences is not enough to close the gap.

<click>

And studying hard and obtaining more education isn’t enough to close the gap.

There is clearly more to the story than just individual behavior.

1. **Accounting for the Wealth Gap**

Some studies attempt to break down the sources of the wealth gap. This graph illustrates the results from one such study.

They find that one important determinant of wealth differences is the number of years of homeownership. Because on average Black families have lower income, they tend to move more frequently and their income tends to be less stable. Accordingly, they tend to own their homes for a shorter period. Moving, buying, and selling a home is expensive and can erode wealth accumulation quickly.

Household income is also important, explaining about 20% of the gap. Other factors include employment status, having received a college education, and financial support or inheritance from parents.

Combined, these sources explain roughly 70% of the Black-White wealth gap, leaving 30%+ unexplained.

1. **Policy Options**

Given the size of the gap and our understanding of where it comes from, it is worth discussing some policy options for closing it.

Before we delve into policy options, it is important to realize that there is likely no silver bullet. Closing the gap may well require a concerted effort made up of a variety of interwoven policies.

1. **Categories of Policy Areas**

There are a wide variety of areas for potential policy intervention. Many of them are directed at improving the Black community’s access to resources, but others simply indicate the need to be aware of and avoid the discriminatory consequences of policy actions, particularly in transportation, incarceration, and asset accumulation.

Direct asset accumulation is one policy area that is worth considering, something that the federal government already aggressively supports.

In what follows, we will concern our discussion to the last two bullets: income support and asset accumulation policies.

1. **Government Asset-Building Policies**

The US government has long invested in helping families build assets. The Homestead Act was basically an asset-building tool. So are the GI bill, home mortgage deductions, and, more recently, 401(k) plans and Individual Retirement Accounts (IRAs).[[15]](#footnote-15)

Federal government asset-building policies fall primarily into two buckets: homeownership and retirement savings. Both reflect the policy perspective that these are good investments that families can make and hence serve to subsidize them. Unfortunately, these are subsidies that primarily help those who already have significant resources.

The bars in the graphic are color coded according to how much goes to households in each income quintile.

The darkest portion of the bars, the most prominent part in almost every case, illustrates the amount of these asset accumulation subsidies that go to the top quintile, which in 2017 meant households with income of more than $126,000. On average, these recipients had income of more than $221,000.[[16]](#footnote-16)

The comparable cutoff for Black households is $88,000, with the cutoff for the top 5% being $166,000. Accordingly, it is likely that Black households receive a disproportionately small share of the benefits from these programs.

In 2017, the government spent a total of some $400 billion in asset accumulation, equivalent to about 10% of all federal government outlays that year.

Particularly with respect to homeownership subsidies, the benefits went to the top 20%.

In retirement savings, much more than half went to the top, with the vast majority of the rest going to the middle and fourth quintiles. Nearly all went to the sixtieth percentile of the household income distribution.

1. **Specific Policy Options**

Much of the literature suggests that it is differences in the access to wealth and income that drive the wealth gap. If your parents have little in the way of wealth, you will not have access to resources that contribute heavily to your wealth in adulthood – education, for instance.

Beyond the solutions that are offered to address specific outcome gaps, are more general solutions. These are solutions that are aimed more at eliminating the inequality that leads to the various gaps. Inequality of your initial wealth endowment.

“Baby Bonds”, or Child Trust Accounts, involves setting up an account for each child that is born with a specific amount in it. Two thousand, five thousand dollars? The amount that is seeded in that account will be allowed to grow that at maturity, the individual will have access to those funds. Depending on the individuals circumstances, these funds could be used to finance higher education, to finance a small business, or other endeavors that generate wealth.

A global minimum income would give individuals and families with low income/wealth greater agency by creating a floor that might enable them to pursue opportunities that they might not have otherwise.

Other options include:

1. Reparations – highly controversial, but perhaps because it is always thought of as giving individuals cash. There are other ways of providing reparations, compensation for slavery and, in fact, for the history of racially discriminatory policies in the United States.
	1. Aggressive affirmative action
	2. Homestead – original acts were strongly biased in favor of White families. Perhaps one that is geared toward Black families.
	3. Heavily investing redevelopment money in Black communities.
2. In addition, many antidiscrimination laws are underenforced or too difficult to enforce as written. Enforcement should be stepped up to give them real teeth.
3. Reorientation of the $400 million that the government spends on asset building. Federal government currently spends in excess of $400 billion to support asset development. The vast majority of this goes to households in the top quintile.
4. **Other Concrete Policy Options**

The list of potential policy solutions is long. Some of them come from the Urban Institute and can be divided into two different buckets:

1. Redirect existing asset-building policies from high-income to low-income families.
	1. Increase individual agency, by making college less expensive and reducing the burden of retirement savings.
2. Change policies and policy structures to promote savings.
	1. Some support programs require beneficiaries to exhaustion their assets prior to eligibility.

Both of these approaches are likely to be productive if the aim is to reduce overall wealth inequality, in particular the Black-White gap.

Federal asset-building subsidies disproportionately benefit high-income families, which need them the least. Here are six recommendations that could help reduce wealth inequality and racial wealth disparities:

* Limit the mortgage interest tax deduction and use the revenues to provide a credit for first-time homebuyers.
* Establish automatic savings in 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.

By more efficiently and equitably promoting saving and asset building, more people will have the tools to protect their families in tough times and invest in themselves and their children.

1. **Buying and Banking Black**

The options of buying black and banking black are often put forward as solutions to the Black wealth problem. Every president for the past 40 years or more has encouraged such efforts.

The argument for buying Black, is that—according to some estimates—the Black community has buying power worth $1.3 trillion. The idea is that if all this spending went to Black-owned businesses, not only would these businesses grow but so would aggregate wealth in the Black community.

The idea behind banking Black is for all Black families to keep their funds in a Black-owned bank and for these banks to lend only within the Black community. By doing so, the Black community would accumulate wealth through banking and increase access to funding—just as the White community has.

Let’s look most closely at these arguments.

1. **Intro to Fractional Reserve Banking**

Before we can understand these arguments fully, we need a sense of how the banking system works, at least a cursory overview.

First, somebody deposits money into an account at a bank. That money is then lent out to others to buy things, usually real estate. Most of the money is lent out, but not all of it. The funds that are NOT lent out are called reserves. Banks hold these reserves so that they have cash on hand when people want to withdraw money from their accounts.

The funds that are lent out will be deposited at another bank, which then lends out a portion of those funds, creating deposits at another bank that can be lent out. In this way, one deposit circulates throughout the economy, and through the payment of interest, multiple organizations make money from the deposit. This is a very efficient source of wealth creation.

1. **Why This Doesn’t Work for Black Banks**

This path to wealth creation doesn’t work so well for Black banks. The reason for this is that after the funds are deposited and lent out, there is no guarantee that the money lent will go to another Black bank.

If a Black home buyer uses the loan from a Black bank to buy a house from a White seller, the funds are likely to end up in a non-Black-owned bank. The rest of the circulation will then primarily not occur at other Black-owned banks, so the benefits will not flow to the Black community.

If the funds circulated ONLY within the Black community, this path toward wealth creation might work well, but there is no way to limit circulation to Black-owned banks.

1. **Why the Short Circuiting of Black Banking?**

Why does most of the benefit go back into the White community? Well, it turns out that most homes are owned by White families. According to the Federal Reserve’s Survey of Consumer Finances, a little over ¾ (75.8%) of all residential units are owned by White individuals or families. Only 12.5% of all residential units are owned by Black individuals.

And about 80%, 4/5 of the VALUE of all residential units are in the hands of White individuals, investors, or families and just 5.7% is in the hands of Black individuals, investors, or families.

The problem here is that when a Black family buys a home it will likely be buying it from a White family. And that White family is overwhelmingly likely to deposit those funds in a White owned bank.

Why overwhelmingly?

Because there are more than 10,600 White owned banks and credit unions and just 43 Black owned banks and credit unions.

So, unless the White seller purposefully searches out a Black bank, the odds of the proceeds of the sale finding its way back into a Black bank are very small.

One additional concern with the ability of Banking Black to really bolster wealth accumulation in the Black community is their currently very small size. Total assets in Black owned banks is just $5.8 Billion while assets under management at just one White owned bank, JP Morgan amount to $2.8 TRILLION.

If only because of size and scale, Black owned banks are going to struggle to compete with the large White owned banks.

Sources:

* 2019 Survey of Consumer Finances
* 2019 American Community Survey
* #s of banks
	+ Black: https://www.investopedia.com/black-owned-banks-by-state-5024944
	+ All: <https://www.ffiec.gov/PDF/annrpt19.pdf>
* Capitalization
	+ Black: <https://www.investopedia.com/black-owned-banks-by-state-5024944>
	+ JP Morgan: https://www.jpmorgan.com/commercial-banking/solutions/asset-management
1. **The Multiplier Economy: Spanner in the Works**

It is this banking multiplier that generates wealth for the Banking community. It fails to work in some segment of the banking system, but if that segment is small, as is the Black community, then the multiplier will have a disproportionately large benefit to the rest of the economy.

Money goes where money is.

A similar dynamic is at work in buying Black. If a person buys something from a Black-owned business, then it benefits. However, that financial benefit might then flow outside the Black community, as its economy is not walled off from the rest of the economy. The Black business owner has to buy intermediate inputs, which might not necessarily be available from other Black businesses. Moreover, the wages that these Black businesses pay themselves and their employees are likely to be spent at least in part on goods and services outside the Black community.

Consumption spending also multiplies throughout the economy, generating wealth. But here, too, “leakage” occurs. Some of the funds leak out of the part of the economy that is at question.

Again, money goes where money is.

1. **Can it be made to work?**

If the banking and business entities in the Black community could be walled off from the rest of the US economy, both proposals could be effective parts of the solution. However, as a policy proposal, this seems untenable.

Even so, if the Black community were walled off, forming its own country of sorts, it would be a country with very little capital. The notion that such a capital-poor economy could catch up in any reasonable time frame is a little farfetched.

Walling off the community at the same time that it receives a massive capital infusion and protections from the generally exploitative larger White banks may well provide a tenable solution.

1. **Summary**
2. **Thank you!**

How to contact NEED …

1. **NEED Topics**

NEED gives talks on a variety of different topics. If you would like us to come back and present on one of these other topics, please get in touch with Jon, NEED’s ED.

If you are a member of another group that brings in speakers, we would be delighted to speak to that group as well.

Some notes:

(from: *Roots*….) Wealth—what we own minus what we owe—allows families to move forward by moving to better and safer neighborhoods, investing in businesses, saving for retirement, and supporting their children’s college aspirations. Having a financial cushion also provides a measure of security when a job loss or other crisis strikes.”

Aliprantis & Carroll (2019) – labor income gap is the primary driver behind wealth gap. Policy solution: focus on wage gap. But still must address a broad set of issues.

Fairlie & Robb: Low levels of wealth and liquidity constraints create a substantial barrier to entry for minority entrepreneurs because the owner’s wealth can be invested directly in the business, used as collateral to obtain business loans or used to acquire other businesses.

 Book: Race and Entrepreneurial Success, MIT Press, 2010

Fairlie (2006): the largest single factor explaining racial disparities in business creation rates are differences in asset levels

Cavalluzzo and Wolken (2005): loans to minority entrepreneurs have higher interest rates

Blanchflower (2007) and Blanchflower et el (2003) minorities more likely to be denied credit even after controlling for creditworthiness and other factors.

Altonji & Doraszelski (2005): We also find that a higher self-employment rate and a stronger link between self-employment and wealth for whites than for blacks make an important contribution to the wealth gap between white and black couples. Overall, our results suggest that race differences in the sensitivity of wealth to income and demographics may be as important as the gap in income and demographics in understanding black/white differences in wealth.

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2. This section borrows heavily from Darity et al. The intention is to address each of these as a possible source of policy action. In the end, the unifying theme is wealth and how the wealth gap drives the preponderance of these issues. Underlying the difficulty of addressing any of the gaps in these areas is the racial wealth gap. Some issues, however, e.g., the wage gap, rely on policy or the enforcement of existing policies. See Charles and Hurst for more on this in first part of Introduction. [↑](#footnote-ref-2)
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