

# **Race- and Ethnicity-based Inequality of Economic Opportunity**

A national crisis

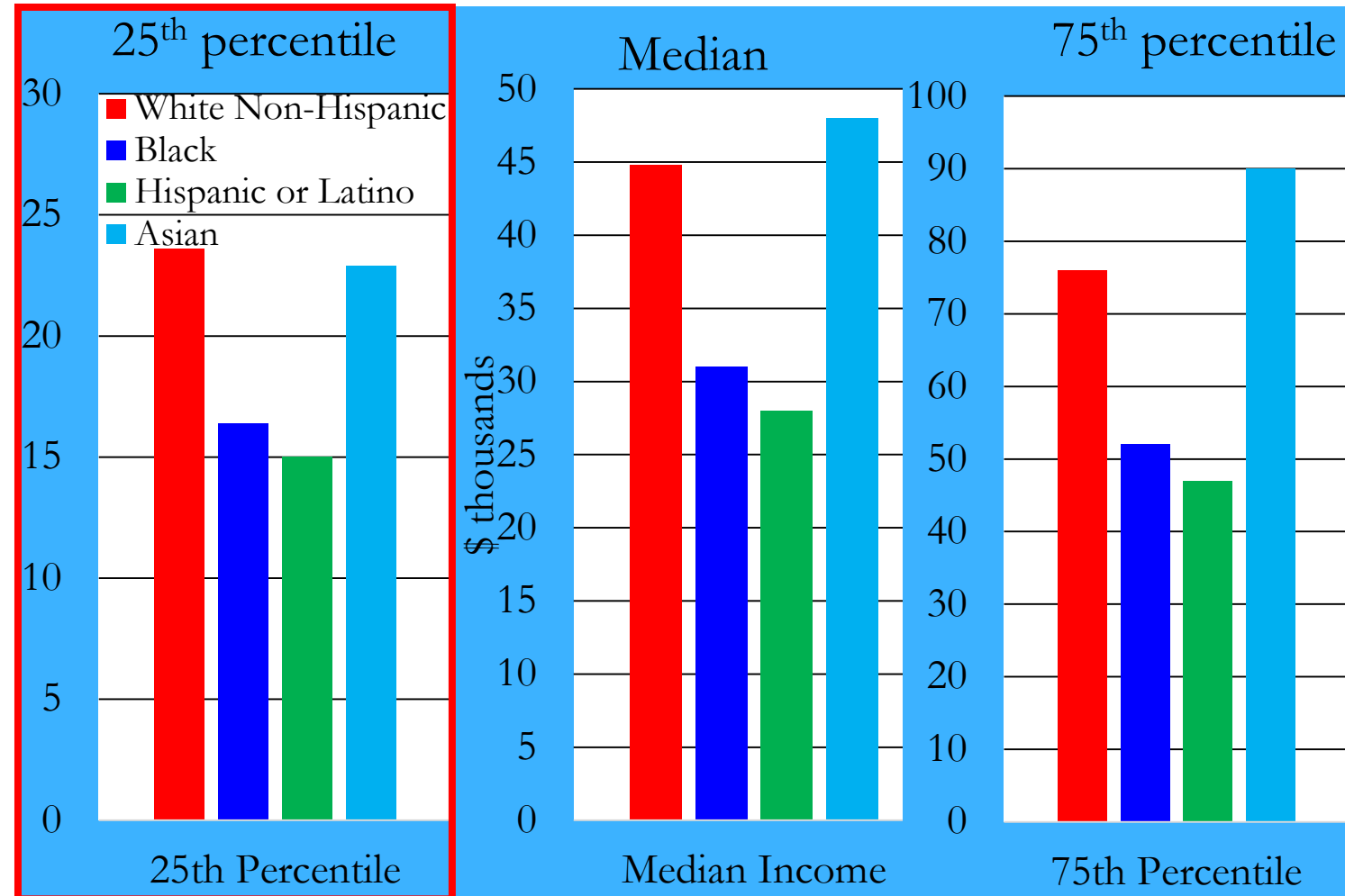
# Race, the Economy, and the Nation

- Equality of opportunity is our ideal\*.
  - The reality is FAR from the ideal.
- We will look at some data on how equal opportunity is for wealth
  - Along with a brief review of income disparities
  - And examine the very local geographic and racial correlates with lifetime outcomes
- And importantly, we will look at simple data that bear on the sources of these inequalities
- We will discuss some potential solutions
- We will discuss new research on institutional racism's contribution to income, education, homeownership gaps

# Equal opportunity?

## Income inequality—a well-known discrepancy

- Discrepancies are striking across the income distribution (2018 data)
  - Note especially the 25<sup>th</sup> percentile—at barely \$15,000 or below for Black and Latino families
  - About 60-70% of white family income
  - Not that \$24,000 is good for white families!

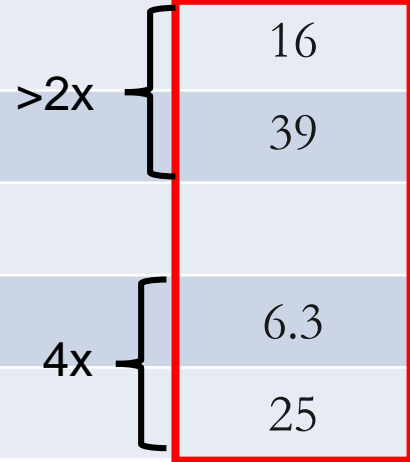


# Equal opportunity?

Very local conditions at birth dramatically influence adult outcomes

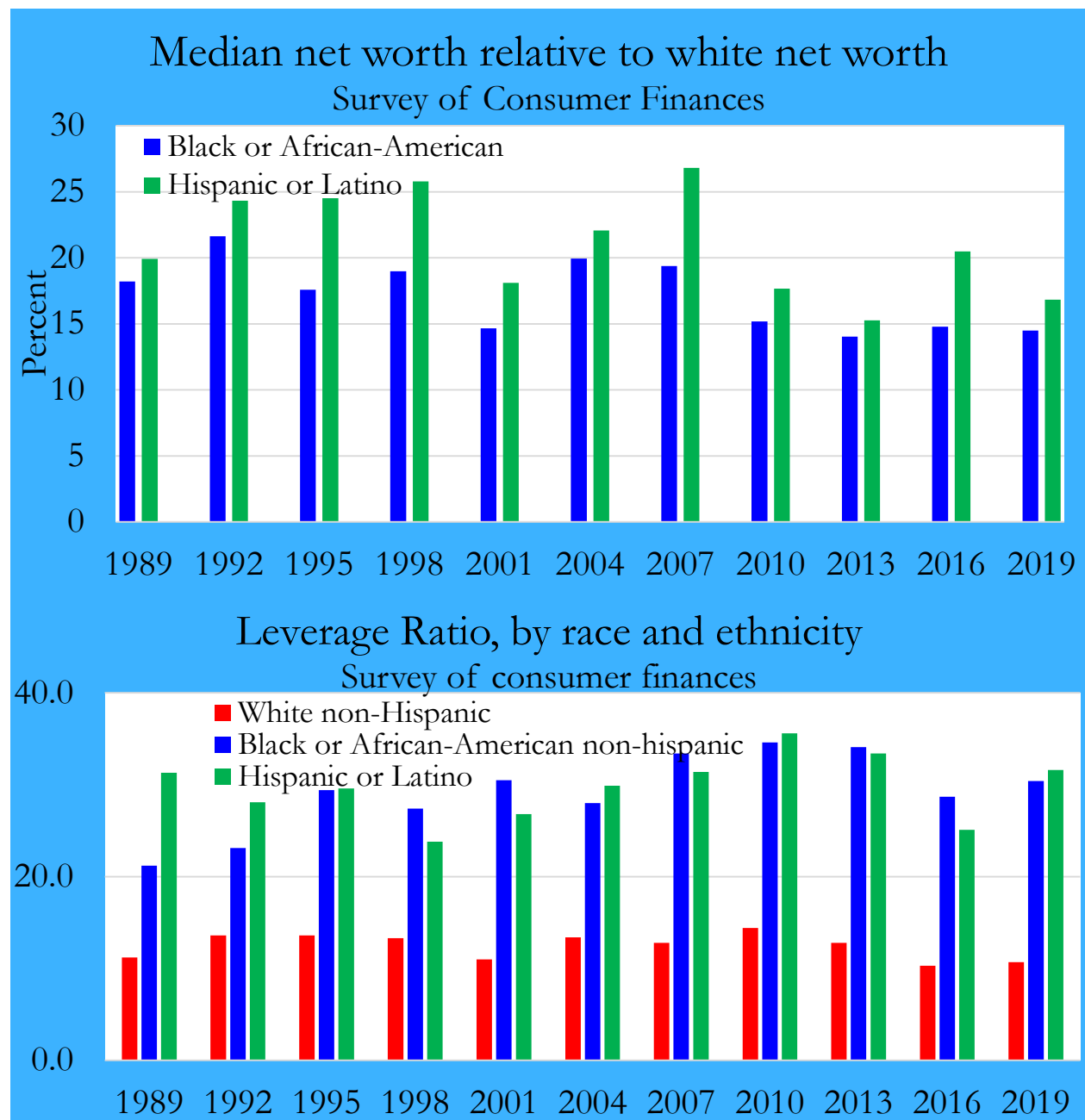
- Consider two Somerville neighborhoods
  - Income disparities at age 30 are huge for members of black families
- But look at difference in location for low-income black outcomes in Mobile, AL!

Median Household Income at adulthood by neighborhood in which you grew up Children of Low-income parents		
	Race	
Neighborhood	Black	White
<b>Somerville, MA</b>		
Prospect Hill	16	35
Magoun Square	39	40
<b>Mobile, AL</b>		
Blackstone, Semmes	6.3	32
Overlook	25	41



# Equal opportunity? Accumulation of wealth

- US data
  - Median net worth (assets-liabilities)
  - Ratio to white net worth: It has varied, but not improved over time
    - About 15 percent for African-Americans and Latinos
  - Prevalence of debt is much higher
    - Viz the Leverage Ratio—3x as high as whites
    - Implies asset disparity is really high





# Equal opportunity? Accumulation of wealth

- Boston data
  - Survey of Boston metro area households
  - Questions about debt, assets and (implied) net worth
  - All minorities hold small fractions of white population net worth
    - Differences across Black, Latino sub-groups
- What are the sources of the gap?

## Median net worth as a percentage of white households' median net worth, Boston

U.S. Black	≈0*
Caribbean black	4.8
Puerto Rican	1.2
Dominican	0.0
Other Hispanic	1.1

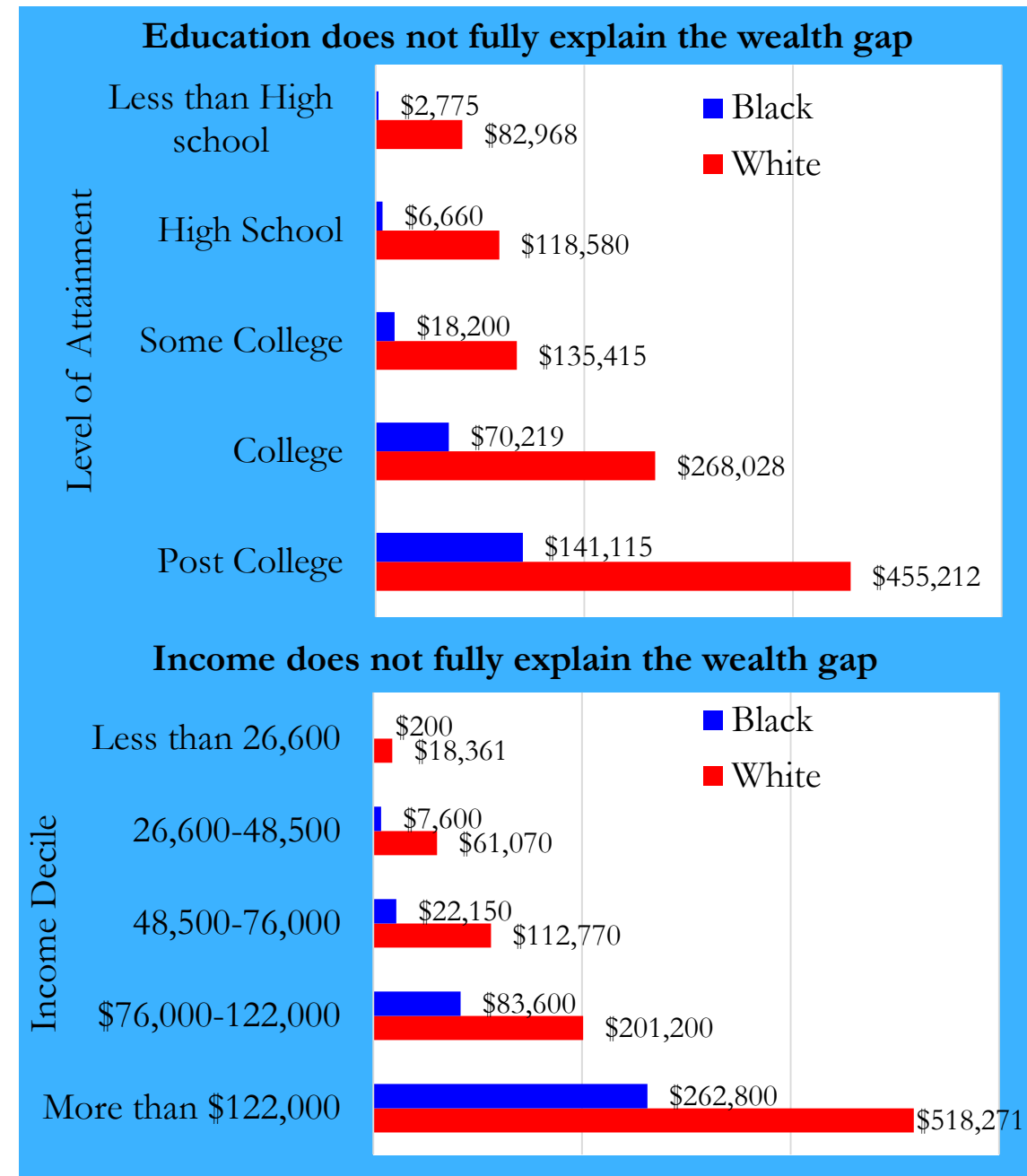
\*Significantly different from white, not significantly different from zero. Range of estimates from -\$1500 to \$1500 versus white net worth of \$247,000.

Source: Muñoz, Kim, Chang, Jackson, Hamilton and Darity, "The Color of Wealth in Boston," Federal Reserve Bank of Boston, 2015.

<https://www.bostonfed.org/publications/one-time-pubs/color-of-wealth.aspx>

# Non-explanations for the wealth gap

- Education
  - A black household with a college-educated head has less wealth than a white family whose head did not obtain a high school diploma
- Income
  - On average, a black household in the top income quintile still has one-half the wealth of a white household
- Homeownership (still a 2.5x gap)
- Saving, financial literacy, entrepreneurship, soft skills, family structure
  - No, no, no, no, no



Sources: Darity, Hamilton, Paul, Aja, Price, Moore, and Chiopris, "What we get wrong about closing the racial wealth gap," Samuel DuBois Cook Center on Social Equity Insight Center for Community Economic Development April 2018. Hamilton, Darity, Price, Sridharan, and Tippett, "Umbrellas Don't Make It Rain: Why Studying and Working Hard Isn't Enough for Black Americans." Samuel DuBois Cook Center on Social Equity at Duke University, the New School, and Insight Center for Community Economic Development 2015.

# Equal opportunity?

## The sources of wealth inequality

- Institutional, generational, persistent, spanning centuries [MLK Speech](#)
- Key examples:
  - Post-Civil War “reconstruction”—an embarrassing string of broken promises and abuse
  - Social Security and unemployment insurance in the 1930s—excluded domestic and agricultural workers (65% of black workforce excluded, versus 25% of white workforce)
    - Debate about whether it was intentionally discriminatory
  - Housing assistance in the 1940s (e.g. Levittown—written clause excludes black homeowners)
  - The GI bill post-WWII—a tiny fraction went to black soldiers
  - Housing policy post-1950s
  - Welfare reforms of the 1990s
  - Current: Educational quality and spending disparities; criminal justice disparities (the “War on Drugs”); policing disparities; voter registration restrictions
  - (see list of references below)
- ALL of these policies build white families’ wealth, and exclude black and Latino families
- Generational impacts
- How many generations more?

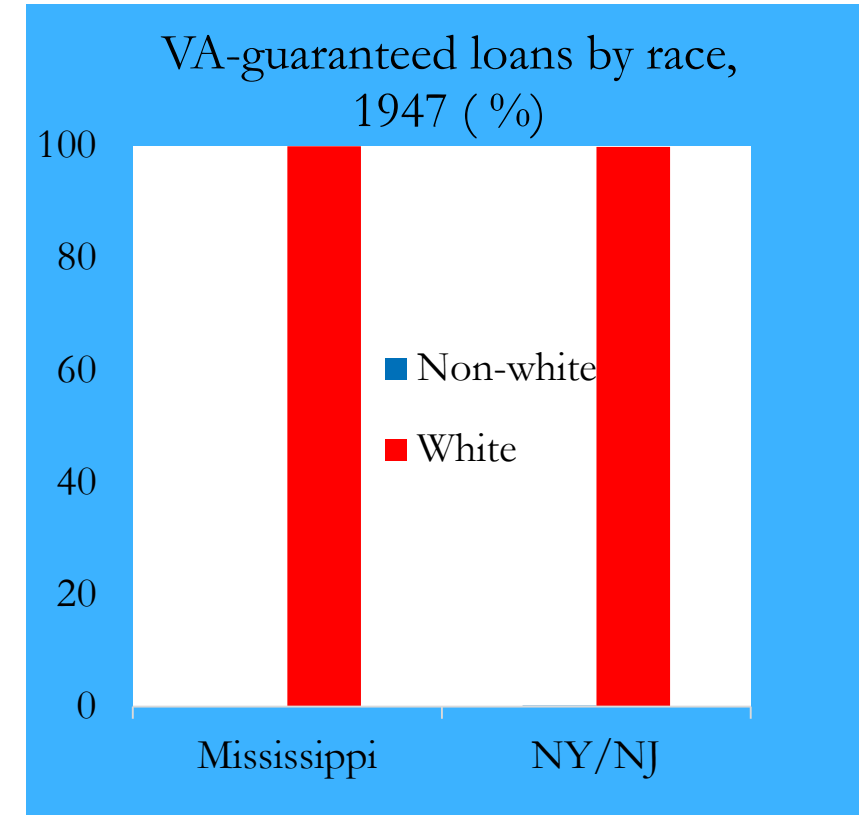
**Sources:** Speech: Martin Luther King Jr., Mississippi, April 1968; On reconstruction, housing assistance, GI bill and housing policy, see Anderson, Carol, [White Rage](#); On criminal justice disparities, see Alexander, Michelle, [The New Jim Crow](#); On disparities in school quality and spending see Shores and Ejdemyr, “Do school districts spend less money on poor and minority students?”, Brookings Institution, 2017. <https://www.brookings.edu/blog/brown-center-chalkboard/2017/05/25/do-school-districts-spend-less-money-on-poor-and-minority-students/> .and Rueben and Murray, “Racial Disparities in Education Finance: Going Beyond Unequal Revenues,” Urban-Brookings Tax Policy Center, Discussion paper No. 29, 2008. On disparate access to housing finance see Munnell, Tootell, Browne and McEneaney, “Mortgage Lending in Boston: Interpreting HMDA Data,” *American Economic Review*, March 1996.



# Policies that excluded non-whites:

## One example--VA loans

- Post-WW II housing discrimination through the GI bill
  - Many locations had “covenants” that restricted access to housing
    - Minneapolis: “the said premises shall not at any time be sold, conveyed, leased, or sublet, or occupied by any person or persons who are not full bloods of the so-called Caucasian or White race.”
    - "premises shall not at any time be conveyed, mortgaged or leased to any person or persons of Chinese, Japanese, Moorish, Turkish, Negro, Mongolian or African blood or descent.”
    - Such redlining purposely segregated residential areas
    - Common until the Fair Housing Act of 1968
  - In 1947, only 2 of the more than 3,200 VA-guaranteed home loans in 13 Mississippi cities went to Black borrowers
  - In NY/NJ metro area: fewer than 100 of 67,000 GI bill-insured mortgages went to non-whites



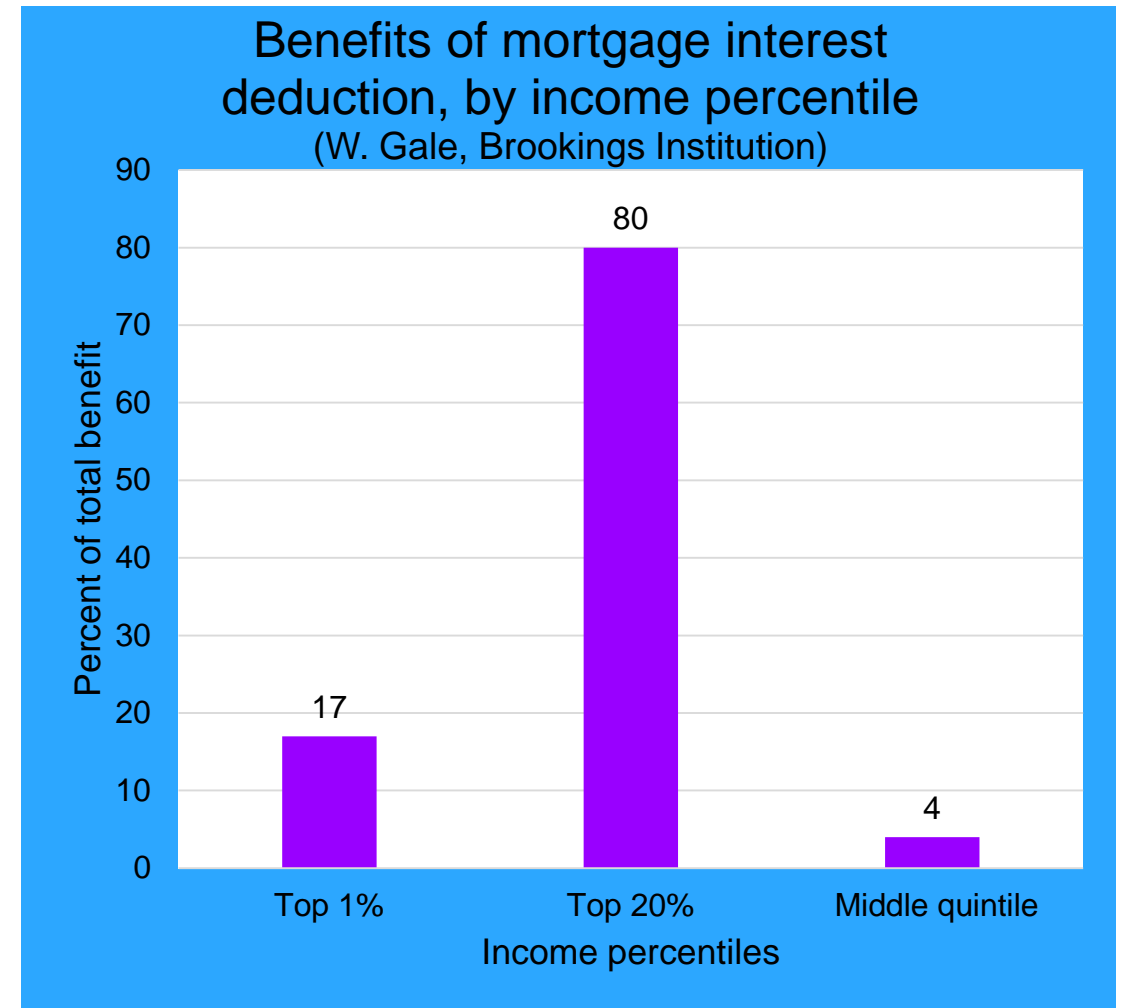
# Some Solutions

1. One prerequisite: Change the narrative
  - Why are people poor? What are the sources of racial inequity and injustice?
    - People don't work hard. Save enough. Stay out of trouble. Misuse government programs.
    - This narrative was not a Republican/Democrat issue—many in both parties held similar views
      - Reagan's narrative about poor people, war on drugs
      - President Clinton's welfare reform
  - Economic disparities are not about who works hardest.
    - Laziness is equally distributed across income deciles!
    - They are (sadly) mostly determined by who's luckiest, by skin color, neighborhood of birth, inherited economic history (family wealth)
  - That is inconsistent with some of our national narrative about who we aspire to be, IMHO
2. Our nation, our government, our private sector constructed this
  - We are jointly responsible for dismantling it

# Solutions, cont'd

## 3. Many pieces to the solution

- Change tax laws that disproportionately favor more affluent and wealthier white homeowners
  - One example: Mortgage interest deduction (see figure at right)
  - Current loss of tax revenue: \$30B/yr. (was \$60B pre-2017 tax reform)
- Change the structure of work, which provides below-subsistence wages and benefits and work conditions for the working poor, disproportionately people of color (see Chakrabarti and Fuhrer)
- This is no small task



Sources: Mortgage interest deduction incidence: William Gale, “Chipping Away at the Mortgage Deduction,” Brookings Institution, May 13, 2019. <https://www.brookings.edu/opinions/chipping-away-at-the-mortgage-deduction/>. On quality of pay and benefits in low-wage jobs: see Chakrabarti, P. and J. Fuhrer, *Investing in America's Workforce: Improving Outcomes for Workers and Employers*, Federal Reserve Bank of Atlanta, 2020. <https://www.investinwork.org/book>.

# Solutions, cont'd

## 4. “Cashing our check”

- A number of proposals have received increased attention in recent years
  - E.g. “Baby bonds”—deposits to newborn’s accounts, scaled by family resources
  - Other forms of Reparations

## 5. All of these solutions entail considerable cost.

- But far less than continuing the current system, which is fundamentally broken.
- The cost in terms of lost economic and human potential is enormous.
- **Look at how much we spent on the COVID-19 recession when we had to! \$3 trillion and counting.**

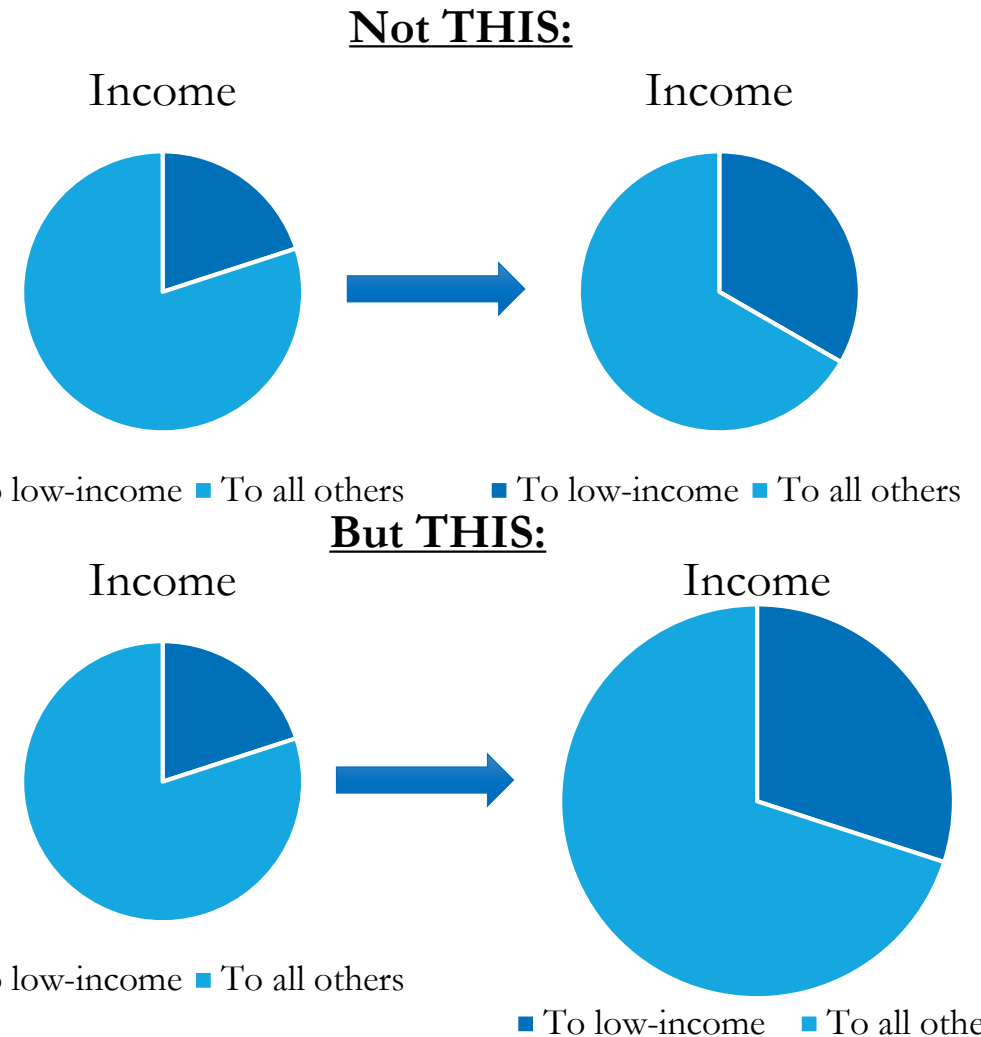
## 6. The goal: Move us toward the land of opportunity that we are supposed to be.

# A Key Perspective: This is NOT a Zero-Sum Game

- Does success for one segment necessarily imply losses for another?

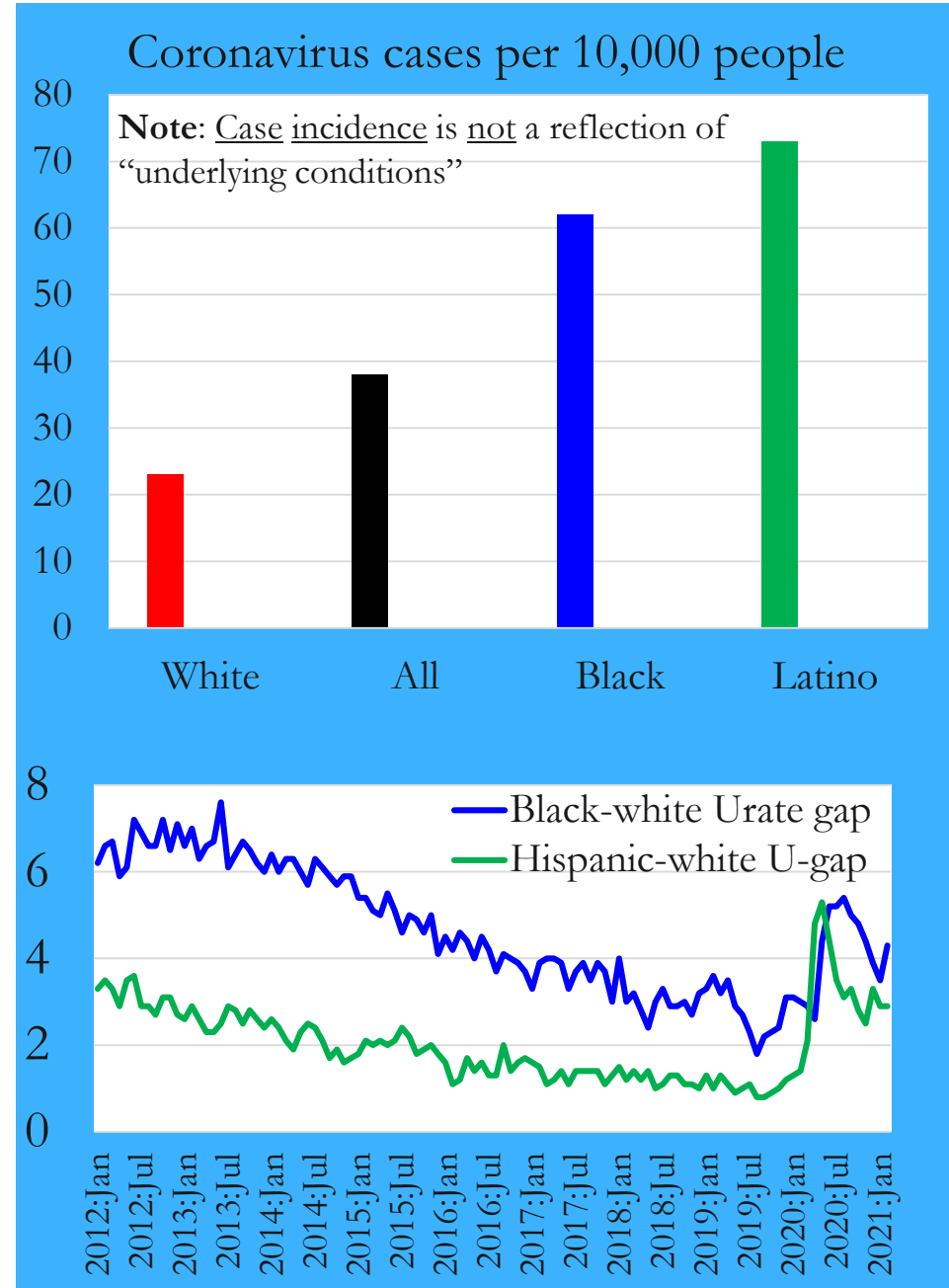
NO

- If we succeed in improving human capital for low-income populations, the size of the economic pie increases
- That means more income overall, more jobs, more consumer spending, more investment



# This is our great national challenge

- The data just shown precede the crises
- They are being exacerbated, as we speak, by the health and economic effects of the crises (charts at right—disparate effects of COVID and the recession)
- Ignoring this represents an enormous loss of economic potential
- And a horrendous, embarrassing loss of human potential

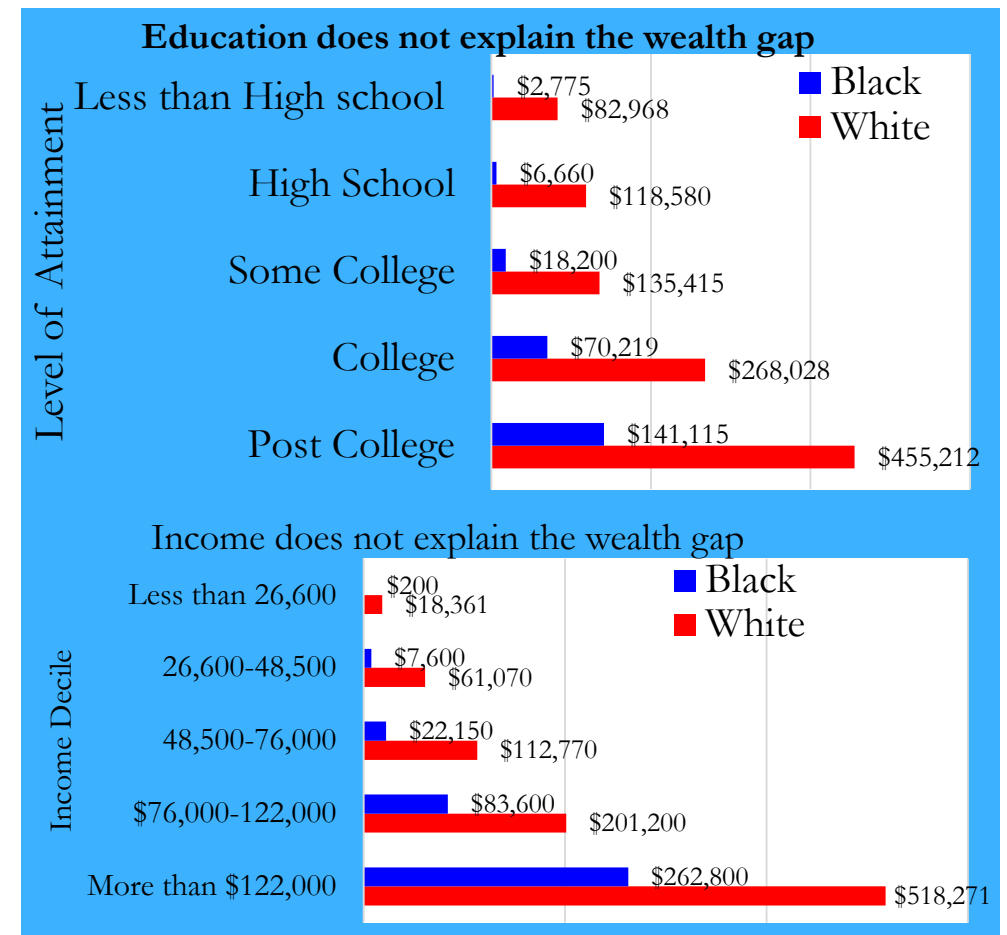


# So where does the wealth gap come from?

- Recall: it is a multi-generational phenomenon, dating back more than a century
- Most analyses examine bivariate relationships
  - Differences in income matter
    - But do not explain most of the wealth gap
    - But it takes a long time for equalized incomes to equalize generational wealth gaps
  - Differences in housing matter
    - But do not explain most of the wealth gap
  - Differences in education matter
    - But leaves most of the wealth gap unexplained
  - Differences in savings matter
    - But takes a long, long time to equalize the wealth gap
  - The biggest problem: None of these “explain” the source of the racial/ethnic wealth gap, because one has to ask how these gaps arose
    - These gaps are also highly influenced by racial discrimination

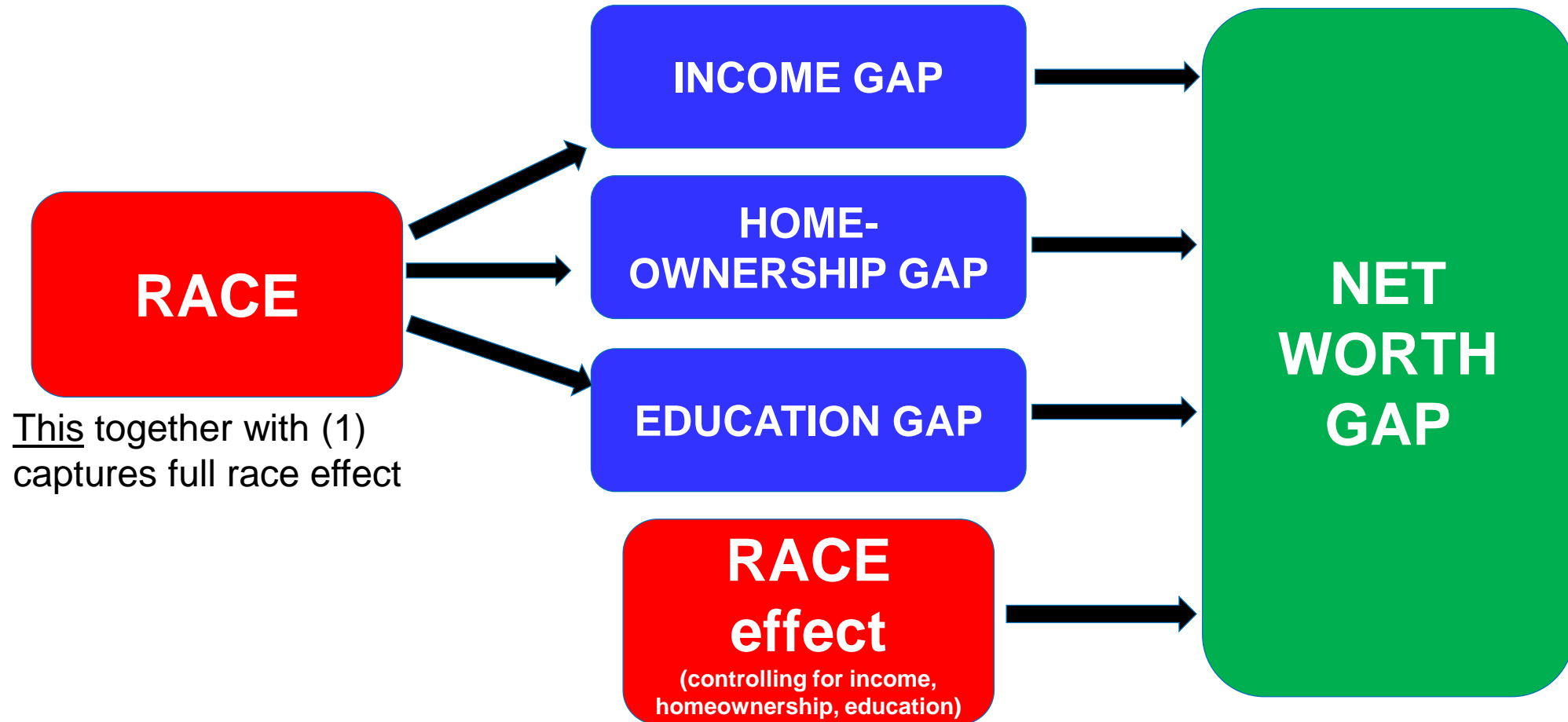
# Beyond bivariate relationships: Accounting for the effect of race on wealth

- A bad solution—the Kitchen Sink approach:
  - Just put all these variables—education, income, health care, homeownership—into one big regression
  - See what the resulting coefficient on race is
  - But this assumes that race does not act through these variables, which is terribly wrong





# Why that approach is so misleading



This together with (1) captures full race effect

(1) Full effect of race on NW?

# Some simple results for the Kitchen Sink regressions

Variable explained	Race coefficients (African-American)	Other controls
Net worth	-3.8***	None
	-2.6***	Normal income
	-1.0***	Income, homeownership, age, education, etc
Assets	-1.64***	None
	-0.97***	Normal income
	-0.35***	Income, homeownership, age, education, etc
Debt	-0.79***	None
	-0.27***	Normal income
	-0.06**	Income, homeownership, age, education, etc

Note decline in race coeff. as other controls are added—likely very misleading

# But that's very misleading

## A first step: show race effects on homeownership, income, etc.

Variable explained	Race coefficients		Other controls
"Normal" income	Black	-0.18 ***	Age, education, occupation codes, health care access, health status, inheritance expected/occurred, year dummies
	Hispanic	-0.18 ***	
	Other	-0.10 ***	
Homeownership (probability of owning a home)	Black	-0.44 ***	Age, education, occupation codes, health care access, health status, inheritance expected/occurred, year dummies
	Hispanic	-0.46 ***	
	Other	-0.42 ***	
Education, college (probability of obtaining college educ.)	Black	-0.20 ***	Age, education, occupation codes, health care access, health status, inheritance expected/occurred, year dummies
	Hispanic	-0.23 ***	
	Other	0.37 **	

# Final step: Estimating all of these jointly to see the overall effect of race

- A work in progress

# Why does this matter?

- Education, homeownership, income and employment are all critical goals to attain
- But if we address only these, we will consign the nation to
  - A protracted period of partial closing of the wealth gap
- **Most importantly:** We will fail to fully address the underlying structural, institutional racism that caused an unequal distribution of wealth by design over many generations