

Center for American Progress



Eliminating the Black-White Wealth Gap Is a Generational Challenge

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Introduction and summary

The importance of household wealth has become abundantly clear during the COVID-19 pandemic. Wealth is the difference between what families own—for instance, their savings and checking accounts, retirement savings, houses, and cars—and what they owe on credit cards, student loans, and mortgages, among other debt.

Yet wealth is vastly unequally distributed across the United States. Black households have a fraction of the wealth of white households, leaving them in a much more precarious financial situation when a crisis strikes and with fewer economic opportunities. Wealth allows households to weather a financial emergency such as a layoff or a family member's illness. The pandemic brought multiple such emergencies to American families across all demographics. However, the lack of financial security combined with disproportionate exposure to the deadly coronavirus has had especially disastrous results for the Black community.

Wealth also provides families the means to invest in their children's education, to start a business, relocate for new and better opportunities, buy a house, and have greater participation in the democratic process. Many households in Black communities cannot afford to pay for reliable internet or electronic devices to facilitate remote learning.¹ White workers have been more likely to work remotely during the pandemic and have resources to devote to their children's remote learning environment, while Black workers are more likely to still be going to work in person. The pandemic has created the perfect storm of factors that will drive wealth for African Americans and white households even further apart.

Wealth is not only a question of financial savings; it provides access to the political process and, therefore, exerts political influence. Households with wealth have a measure of economic security and can donate time and money, thereby influencing the political process and the policies that are important to their communities. Yet, Congress has not devoted enough attention to both the physical and economic harm the coronavirus crisis has wrought on African American communities.

The persistent Black-white wealth gap is not an accident but rather the result of centuries of federal and state policies that have systematically facilitated the deprivation of Black Americans. From the brutal exploitation of Africans during slavery, to systematic oppression in the Jim Crow South, to today's institutionalized racism—apparent in disparate access to and outcomes in education, health care, jobs, housing, and criminal justice—government policy has created or maintained hurdles for African Americans who attempt to build, maintain, and pass on wealth.

In 2019, the Center for American Progress invited a number of leading national experts on racism and wealth to join the National Advisory Council on Eliminating the Black-White Wealth Gap² to make eradicating this racial disparity a pressing policy goal for the next presidential administration and to identify steps necessary to accomplish it. This group engaged in a yearlong discussion guided by the following principles:

- Wealth is crucial for households' economic security, their economic opportunities, their protection against economic crises, and their access to political power.
- The large and persistent Black-white wealth gap follows from centuries of policies that have systematically disadvantaged Black Americans' ability to build, maintain, and pass on wealth.
- Successful policies—either singularly or in combination with others—will need to be large in scope to meet the challenge of eliminating the Black-white wealth gap.
- Policy interventions must focus on reversing centuries of exploitation and discrimination against Black Americans.
- Policies that will ultimately eliminate the wealth disparity need to provide tangible assets and debt relief to Black families.
- Eliminating the Black-white wealth gap will need to go beyond just securing more money to African Americans. Policies will also need to ensure that the structures supporting wealth creation deliver equitable outcomes.

The importance of addressing the Black-white wealth gap

In 2019, the median wealth (without defined-benefit pensions) of Black households in the United States was \$24,100, compared with \$189,100 for white households. Therefore, the typical Black household had 12.7 percent of the wealth of the typical white household, and they owned \$165,000 less in wealth. The average gap is somewhat smaller in relative terms but much larger in dollar terms. The average Black household had \$142,330 in 2019 compared with \$980,549 for the average white household. This means that, on average, Black households had 14.5 percent of the wealth of white households, with an absolute dollar gap of \$838,220.

The massive Black-white wealth disparity is nothing new in this country. It has persisted for centuries and has been apparent in consistent, nationally representative data for at least three decades. The gap between Black and white households appears to have widened again in the latter part of 2020 as the pandemic and deep recession took hold, especially hurting Black Americans. Black households needed to rely more on their savings to cover both health care emergencies and the economic fallout from layoffs than white households. Just a few months into the pandemic, average wealth for Black households was growing more slowly than that of white households—a reversal of the pre-pandemic trend.

Low wealth among many Black Americans left them especially vulnerable to the myriad risks of the coronavirus crisis. Black workers were more likely to lose their jobs even as they faced greater health care risks. They worked in jobs with greater exposure to the coronavirus and lived in communities with weaker health care infrastructures. As risks and costs soared, they quickly experienced more material hardship. Hunger, the threat of eviction or foreclosure, and an inability to pay bills were more prevalent among Black households than among white ones. More than two-thirds—68.1 percent—of Black families with incomes from \$35,000 to \$100,000 who had lost work during the pandemic indicated that they could not afford all of the food they needed, faced eviction or foreclosure, or had difficulty paying all of their bills from August 2020 to December 2020.³ These situations applied to 49.3 percent of white households in this income category. All types of families have suffered during the recession, but Black families have struggled more because they have fewer savings to fall back on.

Black households face systematic obstacles in building wealth

The persistent Black-white wealth gap is the result of a discriminatory economic system that keeps Black households from achieving the American dream.⁴ This system has always made it difficult for Black households to acquire and keep capital, and this lack of capital has created a persistently large racial wealth disparity, as African Americans have had less wealth to pass on to the next generation than white households. There are several other obstacles to building wealth:

- Black workers often face labor market discrimination, including being steered toward occupations that are less secure, lower paying, and have fewer benefits and career advancement opportunities. These systematic obstacles to gaining access to good jobs are especially prevalent in the private sector.
- Opportunities to contribute to and benefit from innovation and advancements in technologies—and thus building wealth in high value-added industries and occupations—are also limited for African American innovators and entrepreneurs, as federal government research funding regularly excludes them.⁵ Black households end up with lower incomes and less wealth than white households as a result.
- The financial system strips Black households of their wealth by denying them access to the same investment opportunities and affordable credit that white households have. This systematic bias makes it more difficult for Black households to participate in the stock market, to start and grow their own business, and to put away a rainy day fund, while they carry more costly debt such as car loans, credit card balances, and payday loans at the same time.
- Black households continue to face housing market discrimination, which makes it harder for them to own a home in the first place, and their houses appreciate less in value than those of white households.
- Additional factors such as systematically worse treatment in education, health care, and in the criminal justice system also feed into the persistent Black-white wealth gap.

The unjust obstacles to building wealth for Black households have existed for centuries, and the iterative nature of wealth begetting more wealth means that without public interventions, it will be virtually impossible for Black Americans to catch up to their white counterparts. White families are better situated to pass on wealth from one generation to the next. White households first benefited from the dehumanizing system of slavery—directly, in this case, as a white slaveholding plantation class—but also from the discriminatory institutions that emerged and persisted after the Civil War. White households have been able to build wealth for themselves and their descendants, while whatever wealth Black families could amass was regularly stripped away. Private businesses and governments institutionalized racism and discrimination. They also encouraged and sanctioned violence targeting Black lives and property. The destruction of Black Wall Street in the Greenwood neighborhood of Tulsa, Oklahoma, in 1921 serves as one of many horrid and systematic examples.⁶

Following centuries of oppression of Black households, white households are much more likely to receive an inheritance from their parents and grandparents, and their inheritances are much larger than those of Black households.⁷ Moreover, white households have access to larger and wealthier social networks that they can tap into for job and career opportunities for them and their children. Addressing the persistent Black-white wealth gap means countering the centuries-old institutions that have kept Black households from building and growing wealth at the same rate as is the case for white households.

Novel policy proposals that can help shrink the Black-white wealth gap

The National Advisory Council on Eliminating the Black-White Wealth Gap developed a range of novel policy proposals throughout 2020 that followed the aforementioned principles. These policies are especially targeted toward Black Americans, building and expanding on several existing proposals that could reduce the wealth disparity between Black and white households by helping Black Americans gain more wealth.

Center racial equity in the Biden-Harris administration⁸

Derived from a CAP issue brief published in November 2020, this proposal recommends that the executive branch explicitly prioritize eliminating the Black-white wealth gap, as it is the result of the collective and compounding impact of centuries of oppression. Now there must be a full-scale, intentional, and strategic plan that reaches across the entire federal government and puts in place actual infrastructure to tackle racial inequality. The issue brief provides the Biden administration with a menu of options, many of which have been adopted already.⁹ They include creating a White House Racial Equity Office; appointing a senior adviser to the president on racial equity; directing the Office of Management and Budget to conduct racial equity assessments on policy measures; adding more principal function to the National Economic Council focused on eliminating the racial wealth disparity; establishing an interagency task force that would provide steps each agency could take toward increasing wealth for Black communities and communities of color; and encouraging agencies to prioritize addressing racial wealth inequality. This menu of options is intended to provide mechanisms by which the federal government—including the White House and federal agencies—would hold itself accountable to the goal of centering race and equity in policymaking.

Ensure public work continues to provide economic security for Black families and communities¹⁰

Black workers and their families have a rare source of opportunity and security in public sector jobs. Government jobs alone cannot solve structural racism, but public sector jobs offer Black workers a greater measure of economic security than they can often find in private sector employment. Secure employment with predictable wages and benefits, a stable working environment, and stronger protections for workers in the public sector has been a significant source of security for Black workers. That also means that slowing growth in government employment—especially in the wake of the Great Recession of 2007 to 2009—represents a disproportionate shrinking of economic opportunities for African American workers.

Amid the fallout from the pandemic, state and local governments have made deep cuts to public sector jobs. Black workers have seen economic gains thanks to their hard work in the public sector. These income and wealth gains are now at risk again. In September 2020, 211,000 fewer Black workers had a job in the public sector than was the case in September 2019.¹¹

In the wake of the COVID-19 pandemic, the federal government can ensure that state and local governments are receiving the funding they need—for instance, with the passage of the American Rescue Plan. Now, these additional funds need to lead states and local governments to bring back jobs in an equitable manner; otherwise, they would risk endangering the financial security of millions of middle-class Black households, threatening to make the wealth gap even harder to solve and undermining one of the only means of substantially reducing racism and racial wealth disparities.

Create a postal banking system to help address structural inequality¹²

Many households lack access to mainstream banking institutions, which contributes to households being either unbanked or underbanked. This is especially acute for communities of color. Policymakers will need to make long-term structural changes to achieve more equitable outcomes for Black households as the country considers the necessary next steps to rebuild its economy and society after the pandemic and the ensuing economic crisis. Postal banking should be a core part of the U.S. Postal Service's mission to deliver services to almost every community in the country. The federal government could provide vital access to financial services by broadening the mandate of the Postal Service to offer postal banking—such as a stable bank account for those who are underbanked or unbanked, small loans, and check-cashing services—which could reduce the wealth-stripping effect that exclusionary and predatory financial institutions can cause.

Such a system could also serve as a public distribution method for federal and state benefits such as the economic impact payments in the CARES Act or the quarterly or monthly distribution of the earned income tax credit and the child tax credit. Postal banking would overcome a structural barrier for African Americans in the U.S. financial system and would reduce the damage done to many Black households and communities that regularly face predatory lenders and lose large shares of their wealth.

A blueprint to revamp the Minority Business Development Agency¹³

African Americans own fewer than 2 percent of small businesses with any employees, but they make up 13 percent of the U.S. population. In comparison, white households own 82 percent of small employer firms, even though they account for only 60 percent of the U.S. population.

Wide and persistent inequities in wealth and access to capital cause these disparities in small business ownership. The federal government can play an important role in creating a more equitable business environment, even though in the past, it has often perpetuated rather than mitigated these inequities. The Biden administration could help cut small business disparities if it decided to overhaul a long-neglected agency that is part of the U.S. Department of Commerce—the Minority Business Development Agency (MBDA). A reenvisioned MBDA could then take the following steps:

- Start an economic equity grant program. This program would support municipal projects that boost wealth creation, opportunity, and minority business development in African American communities.
- Launch a business center initiative for minority-serving institutions (MSIs). These will be located at historically Black colleges and universities (HBCUs), tribal colleges and universities, and other MSIs. It will also give substantial grants to operate business incubators and accelerators at every MSI in the country. Current students and community members interested in starting or growing their own business could receive startup capital, technical and legal assistance, and other support from these business centers.
- Create an office of research and evaluation. This office would study obstacles to wealth generation and hurdles to business development in Black, Indigenous, and other communities of color. It would also offer technical assistance to other MBDA offices and initiatives. This office would conduct pilot and demonstration

projects that would analyze novel ideas of capital finance anchored in new and proven program concepts—such as baby bonds or debt-free college—and their effect on racial gaps in business development and growth.

- Provide low-cost, government-backed capital to licensed minority business investment companies. This capital would be invested in Latino and Black businesses.
- Establish an office of advocacy and intergovernmental affairs. This office would evaluate the effects of proposed legislation and regulations on barriers to minority-owned small business creation and success.
- Advance the economic concerns of Black, Indigenous, and other communities of color in front of various government bodies, as well as coordinate interagency efforts to support minority-owned businesses.

Redesign federal funding of research and development¹⁴

Black researchers, inventors, and entrepreneurs face large hurdles in receiving federal research and development (R&D) funds in the current design and application of such funds. The Biden administration and Congress can lower racial gaps in R&D funding and offer a pathway for R&D dollars that both dedicate funding to Black-led research and establish an innovation dividend.

The proposal, developed in a previous CAP report, envisions additional financial support for R&D by Black inventors and entrepreneurs:

- Provide more money for federal R&D funds that will go to HBCUs through a dedicated stream of funding.
- Federal agencies will need to offer technical assistance and financial support to help HCBUs build grant management capacity.
- Help foster mentoring relationships between researchers at HBCUs and African American researchers who have experience getting grant funding.
- Provide federal R&D dollars for research conducted at HBCUs beyond medical researchers and medical professionals.

- Create an oversight board that will ensure Black scientists can fully participate in identifying new, innovative solutions to many of society's problems.
- Create more public-private research partnerships between HBCUs and the private sector.
- Use federally owned real estate to establish or expand innovation incubators at or near HBCUs.
- Offer researchers at HBCUs and those who collaborate with HBCUs low-cost or free access to set up labs, manufacturing, and other research facilities.

The proposal further envisions the creation of an innovation dividend. The federal government would have to spend \$125 billion annually in new R&D, which is higher than the current low of about \$100 billion per year. Underlying this calculation is the assumption that the federal government's annual R&D spending will grow with gross domestic product, based on the Congressional Budget Office's (CBO) long-term economic projections. Each new and successful investment is assumed to last for 20 years. This is equal to the usual patent protection length. The calculation further assumes that all investments create an average noninflation-adjusted rate of return of about 3 percent. This is close to the long-term, risk-free rate of return assumed by the CBO but well below historical averages. The federal government can receive the extra value of these investments. Private companies' profits then only come from private sector investments. The federal government can pay out these funds as innovation dividends—typically in the form of targeted cash payments—to Black Americans, who have been left out of innovation funding for decades.

Even with innovative policy solutions, the Black-white wealth gap will persist

The data for the past three decades show large and persistent disparities in wealth, assets, and debt between Black and white households. Wealth is the difference between what households own—their assets—and what they owe—their debt. For most households, assets are larger than debt, meaning they own at least some wealth. Assets include people's houses, their retirement accounts, their checking and savings accounts, and their cars, for example. The expected future income from an employer's pension is a somewhat unique asset. On the one hand, it provides households with a secure stream of income in the future; on the other hand, it is not an asset that households can borrow against or pass on to their heirs. The table below shows wealth inequality between Black and white households both with and without defined-benefit pension wealth.

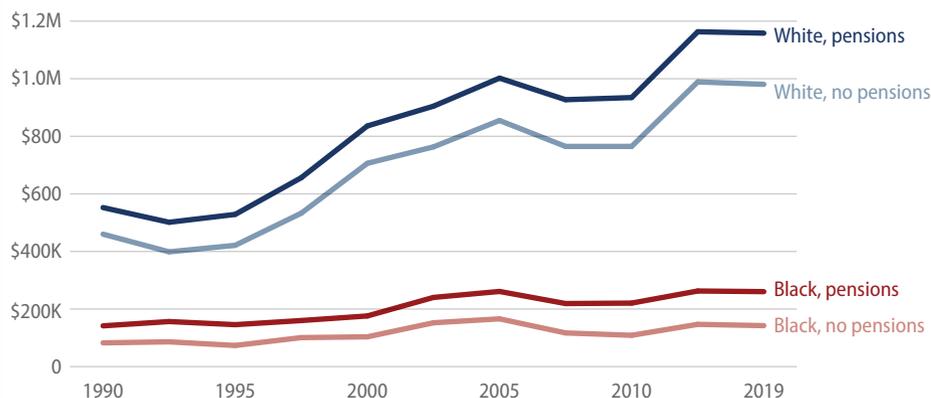
The data highlight several key points. First, Black households have a fraction of the wealth of white households. For instance, the median wealth of Black households with defined-benefit pensions was \$40,400 in 2019—15.5 percent of the \$258,900 in median wealth for white families. (see the downloadable table)¹⁵ The smallest relative gap that can be found between Black household wealth and white household wealth exists for average wealth that includes defined-benefit pensions as part of household wealth. Using this measure, Black households' wealth amounts to 22.5 percent of white households' wealth. (see Figure 1) In comparison, the largest gap that can be found between Black and white household wealth is median wealth without defined-benefit pensions included. Using this measure, Black households own 12.7 percent of the wealth of the median white household. No matter which wealth measure is used, Black households have far less wealth than white ones.

Second, defined-benefit pensions have a slightly equalizing effect. The Black-white wealth gap shrinks somewhat when the imputed value of defined-benefit pensions is counted as an asset. This equalizing effect is larger for average wealth than for median wealth. For example, average Black household wealth increases from 14.5 percent of average white household wealth without defined-benefit pensions to 22.5 percent with defined-benefit pensions; the Black-white wealth gap shrinks by 8 percentage points. At the median, the effect is only a 1.8 percentage-point decrease. That is, the effect of a little more wealth equality thanks to defined-benefit pensions matters mainly for higher-income earners with stable jobs. Since such opportunities are often rare for Black workers in the private sector, the effect is much smaller at the median.

FIGURE 1

The racial wealth gap has remained large and often widened over past three decades

Average wealth with and without defined-benefit pensions for Black and white households, 1989 to 2019



Note: All dollar values are in 2019 dollars.

Source: Authors' calculations based on Board of Governors of the Federal Reserve System, "Survey of Consumer Finances (SCF): 1989, 1992, 1995, 1998, 2001, 2004, 2007, 2010, 2013, 2016, and 2019," available at <https://www.federalreserve.gov/econres/scfindex.htm> (last accessed February 2021); John Sabelhaus and Alice Henriques Volz, "Are Disappearing Employer Pensions Contributing to Rising Wealth Inequality?", Board of Governors of the Federal Reserve System, February 1, 2019, available at <https://www.federalreserve.gov/econres/notes/feds-notes/are-disappearing-employer-pensions-contributing-to-rising-wealth-inequality-20190201.htm>.

A key point, which is not shown in Figure 1 but is apparent in the same data, is that Black workers have more access to stable jobs with good benefits—including defined-benefit pensions—in the public sector than in the private sector. As a result, wealth inequality among public sector workers is much smaller than among private sector workers.¹⁶ This effect becomes even larger when comparing public sector workers in unionized jobs with their private sector counterparts who are not covered by a collective bargaining agreement.¹⁷ Access to stable, well-paying jobs with decent benefits is rarer for Black workers than for white ones. Such access—which is more common in the public sector than in the private sector—can help shrink but not eliminate the Black-white wealth gap in large part because of the value of a defined-benefit pension.

Third, there is no long-term trend toward a smaller Black-white wealth gap. In fact, the relative difference between Black households' wealth and that of white households was generally smaller from 1992 to 2007 than in the years after the Great Recession. For instance, the median wealth with defined-benefit pensions of Black households amounted to 20.1 percent of white households in 1998 and 19.8 percent in 2004. Since the Great Recession, this ratio of Black households' median wealth to white households' median wealth reached its highest point of 15.5 percent in 2019. Black households' wealth has always been far below that of white households in the past three decades.

Fourth, the wealth gap persists even when the data account for income differences. Black households have much lower wealth-to-income ratios than white households do. For example, the median wealth-to-income ratio that includes the imputed wealth of defined-benefit pensions has rarely exceeded 100 percent for Black households. (see the downloadable table)¹⁸ However, it has never fallen below 300 percent for white households, and it stood at 395.5 percent in 2019. That is, the large Black-white wealth gap does not follow from lower incomes among Black households.

TABLE 1
Average household wealth by race and select demographic characteristics in 2019

	White	Black
Education		
No high school	\$230,165	\$36,586
High school	\$421,939	\$91,412
Some college	\$472,108	\$125,923
College	\$1,793,996	\$270,288
Family status		
Married	\$1,359,894	\$260,749
Single men	\$488,321	\$126,525
Single women	\$364,385	\$62,517
Age		
23 or younger	\$29,868	\$7,903
24–34	\$139,571	\$2,512
35–44	\$570,464	\$105,588
45–54	\$1,017,648	\$214,149
55–64	\$1,498,686	\$236,697
65–74	\$1,476,160	\$185,497
75 or older	\$1,134,629	\$177,565
Income		
Bottom quintile	\$202,713	\$26,094
Second quintile	\$192,228	\$41,883
Middle quintile	\$246,607	\$85,019
Fourth quintile	\$456,524	\$164,706
Top quintile	\$2,748,205	\$790,498

Note: Wealth does not include defined-benefit pensions.

Source: Authors' calculations based on Board of Governors of the Federal Reserve System, "Survey of Consumer Finances (SCF): 2019," available at <https://www.federalreserve.gov/econres/scfindex.htm> (last accessed February 2021).

In the same vein, the data show large Black-white wealth gaps among separate subpopulations. (see Table 1) The table breaks the data down by education, family status, age, and income in addition to race. In all groups, white households have vastly more wealth than Black households. The overall Black-white wealth gap is then not a result of differences in these characteristics. For example, white households with high school degrees have \$151,651 more in wealth on average than Black households with a college degree. In fact, white households without a high school degree have similar wealth levels as Black households with college degrees—\$230,165 compared with \$270,288. Other research at the more regionally granular level has regularly found that white households without a high school degree have, on average, more wealth than Black households with a college degree.¹⁹ Put differently, Black Americans gaining more education does not close the Black-white wealth gap. The data indicate similar conclusions about income levels and marital status.²⁰ Black Americans clearly encounter massive and systematic obstacles that make it impossible to catch up to their white counterparts.

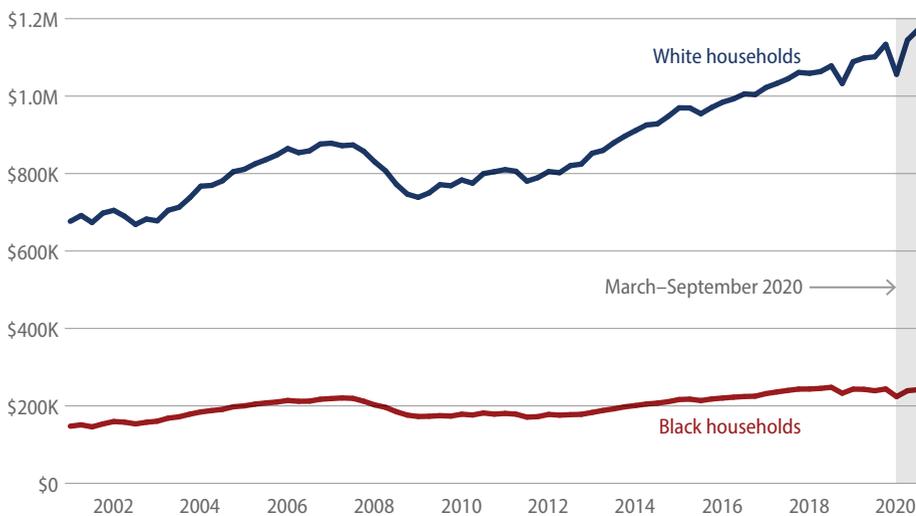
The data in Table 1 on wealth by age in fact suggest that these obstacles are cumulative. The Black-white wealth gap tends to be larger for older groups of households than for younger ones. Data for married couples broken down by cohorts show that the Black-white wealth gap widens as people get older.²¹ Black Americans encounter systematic obstacles and systemic racism when trying to save for their future, while white households receive additional help from their families—for example, in the form of more frequent and larger inheritances—causing the Black-white wealth gap to grow over people’s lifetime.²²

Fifth, Black households’ wealth declined more after the Great Recession than was the case for white households. And white households’ wealth grew faster in the immediate aftermath of that financial and economic crisis than was the case for Black households’ wealth. Regardless of the measure of wealth—median or mean, with or without defined-benefit pensions—the gap between Black households’ and white households’ wealth was larger in 2019 than in 2004 and 2007, before the Great Recession started.

Additional Federal Reserve data suggest that the recession of 2020 could show a similar pattern of a widening Black-white wealth gap during a recession. Figure 2 shows the average wealth with defined-benefit pensions for Black and white households.²³ The Black-white wealth gap widened over the course of the recession through September 2020. The average wealth of Black households was \$241,951, which was 0.7 percent below the \$243,764 recorded at the end of 2019, before the recession started. In contrast, average white household wealth was 3.3 percent higher with \$1.17 million in September 2020 compared with \$1.13 million at the end of 2019. Black households’ wealth recovered more slowly than that of white households, widening the wealth disparity continuously throughout the recession.

FIGURE 2
The U.S. Black-white wealth gap widened again during the pandemic

Average household wealth for Black and white households, 1989 to 2020



Note: All figures are in 2020 dollars. Total real wealth is divided by the number of households in each quarter, and the number of households is taken from the Federal Reserve's Survey of Consumer Finances for the third quarter of each survey year. The missing numbers of population totals are linearly interpolated.

Sources: Authors' calculations based on Board of Governors of the Federal Reserve System, "Distributional Financial Accounts: Distribution of Household Wealth in the U.S. since 1989," available at <https://www.federalreserve.gov/releases/z1/dataviz/dfa/> (last accessed February 2021); Board of Governors of the Federal Reserve System, "Survey of Consumer Finances (SCF): 1989, 1992, 1995, 1998, 2001, 2004, 2007, 2010, 2013, 2016, and 2019," available at <https://www.federalreserve.gov/econres/scfindex.htm> (last accessed February 2021).

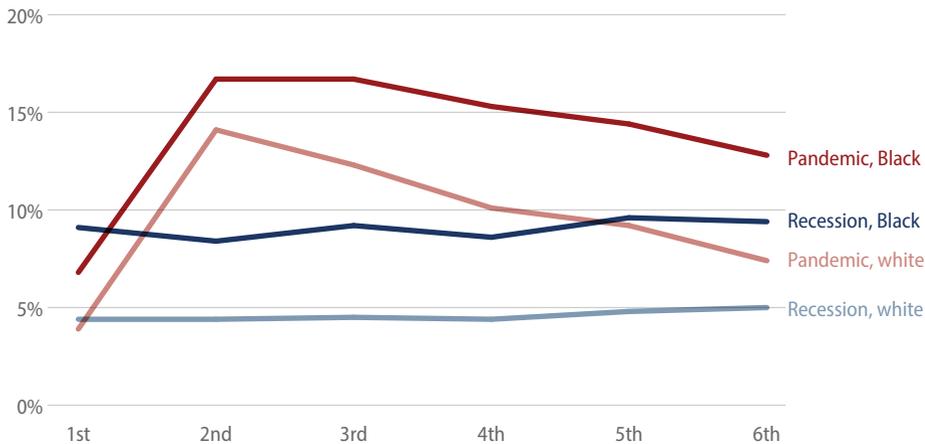
Several reasons account for this widening disparity between Black and white wealth during recessions. First, on average, Black workers always have worse labor market experiences than white workers. (see Figure 3) They suffer from higher unemployment, longer spells of unemployment, earlier layoffs in a recession, later rehiring in a recovery, more job instability, and lower wages.²⁴ Less access to good, stable jobs means that African Americans have fewer opportunities to save money as well as more need to rely on their savings because they face more labor market risks.

Second, Black households are less likely to own stocks than white households, often because they face more economic risks such as higher chances of layoffs and medical emergencies than white households.²⁵ They also have less access to retirement benefits through their employers, which is one key pathway for more saving and stock market investments for American families.²⁶ African Americans then see fewer wealth gains from a booming stock market, as typically happens starting from the later stages of a recession.

FIGURE 3

Unemployment rose much more sharply at the start of the pandemic than at the start of the Great Recession

Unemployment rates during the first six months of the Great Recession and the COVID-19 pandemic, by race



Source: Authors' calculations based on U.S. Bureau of Labor Statistics, "Labor Force Statistics from the Current Population Survey: Unemployment Rates, 2008 and 2020," available at <https://www.bls.gov/data/#unemployment> (last accessed January 2021).

Even worse, the combination of higher unemployment during the recession and fewer stock market investments to begin with means that Black households have fewer opportunities to take advantage of low stock prices in the middle of a recession than white households.²⁷ Black households have less money to invest at a time when the opportunities to invest in the stock market are best because of low stock prices. White households, on the other hand, are more likely to still have a job with higher incomes and more access to stock market investments through employer-sponsored retirement accounts. They can take advantage of low stock prices in the depths of a recession and thus see higher rates of return on their wealth.

Third, Black households are less likely to own their own houses than white households.²⁸ Housing prices have largely stayed strong and even increased in this recession. Black households see fewer gains from such price increases than white households. Worse, even when Black households own their homes, they see smaller price gains than white homeowners do. Their home values increase at a lesser rate because of housing and mortgage market discrimination, fewer public services, and less access to good jobs in predominantly African American communities.²⁹ In essence, wealth leads to more wealth, and this pattern becomes readily apparent in a recession.

As discussed above, the differences in Black-white wealth overall and in rates of return stem from massive gaps in assets—not from more debt among African Americans. On the contrary, Black households typically have less debt than white households do, often because they are shut out of formal credit channels due to financial market discrimination.³⁰ Black households instead owe a lot of so-called consumer credit such as car and student loans as well as credit cards. Yet they are less likely to have a mortgage due to greater loan denial rates and less access to down payment help from family. The heavy reliance on consumer debt means that the amount of consumer loans to consumer durables—a measure of how much families need to use debt for ongoing expenses—is higher for African Americans than for any other racial or ethnic group. Black households essentially use consumer debt to cover part of their expenses, while white households go deeper into mortgage debt to invest in an asset that appreciates.³¹ African Americans then owe more costly and risky debt such as car loans and credit card debt and thus often pay more for their debt than white households do, but the amount of debt that Black households owe is smaller in absolute terms and relative to income than is the case for white households.³² High-cost and high-risk debt is a key aspect of wealth stripping in the African American community, but it is not the overarching contributor to the Black-white wealth gap. A systematic lack of access to opportunities for owning and maintaining assets is the primary cause.

Conclusion

The work of the National Advisory Council on Eliminating the Black-White Wealth Gap shows two important things. First, it is possible to develop and enact in short order a number of policies that could have a meaningful long-term effect on reducing the Black-white wealth gap. Second, a smaller—but still substantial—Black-white wealth gap would persist, even if policymakers enacted all policies mentioned in this report in addition to several large-scale proposals proposed by CAP and others. Eliminating the disparities between Black and white wealth is a generational undertaking, but it is one that this country can and must tackle.

The proposals summarized in this report show that it is possible to enact novel policies to shrink the Black-white wealth gap. These proposals expand the portfolio of possible new measures to address this massive inequality. Other policies that can also shrink this wealth disparity include so-called baby bonds—annual payments to children under the age of 18 that are tied to parents’ income or wealth.³³ They also include debt-free college education, universal retirement accounts,³⁴ full enforcement of civil rights legislation in housing markets, and strict regulation and enforcement of financial market regulation in all credit and asset markets.³⁵

A key difference between the novel proposals laid out in this report and already-proposed policies is that the new approaches focus solely or primarily on lifting up wealth for African Americans, while other proposals largely favor Black households but also provide help to white families in building wealth. That is, these new proposals could have a substantial effect on shrinking the Black-white wealth gap.

But a substantial Black-white wealth gap will remain—at least between average wealth for Black families and average wealth for white families—even if all of these proposals were immediately enacted. Broad measures that benefit both Black and white households have a diffuse effect on the Black-white wealth gap at the average, although they can substantially shrink this wealth disparity at the median.³⁶ At the same time, targeted proposals laid out in this report will take time to have a meaningful effect. Moreover, the sum of these proposals does not fully erase the massive intergenerational advantage that white households have in building wealth.

These intergenerational wealth transfers come in the form of gifts and inheritances as well as access to social networks. For the years 2010 to 2019, white households in which the heads of household were between the ages of 55 and 64 years old had received gifts and inheritances equal to \$101,354 (in 2019 dollars). In comparison, Black households had received \$12,623 at that time. Furthermore, older white households expected to get an additional \$75,214 as gifts and inheritances, while Black households expected \$2,941. This represents a total gap of \$161,004 in received and expected gifts and inheritances and does not count additional intergenerational wealth transfers such as nepotism and access to social networks.³⁷

In this regard, it is important to note that experts, researchers, and policymakers are considering the rationale, design, and effects of reparations to Black households to address the lasting economic impacts of slavery. One legislative vehicle currently pending in Congress to study and put forward a plan for implementation of reparations is H.R. 40.³⁸ Originally introduced by the late Rep. John Conyers (D-MI) every year between 1989 and 2017, and subsequently introduced by Rep. Sheila Jackson Lee (D-TX), H.R. 40 would create a commission to study and submit to Congress a report on reparations for the government-sanctioned institution of slavery and ensuing discrimination against freed slaves and their descendants. Notably, this bill only proposes a study and recommendations; passage of the bill would not necessarily lead to reparations. Unless legislation to study reparations passes, the executive branch should engage with cultural and historical resources—such as the National Archives and Records Administration, the Smithsonian Institution, and the National Park Service—to promote historical education for the public to increase awareness of the myriad underlying causes that have contributed to the massive and persistent Black-white wealth gap.

Moreover, public and private policies need to be regularly revisited and revamped to eliminate racial biases that systematically disadvantage Black households. Without large, long-term investments in addressing the Black-white wealth gap, massive differences in economic security and opportunity will not only continue to persist but may widen for generations.

About the authors

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Appendix

Members of the National Advisory Council on Eliminating the Black-White Wealth Gap and their affiliations in 2020

Kilolo Kijakazi, institute fellow, Urban Institute; co-chair

Darrick Hamilton, executive director, Kirwan Institute for the Study of Race and Ethnicity, The Ohio State University; co-chair

Mehrsa Baradaran, professor of law, University of California, Irvine

Lisa D. Cook, associate professor of economics and international relations, Michigan State University

Henry Louis “Skip” Gates, Alphonse Fletcher Jr. University professor and director, Hutchins Center for African and African American Research, Harvard University

Ibram X. Kendi, professor of history and international relations and founding director, Antiracist Research and Policy Center, American University

Trevon Logan, professor of economics and associate dean, College of Arts and Sciences, The Ohio State University

Anne Price, president, Insight Center

Richard Rothstein, distinguished fellow, Economic Policy Institute; senior fellow, emeritus, Thurgood Marshall Institute of the NAACP Legal Defense Fund and of the Haas Institute at the University of California, Berkeley

Rhonda Sharpe, founder and president, Women’s Institute for Science, Equity, and Race (WISER)

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