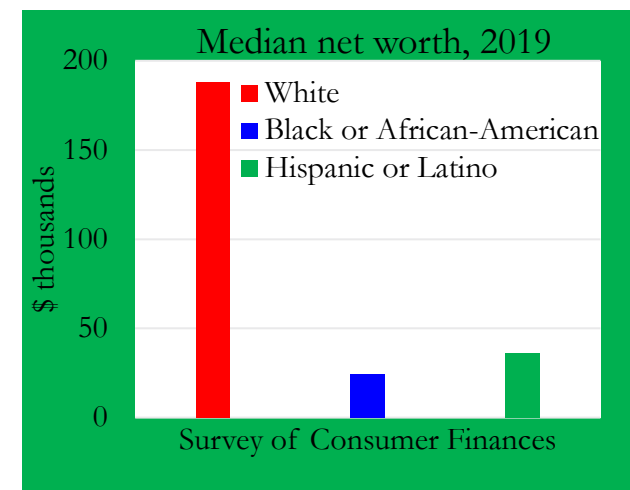




# Race-based Inequality of Economic Opportunity

A national challenge for the next 25 years



(courtesy African-American Policy Forum  
AAPF.ORG)



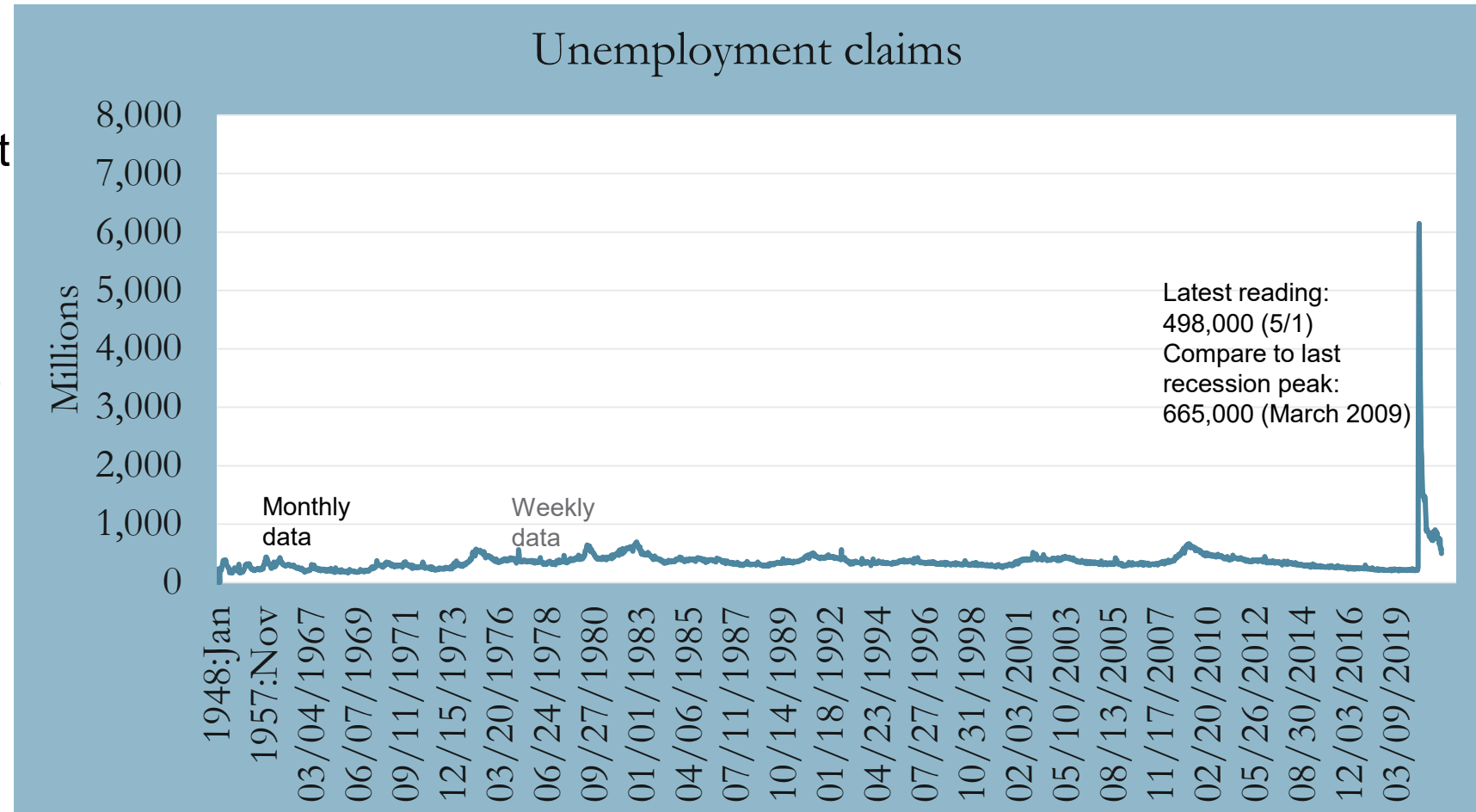
(Rand Corporation study)

# **A very quick summary of economic conditions**

# Not your average downturn: We have never seen this rapid a deterioration in spending and employment

## ▶ Unemployment

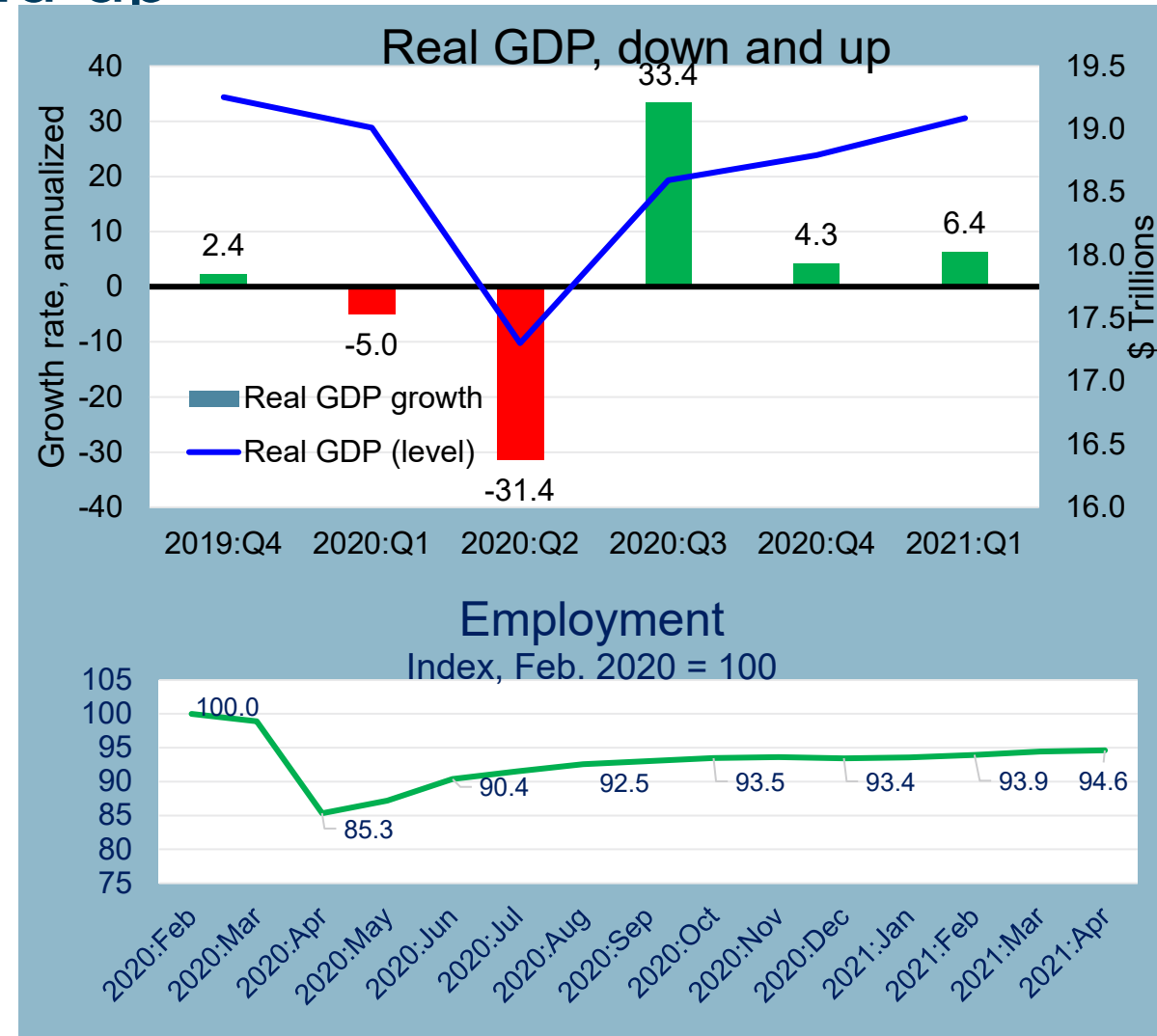
- ▶ Initial claims—increased by about 26M in five weeks.
- ▶ Never happened before.
- ▶ Reference: 2007-9 recession peak was 665,000 in March 2009
- ▶ Great improvement, but still at mid-recession levels



# Massive growth rates, down and up

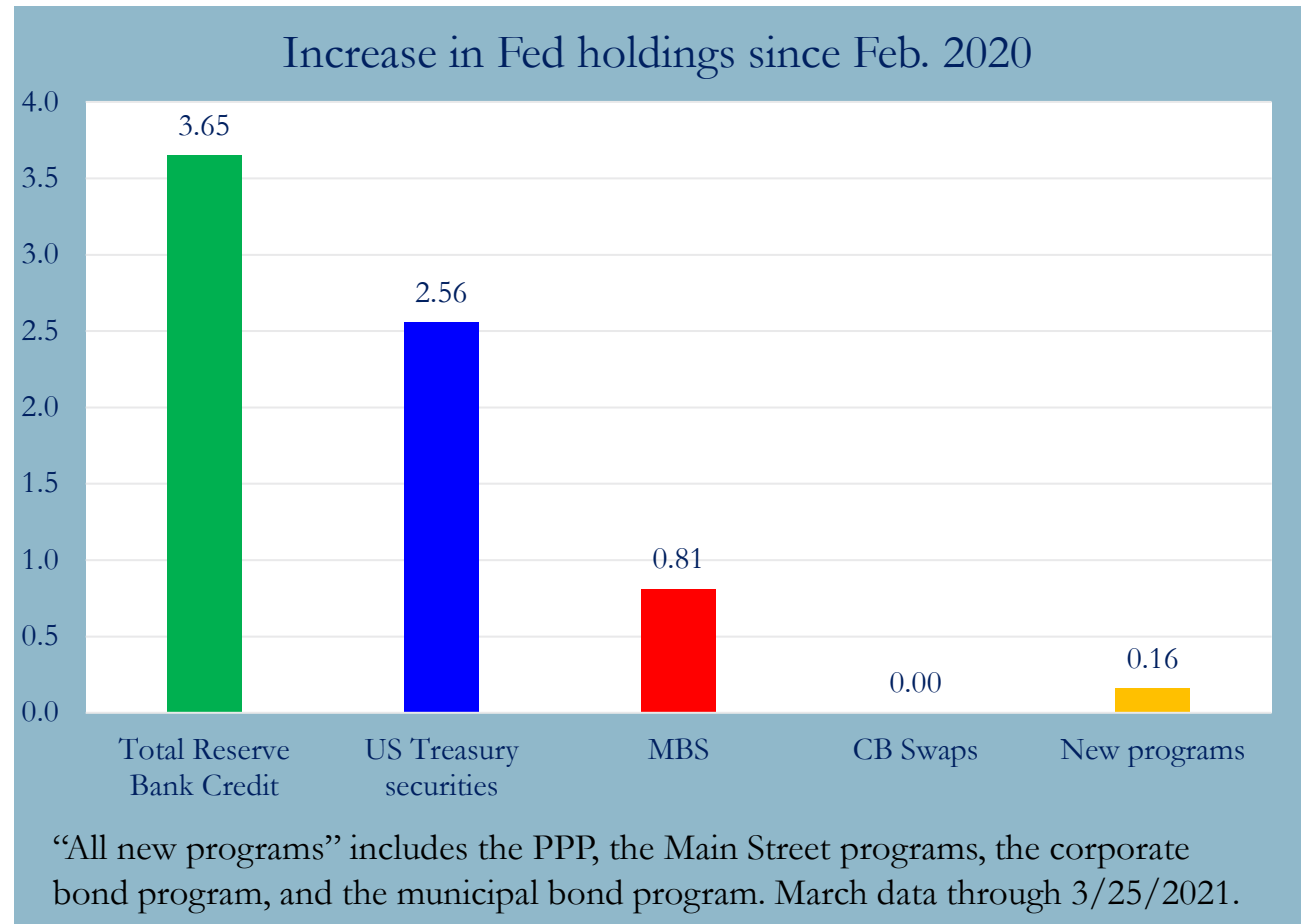
GDP is now close to pre-pandemic level

- ▶ No examples of 30+% growth rates in post-WWII history
- ▶ Rapid decline, rapid increase
- ▶ We are almost back to where we started (blue line) (about 0.9% below)
- ▶ Employment has made only a partial recovery
  - ▶ About 5.5% below previous peak (approx. 8.5 million jobs)
  - ▶ Many more remain out of the labor force, discouraged, unable to find work



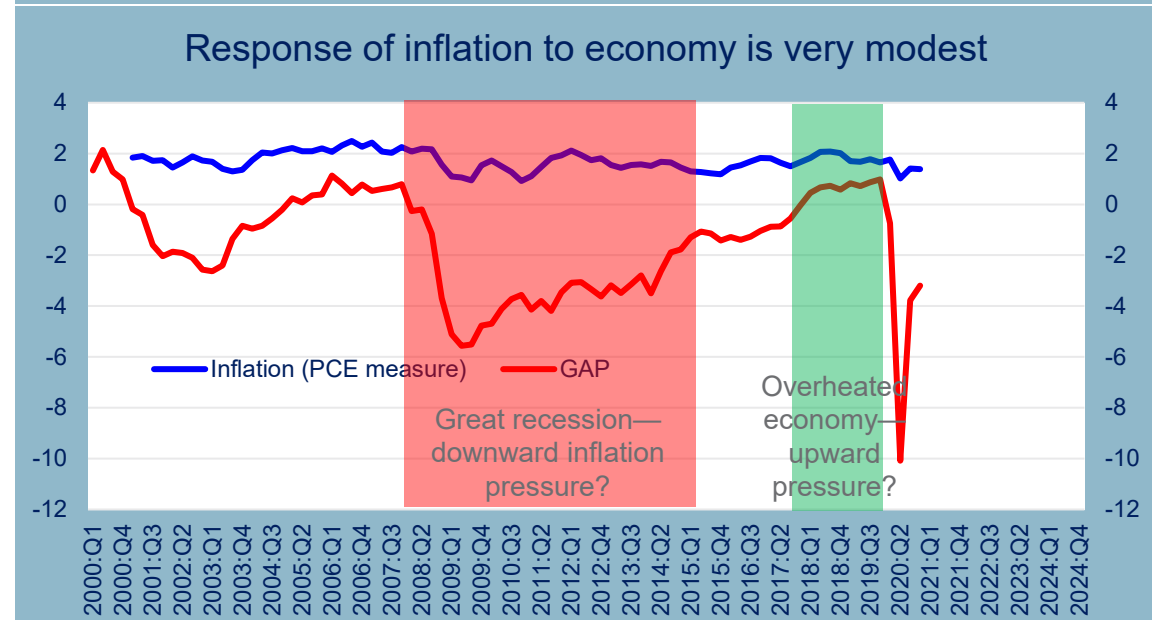
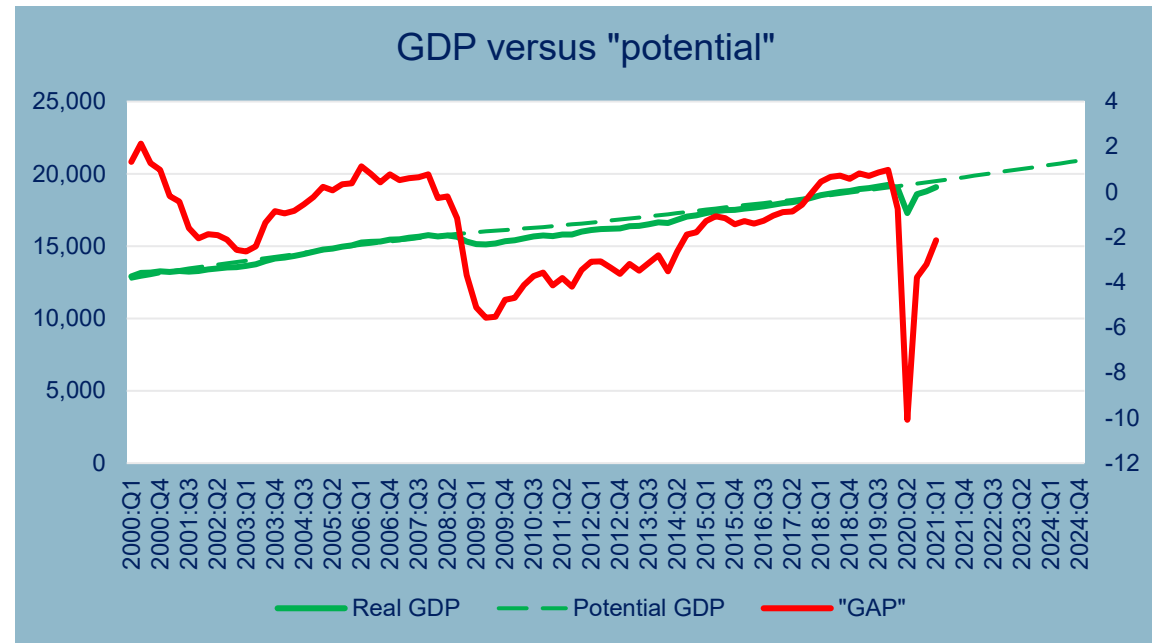
# Federal Reserve response: Pulling out all the stops

- ▶ Purchased \$3.7T of Treasury and mortgage securities (MBS) in 15 months
  - ▶ Largest is Treasury purchases
  - ▶ But also about \$0.8 trillion of MBS
    - ▶ Earlier, \$0.2T swaps with foreign central banks (CB's)
    - ▶ Provides dollars to foreign countries that conduct many transactions in dollars
- ▶ Added new programs to support
  - ▶ Corporate bond market
  - ▶ Municipal bond market
  - ▶ Small- to medium-sized businesses
  - ▶ PPP loan financing
- ▶ Total Fed assets: about \$7.8 trillion
  - ▶ And growing



# Fiscal policy issues

- ▶ How big was the “output gap” we needed to fill?
  - ▶ About 3-4% = \$600-800 billion
- ▶ Is that the only way to calibrate the size of need?
  - ▶ No, aid for vaccination, other health care, state and local government assistance
  - ▶ What about capacity for future programs (infrastructure, poverty relief)?
- ▶ Will too much stimulus cause inflation?
  - ▶ Probably not—see bottom chart
    - ▶ Low response of inflation to economic activity
  - ▶ Plus Fed says it will welcome inflation > 2%
- ▶ Conclusion
  - ▶ There are risks to going too big, but not so much inflation
  - ▶ Better to be too aggressive than too timid (*viz* 2009)



# **Inequality of Economic Opportunity**

## **The data, the history, a path forward**

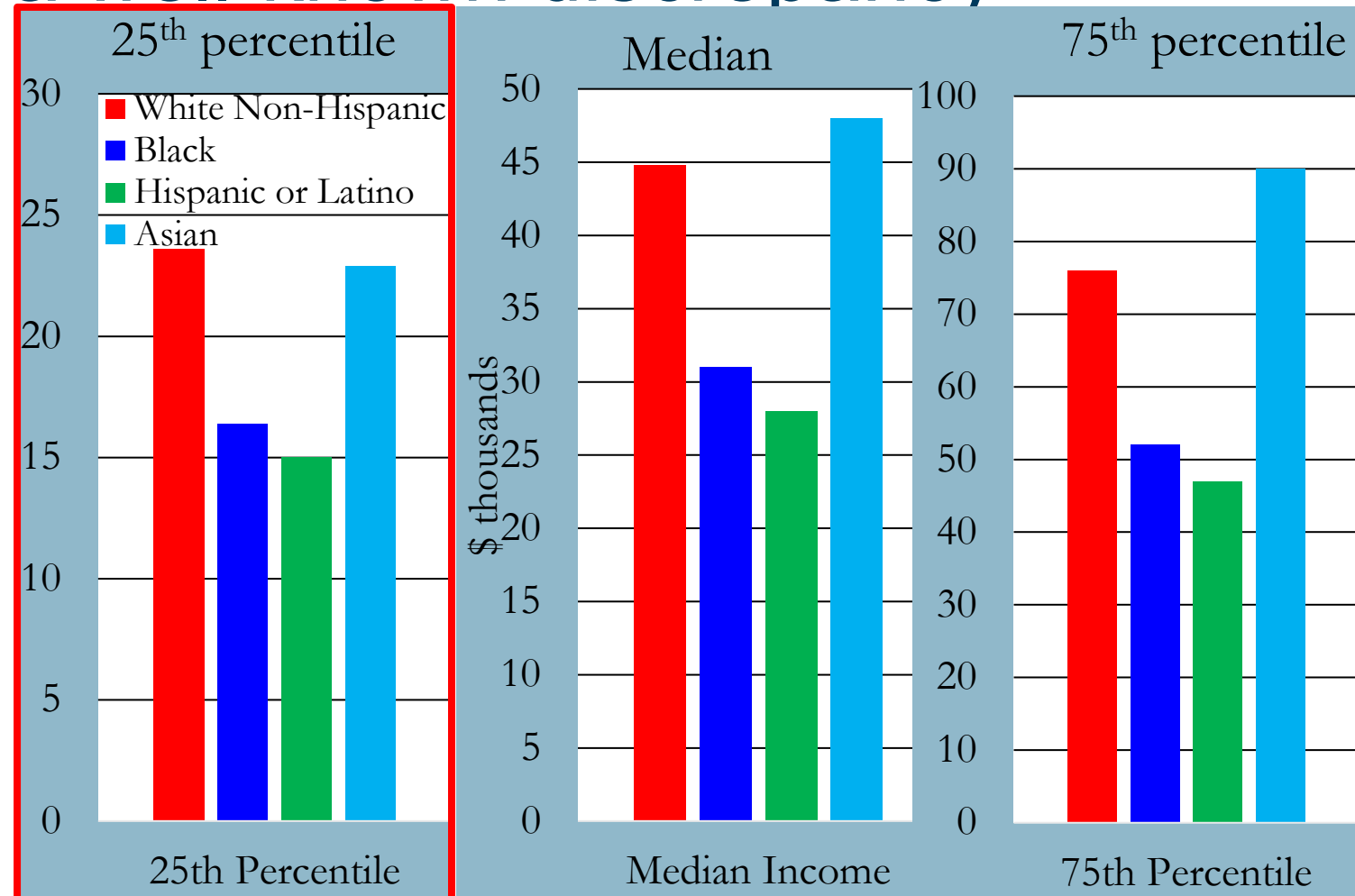
# Race and Ethnicity, the Economy, and the Nation

- ▶ 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 determinants of lifetime outcomes
  
- ▶ And importantly, we will look at the sources of these inequalities
- ▶ We will then discuss some potential solutions



# 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!

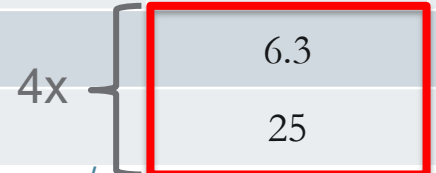


# Equal opportunity?

Very local conditions at birth dramatically influence adult outcomes

- ▶ Consider two Concord and Manchester, NH neighborhoods
  - ▶ **Concord:** not enough data on non-white citizens
  - ▶ **Manchester:** The differences across neighborhoods are large for Hispanics, negligible for whites
- ▶ The difference in location for low-income black outcomes in Mobile, AL is staggering

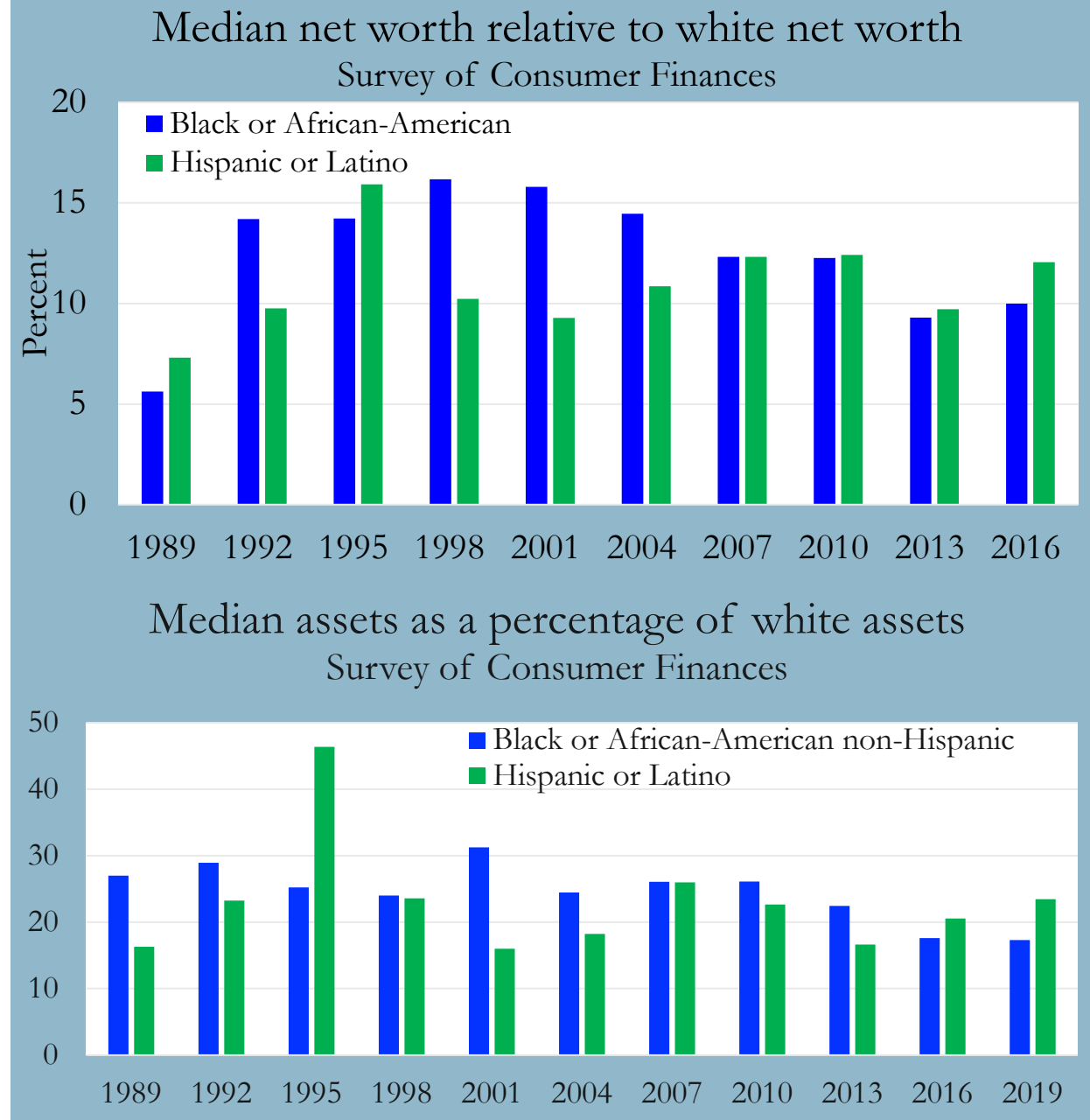
Median Household Income at adulthood by neighborhood in which you grew up		
	Race	
<b>Parents' income level: Low</b>	<b>All</b>	<b>White</b>
<b>Concord, NH</b>		
River Hill, Penacook	25	25
East Concord	47	48
<b>Manchester, NH</b>	<b>Hispanic</b>	<b>White</b>
Notre Dame	20	33
Corey Square	37	32
<b>Mobile, AL</b>		
	<b>Black</b>	<b>White</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 10 percent for African-Americans and Latinos
  - ▶ Debt burdens are high
    - ▶ Leverage Ratio—3x as high as whites
  - ▶ Most of disparity is due to assets (see chart at right)





# 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.

# 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

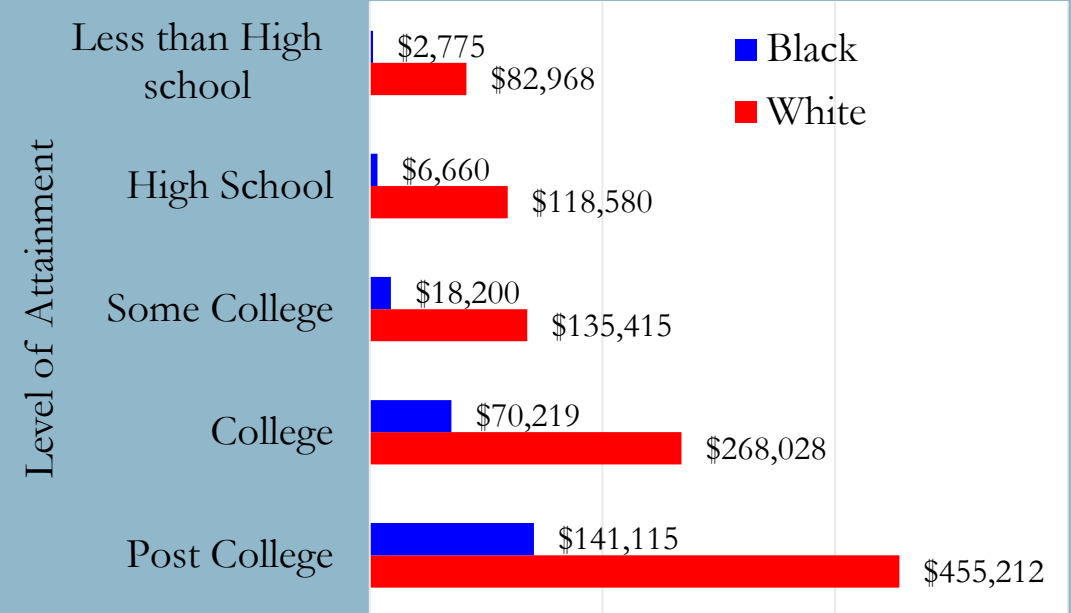
▶ On average, a black household in the top income quintile still has one-half the wealth of a white household

▶ Homeownership (still a 2.5x gap)

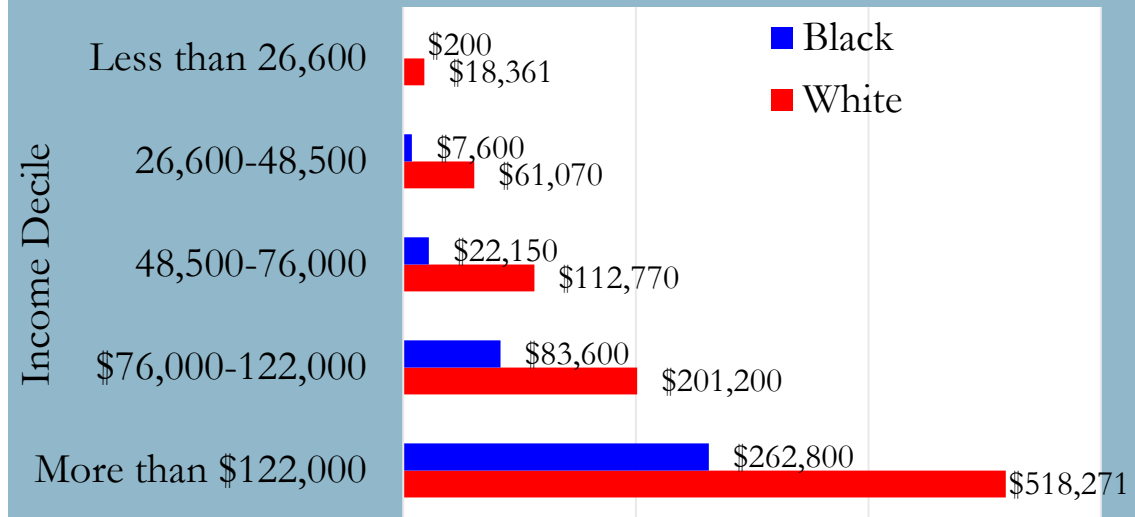
▶ Saving, financial literacy, entrepreneurship, soft skills, family structure

▶ No, no, no, no, no

### Education does not explain the wealth gap



### Income does not explain the wealth gap



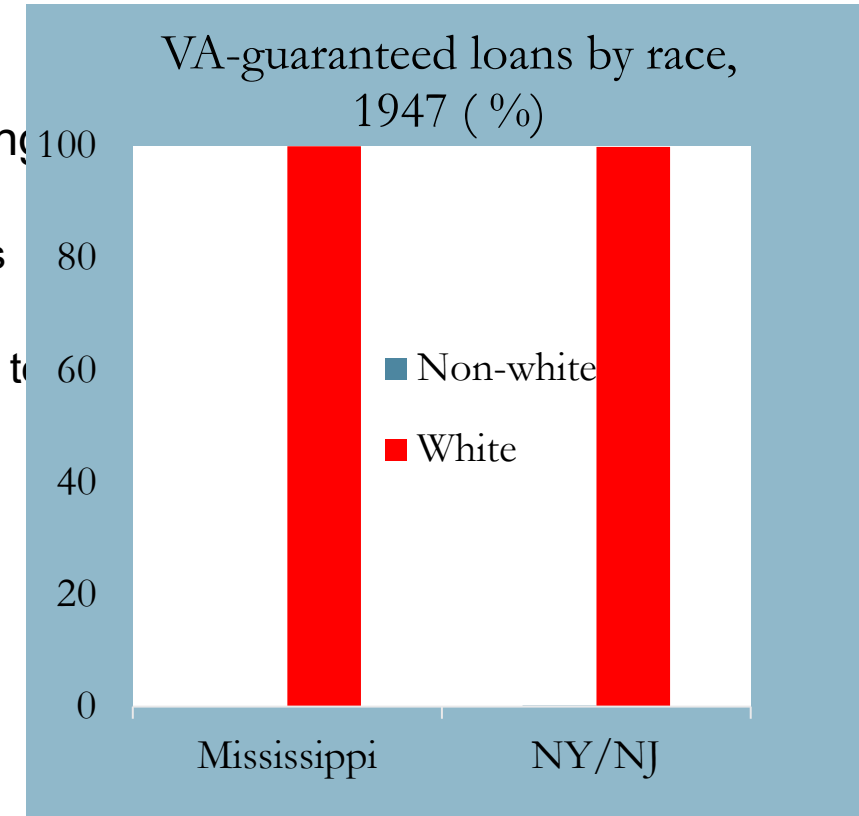
# Equal opportunity?

## 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?

# 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 economic system

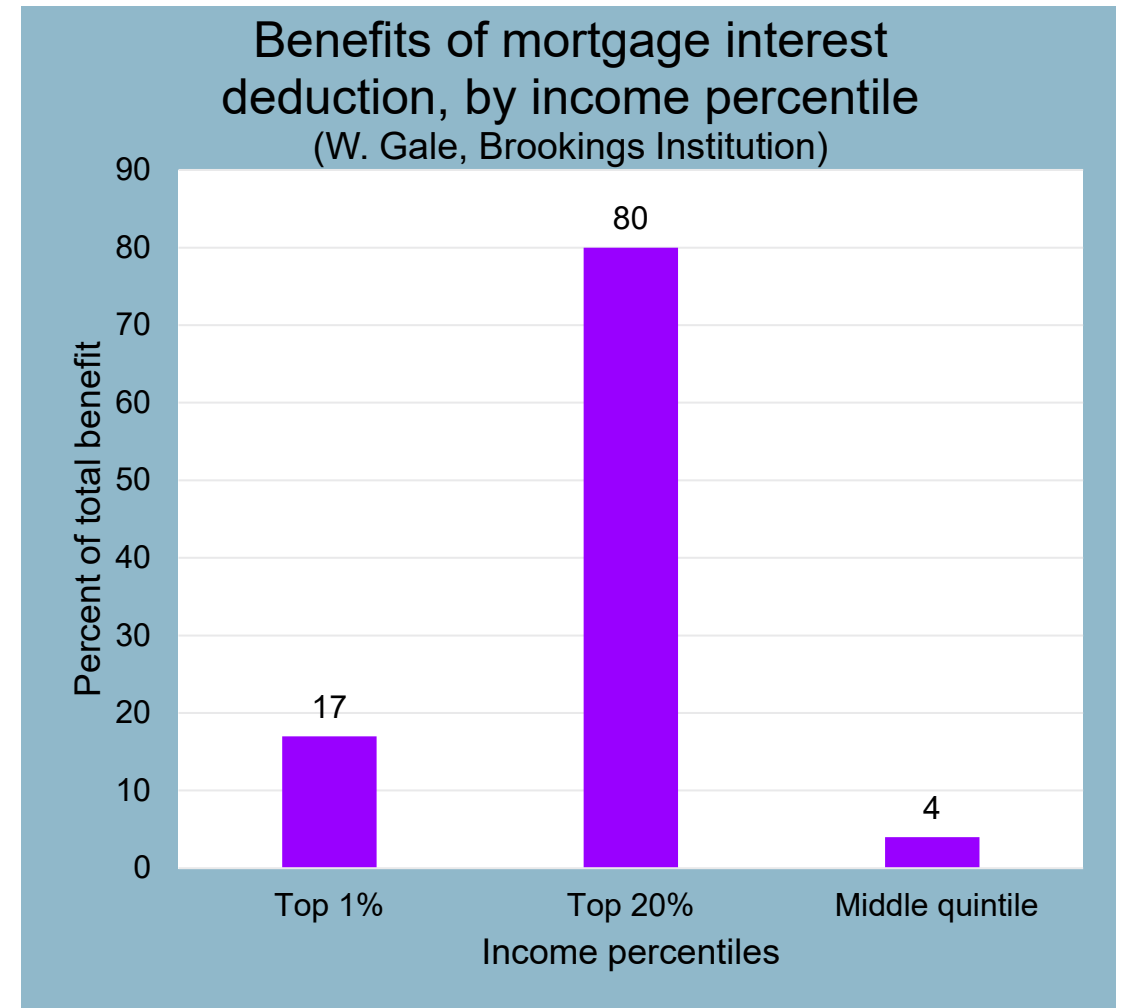
▶ Most of us have benefited from it. We are jointly responsible for dismantling it.



# 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! \$5 trillion.**

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

# This is our great national challenge

- ▶ The data just shown precede the crises
- ▶ They have been exacerbated 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

