



Black-White Gaps in Income and Wealth

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The views expressed here are those of the presenter and do not necessarily represent the Federal Reserve Bank of Richmond or the Federal Reserve System.

Outline

Motivation

The Black-White Income Gap

The Black-White Wealth Gap

Looking Ahead

Federal Reserve Bank of
Richmond, VA

Motivation

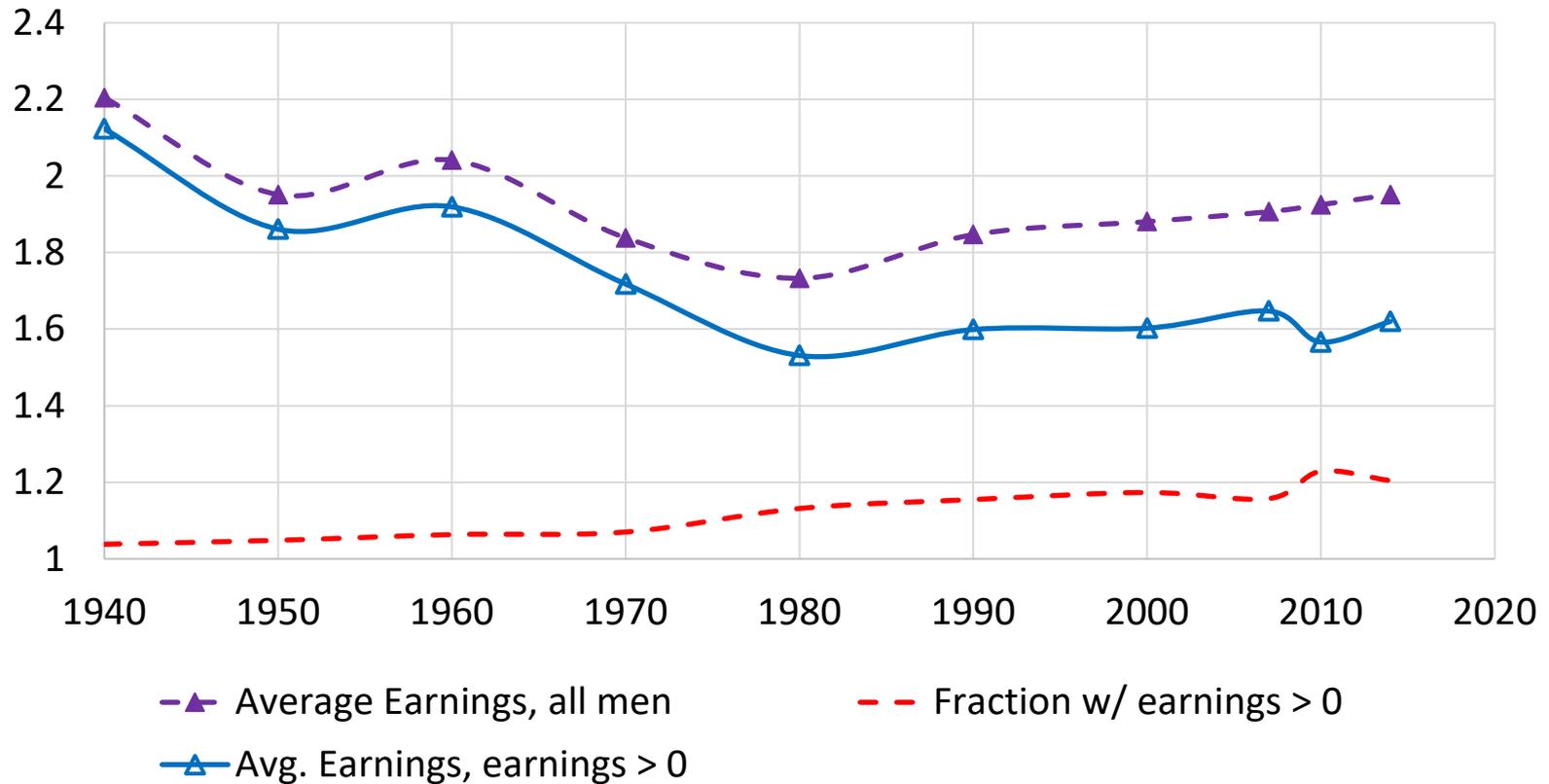
Why is the Fed interested in this topic?

- Unemployment among black workers is
 - Higher than among white workers
 - More sensitive to economic conditions
- The Fed's Community Development function works to identify issues facing low- and moderate-income communities and promising practices to address them
 - These communities are disproportionately black
- However, the best policies for reducing inequality probably lie outside the Fed

The Black-White Income Gap

How big (and persistent) is the earnings gap?

White/Black Earnings & Employment Ratios, Men, 25-54



Source: Bayer and Charles (2018, Supplemental Tables I and II).

What are the contributing factors?

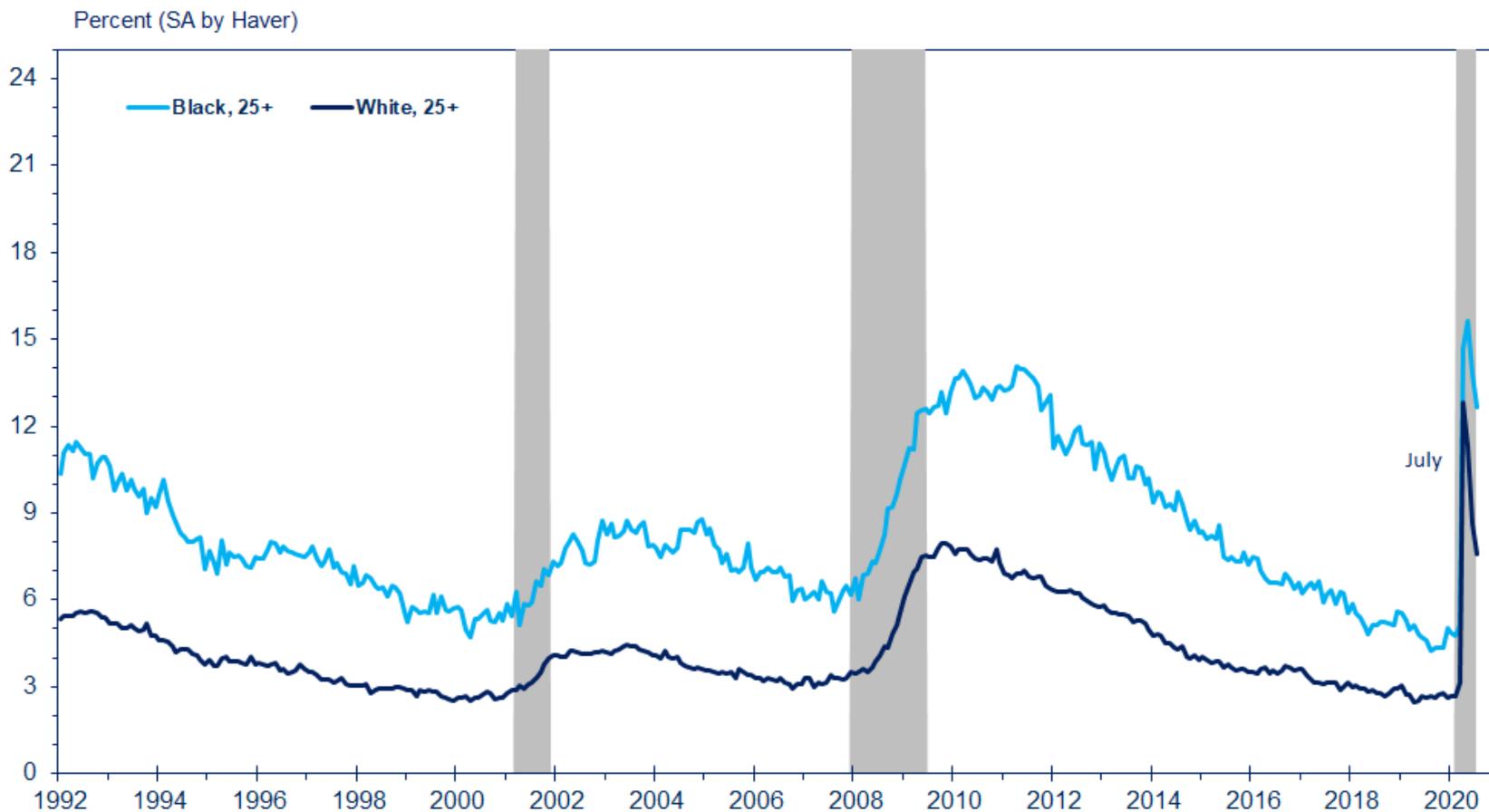
- Differences in the fraction employed within each group
- Earnings differences among those who are employed

When the non-employed are included, the median earnings of Black males is about 50% of the median earning of White male

Roughly 35% is due to wage differences and 15% is due to employment differences

Let's look first at (un)employment

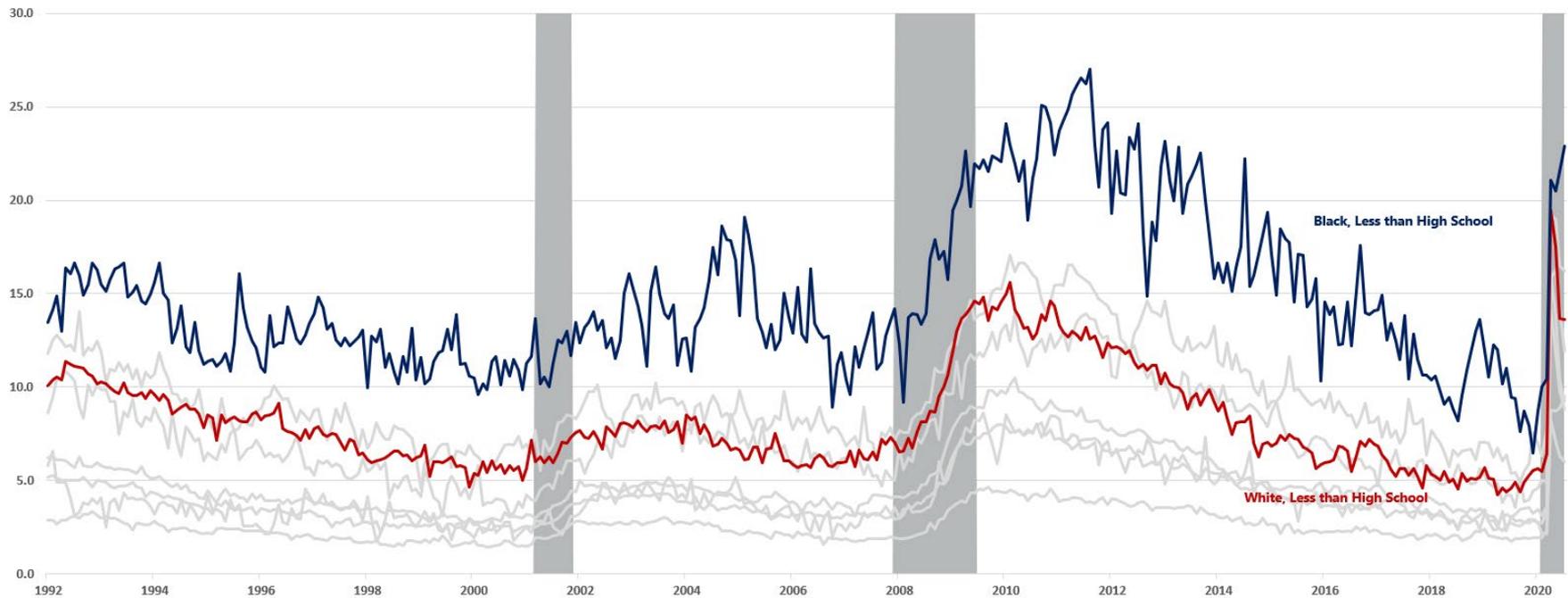
Unemployment Rate



Here's the breakout by education

Less than High School

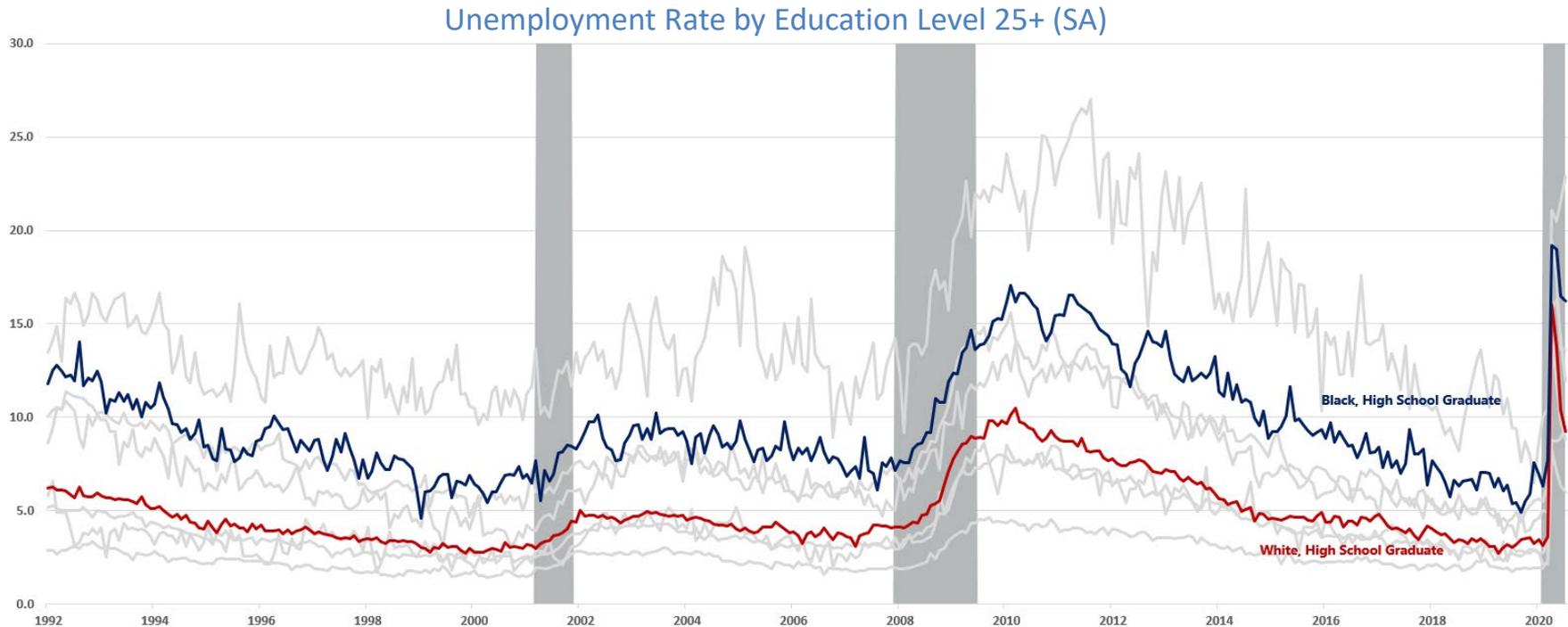
Unemployment Rate by Education Level 25+ (SA)



Source: Bureau of Labor Statistics via Haver Analytics

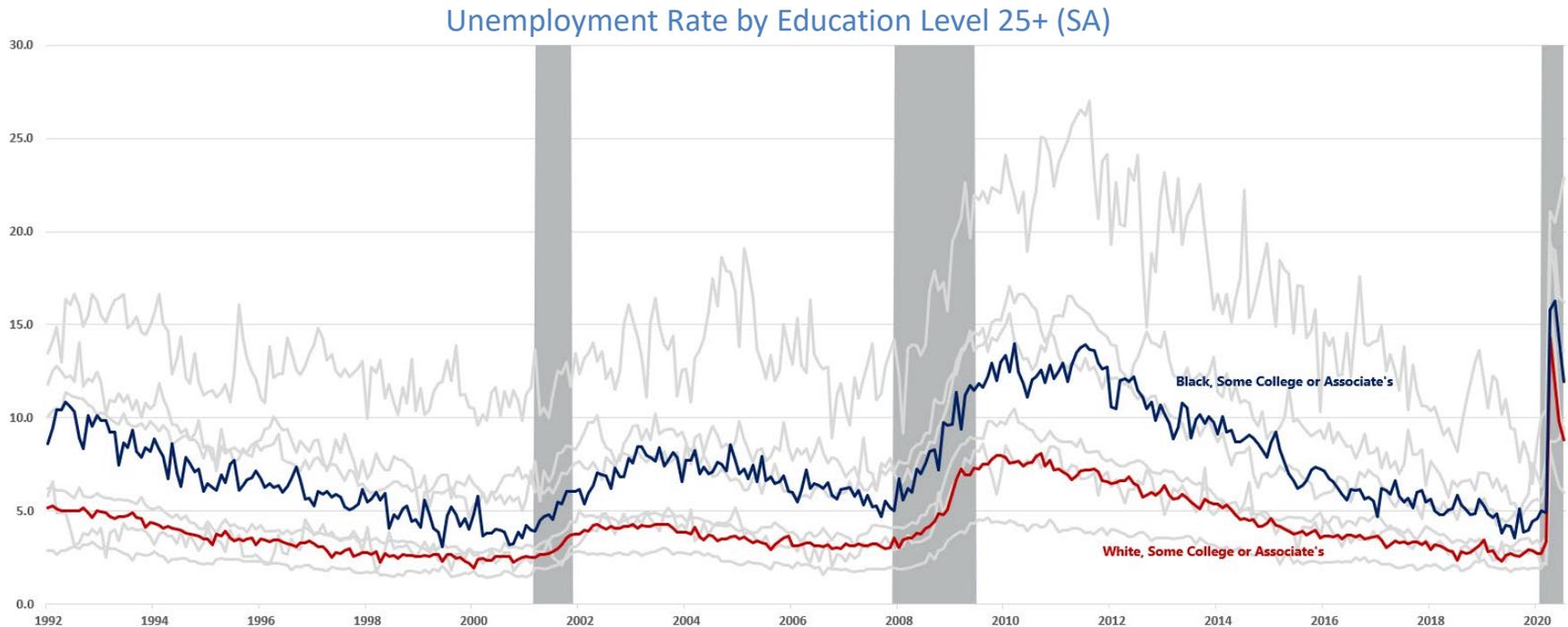
Here's the breakout by education

High School Graduate



Here's the breakout by education

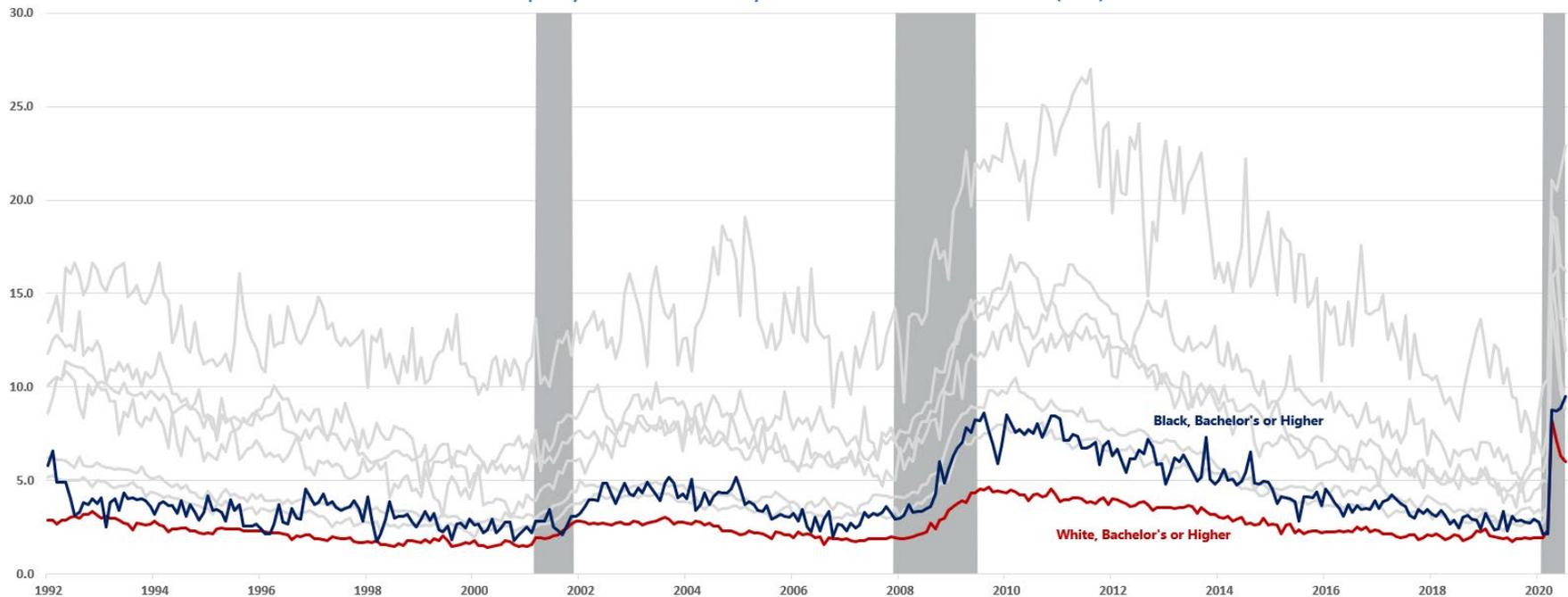
Some College or Associate's Degree



Here's the breakout by education

Bachelor's Degree or Higher

Unemployment Rate by Education Level 25+ (SA)



Does the gap close if we account for demographics?

	Median	Mean
Total Income		
White	\$30,000	\$46,451
Black	\$21,700	\$31,497
Ratio	1.38	1.47
Wage/Salary Income of Full-time, Full-year Workers		
White	\$ 51,000	\$69,436
Black	\$41,000	\$51,190
Ratio	1.24	1.36
Wage/Salary Income of Full-time, Full-year Men		
White	\$57,000	\$76,830
Black	\$45,000	\$54,081
Ratio	1.27	1.42
Wage/Salary Income of Full-time, Full-year Women		
White	\$46,000	\$58,812
Black	\$40,000	\$48,424
Ratio	1.15	1.21

Source: Author's calculations using the 2019 IPUMS-CPS

Does the gap close if we account for demographics?

Full-Time, Full-Year Male Workers

	Age Group			
	25-34	35-44	45-54	55-64
White	\$50,000	\$60,000	\$65,000	\$65,000
Black	\$39,520	\$49,000	\$50,000	\$50,000
Ratio	1.27	1.22	1.30	1.30

	Educational Attainment (35–44-year-olds)			
	<i>Less than High School</i>	<i>High School</i>	<i>Some College or Associates</i>	<i>Bachelor's Degree or Higher</i>
White	\$33,000	\$47,000	\$60,000	\$90,000
Black	\$32,000	\$35,000	\$50,000	\$68,200
Ratio	1.03	1.34	1.20	1.32

The Role of Education

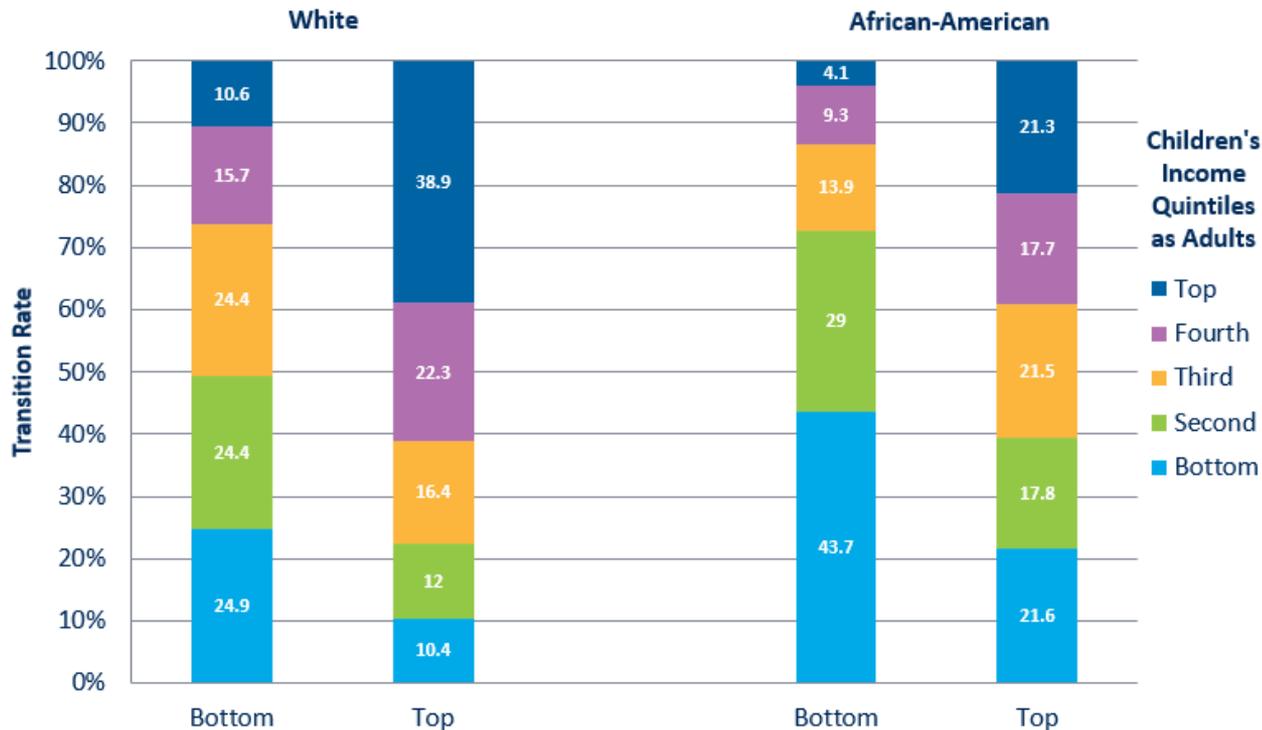
- Years of education account for much less than half of the racial earnings gap
- The fraction accounted for rises significantly when using richer measures of education, such as test scores, or indicators of college quality
- Parental background and resources account for a significant fraction as well

The Role of Discrimination

- Audit and correspondence studies find that black and white applicants with the same observable characteristics are treated differently
- Interpretation is less clear. Findings could reflect:
 - Taste-based discrimination
 - Inaccurate beliefs about unobservable characteristics
 - Accurate beliefs about unobservable characteristics, a/k/a statistical discrimination
- Endowments and discrimination are not independent: victims of discrimination may invest less in themselves if they know their investments will not be fully rewarded

Is there a way out?

Intergenerational Income Mobility by Race: Transition Rates by Family Income Quintile



Lots of “stickiness” at the top and bottom of the income distribution

Whites are more upwardly mobile and less downwardly mobile than African-Americans

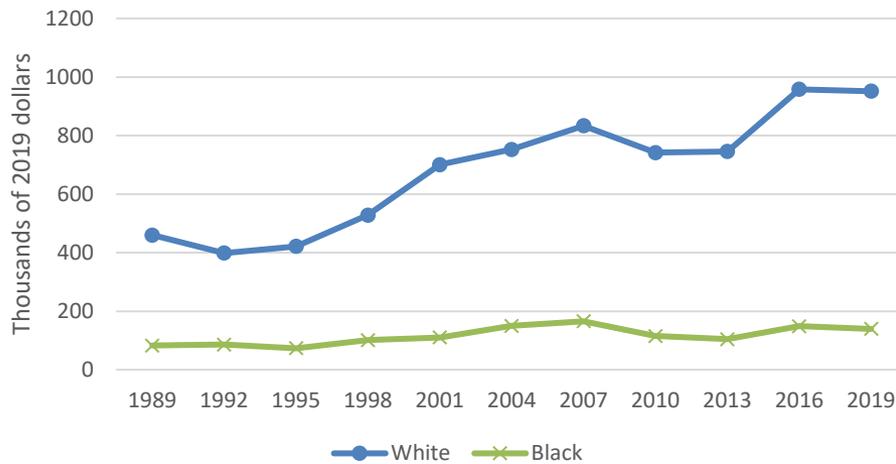
Source: Mazumder, Bhashkar, “Upward Intergenerational Economic Mobility in the United States,” Economic Mobility Project, The Pew Charitable Trusts, May 2008.

The Black-White Wealth Gap

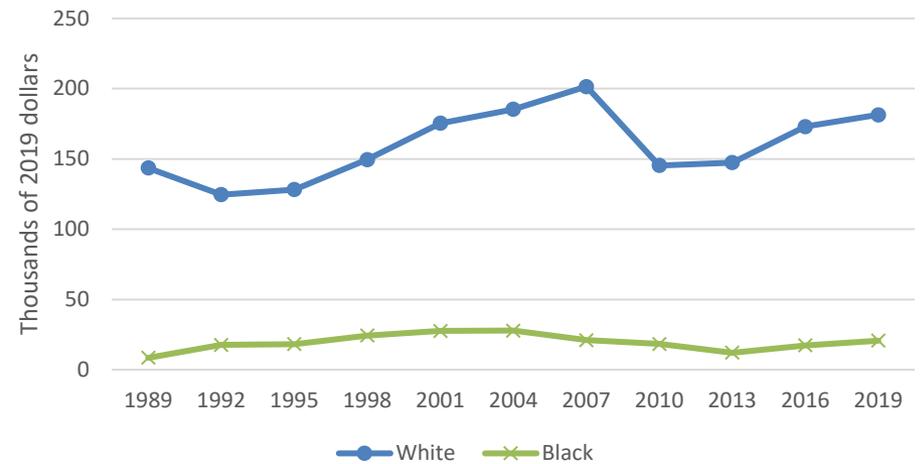
How big is the wealth gap?

Far bigger than the income gap!

Mean Net Worth



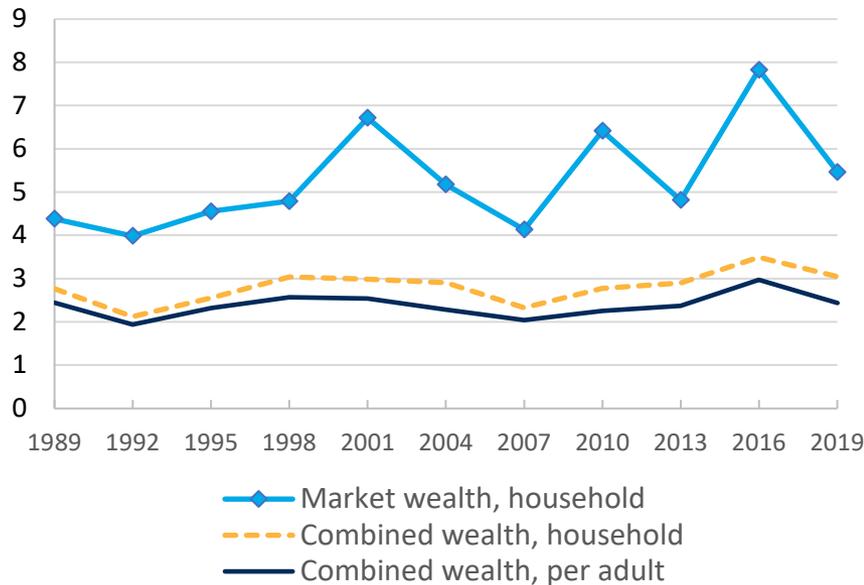
Median Net Worth



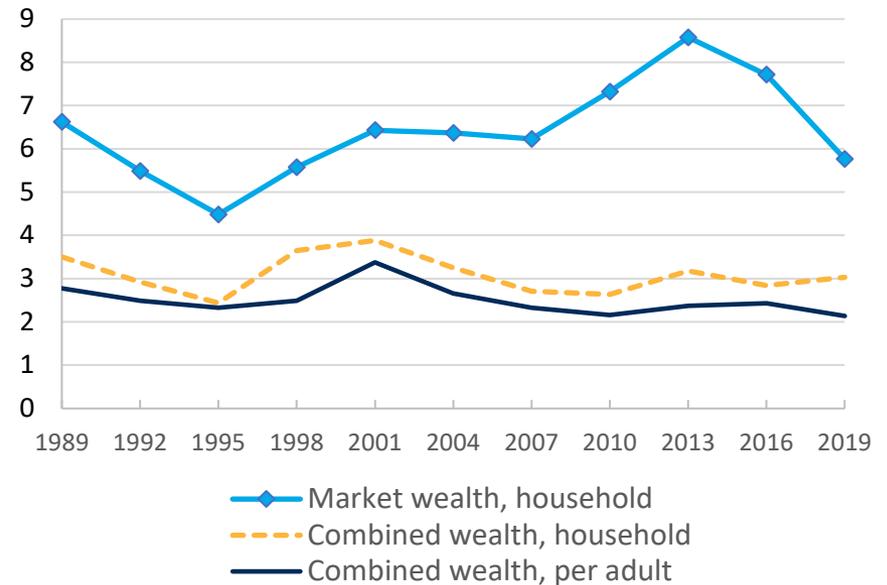
Accounting for Social Security reduces the wealth gap

White/Black Wealth Ratios

Mean Wealth



Median Wealth



Potential contributors to the wealth gap

Factors affecting savings or expenses

- Earnings and earnings risk (e.g., incarceration)
- Longevity
- Inheritances and inter-vivos transfers
 - More prevalent among white families, but the amounts are usually modest
 - Transfers from white individuals more likely to support children, black individuals more likely to support parents and extended family
- Medical expenses

Factors affecting rates of return

- Portfolio composition
 - White households more likely to own home, stocks, small businesses.
- Credit access and terms
 - Discrimination in housing markets

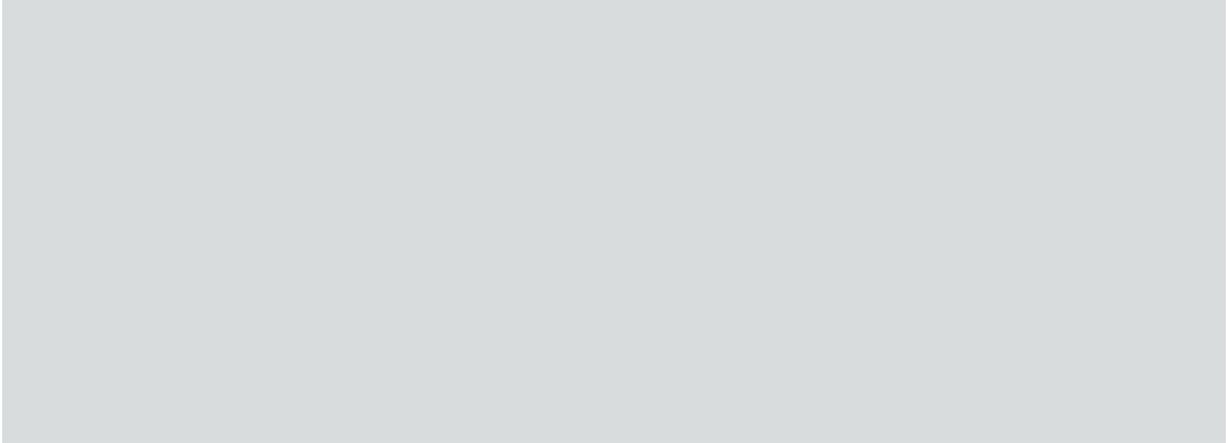
Portfolio Differences

- White households more likely to own stocks, housing, and small businesses
 - These assets earn higher rates of return
- Much of the difference can be explained by net worth
 - Wealthier households have higher-yielding portfolios
- But note: Housing is more than a source of wealth
 - Many amenities and public services are allocated geographically

Looking Ahead

A way forward: start at the beginning?

- Disadvantages begin early in life – and have lifelong consequences
- Research by economist James Heckman and others has shown that high-quality childcare and education (from birth to age 5) can positively impact education, employment, earnings and other life outcomes
 - Early childhood interventions improve both hard and soft skills
- High-quality childcare is resource-intensive and therefore expensive. Out of reach for low-income families, who often need it most
- Can redirecting resources from later-in-life interventions to early childhood help level the playing field?



Questions?



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