

Class 1, Brookings Examining the Black White Wealth Gap

Examining the Black-white wealth gap

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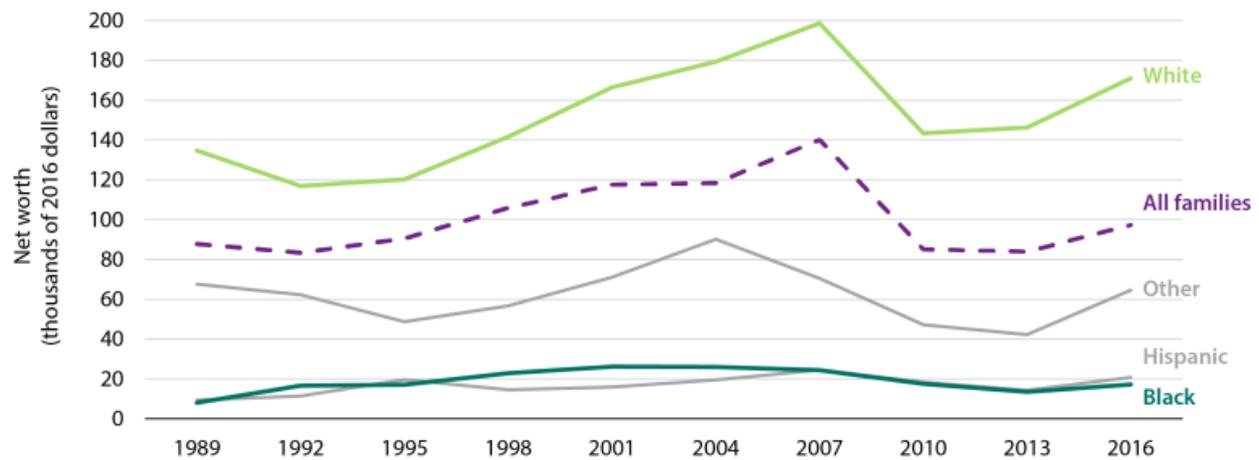
A close examination of wealth in the U.S. finds evidence of staggering racial disparities. At \$171,000, the net worth of a typical white family is nearly ten times greater than that of a Black family (\$17,150) in 2016. Gaps in wealth between Black and white households reveal the effects of accumulated inequality and discrimination, as well as differences in power and opportunity that can be traced back to this nation's inception. The Black-white wealth gap reflects a society that has not and does not afford equality of opportunity to all its citizens.

Efforts by Black Americans to build wealth can be traced back throughout American history. But these efforts have been impeded in a host of ways, beginning with 246 years of chattel slavery and followed by Congressional mismanagement of the [Freedman's Savings Bank](#) (which left 61,144 depositors with losses of nearly \$3 million in 1874), the violent massacre decimating [Tulsa's Greenwood District](#) in 1921 (a population of 10,000 that thrived as the epicenter of African American business and culture, commonly referred to as "Black Wall Street"), and discriminatory policies throughout the 20th century including the Jim Crow Era's "Black Codes" strictly limiting opportunity in many southern states, the [GI bill](#), the New Deal's Fair Labor Standards Act's [exemption](#) of domestic agricultural and service occupations, and [redlining](#). Wealth was taken from these communities before it had the opportunity to grow.

This history matters for contemporary inequality in part because its legacy is passed down generation-to-generation through unequal monetary inheritances which make up a great deal of current wealth. In 2020 Americans are projected to inherit about \$765 billion in gifts and bequests, excluding wealth transfers to spouses and transfers that support minor children. Inheritances account for roughly [4 percent](#) of annual household income, much of which goes untaxed by the U.S. government.

Just how large and persistent are these racial wealth gaps? As figure 1 shows, median net worth for white households has far exceeded that of Black households through recessions and booms over the last thirty years. While movements in white wealth are easier to see due to the larger scale, during the most recent economic downturn, median net worth declined by more for Black families (44.3 percent decline from 2007 to 2013) than for white families (26.1 percent decline). In fact, the ratio of white family wealth to Black family wealth is higher today than at the start of the century.

FIGURE 1.
Median Net Worth by Race/Ethnicity, 1989–2016



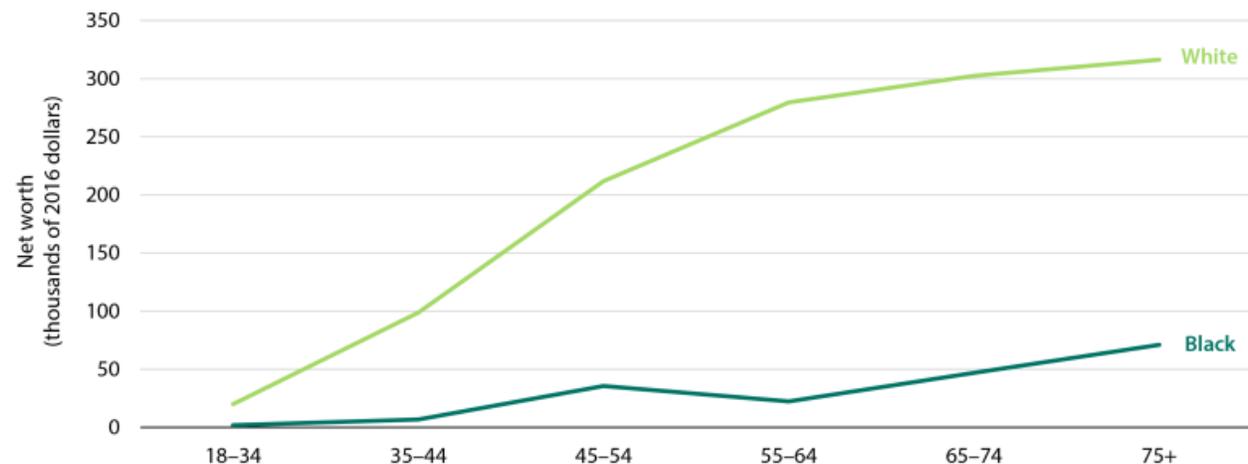
Source: Survey of Consumer Finances 1989–2016.
Note: Net worth refers to the difference between assets and debt for a household head. Race and ethnicity are those of the survey respondent.



Median wealth—or the wealth of the household at the middle of a distribution—gives the experience of the typical family, but does not reflect the bulk of national wealth that is held by the richest households. White *average* wealth (\$929,800), which is more influenced by very rich families and does not characterize the typical experience, is 6.7 times greater than Black average wealth (\$138,100).

White adults tend to be older (median age of 55) than African Americans (49 years old), and older people tend to have more wealth, but figure 2 shows that the wealth gap remains when looking within age groups. The typical young adult (18–34 years old) of either race has little wealth, but the gap rises quickly with age, and for 65–74-year-olds accumulates to \$302,500 in median white wealth and \$46,890 in median Black wealth.

FIGURE 2.
Median Net Worth, by age of Household Head



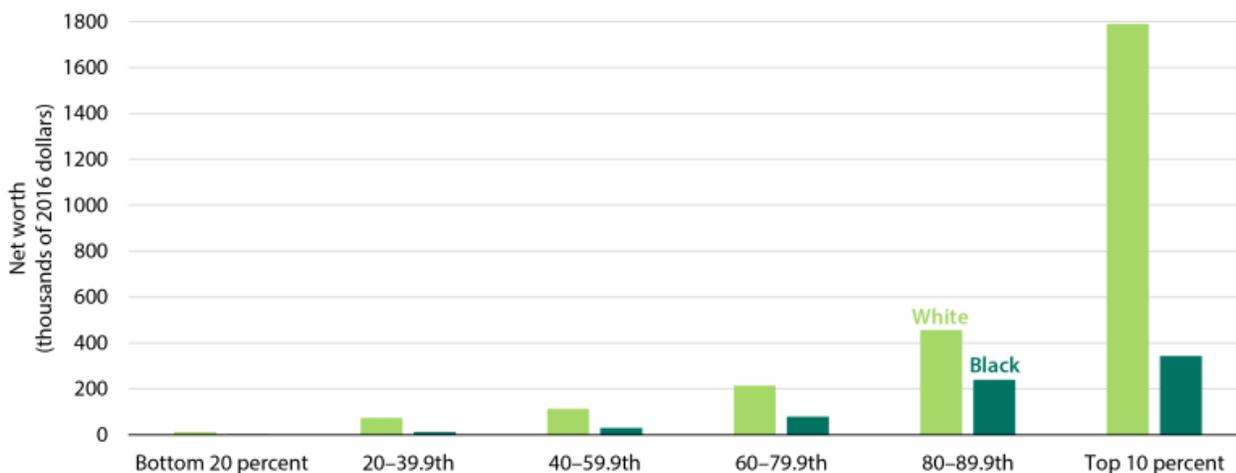
Source: Survey of Consumer Finances 2016; authors' calculations.
Note: Data are from 2016. Net worth refers to the difference between assets and debt for a household head. Race and ethnicity are those of the survey respondent.



Wealth is the sum of resources available to a household at a point in time; as such it is clearly influenced by the income of a household, but the two are not perfectly correlated. Two households can have the same income, but the household with fewer expenses, or with more accumulated wealth from past income or inheritances, will have more wealth. Figure 3 shows median net worth at different points in the family income distribution. What is immediately evident is that the racial wealth gap remains even for families with the same income. For those in the top 10 percent by income (only 3.6 percent Black), the racial wealth gap is still quite large: median net worth for white families in this income group is \$1,789,300 versus \$343,160 for Black families. A racial gap exists in every income group except the bottom quintile (23.5 percent Black), where median net worth is zero for everyone.

FIGURE 3.

Median Net Worth, by Household Income Percentile



Source: Survey of Consumer Finances 2016; authors' calculations.

Note: Data are from 2016. Net worth refers to the difference between assets and debt for a household head. Race and ethnicity are those of the survey respondent.

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Why are high- and middle-income white families so much wealthier than Black families with the same incomes? We note a few reasons. White families receive [much larger inheritances](#) on average than Black families. Economists Darrick Hamilton and Sandy Darity [conclude](#) that inheritances and other intergenerational transfers “account for more of the racial wealth gap than any other demographic and socioeconomic indicators.” In addition, the income groups in figure 2 are based on a snapshot of family income, which [does not fully capture](#) lifetime income. Black families who make it to the top of the income distribution in a particular year are more likely than white families to drop out of the top in subsequent years, and their respective wealth levels reflect this difference. Likely less important, but still notable, high- and middle-income Black families are more likely than their white counterparts to be called upon to [assist family members](#) and neighbors.

All of this matters because wealth confers benefits that go beyond those that come with family income. Wealth is a safety net that keeps a life from being derailed by temporary setbacks and the loss of income. This safety net allows people to take career risks knowing that they have a buffer when success is not immediately achieved. Family wealth allows people (especially young adults who have recently entered the labor force) to access housing in safe neighborhoods with good schools, thereby enhancing the prospects of their own children. Wealth affords people

opportunities to be entrepreneurs and inventors. And the income from wealth is taxed at [much lower rates](#) than income from work, which means that wealth begets more wealth.

There is no single, simple explanation for the racial wealth gap. It is not explained away by differences in educational attainment, as Darrick Hamilton and Trevon Logan show in a recent [article](#), and as we show in a recent Hamilton Project [volume](#) on tax policy. It is not accounted for by indebtedness—white families actually tend to have higher levels of debt. It is not even fully accounted for by differences in income, as seen in figure 3. In addition, the fact that intergenerational transfer of wealth is lightly taxed means that historical gaps persist over generations. Furthermore, inadequate investments in the public goods that facilitate economic mobility make it harder to erase past gaps.

The solutions to the Black-white wealth gap—and the policies that address racial inequity more generally—are largely outside the scope of this post. But the analysis above points to at least one type of reform: taxation of income from wealth. The income from inheritances, and from wealth more generally, is taxed at an inequitably low rate, especially when compared to earnings.

Well-designed [taxes on inheritances](#), [reforms to capital income taxation](#), and even [taxes on wealth](#) could be part of the solution. Inheritance or estate taxes in particular could enhance equality of opportunity, especially if revenues were invested in programs that give low-income children a better chance at economic success.