

# McKinsey Report on: The Economic Impact of Closing The Racial Wealth Gap

Presented by:  
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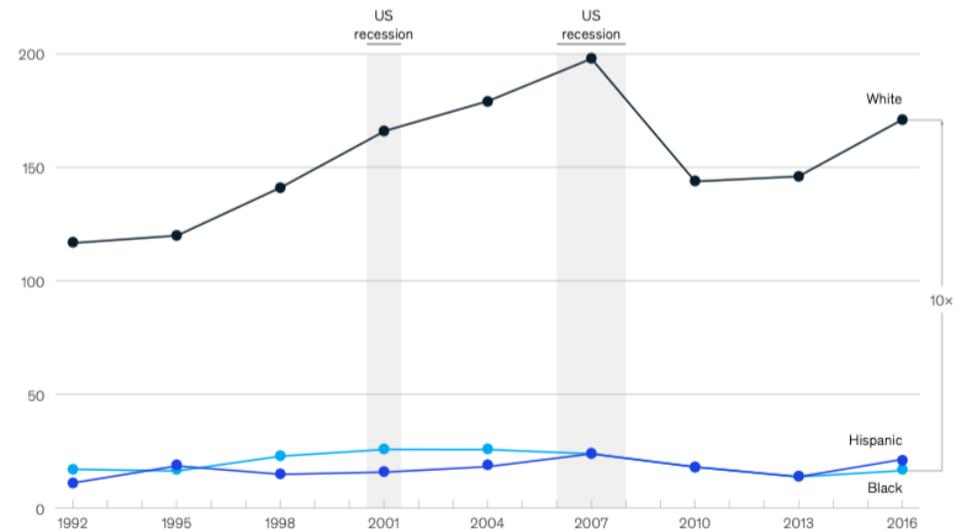
# The Wide and Persistent Gap in Wealth Between White and Black Families

- "The persistent racial wealth gap in the United States is a burden on black Americans as well as the overall economy. " (page 3)
- The economic power of the U.S. has expanded in the last century, which is shown in the growth in wealth for American families. (page 5)
  - From 1992 to 2016 the median family wealth grew from \$83,000-\$97,000. (page 5)

Exhibit 1

**There is a wide and persistent gap in wealth between white and black families.**

Median family wealth in 1992–2016 by ethnicity/race, \$ thousand<sup>1</sup>



<sup>1</sup>2016 dollars.

Source: "2016 survey of consumer finances," Federal Reserve Board, September 2017, [federalreserve.gov](http://federalreserve.gov)

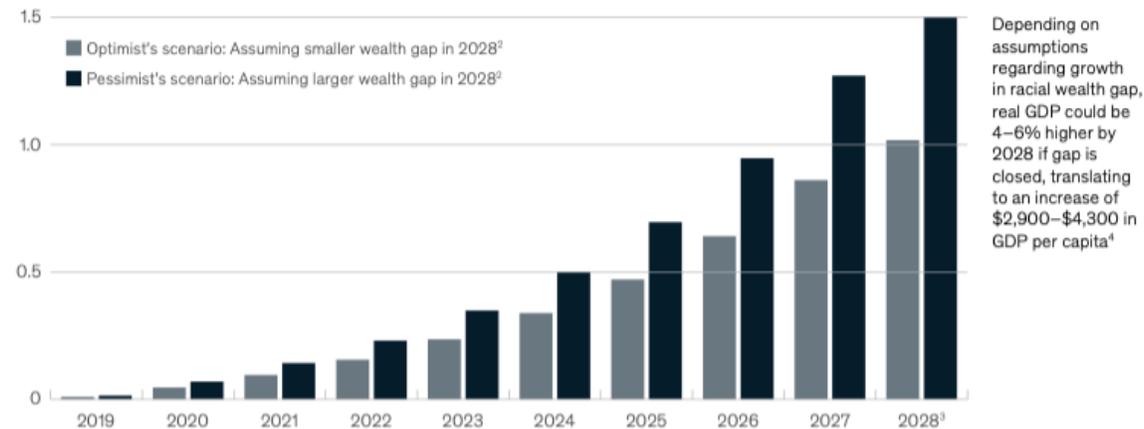
<sup>1</sup> "2016 survey of consumer finances," Federal Reserve Board, September 2017, [federalreserve.gov](http://federalreserve.gov).

# The Racial Wealth Gap Negatively Impacts the Entire U.S. Economy

Exhibit 2

**By closing the racial wealth gap, the US GDP could be 4 to 6 percent higher by 2028.**

**Real GDP increase from closing racial wealth gap, \$ trillion<sup>1</sup>**



<sup>1</sup>2018 dollars.

<sup>2</sup> Assumes that, over time, wealth gap will close in linear fashion, reaching scenario's assumed targets by 2028.

<sup>3</sup> \$2,631 billion–\$3,990 billion in nominal dollars.

<sup>4</sup> \$7,500–\$11,400 in nominal dollars.

Source: "2016 survey of consumer finances," Federal Reserve Board, September 2017, [federalreserve.gov](http://federalreserve.gov); Oxford Economics; McKinsey Global Institute analysis

- The racial wealth gap has a cyclical effect on the disadvantages it imposes on black families, individuals, and communities. (page 5)
- The widening racial wealth gap constrains the US economy by placing a negative impact on consumption and investment, which "will cost the US economy between \$1 trillion and \$1.5 trillion between 2019 and 2028— 4 to 6 percent of the projected GDP in 2028." (pages 5-6)

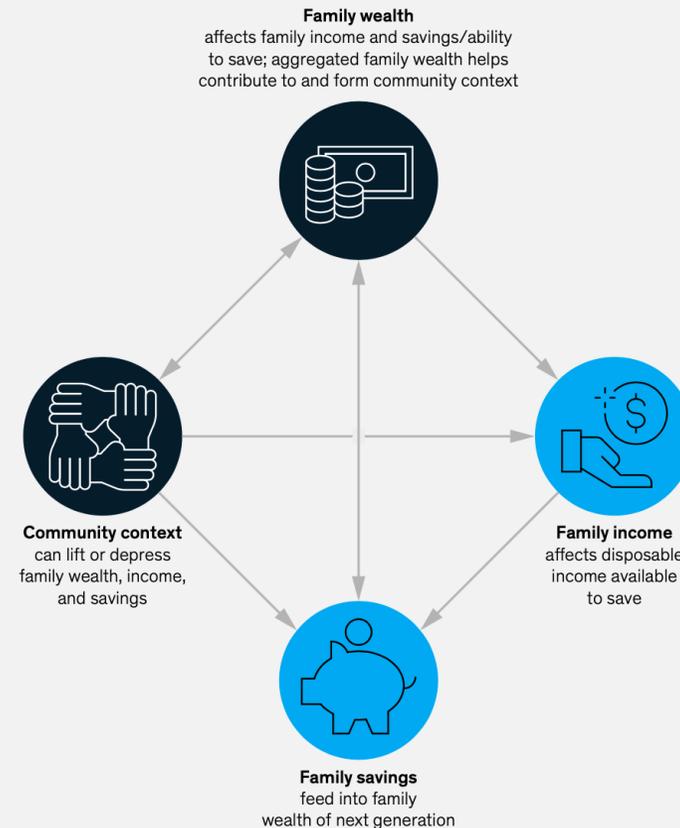
# Components of Wealth Generation For A Family

- There are four elements that account for the majority of a family's ability to build wealth across a generation: (page 8)
  1. Community Context
  2. Family Wealth
  3. Family Income
  4. Family Savings

Exhibit

**Interactions among the elements of family-wealth generation can promote economic stability, help propel families toward prosperity, or impede progress.**

- Asset-generated wealth
- Income-generated wealth

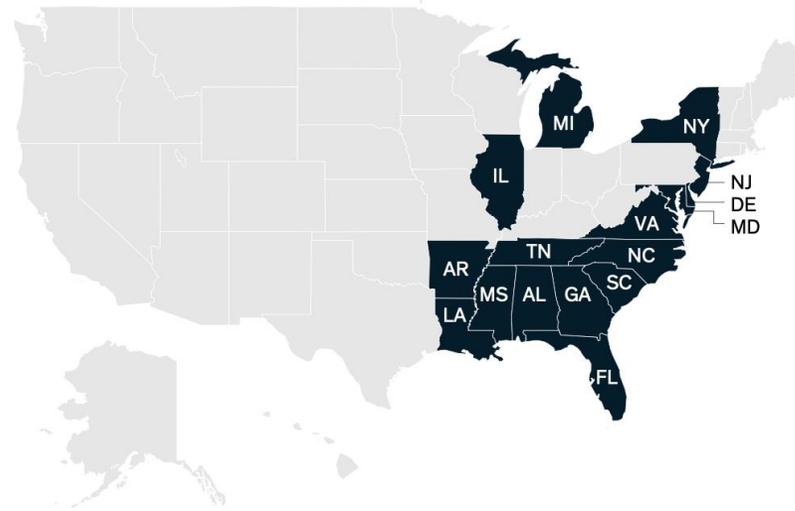


<sup>1</sup> In earlier iterations, the wealth-generation framework was sometimes referred to as a "middle-class black-family journey." See *New at McKinsey Blog*, "New research highlights gap between race and earning power in the US: Meet the authors," blog entry, October 22, 2018, [mckinsey.com](https://www.mckinsey.com/insights/economic-sustainability/new-research-highlights-gap-between-race-and-earning-power-in-the-us).

# Black Families Concentrate in States That Have Unfavorable Economic and Social Conditions

1. MI
2. IL
3. NY
4. NJ
5. DE
6. MD
7. VA
8. NC
9. SC
10. GA
11. FL
12. TN
13. AL
14. MS
15. LA
16. AR

There are 16 states in which black population exceeds national average<sup>1</sup>

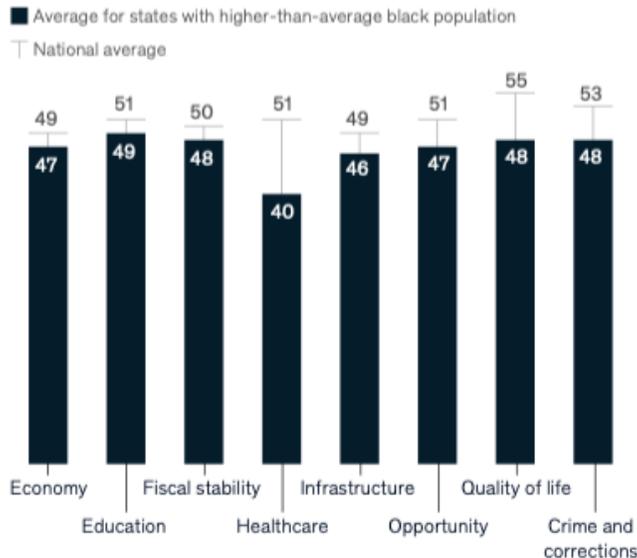


of the black population is concentrated in these 16 states

# Black Families Concentrate in States That Have Unfavorable Economic and Social Conditions (continued)

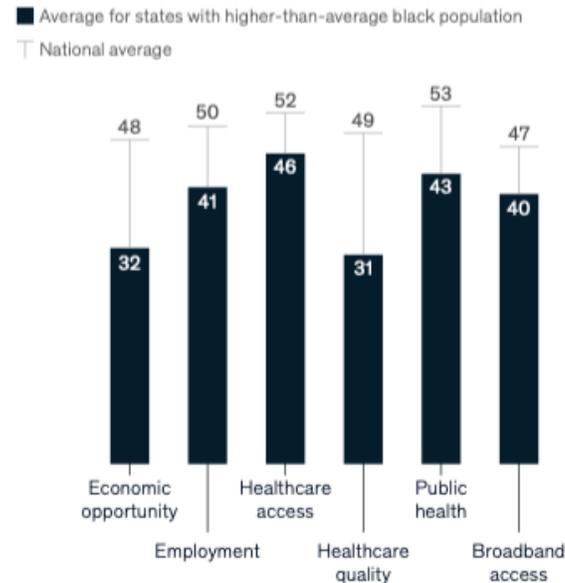
On average, these states score below national average in every Leading States Index<sup>2</sup> category that includes 77 metrics of state performance

## Leading States Index scores



These states score well below national average in Leading States Index<sup>2</sup> subcategories that can accelerate wealth generation

## Leading States Index scores



<sup>1</sup> Defined as states in which proportion of black residents is greater than national average (13.4%).

<sup>2</sup> Scores on Leading States Index can range from -150 to 150.

Source: 2017 US census; Leading States Index by McKinsey, 2018

- These states are below the national averages in economic opportunity, employment, healthcare access, healthcare quality, public health, and access to broadband. (page 9)
- When compared to white and Latinx families, at the neighborhood level, black families are up to 4.6 times more likely to live in areas of concentrated poverty. (page 9)
- High-income black families are not exempt. (page 9)

# National Housing Act of 1934

- What did it do?
  - Created the Federal Housing Administration (FHA) and the Federal Savings and Loan Insurance Corporation.
- How did it impact black families?
  - Contributed to socioeconomic segregation. (page 11)
  - "Limiting many black families' housing options to those in D-rated neighborhoods, which are characterized by distressed housing stock, lower-income residents, and overall decline." (page 11)
  - Most black families have remained in those neighborhoods. (page 11)

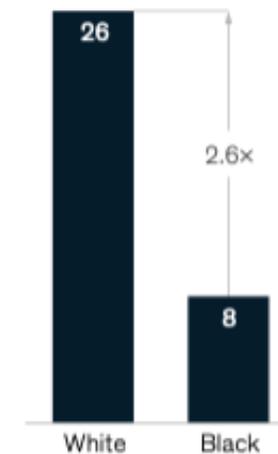
# Family wealth

- The keys to a stable base of family wealth:(page 11)
  1. Capital
  2. Liquid savings
  3. Credit
  4. Access to investable assets
- Black families have uneven access to each of these key components:
  - Why?
    - They begin with lower levels of wealth:" only 8 percent of black families receive an inheritance, compared with 26 percent of white families." (page 11)
- An inheritance for a black family is 35 percent of the value of that of a white family. (page 11)
- What impact does the lack of access to "stater" wealth have on black Americans? (page 11)
  - Black college graduates are more likely than white college graduates to support their parents causing their wealth to decline after graduation.
  - Black college graduates are 1.3 times more likely than white families to have student debt.
  - Black student loan debt is typically 1.7 times higher than those of white families.
  - Black borrowers are 2.3 times more likely than white borrowers to default on their loans.

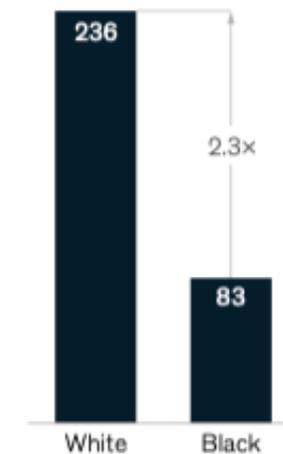
Exhibit 4

**Black families begin with lower endowments of equity capital because of differences in rates of inheritance.**

**Share of population receiving inheritance in 2016, %**



**Average inheritance value in 2013, \$ thousand**



Source: "2016 survey of consumer finances," Federal Reserve Board, September 2017, [federalreserve.gov](http://federalreserve.gov); Jeffrey P. Thompson and Gustavo A. Suarez, "Exploring the racial wealth gap using the survey of consumer finances," Federal Reserve Board, August 2015, [federalreserve.gov](http://federalreserve.gov)

# Family Income and Education

- Over their lifetime, black people can expect to earn up to \$1 million less than whites. (page 12)
- "Black families face serious obstacles on the journey through the education system and converting education to stable employment that provides rising incomes."(page 12)
- Obstacles that reduce lifetime earning potential: (page 12)
  - Poor school quality
  - Differential treatment in the criminal-justice system
  - Workplace discrimination
  - Career selection
  - A lack of role models who can guide professionals' career advancement
- 45 percent of black children attend high-poverty schools, which is approximately six times the rate of white children. (page 12)
- In 2017 24 percent of the black population over the age of 25 holds a bachelor's degree or higher —ten percentage points lower than the comparable white population. (page 12)

# Damaging Interactions with The Criminal-Justice System

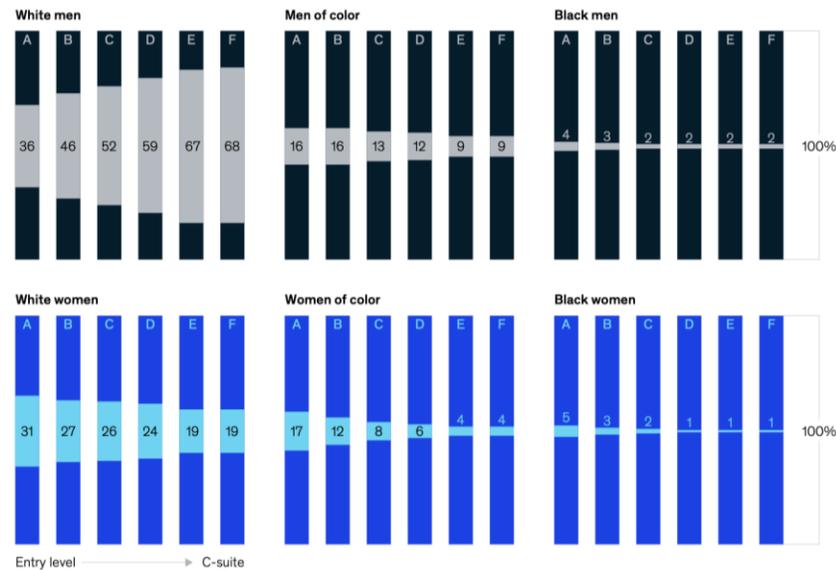
- 33 percent of the incarcerated population is black, almost triple the black citizens' share of the US population, however, white citizens' share of inmates is half of their share of the general population. (page 13)
- It is estimated that incarceration reduces annual wages by 40 percent "not including the lost wages during the time served." (page 13)
- Incarceration reduces the economic mobility of the formerly incarcerated and increases the risk of school expulsion six times for the children of the formerly incarcerated. (page 13)
- The costs of incarceration and interactions with the criminal justice system is expensive. (page 13)
- Black men without criminal records are less likely to receive job interviews than white men who have criminal records. (page 13)

# Black Workers

- Black workers experience lower rates of professional advancement. (page 13)
- Black workers are unemployed at twice the rate of white workers. (page 13)
- Black workers who hold bachelor's degrees experience a rate of unemployment similar to that of white workers with no college education. (page 13)
- "Black workers make up 13 percent of the US workforce, but racial discrimination against this group accounts for 26 percent of all claims filed with the Equal Employment Opportunity Commission and its partner agencies." (page 13)

Share of professionals by role category, %<sup>1</sup>

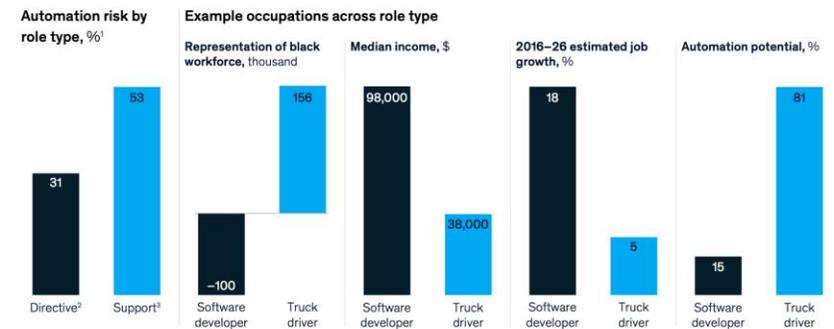
A Entry-level professional, B manager, C senior manager/director, D vice president, E senior vice president, F C-suite professional



<sup>1</sup>From study of 279 North America-focused companies. Figures may not sum to 100%, because of rounding. Source: *Women in the Workplace 2018*, joint report by LeanIn.Org and McKinsey, October 2018, womenintheworkplace.com

Exhibit 7

Support roles have a much higher risk of automation, which increases black workers' relative risk of automation.



<sup>1</sup>Share of employee time automatable by adapting currently available technology, as calculated by multiplying automation potential of each role by number of employees in each role.

<sup>2</sup>Such as executive/senior-level officers and managers, first/middle-level officers and managers, professionals, craft workers, salespeople, and technicians.

<sup>3</sup>Such as administrative-support workers, laborers and helpers, operatives, and service workers.

Source: US Bureau of Labor Statistics; McKinsey Global Institute analysis

<sup>29</sup> "Employment by detailed occupation," US Bureau of Labor Statistics, January 30, 2018, bls.gov.

<sup>30</sup> David Baboolal, Duwain Pinder, Shelley Stewart III, and Jason Wright, "Automation and the future of the African American workforce," November 2018, McKinsey.com.

<sup>31</sup> Ibid.

<sup>32</sup> *What resources do families have for financial emergencies? The role of emergency savings in family financial security*, Pew Charitable Trusts, November 2015, pewtrusts.org; Lisa J. Detting et al., "Recent trends in wealth-holding by race and ethnicity: Evidence from the survey of consumer finances," Federal Reserve Board, September 27, 2017, federalreserve.gov.

<sup>33</sup> Ian Ayres and Peter Siegelman, "Race and gender discrimination in bargaining for a new car," *American Economic Review*, June 1995, Volume 85, Number 3, pp. 304-21.

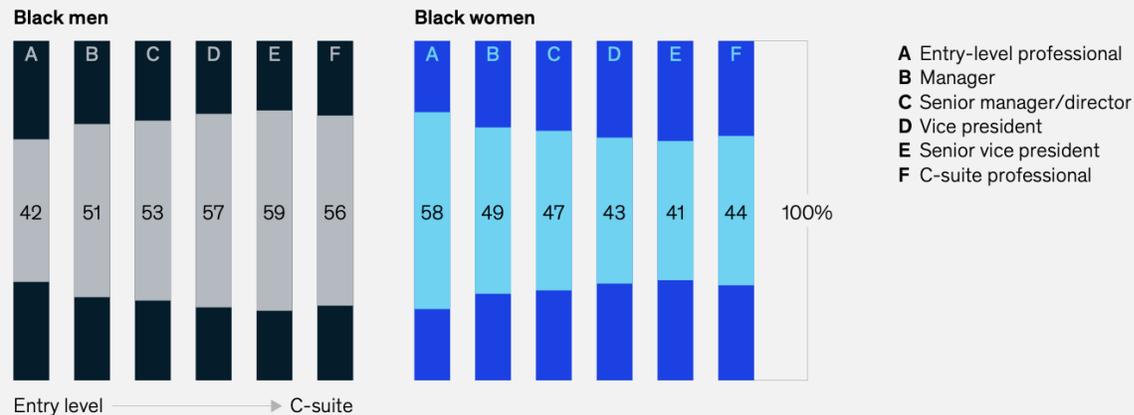
<sup>34</sup> "Renter cost burdens by race and ethnicity (tB)," Harvard Joint Center for Housing Studies, November 30, 2017, jchs.harvard.edu.

# Intersecting Minority Identities and Earning Power

Exhibit

**The path to executive roles tends to shed black women, especially in the transition to management roles.**

Share of black professionals by role category, %<sup>1</sup>



<sup>1</sup>From study of 279 North America-focused companies.  
Source: *Women in the Workplace 2018*, joint report by LeanIn.Org and McKinsey, October 2018, [womenintheworkplace.com](http://womenintheworkplace.com)

- The median wealth of a single black woman is \$200, compared with the median wealth of a single white man, which is \$28,900. (page 15)
- Black women have lower earning power than both white peers and male peers. (page 15)
- The median black woman earns 65 percent as much as the median white man. (page 15)
- Black women earn 89 percent as much as black men. (page 15)
- Black men earn 74 percent as much as white men. (page 15).

# Family Savings: "Black families are less able to accumulate savings than white families"

- Factors hindering black families from saving: (page 17)
  - High expenses relative to incomes
  - Less access to affordable financial tools
  - Entitled to lower employment-linked benefits
- The Results of this hindrance: (page 17)
  - A typical black family has one-sixth the liquid savings of a white family.
  - "In an emergency, most black families would not know someone who could lend them \$3,000."
  - "30 percent of black families spend more than 50 percent of their income on housing."
  - "Black families are also twice as likely as white families to lack enough liquid savings to pay each month's expenses."
  - Black Americans are 13 percent of the US population but make up 40 percent of the homeless population.

# Black Families and Banking

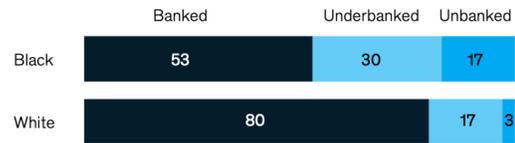
- Black families have less access to private savings such as mainstream banking system. (page 18)
- The lack of access leads to black families relying on "high-cost financial services (such as payday lending in neighborhoods where black families disproportionately live)." (page 18)
- "Banks in predominantly black neighborhoods require higher minimum balances (\$871) than banks in white neighborhoods do (\$626)." (page 18)
- "30 percent of black families are underserved by their banks, and 17 percent are completely disconnected from the mainstream banking system because of a lack of assets and a lack of trust in financial institutions." (page 18)
- "Tax-linked benefits, such as mortgage deductions, are less accessible to black families because of racial gaps in homeownership." (page 18)

Exhibit 9

**Increasing basic banking access could save many black individuals up to \$40,000 over the course of their lives.**

**47% of black households are either unbanked or underbanked<sup>1</sup> ...**

**Banked rates among black and white households in 2017, %**



**... meaning they rely on alternative financial services like check cashing and prepaid cards, which pose significant costs**

## \$40,000

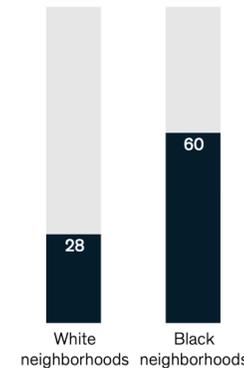
amount a full-time worker who cashes checks could save over course of full career by using a lower-cost checking account

<sup>1</sup>"Unbanked" defined as not served by bank or similar financial institution; "underbanked" defined as not having sufficient access to mainstream financial services and products typically offered by retail banks.  
Source: "2017 FDIC national survey of unbanked and underbanked households," US Federal Deposit Insurance Corporation, October 2018, fdic.gov; Matt Fellowes and Mia Mabanta, *Banking on wealth: America's new retail banking infrastructure and its wealth-building potential*, Brookings Institution, January 22, 2008, brookings.edu

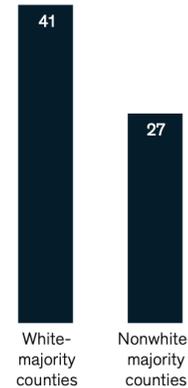
Exhibit 8

**Banking with traditional institutions can be expensive—as well as harder to access in communities of color.**

**Share of paycheck that must be kept deposited to avoid fee or account closure**



**Financial institutions per 100,000 people**



Source: Parker Cohen, Stephanie Landry, and Santiago Sueiro, "Analyzing the landscape of saving solutions for low-income families part 1: The savings crisis and the need for holistic solutions," Prosperity Now, April 2019, prosperitynow.org; Jacob Faber and Terri Friedline, "The racialized costs of banking," New America, June 21, 2018, newamerica.org

Questions?

