

Racial Wealth Inequality at the Metropolitan Area and National Levels: Findings and Implications

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Hosted by the Federal Reserve Bank of Boston

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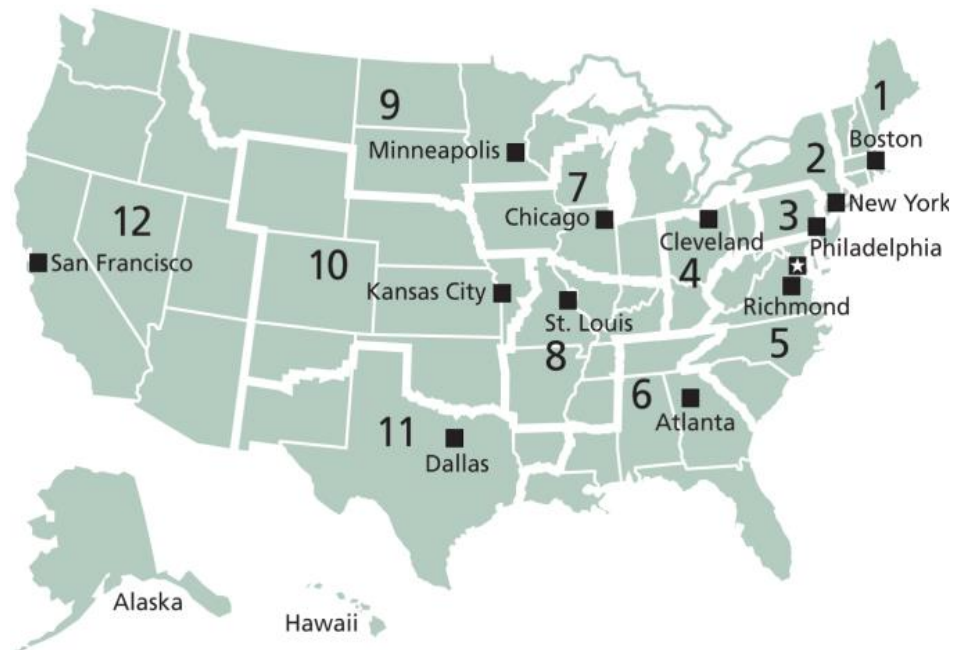
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Community Development

The Community Development function within the Federal Reserve System, consisting of individual departments at each of the twelve Federal Reserve Banks, as well as at the Board of Governors, promotes economic growth and financial stability for low- and moderate-income communities and individuals through a range of activities, including:

- **Convening stakeholders**, including practitioners, financial institutions, nonprofits, governmental agencies, and the philanthropic and private sectors
- **Conducting and sharing research** to examine economic challenges facing low- and moderate-income communities and attendant policy implications
- **Identifying emerging issues**



Today's Presenters

- William Darity, Jr., Duke University
- William R. Emmons, Federal Reserve Bank of St. Louis
- Darrick Hamilton, The New School
- Ana Patricia Muñoz, Federal Reserve Bank of Boston
- Bryan J. Noeth, Federal Reserve Bank of St. Louis

The Survey of Consumer Finances

Bryan J. Noeth

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The Survey of Consumer Finances (SCF)

- Produced by the Federal Reserve Board
- Triennial nationally representative survey
- 42,000 families in nine waves, 1989—2013
- Comprehensive coverage of assets, liabilities, income, and financial behaviors
- Good demographic information
- No geographic identifiers

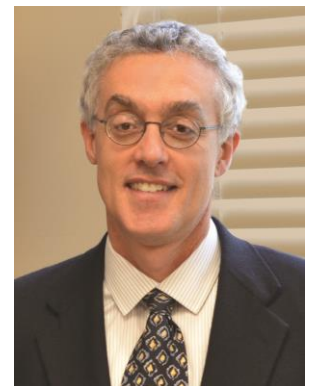
The Demographics of Wealth

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A Demographic Approach to Wealth

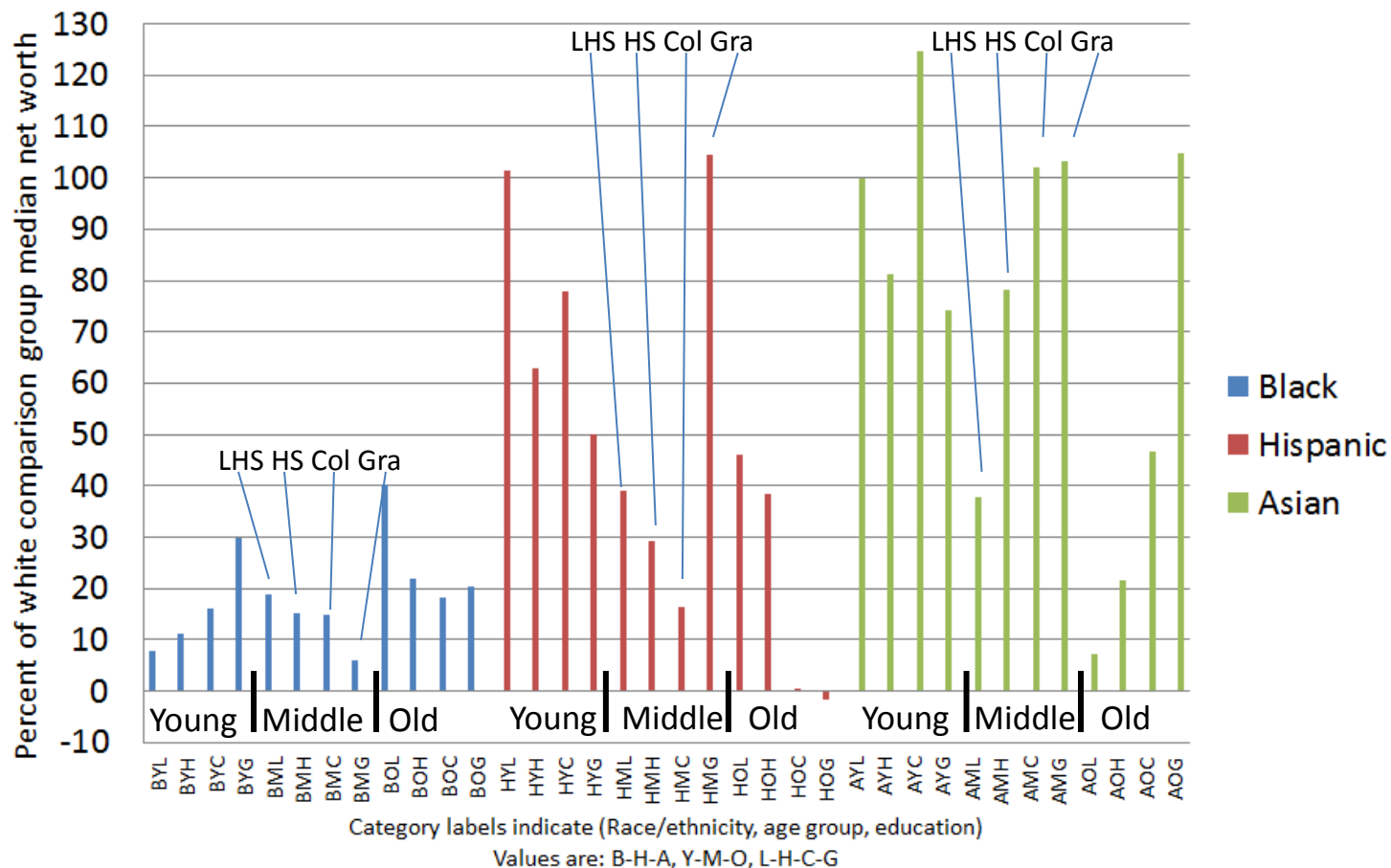
- Assign each family head/individual in each survey to a group defined by:
 - Age
 - Young (under 40)
 - Middle-aged (40—61)
 - Old (62 or older)
 - Educational attainment
 - Less than high school
 - High school or GED
 - 2- or 4-year college
 - Graduate or professional degree
 - Race or ethnicity
 - Non-Hispanic white
 - Non-Hispanic black
 - Hispanic of any race
 - Asian or other
- Result is 48 groups observed every three years: a 24-year quasi-panel based on demographic characteristics

Insights from the Demographics of Wealth

- Three-part series reporting our findings
(www.stlouisfed.org/household-financial-stability/the-demographics-of-wealth)
 - Race, Ethnicity, and Wealth (February 2015)
 - Education and Wealth (April 2015)
 - Age, Birth Year, and Wealth (July 2015)
- Main conclusions
 - Each demographic dimension is very important in predicting financial choices and financial outcomes.
 - Demographic characteristics most commonly associated with families accumulating little or no wealth:
 - Young
 - Less educated
 - Black or Hispanic
 - “Demographic drivers of wealth” are becoming stronger.

Racial and Ethnic Wealth Disparities

**Median Net Worth in 2013 as Percent of White Comparison
Group's Median Net Worth: Same Age and Education**



Source: SCF

Shades of Wealth and Economic (In) Mobility

Some Results from the *National Asset Scorecard for Communities of Color* (NASCC)

William Darity, Jr.

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and

Darrick Hamilton

Associate professor of economics and urban policy

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The Importance of Wealth

- Wealth indicates economic opportunity, security, and overall well-being.
- Wealth provides for a *human capabilities* approach to economic development.
- The primary source is intergenerational — *structural* not behavioral.
- Wealth is the economic indicator in which whites and communities of color are most disparate.

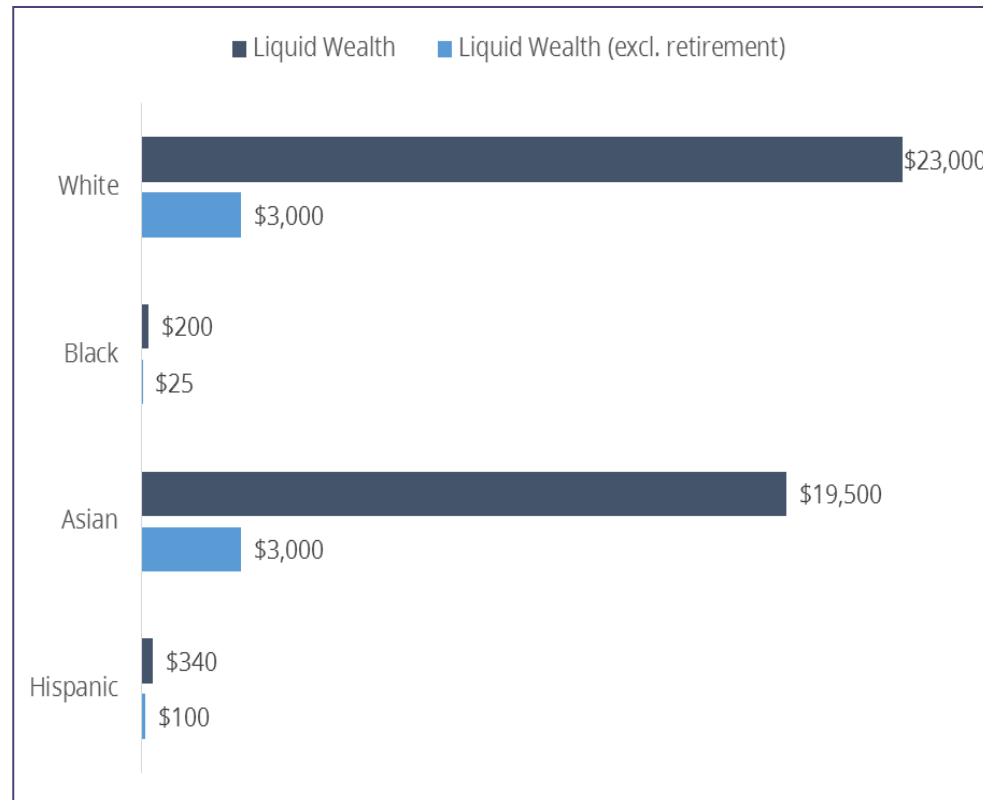
The Great Recession and the Racial Wealth Gap

(Survey of Income Program Participation (SIPP) Data)

		Year		
		2005	2009	2011
Median Net Worth (\$2011)				
	White	\$142,335	\$119,152	\$111,740
	Black	\$12,840	\$6,081	\$7,113
	Asian	\$176,225	\$81,291	\$92,259
	Hispanic	\$19,228	\$6,668	\$8,113
Relative Holdings per \$1 White Wealth				
	Black	\$0.09	\$0.05	\$0.06
	Asian	\$1.24	\$0.68	\$0.83
	Hispanic	\$0.14	\$0.06	\$0.07

Source: SIPP

Median Liquid Asset Value: Assets Easily Converted to Cash (SIPP 2011)



Source: Median Liquid Wealth Holdings, 2011 SIPP

Lessons Learned

- Black and Latino families have little liquid assets to take risks or deal with financial emergencies or shocks.
- Communities of color suffered the most.
 - The racial wealth gap was extreme before the recession and worsened after.
- Asians suffered the largest absolute loss in home values and wealth.
 - They are most likely to reside in states that benefited from the housing boom and suffered most from the housing bust.

An Incomplete Narrative

- Asset markets are local.
 - The geographic maldistributive effects of the housing crisis
- The wealth position of many communities of color remains unknown.
 - Aggregate categories like “Asian” mask the asset position for certain groups like those immigrating from Southeast Asia.
 - Indigenous groups are often hidden altogether in a nebulous catchall category of “other.”

NASCC

NATIONAL ASSET SCORECARD FOR COMMUNITIES OF COLOR

- Assembled a multidisciplinary and ethnically diverse team with expertise in wealth and ethnic studies
- Implemented a *pilot survey* to compare specific groups within urban contexts to:
 - Provide implicit control of asset and debt pricing and products
 - Analyze the wealth of groups hidden in broadly-defined “nonwhite” categories
 - Examine asset and debt attributes particular to communities of color
 - Demonstrate (template) for national surveys

Payday Lending Use in the Last Five Years

Ethnicity	LA	Miami	Boston	Tulsa	DC
U.S. Black Descendent	0.27 ^{^^^}	0.16 ^{^^^}	0.04	0.16	0.08
Caribbean Black		0.11 [^]	0.01		
Cape Verdean			0.01		
African Black	0.001				0.03
Mexican	0.04			0.05	
Cuban		0.02			
Puerto Rican		0.14 ^{^^}	0.02		
Dominican			0.09 ^{^^}		
South Amer Latino		0.04			
Cherokee, Tribal Enr				0.16	
Creek, Trbal Enr				0.33**	
Other, Tribal Enr				0.15	
Amer Indian, no Tribal Enr				0.14	
Chinese	0.01				0.001
Japanese	0.001				
Korean	0.001				0.001
Filipino	0.001				
Vietnamese	0.03				0.001
Asian Indian	0.001				0.001
White	0.02	0.03	0.01	0.09	0.04

Source: NASCC survey

Median Value of Household Wealth

Ethnicity	LA	Miami	Boston	Tulsa	DC
U.S. Black Descendent	\$4,000^	\$3,700	\$8^^^	\$8,000^^^	\$3,500^^^
Caribbean Black		\$12,000	\$18,000^^^		
Cape Verdean			---		
African Black	\$72,000				\$3,000^^^
Mexican	\$3,500^^			\$7,000^^^	
Cuban		\$22,000			
Puerto Rican		---	\$4,079^^^		
Dominican			\$0^^^		
South Amer Latino		\$1,200			
Cherokee, Tribal Enr				\$75,200	
Creek, Trbal Enr				\$42,500^	
Other, Tribal Enr				\$7,000	
Amer Indian, no Tribal Enr				\$4,000^^	
Chinese	\$408,200				\$220,000
Japanese	\$592,000				
Korean	\$23,400^				\$496,000
Filipino	\$243,000				
Vietnamese	\$61,500				\$423,000
Asian Indian	\$460,000				\$573,000
White	\$355,000	\$107,000	\$251,000	\$145,000	\$284,000

Source: NASCC survey

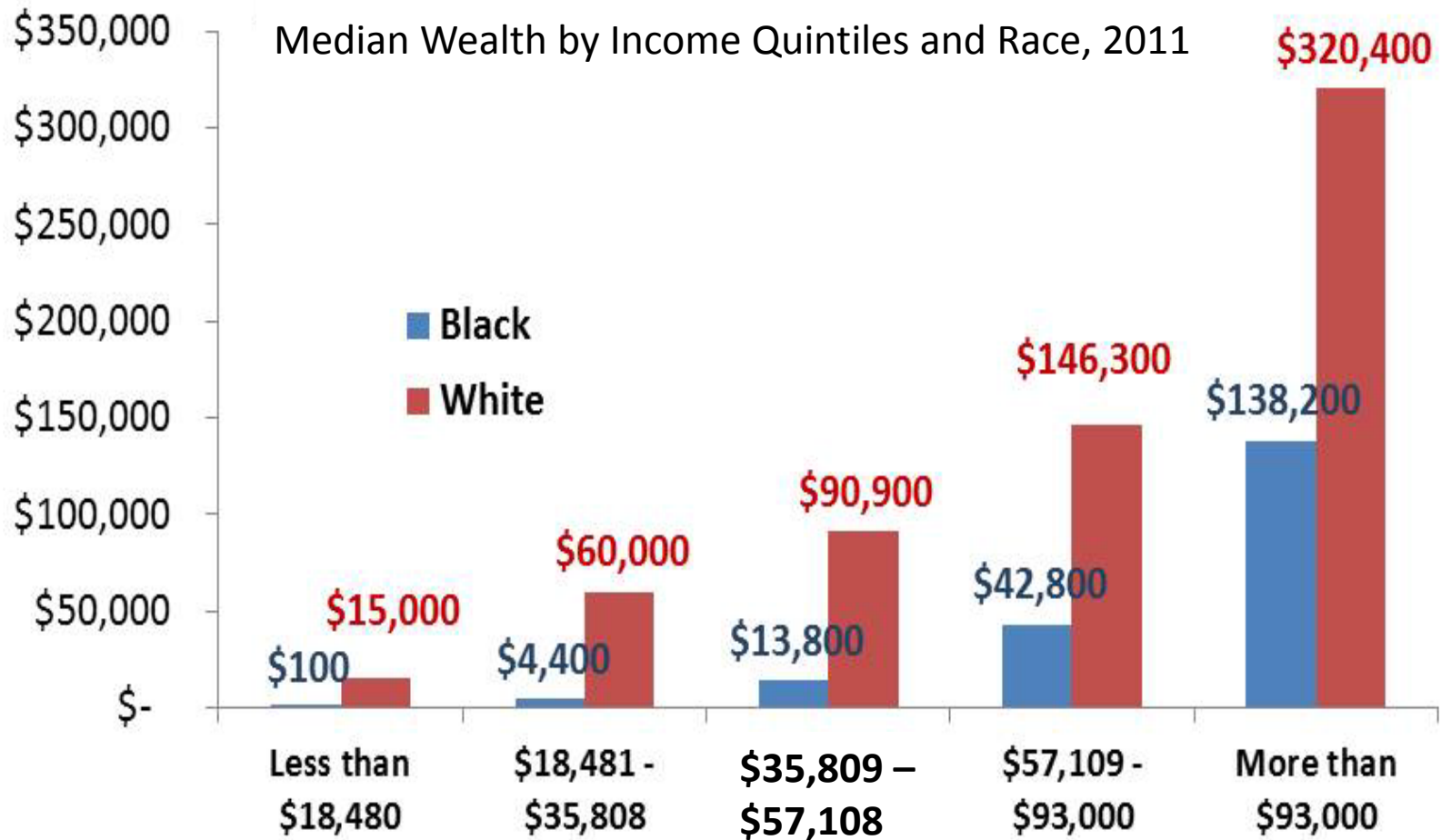
Some Preliminary Lessons Across Five Cities

- Variation within broadly-defined ethnic categories
- Income inequality pales in comparison to wealth inequality
- An ethnic group's relative asset position may vary across city.
- Homeownership varied across city and may not be the only driver of wealth
- Substantial asset variation across and within cities with blacks and Mexicans persistently at the bottom

“We are post-racial”

- America has largely transcended the racial divide.
- A shift from social responsibility for the conditions of black America
- Blacks are enjoined to:
 - “Get over it”
 - “Stop playing the victim role”
 - “Stop making excuses”
 - “Take personal responsibility”
 - “Study hard, graduate from college, and get a good job”

Racial Wealth Inequality Is Not Explained by Income



Source: SIPP

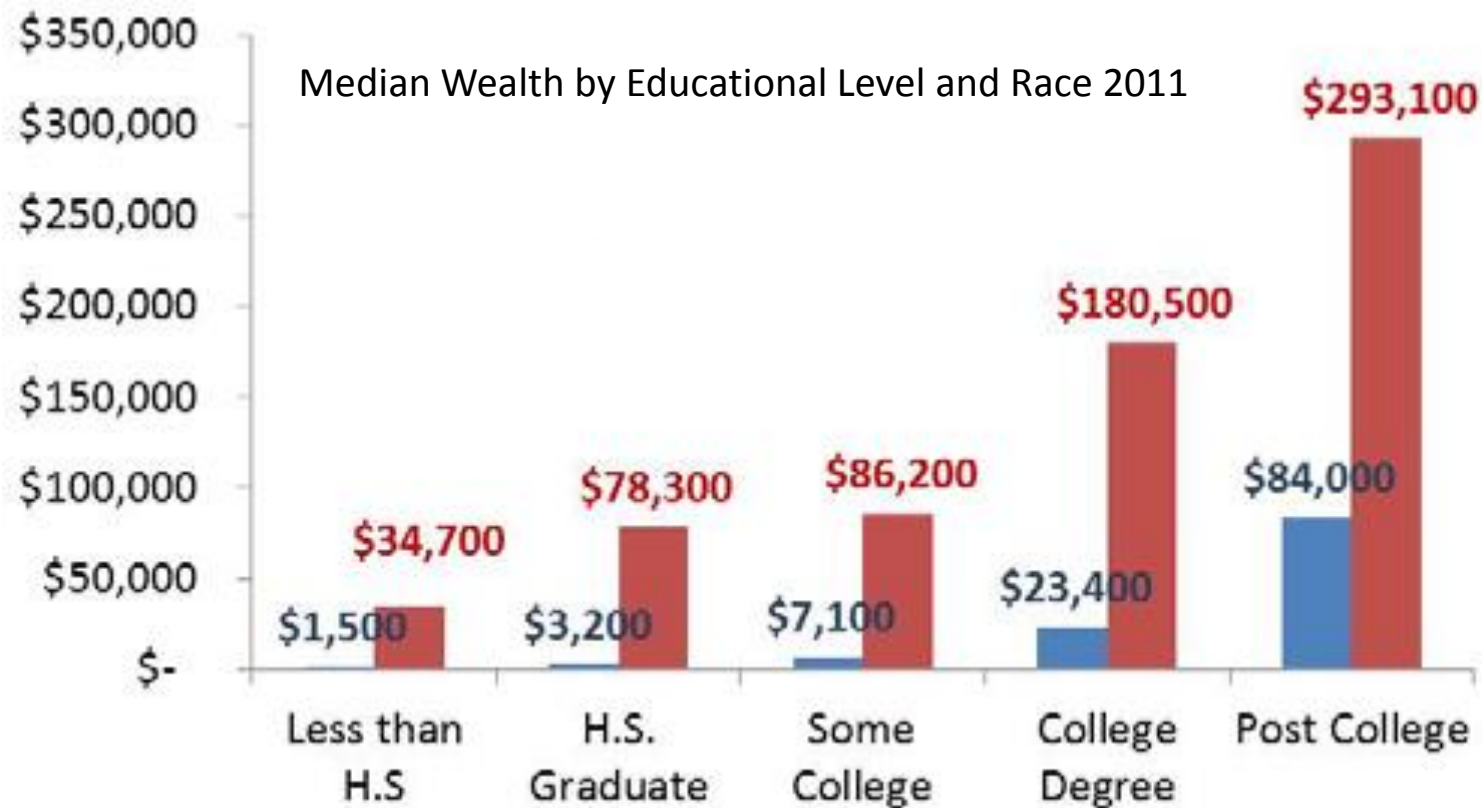
Hard Work Isn't Enough to Close the Racial Wealth Gap

Median Wealth by Employment / Labor Force Status and Race, 2011



Source: SIPP

Whites Who Dropped Out of High School Have Greater Wealth than Black with a College Degree



Conclusions and Recommendations

- *Race is still a defining attribute of one's life chances.*
 - Wealth is the single best indicator of economic opportunity, security, and *human capability*.
 - The primary source of wealth is inheritance, in-vivo transfers — seed money to purchase an appreciating asset.
 - Education, hard work, income, and *active* savings do little to address the racial wealth gap.
 - The racial wealth gap is *structural* not behavioral.
- *The Solution — Baby Bonds*
 - Universal gradationally endowed trust accounts at birth
 - Dramatically close the racial wealth gap for about two percent of current federal expenditures per annum
 - Break the cruel links between race, inheritance, and economic advantage/disadvantage — opportunity for upward mobility and economic security for all

Special Thanks

Special Thanks for Their Generous Support

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Building Economic Security Over a Lifetime
Kilolo Kijakazi, Program Officer (former)
Amy Brown, Program Officer (current)

Research Partner for Boston Data

Federal Reserve Bank of Boston
Ana Patricia Muñoz, NASCC-Boston Project Manager

The Color of Wealth in Boston

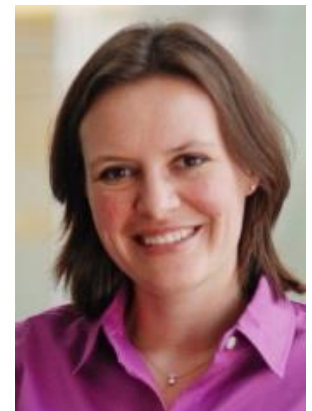
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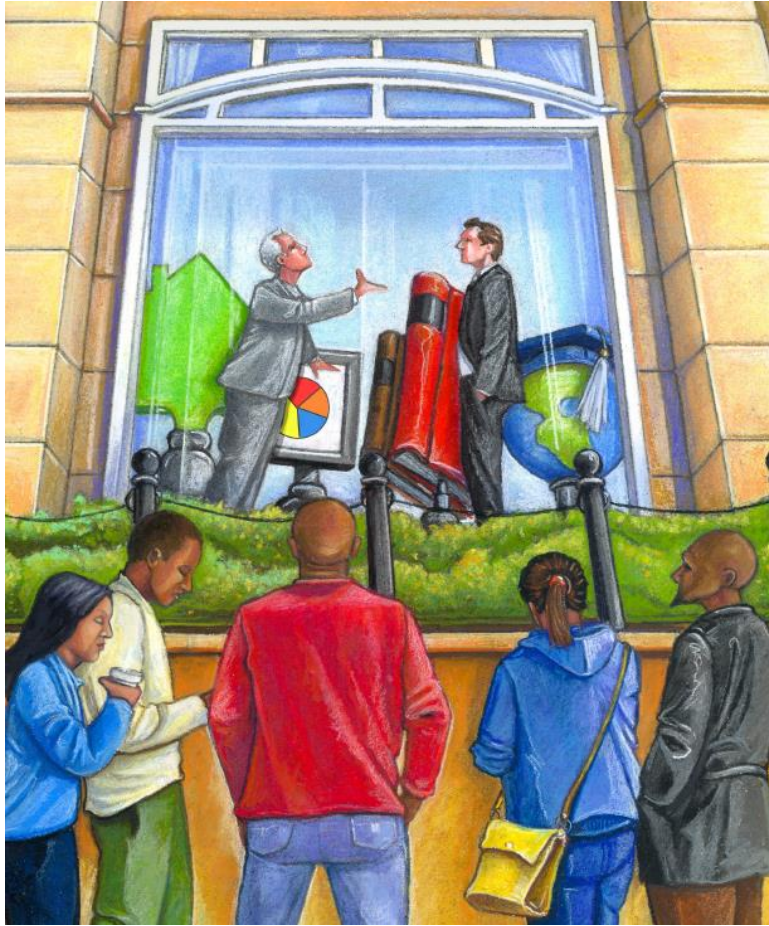
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The Color of Wealth in Boston

Federal Reserve Bank of Boston, Duke University, The New School



The NASCC project is funded by the Ford Foundation and the Federal Reserve Bank of Boston (for the Boston data). William Darity, Jr. (Duke University) and Darrick Hamilton (The New School) serve as primary investigators. The NASCC-Boston project manager is Ana Patricia Muñoz.

Source: www.bostonfed.org/color-of-wealth

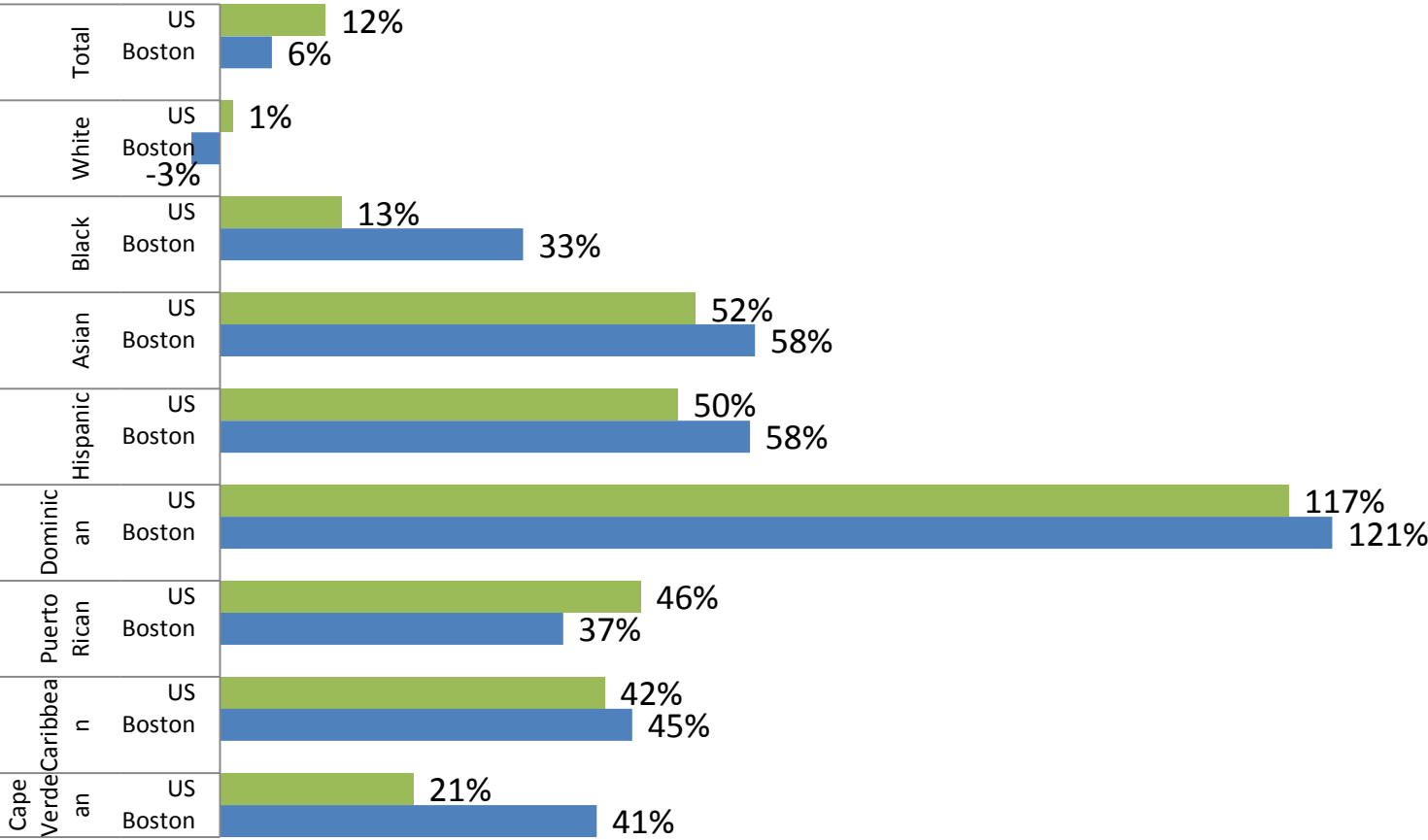
Measuring Wealth



- Three surveys collect periodic information on wealth: Survey of Consumer Finances, Panel Study of Income Dynamics (PSID), and SIPP.
- Two shortcomings of these surveys: information only for broad race and ethnic categories, and most estimates are at the national level.

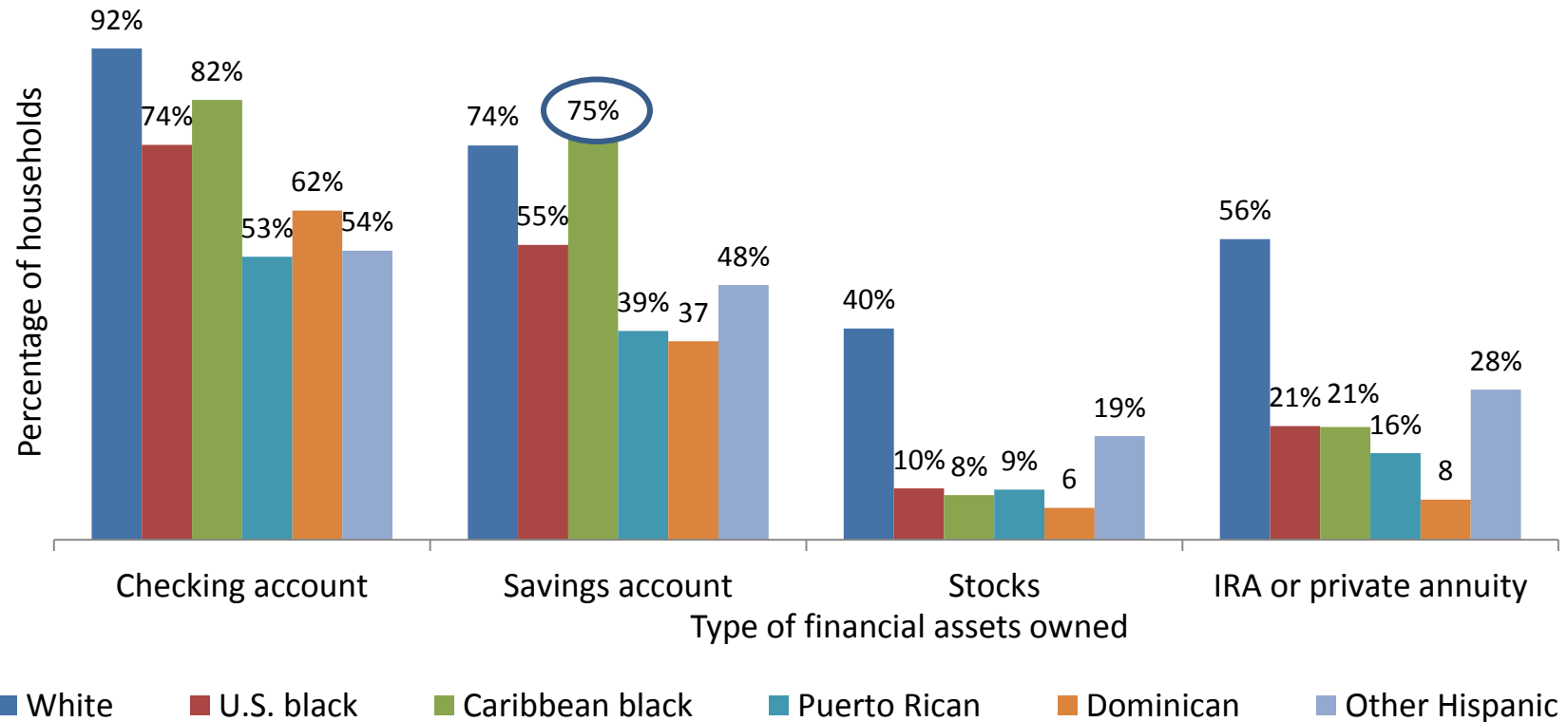
NASCC: Why Is It Important to Collect These Data in the Boston Metropolitan Statistical Area (MSA)?

➡ **Population Growth in Boston MSA is Driven by Nonwhite Population**
Population Change in U.S. and Boston MSA, 2000-2012



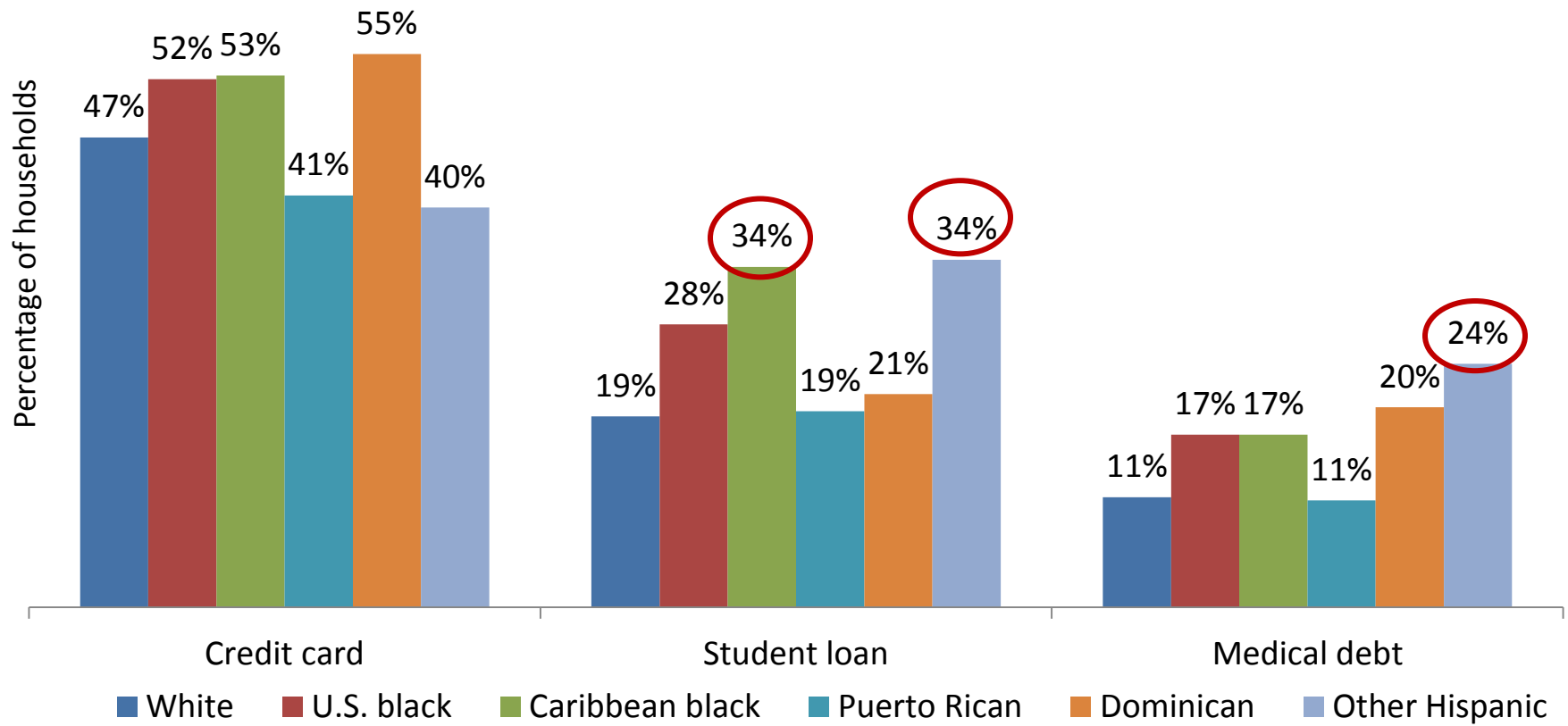
Source: U.S. Census Bureau, 2012 American Community Survey, 1-year estimates

The Typical White Household in the Boston MSA is More Likely Than Nonwhite Households to Own Every Type of Financial Asset



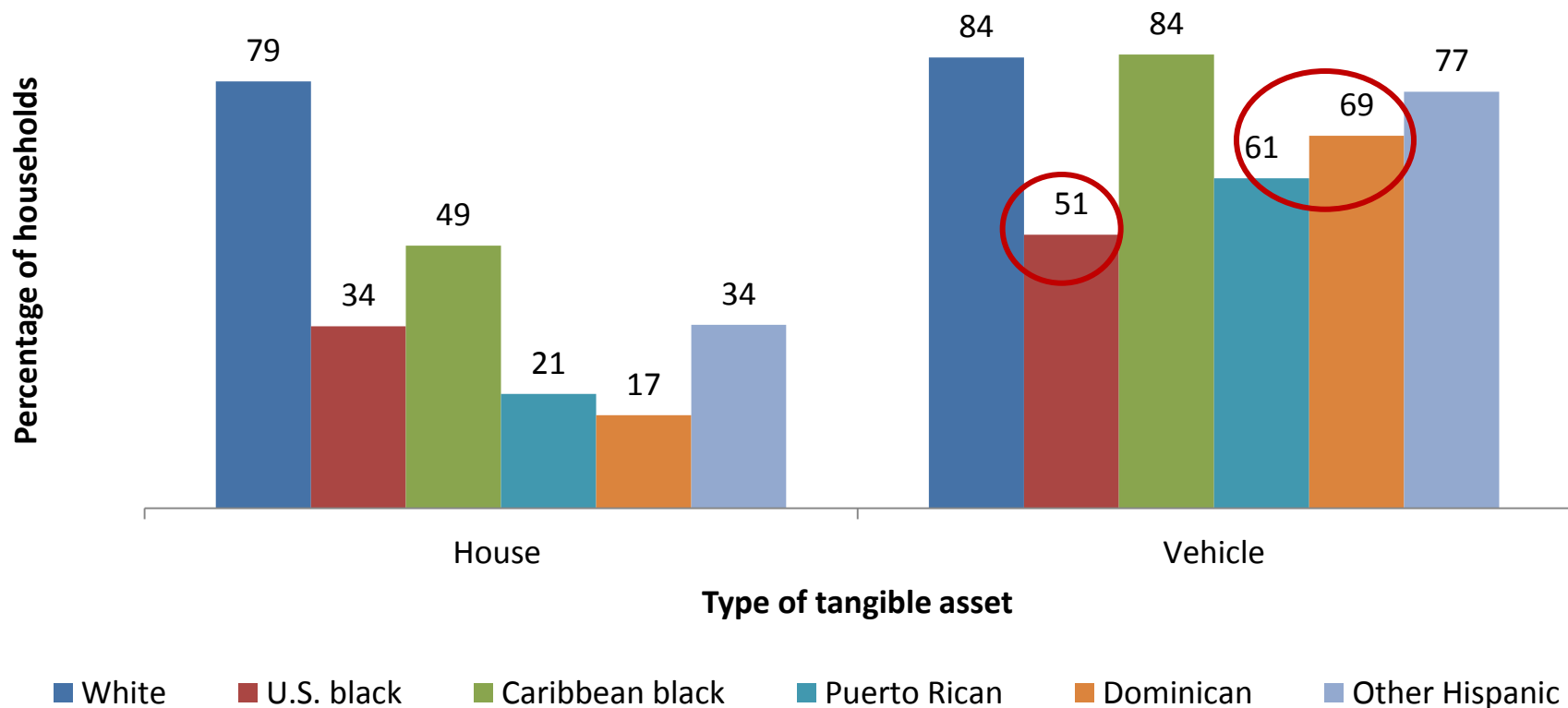
Source: NASCC-Boston survey, authors' calculations

In General, Nonwhites Were More Likely to Have Debts Than Whites, Although in Most Cases the Differences Were Not Statistically Significant



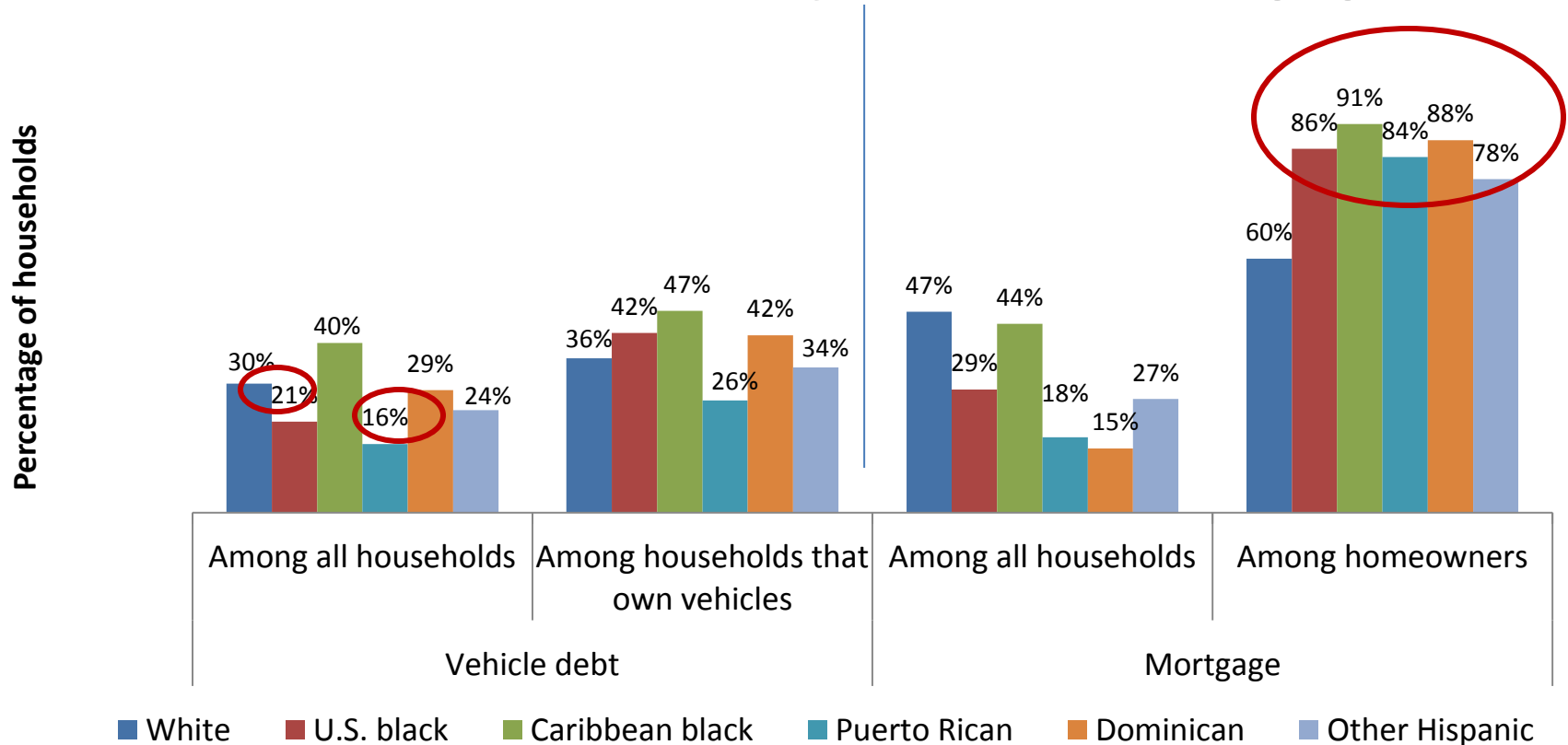
Source: NASCC-Boston survey, authors' calculations

The white households in the Boston MSA are more likely than nonwhite households to own every type of tangible asset



Source: NASCC survey, authors' calculations.

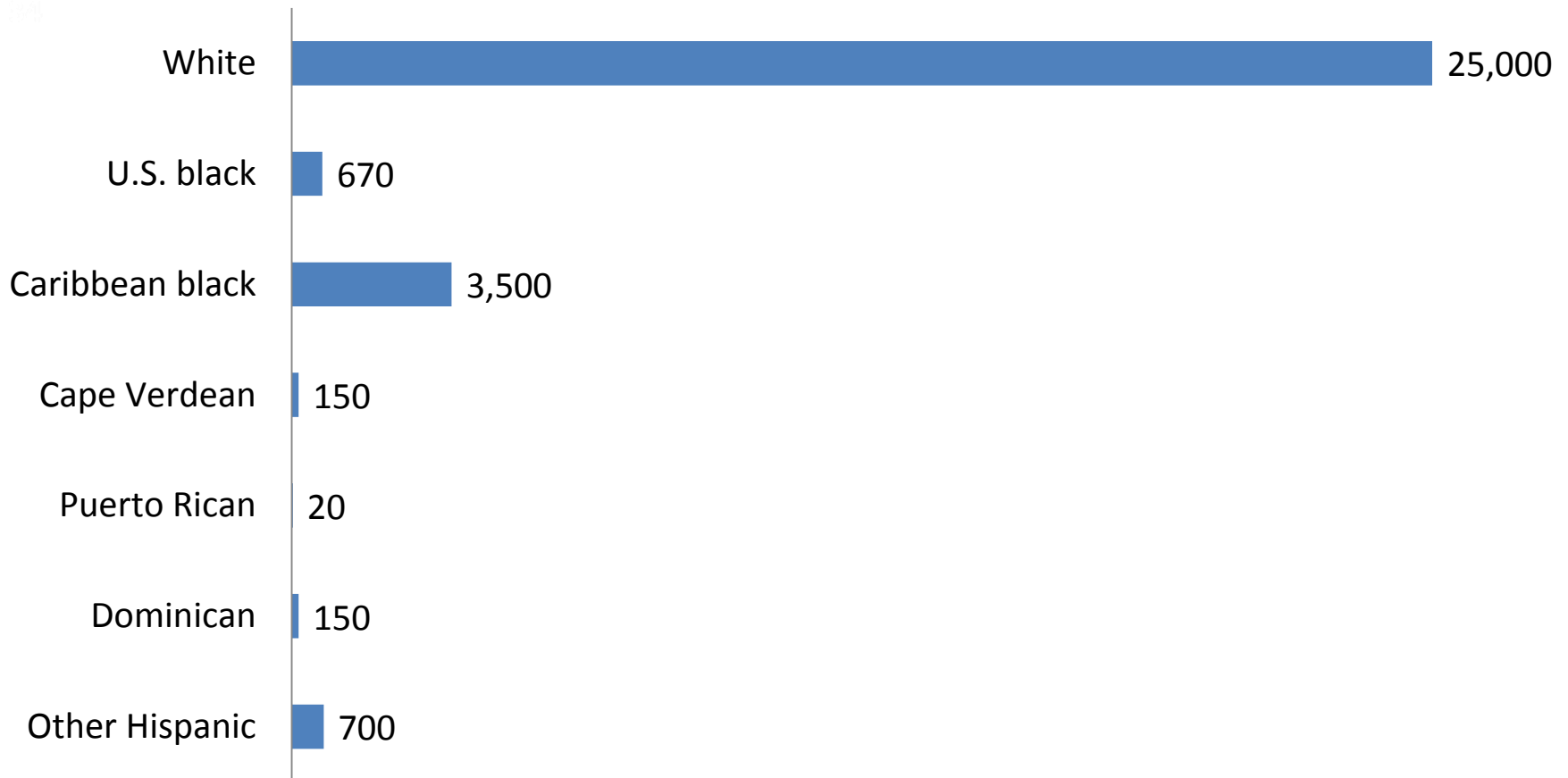
Although Nonwhite Groups Are Less Likely to Own Homes, Among Homeowners, They Are More Likely to Have Mortgage Debt



Note: The difference in the percentage of nonwhites as compared with the percentage of white households was not statistically significant for vehicle debt except for U.S. black and Puerto Rican among all households. The difference in the percentage of nonwhites as compared with the percentage of white households was statistically significant for mortgage debt at the 99% level in most cases.

Source: NASCC-Boston survey, authors' calculations

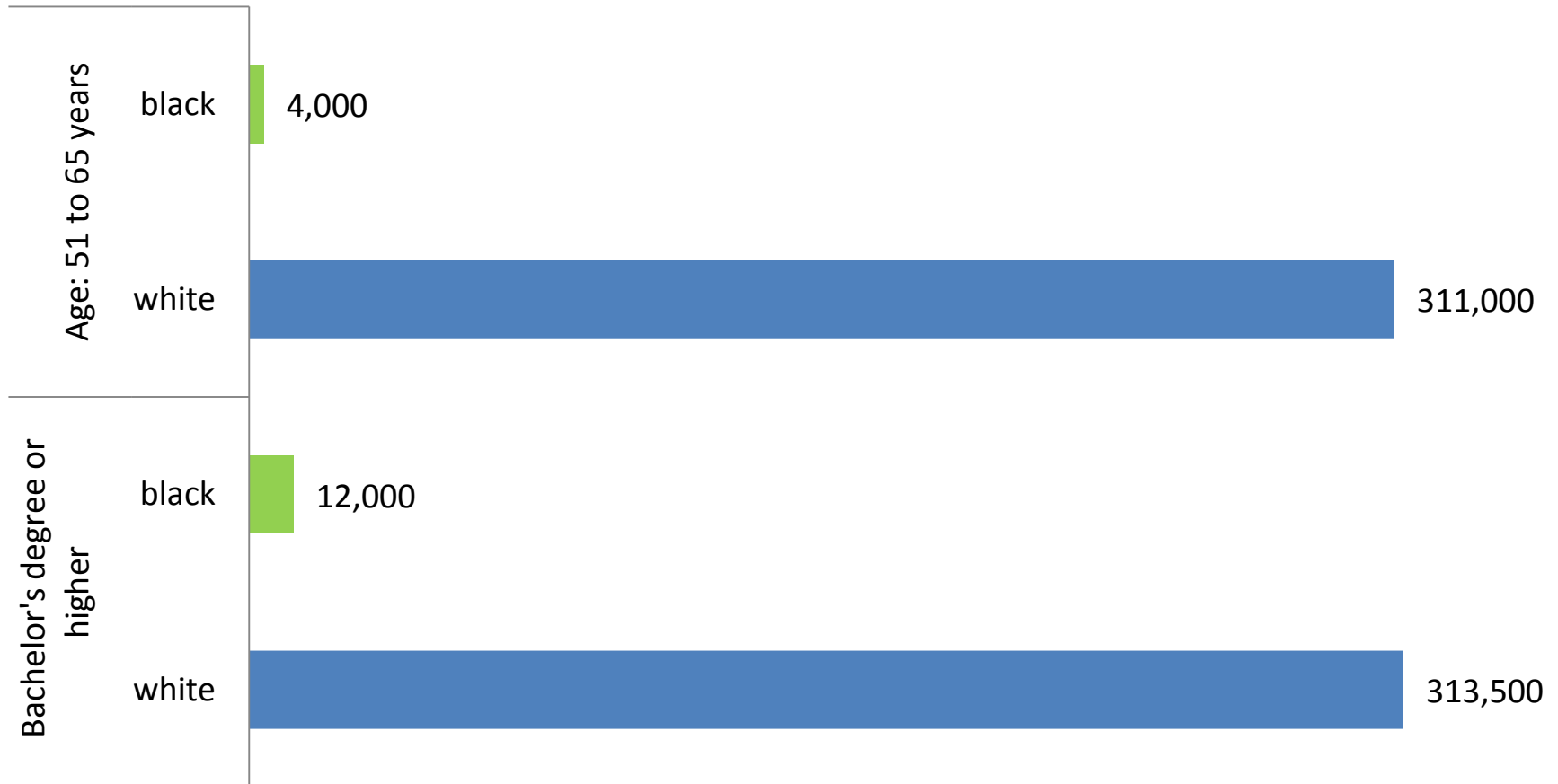
Median Value of Liquid Assets (in Dollars)



Note: Liquid assets, which can quickly be converted into cash, include money in savings and checking accounts, stocks, money market funds, and government bonds. The category excludes cash on hand.

Source: NASCC-Boston survey, authors' calculations

Median Net Worth (Assets-Debts) by Age and Education (in Dollars)



Source: NASCC-Boston survey, authors' calculations

Questions?

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1. Email us at: communities@stls.frb.org
2. Type your question into the chat box of the webinar

Wrap-Up/Closing

Thank you to today's presenters and to all participants for joining this session.

Next steps:

- All session materials are available on our website, and in the next few days we will be posting an audio file of today's session.
- If you have topical suggestions for future sessions, or any questions about this program, please feel free to contact us at communities@stls.frb.org.
- Information about future sessions will be posted on our website along with archived materials from past sessions:
www.stlouisfed.org/connectingcommunities/

Related Resources



In connection with this session, you can find a variety of additional resources on this topic, available at **www.fedcommunities.org**.

It provides an array of practical resources to help you in your role as a community development professional, whether your work involves supporting people, places, the practice of community development, or small business development.