Racial Wealth Inequality

Kerwin Kofi Charles

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Differences in Key Input (Income) or in what Blacks and Whites Do With It?
The Differential (?) “Production” of Wealth from Income

[Graph showing the relationship between average labor earnings and wealth, differentiated by race (White, Black).]
Who’s Black? Does it Matter?

- Social Construction, Stigma, etc one set of issues...
- Other, more practical considerations
  - Rising Incidence of Mixed-Race
    - Likelihood of self-classification not even across economic position (Charles, Guryan)
  - Foreign-Born
Will Grow Sharply Over Time

Figure from PEW

% of U.S. Black population who are foreign born

1980: 3%
1990: 5%
2000: 7%
2010: 8%
2019: 10%
2030: 12%
2040: 13%
2050: 15%
2060: 16%

PROJECTED
Big Differences Across Groups

How should this affect policy: ADOS Affirmative Action, Reparations; Assessment of “Black” trends; etc?
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No Man (or Woman) an Island.

- People not isolated agents
- Embedded in sub-groups of mutual support and obligation
  - Family- nuclear and extended - the main example relevant for wealth
Cross-Generational Linkages

In various papers have assessed strength and reason for inter-generational linkages in income and wealth”?

- Relatively large parent/child correlations.
- Big direct effect of parental wealth on own wealth (housing, businesses loans, occupation)
- Who loves Whom?: Marital sorting only makes it worse
Table 2: Intergenerational Transition Matrix of Age-Adjusted Log Wealth Position

<table>
<thead>
<tr>
<th>Child Age-Adjusted Log Wealth Quintile (1999)</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>2</td>
<td></td>
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<td>3</td>
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<td>4</td>
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<tr>
<td>5</td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

* Each element of the matrix above, $S_{ab}$, indicates the probability (in percent) that a child belongs to the $a$th quintile of the distribution for children, given that her parents belong to the $b$th quintile of the parental distribution. The entries sum to one along the columns.

* See footnote to Table 1 for sample description (1,491 parent-child pairs).

* To get age-adjusted wealth measures, both parent and children's log wealth were adjusted using a first stage OLS regression of log wealth on age and age squared. The correlation of the residuals from the first stage regression is presented in this table.

* Likelihood ratio $F_2$ statistic that each cell is equal to the other for the unadjusted wealth entries: $F_2 = 262.4$ (p-value < 0.001).
Does marriage undo dynasties? Do rich girls marry poor boys?

No.

<table>
<thead>
<tr>
<th>Wife’s Parents' Wealth Quintile</th>
<th>Husband's Parents' Wealth Quintiles</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>First Quintile</td>
</tr>
<tr>
<td>First Quintile</td>
<td>0.38</td>
</tr>
<tr>
<td>Second Quintile</td>
<td>0.27</td>
</tr>
<tr>
<td>Third Quintile</td>
<td>0.17</td>
</tr>
<tr>
<td>Fourth Quintile</td>
<td>0.12</td>
</tr>
<tr>
<td>Fifth Quintile</td>
<td>0.07</td>
</tr>
<tr>
<td>Total</td>
<td><strong>1.00</strong></td>
</tr>
</tbody>
</table>
Household Structure Not the Same Across Race, on Average

Female "Householders", Aged 25-54

<table>
<thead>
<tr>
<th></th>
<th>Single</th>
<th>With Partner</th>
<th>&quot;Roomate&quot;</th>
</tr>
</thead>
<tbody>
<tr>
<td>White</td>
<td>0.14</td>
<td>0.6</td>
<td>0.18</td>
</tr>
<tr>
<td>Black</td>
<td>0.31</td>
<td>0.34</td>
<td>0.35</td>
</tr>
</tbody>
</table>
Share of Women Living with Partner, by per Percentile of per capita Total Household Earnings

Again, average masks profound differences at top, bottom, and middle.
How Important is Household Structure?

Simulate Earnings For Black Female Householders:

- Given black woman household status of white counterpart
- Let her partner be drawn from the same position in the male earnings distribution as white counterpart

We find from this exercise that it has essentially no effect on the flow of earnings to women’s households.
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Thinking about Retirement Wealth Only One Thing Folks are Doing ..

- Want to be treated respectfully, with honor and decency
- Want to luxuriate in and transmit my culture
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Willing to pay some price for these
  - (Protective) Visible Spending
  - Neighbors
Some Policy Challenges...

- Eradication of formal obviously racist structure of exclusion and discrimination in economy and reduction in racial prejudice
  - Political feasibility of race-specific policies in question
- Growing heterogeneity of Black socio-economic outcomes means that increasingly no such thing as the THE Black economic experience
  - Which Black wealth problem are we fixing?
- Identify, understand operating mechanism, and uproot effects of remaining systemic discrimination
A Striking Historical Example: 1960s Louisiana Literacy Voting Test

The State of Louisiana

Literacy Test (This test is to be given to anyone who cannot prove a fifth grade education.)

Do what you are told to do in each statement, nothing more, nothing less. Be careful as one wrong answer denotes failure of the test. You have 10 minutes to complete the test.

1. Draw a line around the number or letter of this sentence.

2. Draw a line under the last word in this line.

3. Cross out the longest word in this line.

4. Draw a line around the shortest word in this line.

5. Circle the first, first letter of the alphabet in this line.

6. In the space below draw three circles, one inside (engulfed by) the other.

7. Above the letter X make a small cross.

8. Draw a line through the letter below that comes earliest in the alphabet.

    Z V S B D M K I T P H C

9. Draw a line through the two letters below that come last in the alphabet.

    Z V B D M K T P H S Y C

10. In the first circle below write the last letter of the first word beginning with “L”.

    1 2 3 4 5

11. Cross out the number necessary, when making the number below one million.

    1 0 0 0 0 0 0 0 0 0
Open Questions re Systemic Racism

- Do systemic impediments like voting literacy tests persist? Are there new ones that type persist?
- Through precisely what mechanisms (and why) does systemic racism affect outcomes?
- How to reconcile its operation with contradictory evidence of progress in certain areas?
Amazing Gains in Total Years of School

Educational Attainment (Years of Education)
Non-Hispanic Black and White; Men

Years of Education

Years

Definitely Gains at Bottom...

Educational Attainment (Eight Years or Fewer)
Non-Hispanic Black and White; Men

- Black
- White


Share: 1.0, 0.8, 0.6, 0.4, 0.2, 0.0
And in the Middle...

Educational Attainment (HS Degree or More)
Non-Hispanic Black and White; Men

- Black
- White

Years:
- 1940
- 1950
- 1960
- 1970
- 1980
- 1990
- 2000
- 2010
- 2020

Share:
- 0
- 0.2
- 0.4
- 0.6
- 0.8
- 1

Kerwin Charles
WhartonWealth-March202s
Alas, No Closing and Even Widening at Top

Educational Attainment (College Degree or More)
Non-Hispanic Black and White; Men
College Has Become More Important for Finding Work Compared to Other Kinds of Education

Figure X: Additional Likelihood of Working for College Educated Men, Relative to Other Education Categories

Relative to Men with Less Than HS Degree
Relative to Men with Exactly HS Degree

Note: Figure displays estimates from linear probability regression of employment on education and age. Increased likelihood of working for college-educated workers versus those with less than and exactly a HS degree, respectively, are shown.

Total Change -0.11

If....

a) No Policy that Raised Black Ed -0.18

b) No Change in How College Valued -0.05
Yet A Third Dimension - Racial Residential Segregation: Fraction of Neighbors Own Race

(a) Atlanta

(b) Boston

(c) Chicago

(d) Detroit