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Economic Perspectives on Societal Challenges: Equality of Opportunity, Market Regulation, and Financial Stability - EPoS

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Racial Wealth Gap in the US Threatens to Perpetuate, Study Says

The racial wealth gap is the largest of the economic disparities between Black and white Americans, with a white-to-Black per capita wealth ratio of 6 to 1. It is also among the most persistent. In 2019, this means that Black Americans held just 17 cents on average for every white dollar of health.

In a recent study, economists Ellora Derenoncourt from Princeton University and Chi Hyun Kim, Moritz Kuhn and Moritz Schularick from the University of Bonn provide the first historical time series of the white-to-Black wealth gap covering the entire time period from 1860 to 2020 and document the development of this economic disparity.

Savings-induced wealth accumulation by Black Americans can explain the convergence dynamics over most of the 150 years after Emancipation. More recently, however, racial differences in capital gains resulting from a booming stock market have played the more dominant role in shaping the wealth gap.

“Should existing differences in wealth-accumulating conditions persist, racial wealth convergence will not only stop altogether, but will even reverse course,“ the authors warn.

While most research focuses on the so far available data for the contemporary wealth gap, the economists present a continuous time series of white-to-Black per capita wealth ratios over 160 years. They newly digitalized and combined numerous data sources, including historical censuses, state tax data, and 70 years of Survey of Consumer Finances data.

Their newly compiled long-run series of the racial wealth gap exhibits a clear “hockey-stick” shape for racial wealth convergence. The most dramatic episode of racial wealth convergence occurred in the first 50 years after Emancipation and wealth convergence has slowed down dramatically in the 20th century.

From a starting point of nearly 60 to 1 in 1860, the white-to-Black per capita wealth ratio fell to 10 to 1 by 1920, and to 7 to 1 by the 1950s. Today, 70 years later, the wealth gap remains at a similar magnitude of 6 to 1, the study shows.

Since the 1980s, the combination of high wealth-to-income ratios and portfolio differences between Black and white Americans has played a key role in the dynamics of the racial wealth gap, according to the authors.

For example, Black households hold nearly two-thirds of their wealth in housing and very little in equity. While housing wealth has appreciated since 1950, stock equity has appreciated by five times as much.

“These large price increases in equity markets have led to disproportionate capital gains for the wealthiest Americans, a group that is almost exclusively white,“ according to the study.

In a hypothetical scenario with equal wealth accumulation conditions immediately after slavery and until today, in other words, with identical savings rates and capital gains across the two groups, the economist’s model portends a racial wealth gap of 3 to 1 today. “The main reason for such a large and lasting gap is the enormous difference in initial wealth between Black and white Americans on the eve of the Civil War,“ the authors explain.

Given current differences in wealth-accumulating conditions, the authors predict that the white-to-Black wealth gap will continue to diverge in the future, if it keeps following its post-1980 trajectory. By 2200, the gap might have increased by more than 50 per cent, reaching a level of 8.4.

“In the absence of policy interventions or other forces leading to improvements in the relative wealth-accumulating conditions of Black Americans, wealth convergence is not only a distant scenario, but an impossible one,“ the study says.

Policies that redistribute large stocks of wealth, like reparations, lead to immediate reductions in racial wealth inequality while a convergence path can be reached again with policies targeting portfolio composition, but one that could take hundreds of years to play out.

“Nevertheless, we argue these approaches are complementary, as policies that redistribute stocks of wealth without addressing racial gaps in savings and capital gains have but a transient effect on the wealth gap,“ the economists conclude.

The presented discussion paper is a publication without peer review of the Collaborative Research Center Transregio 224 EPoS. Access the full discussion paper here. Find the list of all discussion papers of the CRC here.

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The Collaborative Research Center (CRC) Transregio 224 EPoS
Established in 2018, the Collaborative Research Center Transregio 224 EPoS, a cooperation of the universities Bonn and Mannheim, is a long-term research institution funded by the German Research Foundation (Deutsche Forschungsgemeinschaft, DFG). EPoS addresses three key societal challenges: how to promote equality of opportunity; how to regulate markets in light of the internationalization and digitalization of economic activity; and how to safeguard the stability of the financial system.

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