

Understanding the Black-White Wealth Gap in the United States*

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Abstract

This paper examines the relationship between wealth holdings and patterns of various household characteristics, including education, occupation, wealth portfolio structures and inheritance. The focus is on comparing the wealth levels of Black and White Americans, and relating differences in these levels to socio-economic characteristics. We find that a combination of inheritance, education and occupation is significantly related to differences in wealth levels. However, household characteristics such as education, homeownership or business ownership are not by themselves pathways to reducing wealth gaps, let alone eliminating them. Financial literacy also does not appear to play a role in explaining the wealth gap.

Keywords: wealth inequality, racial inequality, education, inheritance, wealth patterns

JEL Codes: D31, D63, G51, J15

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Introduction

Racial inequality, particularly for Black Americans, is a fact of life in the United States. Manifestations of this inequality include, most painfully, the treatment of Blacks in various components of the criminal justice system, and in civil society more generally. Economic conditions are another major aspect of inequality, and certainly contribute to and exacerbate other problems faced by Black Americans. Access to housing, jobs and education are all part of the complex of economic inequalities in the United States. While Black-White inequality of incomes is not trivial, and has been slow to improve, the problem is even worse for wealth, which depends on the accumulation of savings over time, potentially over generations. Wealth inequality is greater, and more persistent, than income inequality. Arguably, this situation is a matter of national economic concern, and not just a problem for marginalized or disadvantaged groups.¹

Black-White wealth inequality in the United States has been receiving increasing attention in empirical analyses. Longitudinal data, such as from the Panel Study of Income Dynamics (PSID) potentially allows for tracking the accumulation of wealth by households over time, but there are difficulties caused by changes in the survey methodology, and some other challenges of the data.² Many studies of wealth inequality have therefore turned to the Survey of Consumer

¹ A detailed overview, and articulation of the case for national prioritization, is Tippett et al. (2014).

² For example, see Shapiro et al. (2013).

Finances (SCF), which is conducted every three years, and collects a rich variety of data on household wealth and characteristics that can have a bearing on wealth levels.

This paper uses 2016 SCF data to examine the relationship of Black-White wealth differentials to various household characteristics, including education, occupation, wealth portfolio structures, and inheritance. We find that a combination of inheritance, education and occupation is significantly related to differences in wealth levels between Blacks and Whites. Since the empirical exercise uses a cross-section of households, one has to be careful not to ascribe causality to the associations that are found in the data. Nevertheless, we will argue that there are useful inferences that can be drawn from our results, particularly those that involve the receipt of an inheritance. We also find that individual factors such as homeownership, business ownership, or financial literacy are not associated with reductions in wealth inequality between Blacks and Whites in the United States.

Our regression analysis does allow us to compare marginal impacts of certain characteristics, such as a college degree or homeownership, for Blacks and Whites, in a manner that controls for other characteristics. We find, for example, that while having a college degree is associated with higher wealth for both groups, the wealth impact is much smaller for Blacks, and the absolute wealth disparity increases with a college degree, controlling for other household characteristics. So, education and other factors by themselves are not associated with reduced wealth inequality, let alone removal of the large disparities that exist.

Another aspect of the analysis that deserves attention is the classification of different characteristics. There is some tendency to interpret the results of empirical exercises such as this one in terms of broad categories such as culture, behavior, or societal structures, even labeling regression models as “post-racial” (reflecting restrictive assumptions about the impact of

characteristics such as education on wealth), or allowing for “structural racism.” We would counsel caution in making broad interpretations. However, we do think our results support the view that the playing field for wealth accumulation is not level for Blacks versus Whites in America, and that differences in pathways to education and employment, as well as different starting points, are important factors. Adding to the empirical evidence for that perspective is the contribution of this paper, in addition to specific new results on the role of financial literacy.

The rest of the paper is organized as follows. The next section describes our dataset and its main characteristics. This is followed by the main empirical analysis. Then we provide a discussion and interpretation of our results. The final section is a summary conclusion.

Data

The SCF data comprises detailed survey responses from just over 6,000 households.

Respondents indicate their racial group, and from the overall sample, we select only households that identify as Black or White. Furthermore, we trim two kinds of outliers. Following McKernan et al. (2014), we remove the upper and lower 0.25 percent of the wealth distribution from the sample. Second, we remove households headed by individuals younger than 26 or older than 79. The dataset uses multiple imputations to fill in missing values for some households, and we use the recommended procedure for combining these imputations into single observations for regression analysis. Our analysis therefore proceeds with 4,400 observations, of which 3,631 are classified as White households and the remaining 769 are Black. Due to the survey methodology, the ratio of Black to White households in the sample is reflective of the US population ratio (about 1 to 5).

While the survey collects a very large set of information about household finances and characteristics, we focus on a relatively small number of variables, that we think are sufficiently representative of important factors in shaping the wealth distribution. In other words, we are seeking a relatively parsimonious analysis of the relationship between household characteristics and wealth levels. The household characteristics variables used in our analysis are listed in Table 1, which reports means and standard errors. Most of the variables used are 0-1 characteristics, and the numbers in the table are proportions. For example, 26.8 percent of our sample consists of households with a female head, but there is a substantial difference between Blacks (47.1 percent) and Whites (21.8 percent). The exceptions to the 0-1 rule are the variables FinLit, which is the number of financial literacy questions answered correctly; Age, which is reported in years; and Kids, which is the number of children in the household.

Two classes of variables in Table 1 have multiple categories, those for education and occupation, and there is an omitted category in the table. In the case of education, the omitted category is those with less than a high school diploma.³ In the case of occupation, the omitted category is those who do not have a job, which is a somewhat diverse group, including the unemployed, retirees, students and homemakers.⁴ For both these categories, the relevant marginal comparison in the regression analysis will be with the omitted category. This will be clear in our discussion of the results.

³ Hence, this percentage is 8.1 for Whites and 16.6 percent for Blacks in the sample.

⁴ Since this grouping is so broad and heterogeneous, we experimented with breaking down this category further, but it did not affect our results.

Table 1: Summary Statistics, Overall and by Race

	All	Black	White
Female head of HH	0.268 (0.443)	0.471 (0.499)	0.218 (0.413)
Bankruptcy	0.033 (0.179)	0.038 (0.192)	0.032 (0.175)
Spending exceeded income	0.152 (0.359)	0.199 (0.399)	0.140 (0.347)
Have stock	0.151 (0.358)	0.052 (0.222)	0.175 (0.380)
Have business	0.148 (0.355)	0.068 (0.252)	0.167 (0.373)
Have home	0.689 (0.463)	0.459 (0.498)	0.746 (0.435)
Receive inheritance	0.227 (0.419)	0.083 (0.276)	0.263 (0.440)
Have pension	0.617 (0.486)	0.473 (0.499)	0.653 (0.476)
FinLit	2.243 (0.836)	1.963 (0.861)	2.313 (0.815)
HS/GED only	0.256 (0.437)	0.286 (0.452)	0.249 (0.432)
Some College	0.281 (0.449)	0.318 (0.466)	0.271 (0.445)
College and Above	0.365 (0.481)	0.230 (0.421)	0.399 (0.490)
Managerial/Professional	0.313 (0.464)	0.230 (0.421)	0.334 (0.471)
Technical/Sales/Services	0.210 (0.407)	0.281 (0.449)	0.192 (0.394)
Other Job	0.163 (0.369)	0.141 (0.348)	0.168 (0.374)
Age	52.207 (14.427)	50.050 (14.321)	52.745 (14.403)
Kids	0.762 (1.099)	0.899 (1.194)	0.727 (1.071)
N	4,400	769	3,631

Source: Constructed from SCF 2016 dataset.

Table 2: Net Wealth and Components

	All	Black	White
Net wealth	550,967.6 (1,710,722)	118,253.6 (486,625.5)	712,069.4 (1,973,488)
Assets	653,406.2 (1,782,295)	177,358 (527,964)	828,207.4 (2,047,296)
Business	719,657.3 (1,941,265)	312,534.9 (1,294,649)	774,480.2 (2,034,949)
Debts	102,438.5 (198,440.9)	59,104.42 (102,071.1)	116,137.9 (217,516.4)
Houses	294,962 (441,783.8)	180,118.6 (211,017.9)	308,456 (471,631.7)
Stocks	219,528.1 (686,620)	32,630.69 (93,177.41)	230,962.7 (689,096.8)

Source: Constructed from SCF 2016 dataset.

We also summarize the wealth variables used in the analysis, in Table 2. For our regression analysis, we focus on net wealth as the outcome variable, but Table 2 also reports wealth components. For net wealth, assets and debts, the means are calculated based on the whole sample. However, for the three components, the means are conditional on holding that type of asset.⁵ Overall, the ratio of net wealth for Whites versus Blacks is a little more than 5 to 1. The inequality in components of wealth is relatively greater for stocks, and relatively less for business assets and for houses. However, this inequality measure needs to be combined with the inequalities in proportions to have a full picture. For example, the Black homeownership percentage is about 60 percent of that for Whites, and Black owners' homes are on average worth about 60 percent of White owners' homes, so, averaged over the whole sample, homes for

⁵ To illustrate, for the 5.2 percent of Black households in the sample that own stocks (Table 1), the average value of their holdings is \$32,630.69 (Table 2), while for the 17.5 percent of White households in the sample that own stocks (Table 1), the average value of their holdings is \$230,962.70 (Table 2).

Blacks are only about 36 percent of their mean aggregate asset value as compared to homes for Whites.

Empirical Analysis

We estimate OLS regressions for the entire sample, and for the Black and White subsamples. The dependent variable is the natural logarithm of wealth measured as total net worth, with a shift amount equal to the absolute value of the minimum net worth in the sample. This is necessary to avoid dropping observations with negative net worth.⁶ It is important to repeat the caution that causal inferences in such a cross-section regression exercise have to be treated with extreme care, since almost all the right-hand side variables are more or less endogenous. The processes by which wealth levels affect portfolio choices, such as whether or not to hold stock, are relatively straightforward.⁷ In other cases, such as the level of education attained, there is also a fairly direct positive impact from wealth to education, especially for acquiring a college degree or advanced degree.

In the case of other variables, the linkages are more complicated. While being poor may not directly affect whether a household has a female head, and since labor market gender inequalities suggest that female-headed households will tend to be poorer, both wealth and family structure are jointly determined by complex circumstances, including marriage patterns and even

⁶ A popular alternative is the inverse hyperbolic sine transformation, which does not require a data-dependent choice of a shift value, but for this data, our approach is simpler and more intuitive.

⁷ Our approach, using only indicators of specific asset holdings, leads to a different conclusion than Thompson and Suarez (2015), who note that “Wealth differences between black and white families are completely due to different asset holdings.”

differential incarceration rates across racial groups. In another example, age is exogenous, and does not directly determine wealth, but older people in the cross-section have had more years to accumulate savings, and are likely to be richer. Perhaps the variable that is most clearly predetermined within the set of variables in Table 1 is whether the household had received an inheritance or not. This variable is at least partly an indicator of the wealth that was transferred from the preceding generation.

Turning to the regression results, presented in Table 3, we get the typical result that households with a female head have lower wealth, in this case controlling for all the other included characteristics. The value of the negative impact of this characteristic is lower for black households, but this is in percentage terms, so is not necessarily a result of these households having much lower wealth on average. Instead, it can be interpreted as an indicator that other (non-female-headed) Black households are relatively more disadvantaged compared to corresponding White households. It is also true that there is a much higher percentage of female-headed households in the Black sample than the White sample, implying more widespread disadvantage.⁸ Broadly similar effects are seen for the characteristics of having declared bankruptcy and having spending exceeding income: the negative impact for Blacks is lower, but not proportionately to the average wealth disparity across the groups, and in both cases, the proportion of Blacks with this characteristic is higher than for Whites (though not as dramatically as it is for female-headed households).

⁸ The results should definitely not be viewed as underplaying the economic challenges faced by black women, and it has to be emphasized that regression coefficients are average effects – what is happening in the tail of the distribution can be what matters for welfare judgments. A useful discussion based on PSID data is Zaw et al. (2017).

Table 3: Wealth Regressions, Overall and by Race

	All	Black	White
	Ln(Wealth+k)	Ln(Wealth+k)	Ln(Wealth+k)
Female head of HH	-0.215*** (0.025)	-0.119*** (0.033)	-0.213*** (0.031)
Bankruptcy	-0.362*** (0.057)	-0.171** (0.080)	-0.407*** (0.067)
Spending exceeded income	-0.121*** (0.029)	-0.098** (0.038)	-0.143*** (0.034)
Have stock	-0.030 (0.118)	0.022 (0.284)	0.005 (0.129)
Have business	0.148 (0.126)	-0.210 (0.270)	0.248* (0.142)
Have home	0.064 (0.083)	0.176 (0.127)	0.102 (0.100)
Receive inheritance	0.111*** (0.033)	0.104 (0.069)	0.102*** (0.036)
Have pension	0.081*** (0.025)	0.063* (0.034)	0.080*** (0.030)
FinLit	0.098*** (0.013)	0.011 (0.018)	0.111*** (0.016)
HS/GED only	0.034 (0.039)	0.022 (0.047)	0.021 (0.048)
Some College	0.110*** (0.039)	0.086* (0.048)	0.107** (0.049)
College and Above	0.331*** (0.046)	0.058 (0.064)	0.384*** (0.056)
Managerial/Professional	0.139*** (0.041)	0.060 (0.060)	0.167*** (0.048)
Technical/Sales/Services	0.035 (0.032)	0.029 (0.044)	0.032 (0.039)
Other Job	0.030 (0.035)	0.006 (0.053)	0.059 (0.042)
Age	0.011*** (0.001)	0.004*** (0.002)	0.014*** (0.002)
Kids	0.053*** (0.010)	0.028** (0.014)	0.052*** (0.012)
Age x have stock	0.012*** (0.002)	0.007 (0.005)	0.011*** (0.003)
(contd.)			

Age x have business	0.009*** (0.002)	0.014** (0.006)	0.007** (0.003)
Age x have home	0.008*** (0.002)	0.004* (0.002)	0.008*** (0.002)
College and above x Managerial/Professional	0.045 (0.050)	-0.028 (0.085)	0.035 (0.058)
Receive inheritance x College and above	0.172*** (0.050)	0.310*** (0.118)	0.123** (0.055)
Constant	11.223*** (0.087)	11.760*** (0.110)	11.064*** (0.108)
Observations	4,400	769	3,631
Adj R-Squared	0.5397	0.4442	0.5255

Standard errors in parentheses

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Having holdings of stock, or owning a home or business, are all indicators of the asset portfolio of the household. We interact each of these indicators with age, to reflect the fact that older households are likely to have higher wealth in these categories, and hence overall – of course, it does not make sense to include the asset values directly, since they are components of the dependent variable. Stock ownership and business ownership are uncommon in the sample, but the relative proportions of White ownership to Black ownership are both very high. The coefficient of stock ownership is not significantly different from zero for either group, but the interaction terms of stock ownership and age indicate that stock holding matters for wealth for older Whites but not so clearly for older Blacks (the latter coefficient is positive but not statistically significant). Business ownership, on the other hand, has a very different relationship to net worth for Blacks than for Whites – White business owners are considerably wealthier than their Black counterparts, though the advantage reduces somewhat with age.

With respect to home ownership, a variable that is often the focus of analyses of Black-White wealth gaps, the proportional advantage of Whites versus Blacks in rates of homeownership is not as high as for stock ownership or business ownership, but the absolute difference in rates of ownership is higher. The relationship of home ownership to wealth is not as dissimilar for the two groups as it is for the other two types of asset.

Interestingly, having a pension is the asset-type indicator that seems to be the most similar (though still not equal) for Blacks and Whites, even more so than homeownership. The sample proportions as well as the coefficients of the regressions are both quite similar for the two groups. We return to this observation in the context of discussing the role of education and occupational choice.

By itself, the role of having received an inheritance is somewhat ambiguous: the magnitude of the coefficient of this indicator is similar for Blacks and Whites, but it is estimated less precisely for Blacks, and is not statistically significantly different from zero. However, there is a wide disparity in the proportions of Black and White households that have received inheritances.⁹ We discuss the role of inheritance further in the context of education.

Turning to demographic characteristics, age has an expected positive coefficient, but the baseline coefficient for White households is over three times that for Black households. In other words, if we compare households without stock holdings, or without business or home ownership, older White households in the cross-section have accumulated more wealth than their Black

⁹ It is also the case that the nonlinear specification means that, for a given coefficient value, the dollar wealth difference will be higher at higher wealth levels, and the average White household is much richer than the average Black household.

counterparts. For homeowners and stockholders, this age effect is reinforced, and only for business owners does the relative age effect switch, although in that case the baseline for business owners indicates a large wealth advantage for White businessowner households.

Another demographic variable, the number of children in the household, is also positively associated with wealth. In this case, the causality arguably operates in the opposite direction, since children do not contribute to wealth, whereas wealthier households are plausibly more likely to have more children.

The educational achievement and occupational variables provide some striking results. Having a high school diploma or equivalent is not associated with wealth that is significantly higher compared to not having completed high school. A significant positive relationship exists for having some college versus the baseline of not having completed high school, and the coefficients are similar in magnitude for Black and White households. For households where the household head has a college degree or advanced degree, the results are interesting. The coefficient for White households is quite high, and statistically significant. However, for Black households, it is much smaller and insignificant. However, if one takes account of the interaction of this education term with having an inheritance, the difference in the coefficients narrows considerably. This is suggestive of a scenario in which Blacks and Whites do not have access to college education of similar quality, for financial or social reasons. This is not directly observable, but may be proxied by the more equal returns of Blacks who have received an inheritance.

In the case of occupational characteristics, Whites are much more likely to be in managerial or professional occupations, and this is associated with higher wealth for Whites, but not for

Blacks. On the other hand, there is no significant relationship between wealth level and having a college degree and also being in a managerial or professional occupation.

The 2016 SCF was the first to include questions meant to measure financial literacy. The regression results show that financial literacy is positively related to wealth for Whites, but not for Blacks. This is evidence against claims that Blacks have lower wealth because they are less equipped to manage money. Indirect claims of this nature that use differences in asset portfolio structures have been criticized for neglecting the different levels of wealth and resulting choice constraints for Blacks versus Whites. Ascribing racial wealth differences to insufficiently astute financial decision-making seems to be a problematic exercise, both conceptually and empirically.

A final point to note from the wealth regressions is that the constant terms are quite similar across Black and White households. We remark on this because Herring and Henderson (2016), using a different specification (linear in wealth), but also working with SCF data,¹⁰ find a lower constant term for Blacks and interpret it as evidence of structural racism, since it is not “explained” by the combination of right-hand side variables. However, differences in the constant term are not necessary to make that argument: differences in coefficients and marginal impacts of characteristics such as business ownership or educational achievement levels can be indicative of such structural inequities. However, even there, the processes that drive such results are not necessarily transparent. We discuss some possible issues of interpretation in the next section.

¹⁰ Their analysis used 2013 data. We were able to reproduce their results almost exactly, with that data, to benchmark our analysis.

Table 4: Income Regressions, Overall and by Race

	All Ln(Income+1)	Black Ln(Income+1)	White Ln(Income+1)
Female head of HH	-0.494*** (0.035)	-0.452*** (0.060)	-0.499*** (0.043)
Bankruptcy	-0.040 (0.080)	-0.069 (0.140)	-0.026 (0.094)
Spending exceeded income	-0.203*** (0.041)	-0.110 (0.068)	-0.242*** (0.049)
Have stock	0.416*** (0.160)	0.088 (0.542)	0.458*** (0.172)
Have business	0.198 (0.179)	-0.329 (0.433)	0.315 (0.200)
Have home	0.264** (0.119)	0.441** (0.218)	0.290** (0.144)
Receive inheritance	0.044 (0.046)	-0.086 (0.121)	0.052 (0.051)
Have pension	0.471*** (0.032)	0.534*** (0.058)	0.451*** (0.037)
FinLit	0.077*** (0.019)	0.049 (0.031)	0.081*** (0.022)
HS/GED only	0.087 (0.054)	0.167** (0.083)	0.047 (0.067)
Some College	0.224*** (0.055)	0.286*** (0.083)	0.190*** (0.069)
College and Above	0.552*** (0.066)	0.494*** (0.114)	0.544*** (0.078)
Managerial/Professional	0.545*** (0.058)	0.315*** (0.106)	0.609*** (0.068)
Technical/Sales/Services	0.424*** (0.046)	0.373*** (0.077)	0.435*** (0.055)
Other Job	0.475*** (0.050)	0.520*** (0.090)	0.477*** (0.058)
Age	0.007*** (0.002)	0.005* (0.003)	0.008*** (0.003)
Kids	0.105*** (0.014)	0.116*** (0.024)	0.097*** (0.017)
Age x have stock	-0.000 (0.003)	0.006 (0.010)	-0.001 (0.003)
Age x have business	-0.001 (0.003)	0.008 (0.009)	-0.003 (0.004)
Age x have home	0.000 (0.002)	-0.004 (0.004)	0.000 (0.003)
College and above x Managerial/Professional	0.021 (0.072)	0.315** (0.146)	-0.050 (0.081)
Receive inheritance x College and above	0.039 (0.070)	-0.002 (0.207)	0.033 (0.077)
(contd.)			

Constant	9.252*** (0.127)	9.352*** (0.192)	9.216*** (0.157)
Observations	4,400	769	3,631
Adj R-Squared	0.3746	0.4425	0.3374

Standard errors in parentheses

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Since wealth is the result of a process of cumulative earning and saving (combined with exogenous shocks such as an inheritance, health problems, or macroeconomic fluctuations), it is useful to compare the wealth regressions with corresponding income regressions. To facilitate this comparison, we estimate exactly the same specification for the income regressions, reported in Table 4, even though some of the variables are less natural to include in this case.¹¹

As one might expect, the inheritance indicator has no relationship to income, whereas it has a positive relationship with wealth. Furthermore, the interaction of age with asset portfolio indicators is not significant, although age is positively associated with income levels. There are some striking differences in the relationships of education and occupation to income versus the relationships to wealth. At lower levels of education, the coefficients are now significant, and slightly higher for Blacks than for Whites, though this ranking changes for those with a college degree or advanced degree. Nevertheless, and as one might expect, the relationship of education

¹¹ For an analysis of the relationship between income and wealth accumulation, see Aliprantis and Carroll (2019) and Aliprantis et al. (2018).

to income is stronger and more equal than the relationship of education levels to wealth.¹² At the same time, the pattern of coefficients measuring the relationship of income to occupation, and the interaction of having a college degree and being in a managerial or professional occupation, is suggestive of a narrower pathway to financial success for Blacks than for Whites. This is parallel to the results of the wealth regressions, although from a different perspective.¹³

Another parallel between the wealth and income regressions is the pattern of coefficients of the financial literacy measure. In both cases, there is a positive relationship for White households, but not for Black households. Both cases are suggestive of differences in opportunity for Whites and Blacks: for Blacks, this very simple measure of human capital is not correlated with financial outcomes, once other characteristics are controlled for, but it does matter positively for White households.

Finally, we should note that two of the right-hand side variables in the income regression almost certainly reflect reverse causality. Both having a home and having a pension or pension plan are likely to be a consequence of a higher income, rather than contributing factors to higher income. Although being retired or having a rental property could possibly support the direction of

¹² Even without formal calculations, it should be clear that the benefits of higher incomes through higher education, even in cases where they are proportionately greater for Blacks than for Whites (itself not established in the data), can do little or nothing by themselves to reduce existing wealth inequalities.

¹³ Hamilton, et al. (2011) make the case that occupational segregation is an important contributor to the lower wages of black men in the US, using Current Population Survey (CPS) and American Community Survey data from the US Census. Jones & Schmitt (2014) provide additional evidence of discriminatory labor market outcomes for black college graduates, using CPS data. They also summarize field experiments by economists which have demonstrated discrimination against those with “black-sounding” names, even in the absence of personal contact.

causality from the presence of the characteristic to higher income, these are not typical or prevalent characteristics of the sample households.

Discussion

By now a large number of empirical studies, many using SCF data, have tried to come to grips with factors that help in understanding the wealth gap between Blacks and Whites. As Darity et al. (2018) observe, attempts at various simple, sometimes monocausal explanations, are unconvincing, and even deficient. Our results support this perspective in several ways. Darity et al. couch their discussion in terms of 10 myths, relying on their own data analysis as well as evidence from various other studies, including several that employ various regression techniques with SCF data.¹⁴ We discuss our findings in relation to the list of Darity et al., although our results have a bearing on only some of the items among their 10 myths. On the other hand, we do not rely on comparing sample means, and instead are able to provide an integrated, regression-based analysis of five of the 10 myths, with consistent control variables and clear counterfactuals.

¹⁴ Another synthesis that systematically refutes various singular claims about the racial wealth gap, including Latino/(a)s as well as Blacks, is Taub et al. (2017). Their table of contents describes their scope: Attending college does not close the racial wealth gap; Raising children in a two-parent household does not close the racial wealth gap; Working full time does not close the racial wealth gap; Spending less does not close the racial wealth gap.

Table 5: Wealth Difference Estimates

	Black Household Regression			White Household Regression		
	Black Average	White Average	Overall Average	Black Average	White Average	Overall Average
College degree and above vs. No HS diploma	16,159	37,763	32,478	107,420	186,812	167,187
Received inheritance vs. not	39,978	70,914	63,514	34,095	67,276	58,773
Managerial/professional vs. not working	11,403	14,401	13,727	44,730	78,879	70,336
Owning stocks vs. not	93,679	131,649	122,790	178,754	308,161	276,122
Owning a home vs. not	81,360	104,248	99,052	128,359	199,975	182,935
Owning a business vs. not	129,708	187,701	174,097	194,782	330,575	296,965
Inheritance & College degree and above vs. no inheritance & no HS diploma	118,208	155,474	147,104	183,573	292,832	266,559

Source: Calculated from SCF 2016 data and regressions

In order to drive home the lessons of our analysis, we calculated the differences associated with changes in single characteristics, holding other household characteristics constant, at an “average” level. These are reported in Table 5, and provide the basis for some of the following discussion. To illustrate the interpretation of the numbers in the table, consider the impact of having a college degree or above, versus the baseline of no high school diploma. A household with the characteristics of the average Black household in the sample is predicted to have only \$16,159 in additional wealth associated with this additional education, if their wealth is predicted from the sample of Black households. Even if they have the characteristics of the average White household, this only predicts an additional \$21,604 in wealth on top of the \$16,159.

But for White households, the impacts of a college education are an order of magnitude greater. For a White household with other characteristics equal to those of an average Black household, having a college degree adds an expected \$107,420 to wealth. And having the characteristics of an average White household adds a further \$79,392 in wealth to that gain. Therefore, in this comparison, having a college degree versus a high school diploma *increases* the absolute wealth disparity between Blacks and Whites.

By contrast, this disparity of impacts is not present for the case of receiving an inheritance versus not getting one. However, that characteristic is an exception among the cases reported in Table 5, and for all the other marginal impacts in the table, there are large differences between Black and White households, all in the direction of favoring the latter, and therefore strongly supporting the view that there is no single change in the situation of Black households that would translate into narrowing wealth gaps.

Myth 1: Educational attainment.

Our results are consistent with various studies that find unequal impacts of higher education on wealth, to the disadvantage of Blacks. Sometimes, conclusions are stated in terms of rejecting the strong hypothesis that college education eliminates wealth differences (e.g., the title of Emmons and Ricketts, 2017: “College Is Not Enough: Higher Education Does Not Eliminate Racial and Ethnic Wealth Gaps”). But, as our empirical analysis reinforces, there is no clear evidence that education even *narrows* the gap.¹⁵ This can also be understood from our income regressions,

¹⁵ Indeed, Emmons and Ricketts’ actual empirical analysis, which uses regression analysis for SCF data from 1992 to 2013, is more nuanced. They also observe stark differences in trends for Black and White college graduates over the period of their analysis, “In particular, the median Black college-graduate family in 2013 had 56 percent less

which suggest that higher education allows for something closer to parity in incomes, but that does not provide any basis for catching up in wealth accumulation. Our results are also suggestive of a narrower educational pathway to career and financial success for Blacks than for Whites.

Another important aspect of access to higher education, as well as financial returns from college degrees, is the importance of family transfers. As an example, our results show that having an inheritance is important for wealth outcomes. Being able to finance a college education without large or expensive student loans can matter. Indeed, Meschede et al. (2017) document that this matters for explaining the Black-White wealth gap.¹⁶

Myth 2: Homeownership.

Again, any claim that homeownership can eliminate the Black-White wealth gap is far too strong, but our results indicate something less hopeful, namely, that the benefits of homeownership are skewed toward White households. Specifically, controlling for all other

wealth than the median Black college-graduate family in 1992, ... (... adjusted for inflation). Meanwhile, the median White college graduate family in 2013 had 86 percent *more* wealth than the median White college-graduate family in 1992” (p. 8). Another important study, which includes a consideration of employment attributes, although it does not employ regression analysis, is Hamilton et al. (2015), which uses data from the US Census Survey of Income and Program Participation (SIPP), rather than SCF data. It is significant that different data sources yield consistent conclusions. Jez (2017), in commenting on some of Emmons and Ricketts’ findings, offers some additional possibilities pertaining to nonlinearity of effects, and unobservable quality of colleges.

¹⁶ Another study with similar conclusions is Nam, et al. (2015), which uses PSID data. A separate issue, but one that can make it harder for Blacks to catch up with Whites, is that the returns to college appear to be falling for all races and ethnicities in the US: see Emmons, Kent and Ricketts (2019).

characteristics, the wealth increment for a White household from owning a home is substantially greater than for a Black household with the same characteristics. This differential is on top of factors that may deter Black households from home ownership, as reflected in lower ownership rates.¹⁷

Myth 5: Financial Literacy

Our result here, while not definitive, is quite striking. Since the 2016 SCF was the first to include questions designed to measure basic financial literacy, there have not been many direct tests of the claim that financial literacy can help with wealth accumulation. Our regressions show that, controlling for other factors, there is no evidence that financial literacy is positively associated with wealth for Blacks, but it is for Whites, suggesting that there are deeper factors at work that are not directly observed in the data. Our results are therefore consistent with the broader analysis of Hamilton and Darity (2017), which critiques claims that lack of financial literacy is a contributor to racial wealth gaps, as well as providing other evidence to support that critique.

¹⁷ Of course, if the returns to home ownership are lower for Black households, they may rationally choose not to buy a home. Discrimination in the housing market is a longstanding and persistent problem in the US, with a large academic and policy literature: see Darity, et al. (2018) and references therein. Choi, et al. (2019) provide a recent, geographically disaggregated, analysis of differences in Black-White home ownership rates, including credit scores, marital status and income as important explanatory variables. They do not address discrimination directly, though they refer to previous studies, and they note that more segregated Metropolitan Statistical Areas have higher proportions of White homeowners.

Myth 6: Entrepreneurship

Once again, our results confirm that, controlling for other factors, owning a business is associated with higher wealth, but the increment is greater for Whites than for Blacks with the same characteristics. Therefore, on average, entrepreneurship may help with wealth accumulation, but there is no evidence that it contributes to closing the wealth gap. One also has to emphasize that business ownership rates are quite low as percentages of the population, so this is not a pathway to wealth accumulation for the vast majority of the population. In some sense, though in a less extreme manner, focusing on entrepreneurship for wealth accumulation is similar to arguing that there is, or can be, equality in the dimension of wealth-building by pointing out the success of Black entertainers or athletes.¹⁸

Myth 10: Family Structure

There is a large difference between the proportion of female-headed households for Blacks and Whites. However, in the wealth regressions, the negative impact of being a female-headed household, when other factors are controlled for, is greater for Whites than for Blacks. Hence, while the higher proportion of female-headed households for Blacks contributes to the average wealth gap, conditional on that characteristic holding, this aspect of family structure does not further contribute to the wealth gap.¹⁹ It is also not the case that the number of children has any

¹⁸ This focus on celebrities is Myth 9 in Darity, et al.'s list. Other myths that our empirical analysis is not able to address are: relying more on black businesses (Myth 3), saving (Myth 4), emulating successful minorities (Myth 7), and "soft skills" and "personal responsibility" (Myth 8).

¹⁹ The lack of racial disparity in the negative effect of being a female-headed household is an interesting phenomenon, in contrast to the benefits of positive characteristics being skewed toward White households.

significant implications for wealth differences between Blacks and Whites. While our regression specification is quite different, these results are consistent with those of Emmons and Ricketts (2017), who conclude that (p. 30). “The contribution of family-structure variables to explaining racial and ethnic wealth gaps is negligible.”²⁰

Conclusion

Our results reinforce the perspective that there is no single or simple explanation of wealth disparities between Blacks and Whites. In particular, focusing individually on levels of education, homeownership, business ownership, financial literacy, or family structure does not provide a convincing picture of the determinants of wealth inequality in this case. This is true even when one controls for various other characteristics. However, our results do support a perspective that the pathway to wealth accumulation is much narrower for Black Americans than for Whites, on top of the starting point being unequal. This is inferred from the differences in marginal impacts of education, occupational choices, and asset ownership of various types. Also, financial literacy appears to have a positive association with wealth for Whites, but not for Blacks. All of these results are consistent with a complex of structural factors being behind Black-White wealth inequalities, rather than single-factor explanations, especially ones that appeal to various versions of “personal responsibility.”²¹

²⁰ Lerman (2017) offers a slightly different perspective, confirming that family structure does influence wealth, but acknowledging that it does not explain much of the wealth gap between Blacks and Whites, or changes in that wealth gap from 2001 to 2013.

²¹ Such explanations are still being discussed in the academic literature, perhaps somewhat surprisingly.

Although our empirical analysis uses cross-section data and does not directly establish any causal connections, the role played by having received an inheritance is suggestive of the importance of intergenerational wealth transfers. This is not surprising, of course, in the context of wealth, but it should be a reminder of the limitations of drawing strong inferences from such cross-section data, which still occurs in the literature. Setting aside issues of causality, there is a contrast in the observed empirical patterns between the positive association of inheritance (effectively a wealth transfer) and wealth, and processes such as education, employment and asset ownership, which are embedded within complex socioeconomic structures. In future work we will extend our analysis to multiple cross-sections of SCF data, using synthetic cohorts (e.g., McKernan et al., 2014) to understand wealth dynamics more precisely.

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