



## Running the Numbers on Closing the Racial Wealth Gap

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In this national election season, pressure is mounting for presidential candidates to make a commitment to a Black Agenda, a policy program directed at the particular interests and needs of African Americans. A primary goal of the emerging Black Agenda is to narrow the racial gap in well-being and opportunity. To achieve this, the Agenda must build around a program that will eliminate the gulf in wealth between blacks and whites.

### WHERE THE RACIAL WEALTH GAP STANDS TODAY

Racial wealth inequality—where wealth is the difference between the value of what you own and what you owe (net worth)—is a critical source of racial differences in well-being and opportunity. The best available evidence demonstrates that the intergenerational transmission

of resources and associated benefits are the most pronounced drivers of the gap.<sup>1,2</sup> Families with wealth are able to provide access to high quality, debt-free, education, social networks linked to well-paid employment, better health, entrée into safe, high amenity neighborhoods, and negligible economic anxiety to their children, access not available to young people from more limited circumstances. Indeed, with sufficient wealth, even black families can purchase some degree of separation from historical and current discriminatory practices.

There are two main ways to calculate the racial wealth gap: the median gap and the mean gap. Both measures illuminate the canyon dividing black and white wealth. Most current political conversations focus on the former. This involves a juxtaposition of the net worth position of a black household at the middle of the black wealth distribution against a white household at the middle of the white wealth distribution. This is a comparison of *median* levels of household wealth.

Median Wealth Distribution by Wealth Quintile				Mean Wealth Distribution by Wealth Quintile			
Wealth Quintile	White	Black	Latinx	Wealth Quintile	White	Black	Latinx
1	420	-11,900	-220	1	-11,760	-25,622	-11,607
2	48,080	1,510	4,470	2	51,118	2,394	4,962
3	171,000	17,600	20,720	3	171,978	19,753	23,041
4	409,500	77,300	81,911	4	434,817	76,345	84,344
5	1,590,000	283,200	309,920	5	4,004,668	618,166	856,984

*Figures 1a and 1b. Source: Author's calculations, Survey of Consumer Finances 2016.*

The most recent is data from the 2016 Survey of Consumer Finances (SCF) which indicated that the median black household had \$17,600 in net worth while the median white household had \$171,000 in net worth. The ratio of black to white net worth, using this standard, has the typical black household holding ten cents to every dollar of wealth held by the typical white household. In 2016, the absolute dollar difference between black and white household wealth at the median was \$153,400.

While the median racial gap in wealth is far from trivial, the mean difference is more pronounced, as shown in figures 1a and 1b. In this context, the mean—popularly known as the *average*—is the ratio of the total amount of wealth possessed by a social group divided by the number of households in the social group. The 2016 SCF computes a black household estimated mean net worth of \$138,000 and a white household estimated mean net worth of \$933,000.

While the mean black-white ratio is higher than the median ratio—black households have fourteen cents to the dollar held by white households—the absolute dollar difference is \$795,000, more than five times the median difference.

Due to the high degree of concentration of wealth at the upper end of the distribution among both blacks and whites, the median levels are more representative of the typical experience of most members of each group. However, a focus on closing the gap at the median ignores the huge store of wealth held by households in the top 20 percent of the distribution. Indeed, while conducting a recent comparative study on black and white middle classes jointly with Fenaba Addo and Imari Smith that we presented at the Federal Reserve's 2019 Community Development Research Conference, *we discovered 97 percent of the total wealth owned by whites in America is in the possession of households with a net worth above the white median.* (Correspondingly, households at or below the white median own only 3 percent of white wealth.)

This is a staggering finding, one that means moving black wealth to the white median yields a mere half-measure, a policy that does not take the vast wealth of the richest white Americans into consideration. If, instead, the target is set at the mean difference, then it meaningfully captures the full scope of the amount required to span the chasm between black and white wealth. According to Matt Bruenig of the People's Policy Project, "Median racial wealth gap figures are comparing segments of each racial group's population that own almost none of that group's wealth. Comparing white *mean* wealth to black and Latino mean wealth is somewhat better because means include all of the wealth in each racial group."<sup>3</sup>

Indeed, if the target is set at the mean and the full \$795,000 difference is eliminated by raising the mean level of black wealth to the white level, the black proportion of ownership of America's total wealth would move from its current 2.6 percent share to closer to 13 percent, a proportion consistent with the black share in the population.

Political pundit Antonio Moore has proposed another way to think about the black-white wealth gap at their respective means. If white wealth was distributed perfectly equally among that population, each percentile of whites would hold about \$1 trillion in wealth. Similarly, if the black share of American wealth matched the black share of the nation's population, a perfectly equal distribution of African American wealth would assign about \$130 billion to each percentile. At the existing level of black wealth, however, an equal percentile distribution would yield \$28 billion, a shortfall of \$102 billion per percentile.

In reality, the actual distributions of black and white wealth are starkly unequal. In fact, the black distribution is comparable to the white distribution in its vast inequality, despite total black wealth being grossly disproportionately lower than the white total.<sup>4</sup> Therefore, in addition to raising the overall black level of wealth at least to a proportion parallel to the black population share, a desirable program to erase the racial wealth gap must aim to ensure a far more egalitarian distribution of wealth among blacks than exists at present.

## **OVERVIEW OF EXISTING PROPOSALS**

Several Democratic party presidential candidates—Cory Booker, Pete Buttigieg, Kamala Harris, Bernie Sanders, and Elizabeth Warren—have advanced programs that they tout as mechanisms

for “closing the racial wealth gap.” Many of these programs have potential for quite positive in their broad social effects, but the candidates overstate their impact on racial wealth inequality. When the candidates make the claim that these plans will “close the racial wealth gap,” invariably they are treating the median racial difference in wealth as their target, instead of the correct target: the mean racial difference in wealth.

The only Democratic candidate for the Presidency who has explicitly proposed a reparations policy is Marianne Williamson. Williamson has said that the nation should enact a program of reparations to the descendants of slaves with a budget in the range from \$200 to \$500 billion. The difficulty with Williamson’s plan is the amount of funds she recommends simply is too low to have a major effect on closing this gap. **Even if Williamson’s maximum budget of \$500 billion were deployed, it would increase total black wealth to \$3.1 trillion, leaving the gulf in black and white wealth at an enormous \$10 trillion.**

In what follows I examine the non-reparations proposals that aim to close the racial wealth gap and demonstrate that, uniformly, they fall short of the goal. Specifically, I assess the Warren and Harris housing proposals (homeownership), the Buttigieg plan to support Historically Black Colleges and Universities (education), the Sanders and Warren plans for student loan debt relief (education), the Warren, Harris, and Buttigieg plans for black business development (business ownership), and the Booker Opportunity Accounts initiative (direct asset building). All of the plans except the Opportunity Accounts proposal represent indirect routes to affect black-white wealth differentials.

In the discussion below, I will make assumptions that yield the most optimistic predictions about the impact of these initiatives on the black-white wealth differential. Most of these programs are not race-specific in the sense that they are not directed exclusively at black Americans, but they are, ostensibly, race-conscious in the sense that they will have a disproportionately greater benefit for black Americans. Regardless, taken singly or collectively they do not yield a sufficient disproportionately greater benefit for black Americans to eradicate racial wealth inequality in the United States.

## Current Proposed Methods for Closing the Racial Wealth Gap

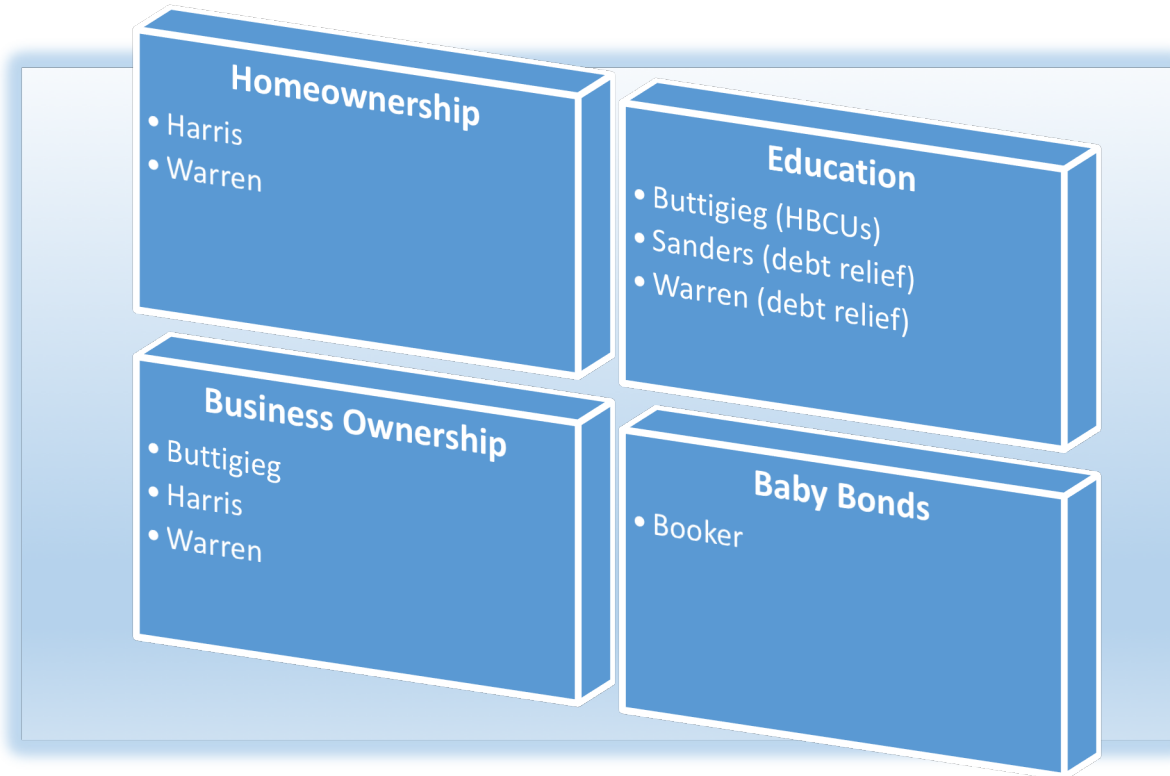


Figure 2. Source: Darity. 2019. "Running the Numbers on Closing the Racial Wealth Gap."

### HOMEOWNERSHIP

Elizabeth Warren's and Kamala Harris' proposals seek to bring the black homeownership rate on a par with the white rate as a means of "closing the racial wealth gap," i.e. raising the black share of homeowners from its current 43 percent rate to the current white rate of 74 percent. While both of their proposals include modest national programs of rent control, the core emphasis of their proposal is to significantly increase the proportion of black households who own their homes. The motivation arises from the widely held belief that owning a home is the essential source of wealth for all Americans. However, this belief is not correct.

For the majority of Americans with positive net worth their most important asset is indeed their home. But as wealth increases the fraction attributable to home equity drops significantly. In 2014-2015, with Darrick Hamilton I led a project, the National Asset Scorecard on Communities of Color, that gathered survey data on the wealth position of various national origin communities across five cities in the United States. In the report on Los Angeles, prepared collaboratively with the Federal Reserve Bank of San Francisco, our team found that black residents of the metropolitan area had a slightly higher homeownership rate than Asian Indians (41 percent versus 40 percent), but Asian Indian households had a median net worth 115 times the black median.<sup>5</sup>

Although wealth levels are low for all households that do not own a home, **white non-homeowners have thirty-one times the median wealth of black non-homeowners (\$3720 versus \$120, respectively). White homeowner households have a net worth that's \$140,000 greater, at the median, than black homeowner households.**<sup>1</sup> All this is firm evidence that equalizing homeownership rates is not enough to close the racial wealth gap.



Both the Warren and Harris plans focus on providing subsidies for down payments to first time home buyers. As defined in the Warren bill, these are persons who have not purchased a residence for at least the previous three years. The objective is to reach persons living in communities that have been subjected to government and banking system discriminatory redlining practices.

While urban renewal and gentrification mean that families victimized by redlining often do not live in those same neighborhoods today, the Warren proposal wisely does provide a mechanism to support those families' home buying decisions regardless of where they are located now. Moreover, it imposes no constraint on the locations where eligible families can purchase a residence. The Warren plan could be strengthened further by establishment of an agency charged with the task of identifying individuals who were victimized by redlining practices.

Both proposals also set an income means test for homebuyers to qualify for the programs—for Harris up to \$125,000 and for Warren up to 120 percent of the area's median income. Harris caps the total expenditure on her proposal at \$100 billion, while Warren does not set a ceiling. Nonetheless, under both plans, young adult white "gentrifiers" living in these neighborhoods, who have not purchased a home previously, could benefit from these programs—diluting their positive impact on the racial wealth gap. Darrick Hamilton and Christopher Famighetti report that millennials already have the widest racial difference in homeownership.<sup>6</sup> Movement of younger whites into formerly all black, lower income neighborhoods as homebuyers may have



contributed to this trend, and inauguration of either the Harris or the Warren plan could add incentives for accelerated gentrification.

Harris offers down payment and closing costs' support of up to \$25,000, while Warren offers a down payment subsidy of 3.5 percent of the price of the property, consistent with the Federal Home Administration rate that residents of redlined communities were denied. (At a home purchase price of about \$700,000, the two plans roughly converge on the size of the subsidy.) A somewhat peculiar aspect of the Harris plan is her desire to expand the components of credit score measurement to include rent payments, phone bills, and other utilities, ostensibly with the objective of increasing "access to credit for those with a limited or 'invisible' credit history or poor credit scores." For low income Americans, expanding credit score calculation to include these measures actually might reduce their credit scores, further limiting their capacity to purchase a home.

Admirably, the Warren and Harris plans seek to correct a discriminatory climate that distorted black home buying opportunities throughout the 20<sup>th</sup> century. They aim to put black home buyers on the same footing as white home buyers. **However, neither plan offers compensation for the harms of past conditions, and the positives they promise moving forward are undeniably encumbered by the realities of the current housing market.**

If a new homebuyer were to purchase the median priced home in Chicago at \$228,000, the Warren plan would provide a \$7980 subsidy. The median priced home in Los Angeles (at \$690,000) would command the maximum Harris subsidy of about \$25,000, but the buyer with the means to participate in the market for a home at that price likely would have an income too high to qualify for the program. With or without the subsidy, households with an annual income at or below \$120,000 would have an extraordinarily difficult time purchasing the typically priced home in Los Angeles. The task would be similarly hard in the Washington D.C. metropolitan area where the median home price also approaches \$600,000; in San Francisco, where the median home price is in excess of \$1.3 million, it would be impossible.

This July, at the Essence festival in New Orleans, Harris described her plan as a means to close the racial wealth gap and outlined the magnitude of its effects. She said her proposal would reach 4 million black families and bring the black-white home ownership rate on a par, and, furthermore, that her plan would reduce the racial wealth gap by 31 percent (the latter claim coming directly from a study conducted by Demos and Brandeis University that concluded that eliminating the difference in homeownership rates would increase black median wealth by \$32,113).<sup>7</sup>

As noted above, the absolute gap between black and white wealth at the median is \$153,400. At full effect, the additional \$32,113 would raise median black wealth to \$49,713, yielding the 31 percent figure. However, this would not address sizeable racial differences in home equity: Jacob Faber and Ingrid Gould Ellen estimated that the median black-white home equity gap is about \$50,000.<sup>8</sup> If somehow the Harris or Warren plans could not only increase homeownership rates but also equalize home equity values, black median wealth would rise by

\$67,080. On the condition that white home ownership rates or equity values do not increase as a result of these programs, such an outcome would constitute a 40 percent increase in black net worth relative to white net worth.

But these encouraging numbers—already the product of many generous assumptions—are a consequence of using the median gap as the target. When one considers the mean gap, the story changes substantially. If there are approximately 16 million black households in the United States and all of them experienced a \$67,080 increase in net worth—which is unlikely, *since the Harris and Warren plans only are intended to support families that have lived in redlined neighborhoods, an estimated 4 million, and do not ensure equity equalization*—the total monetary gain in black wealth would amount to \$1.07 trillion. This would reduce the mean gulf in black and white wealth by a mere 10 percent, rather than the 40 percent increase gauged at the median.

### **EDUCATION: BOOSTING HBCUs**

One of the education-centered plans, Pete Buttigieg’s proposal—also introduced at the New Orleans’ Essence festival—to provide financial support for HBCUs, does not indicate how this will affect black household wealth levels. He may be making an implicit assumption that improved monetary health for HBCUs will increase black American access to higher education which, in turn, he expects will increase black wealth levels. But if this is the implicit assumption, it is wrong. Higher black educational attainment, while generally having a positive effect on black *income*, does little to reduce racial *wealth* disparities. After all, black heads of household with a college degree only have two-thirds of the net worth of white heads of household who never finished high school.<sup>9</sup>

Nevertheless, I subscribe to the view that access to higher education has immense intrinsic value beyond its pecuniary benefit. So, from that perspective, it is desirable to enhance the capacity and stability of Historically Black Colleges and Universities, particularly in a national context where they continue to perform such a vital role in providing higher education for black students, despite the institutions’ limited resources.<sup>10</sup>

Buttigieg’s plan seeks to direct \$25 billion to institutions that enroll a high proportion of low-income students. Presumably this would include a significant number of HBCUs, but it would not be a program directed exclusively at their needs. The question is, how far will \$25 billion go toward bringing genuine financial health to HBCUs?

To simulate the impact of the Buttigieg proposal, imagine the full amount in his plan goes solely to the 100 HBCUs in the United States. That will constitute an average payout of \$250 million per institution, an infusion of funds that undoubtedly will be beneficial to the near-term viability of the schools. But will there be much of an effect on institutional wealth, relative to that of institutions whose student bodies historically have been predominantly white?



An important area where the playing field for HBCUs and Historically White Colleges and Universities is uneven is in the awarding of federal grants and contracts. But the core of the financial well-being of these schools is their endowment position. **HBCUs lag so far behind their white peers on this score that an additional \$25 billion in funds, even funneled solely to their endowments, will not close the HBCU “wealth” gap.**

Combined, the ten HBCUs with the largest endowments have a total that approaches \$2 billion; the largest is held by Howard University at about \$689 million, followed by Spelman College at \$387 million.<sup>11</sup> If all ten could deposit an additional \$250 million into their endowments, that sum would more than double, landing closer to \$4.5 billion. That amount, however, still would be smaller than the values of the endowments at a single major state university like the University of Michigan (\$12 billion), the University of Virginia (\$8.6 billion), the Ohio State University (\$5.2 billion), and the University of North Carolina at Chapel Hill (\$5 billion).

An additional \$250 million in Spelman’s endowment would move its value to \$637 million; this amount still falls well short of the present levels of endowments of Seven Sister institutions like Smith College (\$2 billion), Vassar (\$1.08 billion), Bryn Mawr College (\$894 million), and Mt. Holyoke College (\$778 million). And these numbers are certainly dwarfed by the endowment giants: Harvard (\$38 billion), the University of Texas at Austin (\$31 billion), Yale (\$29.4 billion), Stanford (\$27 billion), and Princeton (\$26 billion). Distributing an additional \$25 billion to the nation’s HBCUs is a good idea, but closing the endowment gap is a task far beyond the reach of the additional \$25 billion that Buttigieg’s plan puts forth.

Alumni of HBCUs have giving rates marginally higher than the national average (11.2 percent versus 11.1 percent). Claflin University and Spelman College have alumni giving rates of 40 percent or higher. Blacks generally are more generous with respect to charitable giving than whites.<sup>12,13</sup> The fundamental problem is blacks have markedly lower levels of resources to draw upon to make their gifts, whether to HBCUs or other worthy causes.<sup>10</sup> Without a direct attack on racial wealth inequality by raising the black asset position to match the white average level of \$933,000, sustained endowment support for these institutions is not feasible.

## **EDUCATION: REDUCING STUDENT DEBT**

Next up are the Sanders and Warren proposals for student debt reduction. Consider the most sweeping version of the first phase of the plan, the version expunging all individual obligations to pay existing debts for higher education finance. The mean level of black student loan debt is \$23,400, while the mean value of white student loan debt is \$16,000, *among those holding this type of debt*. On the face of it, this would be a universal program that would disproportionately benefit black students because they hold a larger average amount of debt.



But the amount of the gain in net worth by erasing student loan debt must be weighted by the enrollment rates for each group, because those who do not enroll in college or university do not acquire student loan debt. Whites currently have a higher enrollment rate than blacks (41 percent versus 36 percent, respectively). Adjusting the amounts by enrollment rates, the black gain in wealth becomes \$8424 while the white gain in wealth becomes \$6560. Adding the former to the black median of \$17,600 yields a total of \$26,024; adding the latter to the white median yields a total of \$177,560. Taking the difference, the remaining gap between blacks and whites is \$151,536, a decrease of only \$1,864, or a mere one percent of the original median gap. Any effect on the mean gap is imperceptible.

**Future elimination of tuition (and possibly fees) at public institutions, of course, would increase access for all and could be highly beneficial. But its impact on the racial wealth gap would be marginal at best.** Any gain in net worth would require adjusting the \$23,400 black debt and the \$16,000 white debt levels to account for the new, hypothetically higher enrollment rates in the zero tuition world.

For illustrative purposes, assume that there would be a stronger effect on black rather than white enrollment rates—that the black rate rises to 80 percent while the white rate rises to 70 percent. With those enrollments, the adjusted gain in net worth as a result of the foregone debt burden, would be \$18,720 for blacks and \$11,260 for whites, reducing the absolute difference at the median to \$144,580. The associated \$7520 gain in net worth still would amount to only four percent of the original median gap; the reduction in the mean gap would be close to one-tenth of one percent.

## **BUSINESS OWNERSHIP**

Elizabeth Warren, Pete Buttigieg, and Kamala Harris all have advanced plans to reduce the racial wealth gap by promoting black business ownership. **Here I am convinced that none of the candidates truly are familiar with the magnitude of the difference in scale between black and white corporate America. Their proposals simply don't come anywhere near reducing the racial wealth gap via black business development.** Buttigieg proposes to devote \$10 billion to “minority” entrepreneurs; Warren intends to spend \$7 billion on entrepreneurs with a household wealth of less than \$100,000; and Harris says her plan involves a larger commitment of \$100 billion to low income/low wealth entrepreneurs.

*A priori*, none of their plans explicitly target black business owners. Buttigieg’s “minority” standard means that non-black entrepreneurs will be eligible. The Warren and Harris criteria for eligibility for their versions of the program is open to all Americans who meet an income or wealth means-test. So the most precise analysis of the impact of their programs on black-white differences in net worth would require paying attention to the flow of resources to non-black entrepreneurs. To give the plans the most optimistic outlook, assume the counterfactual: all of the funds only go to black entrepreneurs.

The most recent Census data available on the state of black business enterprise in the United States provides an estimate of 2.6 million businesses with a joint annual revenue of \$150 billion. Only 4 percent of the firms have additional employees beyond the owner; overall, the average black-owned firm has fewer than 1.5 employees.<sup>14</sup> The typical black business in the United States, then, isn’t so much “small” as it’s microscopic.

*Black Enterprise’s* Top 100 black-owned firms grossed \$24 billion in revenues and had fewer than 75,000 employees in 2016.<sup>1</sup> Walmart alone has annual revenues in excess of \$450 billion, three times the volume for all black owned businesses in America combined. **The entire universe of black owned firms in the United States has 3.6 million employees; Walmart alone has two million.** In the banking sector, a key potential source of black-managed finance for black business development, the largest five black-owned banks had assets amounting to \$2.3 billion; JPMorgan Chase, by itself, had \$2 trillion in assets. Morgan’s assets are equivalent to 75 percent of the entire amount of wealth held by black America.

The challenge of closing the racial enterprise gap is formidable, and a task that cannot be accomplished by any of these three proposals. It is not apparent how Warren’s \$7 billion investment will produce 100,000 black owned firms that generate an additional one million jobs—her stated projections—when, today, the average black firm does not have two employees. If the one million new jobs are provided chiefly by the new black firms, it would require at least 650,000 additional black businesses, on the same scale as existing firms, to meet that target. It is wholly unclear how Buttigieg’s \$10 billion investment will, as he claims, triple the number of black-owned businesses, but even if it does, if they maintain the same scale as exiting enterprises, collectively, they only will approximate Walmart’s level of annual revenue.



Today, to have a realistic go at success, a small business should have \$200,000 in initial capital.<sup>1</sup> **If the full amount in Buttigieg’s plan is devoted to black business start-ups, with a \$200,000 capital provision, it would generate a maximum of 50,000 new black businesses, hardly his projected additional 5.2 million. If all the funds in the Warren plan were devoted to new black businesses her fund would support an even smaller 35,000—a far cry from her projected 100,000.** In principle, if, as I have posited, the funds go exclusively to black enterprises, the sum proposed by Harris could support a more ambitious total of 500,000 new black businesses. (Harris has yet to specify the estimated impact of her proposal.)

Take the latter projection as the most optimistic estimate of the additional enterprises that could be formed from the candidates’ proposals to promote black business development. Under such a best case scenario, the Harris plan would increase the total number of black businesses to 3.1 million. Since they would start on a stronger start-up capital foundation than most of their predecessors, they should generate an average level of annual revenues higher than existing black-owned firms. Brian Marshall, Director of Entrepreneurship at BCL of Texas, contends the minimum level of annual revenues for a business for adequate profitability is \$250,000.<sup>15</sup>

The \$250,000 threshold is more than four times the average annual revenues of the existing 2.6 million black businesses. Assuming that the potential 500,000 new firms on average meet Marshall’s \$250,000 standard, they would generate a total of \$105 billion in annual revenues, increasing the total for black owned firms to \$255 billion. This still would be significantly less than Walmart’s annual sum, taken alone.

The magnitude of the expenditure required to make black corporate America a juggernaut proportionally comparable to white corporate America in size and scale goes far, far beyond the sums budgeted in these three plans. Marshall doubts whether any effort to build black

enterprise can be effective without a prior effort to straightforwardly transform the racial wealth distribution, “To combat this wealth issue, robust black entrepreneurship will require an environment where the racial wealth disparity already has been confronted and altered directly. Greater black wealth, and hence financial capital, is the vital prerequisite for black entrepreneurship to assist in the wealth divide. Or better stated, ‘Having wealth must beget wealth.’” **If one wants to build black business, first one must build black wealth, rather than viewing building black wealth as a consequence of building black businesses.**

## **BABY BONDS**

The only existing proposal that promises to have a direct effect on black wealth is Cory Booker’s Opportunity Accounts plan, known popularly as “baby bonds.” Strictly, Opportunity Accounts are not bonds at all; rather, they are publicly funded trust accounts assigned to each newborn infant in the United States. A universal program, the amount of the trust account will be graduated on the basis of the financial status of the child’s family. Since black wealth is so low, the average amount going to a black child would be expected to be higher than the average amount going to a white child.

In the Booker plan recipients can access the funds when they reach 18 years of age. (If the program started today, the first cohort able to make withdrawals on their trust account could do so in 2037.) The impact of the program on the American distribution of wealth would not be felt until about forty years from now, when more than twenty cohorts will have been able to take advantage of the endowments.

Opportunity Accounts are designed for all young Americans to “inherit” a level of financial resources consistent that will ensure that their own households will meet the current median level of American wealth, approximately \$100,000. The implications for the racial wealth gap are straightforward. If Opportunity Accounts achieve their full effect of raising black household wealth to the national median without markedly raising the white median, then black households will possess closer to 60 cents to the dollar of white wealth rather than 10 cents—at the median.

However, if the additional \$82,400 needed to get black wealth to the national median is considered in the context of relative mean wealth, and the full amount simply is added to the current black mean, the eventual effect of Opportunity Accounts would give blacks 23 cents to each dollar of white wealth, rather than the current 9 cents. That is a 150 percent increase in the proportion, but it will leave 77 cents per dollar untouched. Moreover, if every black household receives an additional \$82,400 in wealth—without incorporating white gains in wealth associated with Opportunity Accounts—it moves the overall share of black wealth in America from 2.6 to 4 percent, leaving a large residual of 9 percentage points. **Among all of the proposals examined here, Opportunity Accounts, after a sufficient number of cohorts have received the endowments, could have the largest effect on closing the racial wealth gap. Nevertheless, even this proposal cannot advance beyond 25 percent of the way toward meeting the goal of complete erasure of the immense shortfall.**



## CONCLUSIONS

Four major lessons can be drawn from this exercise. First, undisguised redistributive measures, like “baby bonds,” generally will have more of an effect in reducing the racial wealth gap than more circuitous measures that seek to build institutions or neighborhoods. Person- or family-based policies providing direct financial transfers hold more promise for equalization than indirect funding for organization- or place-based policies. Second, the non-race specific character of all of these proposals, including “baby bonds,” dampens their effectiveness in reducing the racial wealth gap. Third, even a direct approach will be inadequate to the task unless the budget is at least \$10 trillion. Fourth, as noted above, a program that erases the racial wealth gap must be designed to avoid replicating the extreme degree of inequality that exists, today, among black wealth holders.

I would be remiss if I did not make a personal disclosure here: I am a strong enthusiast for the Booker proposal. I labored with Darrick Hamilton for a number of years developing the “baby bonds” idea. We both advised Senator Booker’s staff on design of the legislation. I also have worked separately with Senator Warren’s staff on crafting some modifications built into her homeownership plan. In general, I view all of the proposals considered here as having merit. But I must make clear that none of them, whether taken separately or as a suite of policies, are likely to get us more than one-third of the way toward eliminating the black-white gulf in wealth. Accomplishing that goal will require a policy that is both race-specific and a direct builder of black wealth—a policy embodied in a comprehensive program that raises wealth held by black descendants of American slavery, at least, to a level commensurate with their share of the nation’s population.

It must also be noted that existing national data on race and economic status does not distinguish between black Americans with ancestors enslaved in the United States and black



Americans who are from families that immigrated to the United States more recently, particularly after 1965. As a result, the numbers used in these exercises are based upon the entire black population of the United States with the recognition that more recent black immigrants frequently are hyper-selected—drawn disproportionately from a strata of the population in their country of origin with high levels of education and income—and tend to have a better economic profile than black descendants of American slavery. If the data could be limited to the latter, the vast disparities that are the subject of this article would be even greater, so, arguably, the results presented above are the most optimistic read on the potential effects of the policies under consideration.



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