ECONOMIC VIEW

The True Cost of Closing the Racial Wealth Gap

Policies like forgiving debt for all student loans and giving baby bonds to the whole population won't be nearly enough to achieve racial wealth parity, an economist says.

By William Darity Jr.

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Elimination of the wealth gap between Black and white Americans is a stated goal of President Biden and the Democratic Party. The gulf is enormous any way you look at it.

But depending on the measure you use, the chasm ranges from $54,700 a person to $280,300 a person. I believe the higher figure is the most appropriate one. That amounts to a total of $11.2 trillion — a figure that implies that incremental measures will not be sufficient to address the enormous racial wealth disparity.

Those numbers are derived from data compiled in the Federal Reserve's 2019 Survey of Consumer Finances. The survey shows that the gap in wealth between Black and white Americans at the median — the middle household in each community — was $164,100. The median Black household was worth only $24,100; the median white household, $188,200.

But if we compare Black and white wealth at the mean — for the average household in each community — the difference was $840,000, a far larger sum. The average figure for Black households was $142,500; for white households, $983,400, close to $1 million.

An approach that I have proposed to close the wealth gap is a program of reparations for Black Americans whose ancestors were enslaved in the United States.

Policymakers, conventionally, have focused on the median gap in wealth, viewing the experiences of households at the middle of each group's distribution as more representative of the group as a whole. Wealth held by households that are exceptions or outliers do not affect the median value of net worth. In the context of racial differences in wealth, however, I believe it is more appropriate to select the mean, or average, gap as the policy target.

The reason is wealth is so densely concentrated in the United States that 97 percent of white Americans' total wealth is held by households with a net worth above the white median. And white households with a net worth above the national median, which is approximately $100,000, hold close to 99 percent of white wealth. Twenty-five percent of white households have a net worth in excess of $1 million, in contrast with a mere 4 percent of Black households.

Using the median figure would take an overwhelming share of white wealth off the table.

At present, my calculations based upon the Fed's data indicate that Black American descendants of persons enslaved in the United States constitute about 12 percent of the nation's population but own less than 2 percent of the nation's wealth.

These figures indicate why policies like forgiving all student debt, and providing universal "baby bonds" to the entire population, won't be nearly enough. These programs are worthwhile, and I support them. In fact, I helped design an early "baby bonds" proposal. While these approaches can do much good to help both the poor and the middle class, they won't close the Black-white wealth gap.

First, consider student debt. Black Americans would gain disproportionately from student loan debt relief because they have larger average levels of higher education debt — $23,400 compared with $16,000 for white students. After accounting for the higher enrollment rate of white students, erasing student debt would result in an average Black gain in wealth of $8,424 and a white gain of $6,560. This translates into a reduction in the racial wealth gap of $1,864.

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It would reduce the median gap of $54,700 by 3 percent and the mean gap of $280,300 by less than 1 percent.

Now, look at baby bonds. Under proposals embraced by Senator Cory Booker of New Jersey, and others, the bonds would provide each newborn infant with a trust account calibrated by the parents' wealth. The goal of this project is to ensure that all Americans have a basic level of wealth. It isn't designed to achieve complete racial wealth equality.

Specifically, the focus is on bringing every child closer to the national median level of net worth during their young adult years, when they have access to their personal accounts. This would mean, in turn, that the typical Black child would have an additional $33,333 in net worth by early adulthood.

If no white youths received any benefit from the program — which I do not recommend — "baby bonds" would move the ratio of median wealth from 14 percent to 74 percent. This is a substantial change. Even so, using the mean, or average, standard, it would leave 75 percent of the racial wealth gap unchanged. And, of course, under actual proposals, white children would receive baby bonds, too, so the shift in the gap would be much smaller.

In short, the notion that either student debt forgiveness or "baby bonds," taken separately or in combination, will erase the racial wealth gap would be sheer mystification. Both policies are desirable for a number of reasons, but making extravagant claims about their impact on Black-white differences in net worth is disingenuous.

Worse still, celebrating these worthwhile programs in misleading ways diverts us from actually eradicating America's racial gulf in wealth. Using average household wealth as a metric, that gap comes to a total of about $11 trillion.

Closing it will require the full resources of the federal government. It can be done. After all, the government has already committed trillions in response to the emergency brought on by the pandemic, and it is contemplating spending trillions more on much needed infrastructure projects. The resources can be found. Correcting the historical racial inequities in the United States is surely worth the cost.

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