



# The Color of Wealth in Baltimore

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A Publication of the Samuel DuBois Cook Center on Social Equity at Duke University  
July 2021

# ACKNOWLEDGEMENTS

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## FUNDED BY

Ford Foundation and the Annie E. Casey Foundation

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The City of Baltimore citizens who gave their time and shared their knowledge and experiences to inform this report.

# ● Contents

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Abstract.....	2
Executive Summary .....	3
1. Introduction.....	6
2. Demographic Changes and Challenges in Baltimore .....	8
3. Methodology.....	12
4. Descriptive Analysis and Discussion.....	13
5. Racial Wealth Gap Decomposition Analysis.....	24
6. Implications and Conclusion.....	37
References .....	39
Appendix A.....	41
Appendix B.....	45
Appendix C.....	47

## ● Abstract

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**The Color of Wealth in Baltimore** is part of a series of reports that examines the social and economic conditions of people of color among six metropolitan areas in the United States: Los Angeles, DC, Tulsa, Miami, Boston, and Baltimore. The purpose of this report is twofold: First, the report details racial differences in asset and debt accumulation, household income, intergenerational asset transfers, and household net worth across the city of Baltimore. Second, the report assesses the impact of household exposure to incarceration on household income and wealth accumulation. While most research focuses on the direct financial impact of incarceration on an individual, in the form of removal from the labor force or the penalty of a criminal record on subsequent employment, this report sheds light on the impact of incarceration on wealth accumulation. Our findings show a statistically significant racial gap in earnings and net worth and an incarceration penalty on earnings and wealth accumulation. Interestingly, the white-black racial household income and wealth gaps disappear when the reference group is whites with incarceration exposure. This reveals that statistically speaking, the size of the racial gap is equivalent to the incarceration penalty. Our racial gap decompositions based on incarceration exposure also corroborate these results. We find no statistically significant difference in the earnings between blacks with and without incarceration exposure. These findings are very troubling and suggest that society's association of blackness with criminality has a similar effect to that of the incarceration penalty.

# ● Executive Summary

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- According to the Justice Policy Institute and the Prison Policy Initiative, the city of Baltimore has an incarceration rate three times that of the national average. Our study estimates that blacks are exposed to incarceration at a rate three times that of whites in Baltimore. We find that the persistent black-white wealth gap is exacerbated by incarceration, affecting disproportionately more black households. The consequences manifest in different financial dimensions, including financial retirement plan access, stock market investments, and other financial service account usage. We find that households with incarceration exposure are more dependent on using cash.
- Our findings show a negative correlation between incarceration exposure and homeownership, possessing a vehicle, owning a business, and owning a business. Across all these assets, black households with incarceration exposure have the lowest proportions, indicating significant ownership gaps in all these indicators. The gap in ownership of a vehicle, which is needed to commute to work, is 25 percent, regardless of race between persons with incarceration and no incarceration exposure.
- Our study finds that in vivo transfers for white households (35 percent) are more than double those of black households (17 percent). It is interesting to note that our sample yields the same results for white households with and with no incarceration exposure. Additionally, over 42 percent of white households with no incarceration exposure report having received an inheritance or gift, compared to about 25 percent of black households with no incarceration. When exposed to incarceration, the numbers for white and black families are 31 percent and 19 percent, respectively.
- The responses suggest that white households with no incarceration exposure have the highest rates of holding student loans (38 percent), indicating higher enrollment rates in the education system; nevertheless, it also shows a higher dependency on loans to cover for education compared to black (28 percent), a ten percentage-point difference. It also could mean that black households depend on other means, like scholarships and financial aid for funding their education.
- Debt derived from fines, fees, or costs associated with a criminal sentence (not including legal bills) is another variable that displays white households with no incarceration exposure having the lowest rate (virtually zero) among all respondents. In comparison, black households with incarceration exposure have the highest rate (15 percent). Black households with no incarceration exposure experience much higher debts due to legal bills (7 percent) and fees (2 percent). When comparing both household populations with exposure to incarceration, 8 percent of white households and 15 percent of black households responded to having incurred debt due to fines and fees. This last finding illustrates a systemic bias with a devastating financial impact on our society.
- Financial hardship generated from medical bills needs special attention because it provides a glimpse of having access to healthcare resources and the health status of household members. Survey results indicate that 12 percent of white households with no incarceration exposure incurred debt due to medical bills compared to white households with no incarceration exposure with 27 percent (more than double) and black households with no incarceration exposure with 34 percent (almost triple). We cannot establish a significant difference between black households with and with no incarceration exposure based on the responses.

- We find that on average black households tend to be younger by approximately 4 years, but the difference is not statistically significant; have lower education (16 percent with BA degree or higher versus 43 percent for whites); are less likely to be married; are more likely to be headed by females; have a similar likelihood to be born in the US as whites, and are more likely to be exposed to incarceration (37 percent versus 26 percent for whites although it is not statistically significant).
- The results show substantial and statistically significant white-black racial earnings, household income, and net worth gaps of \$29,929, \$43,008, and \$187,835, respectively. White households have higher average earnings, household income, and wealth of \$61,725 and \$76,378 and 217,858, respectively. In Baltimore, the median net worth for black households is \$0, whereas, for white households, it is \$59,430. When comparing white and black households without incarceration exposure, we find substantial and statistically significant gaps in earnings, household income, and wealth of \$34,183, \$56,163, and \$265,273, respectively.
- The findings show statistically significant evidence of an incarceration exposure penalty on household income and wealth. Households with incarceration exposure have lower annual household income (gap of \$32,380) and lower household net worth (a gap of \$194,117) compared to households with no incarceration history. These effects are the largest for white households, given their higher wealth and income levels. Comparing only white households with and without incarceration history, we find household income and net worth gaps that are statistically significant: \$60,680 and \$384,327, respectively. Interestingly, when we perform the intra-group comparison for black households with and without incarceration history, we find only a significant wealth gap but not for household income. This is due to differences in wealth accumulation opportunities for black households with no incarceration – for example, they have higher home equity, higher stock values, and retirement assets.
- Our findings show white-black wealth and income gaps are equivalent in size to the incarceration exposure penalty that households with incarceration exposure experience. We use the incarceration penalty estimates for the intra-group comparison for whites as our benchmark to validate these results. We then estimate the white-black wealth and income gaps using only whites with incarceration exposure as our reference group. We find no statistically significant racial income and wealth gaps using only whites with incarceration exposure as the reference group. In sum, whites with incarceration exposure have similar household income and wealth as blacks with and without incarceration exposure. Our racial gap decompositions based on incarceration exposure also corroborate these results.
- We find drastic differences in how blacks and whites accumulate wealth. The results show that home equity and other real estate investments are the two main contributors to total assets for black households in Baltimore. For white households, the main contributor to total assets is retirement assets, followed by home equity. Whites also hold a significant portion of their total assets in stocks, mutual funds, and other assets; this is not the case for black households. In terms of debt, we find that legal and medical debts are the top two liabilities for white households. In contrast, student loans and other debts are the main two liabilities for blacks. Interestingly, we only observe statistical significance only on some assets components but not on liabilities. Particularly, we find that whites tend to have larger values for other real estate, vehicle equity, checking/savings/money market accounts, stocks, mutual funds, and retirement assets. When making the comparison by incarceration exposure, we find similar patterns as for the racial comparisons.

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- Oaxaca-Blinder racial gap decomposition results show substantial racial differences in the average earnings of blacks and whites in Baltimore. The gap in average earnings is \$33,970, with only 34 percent of this gap explained by group differences in age, education, and gender. In other words, 66 percent is unexplained, indicative of potential discrimination that contributes to the racial earning gap. We also find a substantial difference between the average net worth of blacks and whites in Baltimore. The difference is 0.63 standard deviations, and it is statistically significant, with only 28 percent of this gap explained by group differences in age, education, gender, and marital status, which means that 72 percent is unexplained.
  - The Oaxaca-Blinder incarceration exposure gap decompositions show statistically significant differences in the average earnings for whites with family exposure to incarceration. We find a difference of \$39,403, with those exposed to incarceration earning less than those not exposed. However, we find no statistical significance for both the explained and the unexplained parts. This could be interpreted as incarceration being the primary factor driving the difference, identifying a causal effect. On the other hand, for blacks, we find no statistically significant difference in the earnings between the two groups – blacks with and without incarceration exposure. The explained and unexplained portions are also insignificant. This is consistent with the idea that society's association of blackness with criminality implies the incarceration penalty is distributed across all black households equally independent of incarceration history.
  - The Oaxaca-Blinder incarceration exposure decompositions for net worth provide evidence of a statistically significant gap in the average net worth for both whites and blacks, with those without family incarceration history having higher net worth values. For whites, we find a difference of 0.745 standard deviations, with only 4.2 percent of this difference explained by group differences in age, education, gender, and marital status. For blacks, we find a smaller difference of 0.181 standard deviations, with 27 percent of the difference being explained by group differences in age, education, gender, and marital status.
  - The Oaxaca-Blinder racial and incarceration exposure gap decomposition results confirm that incarceration exposure has a negative effect on earnings (\$39,403) and wealth (0.745 standard deviations) for whites. If we take the impact for whites as our baseline for gauging the effects of incarceration exposure and compare them to the racial gap effects for earnings (\$33,970) and wealth (0.633 standard deviations), we find them to be very similar in both magnitude and significance. These effects go away when we compare only whites with incarceration exposure and blacks with and without incarceration. This suggests that the racial income and wealth gaps we see are equivalent to the incarceration exposure penalty. This is interesting, yet not surprising, given the faulty association of blackness with criminality in our society.

# ● 1. Introduction

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The recent wave of incidents of police brutality in Baltimore has served to highlight not only the mistreatment of blacks by state-sponsored agencies and organizations but also highlights the racial income and wealth inequality that exists in the city. This report is part of a series of essays using data from the National Asset Scorecard for Communities of Color (NASCC) to investigate the wealth gap across racial-ethnic groups within major US metropolitan cities. The first reports were written for Boston, Los Angeles, Washington DC, and Miami (Muñoz et al. 2015; De La Cruz-Viesca et al. 2016; Kijakazi et al., 2016; Aja et al., 2018).

NASCC was first developed in 2014 to bridge the data collection gap that existed since most traditional wealth data sources did not collect detailed wealth information at the household level by racial-ethnic groups and country of origin. The NASCC surveys collect detailed data on assets and debts among subpopulations, according to race, ethnicity, and country of origin. The survey instruments were designed primarily to gather information about a respondent's household-specific assets, liabilities, financial resources, and personal savings and investment activity at the household level.

In the case of Baltimore, the NASCC survey mainly focuses on collecting data for white and black households – black households include descendants of persons enslaved in the United States and recent immigrants from the African continent and the Caribbean region.<sup>1</sup> An interesting feature of the NASCC Baltimore data is that the data also contains information on household members' incarceration history, allowing us to investigate our main research questions on how the intersection of race and incarceration exposure at the household level influences wealth and earnings.

Baltimore presents an excellent case study to investigate our research questions for several different reasons. First, the city of Baltimore ranks second (behind only Detroit) among major US cities with at least 100,000 African Americans with the highest percentage of African Americans (63.7 percent according to the 2010 US Census).

Second, Baltimore's slavery past, due to its proximity to the Mason-Dixon line that historically served as the division of the North from the South, attracted many free slaves. For example, according to the Census, from 1790 to 1860, the majority of free Black in America lived in Maryland, the urban industrial center of a slave state, just South of the North-South border, 40 miles from Philadelphia. The Commonwealth of Pennsylvania remained in second place but was nowhere close — in 1860, there were 50,000 in Pennsylvania and more than 83,000 free blacks in Maryland.

Consequently, Black Baltimore grew a lettered middle class of professionals in the fields of education, religion, medicine, law, commerce, media, and civic and activist organization. The wealth which formed the economic security of that professional class was concentrated in Baltimore before it was located in Prince George's County, Maryland. This middle class was not the majority of the population – that was the class of “common” laborers. However, it was the professional middle class who initiated the test of this informal line between black and white – after northern-trained lawyers and doctors started to purchase homes in what were mostly known as white neighborhoods. This led whites to mobilize and put pressure on city councils to designate portions of the city as white or black.

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<sup>1</sup> According to the US Census Quick Facts for the City of Baltimore, the percentage of recent black immigrants is small. In fact, only 8.1% of the city's residents are foreign born, most of whom are of Hispanic descent. See <https://www.census.gov/quickfacts/fact/table/baltimorecitymarylandcounty/AGE295219>



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Third, Baltimore's importance across different industries, such as the rail and transportation industry, makes it an industrial hub that is still significant to this day. For example, the Port of Baltimore is the deepest harbor in Maryland's Chesapeake Bay. It has the advantage of being closer to the Midwest than any other East Coast port, which means that goods can reach one-third of the nation's population within a half-day drive.

Fourth, since the early 2000s, Baltimore has seen an increase in the rate of gentrification, causing significant changes in the city landscape and racial population composition.

Last but not least, the city of Baltimore has been plagued by police brutality, which has created racial tension in the city, given its share of high-profile cases of police killings of African American men.

Baltimore's historical events and the challenges or implications that come with higher rates of incarceration and gentrification threaten the economic and financial stability of the majority of the city population, who is black, at risk.

Our investigation is a household-level study. The focus of this study is threefold: First, we aim to compare the earnings and wealth levels across black and white households. Second, we investigate the relationship

between race and incarceration and their implications. Third, we perform race and incarceration gap decompositions to investigate potential driving forces contributing to existing earnings and wealth gaps. We define a household with incarceration exposure as a household in which one or more of the household members have been in prison or jail at any point in their lives. For the purpose of the study, we use the terms household and family interchangeably as well as the terms incarceration, incarceration exposure, and incarceration history.

The rest of this report is structured as follows. First, in Section 2, we begin by providing a historical perspective on demographics changes and challenges (gentrification and incarceration), focusing on race and ethnicity in the Baltimore area. Section 3 offers an overview of the NASCC methodology. Section 4 discusses our descriptive analysis on the intersection of race, incarceration exposure, and economic inequalities. Section 5 performs and discusses the results for the wealth and earnings decompositions by racial group and incarceration exposure. Section 6, the last section, concludes with a discussion of the implications of our study on racial and incarceration impact disparities in the city of Baltimore.

## ● 2. Demographic Changes and Challenges in Baltimore

The city of Baltimore has experienced many changes over the past 50 years. Like other big cities in the US, population and industry composition changes in both the inner-city and the suburbs have been a critical nationwide trend over the last 60 years. Manufacturing jobs have been replaced by white-collar and service-oriented jobs in Baltimore and nearly all of the older cities of the Northeast and Midwest. Nevertheless, these changes have affected Baltimore in unique ways. Hence, the city's trends need to be seen in light of its own history of growth, expansion, and dispersion. Baltimore core city limits have been contracting, while its suburbs have been expanding for more than a century, ever since horse-drawn streetcars and later electric railways allowed people to live beyond walking distance of their jobs.

The Baltimore Region has grown over time, but its growth has increasingly happened outside the core city limits. According to a report produced by the city of Baltimore<sup>2</sup>, its population is projected to stabilize and increase slightly over the next 25 years, while the region's population is projected to grow by a quarter of a million during the same timeframe. As we move into the next couple of decades, current and emerging trends provide cause for optimism that Baltimore can position itself for a bright future of growth and prosperity.

In the 1950s, Baltimore was a city amid a post-war economic boom. Fueled by plentiful jobs and a favorable climate of opportunity, the city's population swelled to nearly 950,000. The population declined over the next half-century to 651,154 in 2000 - a loss of approximately 30 percent from our peak population in 1950.<sup>3</sup> According to the US Census Bureau, Baltimore's population kept declining from 620,961 in 2010 to 575,584 in 2020. Population in Baltimore has decreased by -7.31% or an annual rate of -1.53% since 2010.

Baltimore of the 1950s and 1960s was a youthful city. The Baby Boom was in full swing. Children under the age of 14 comprised the largest single age group in 1960, and city policies favored school construction.

The elderly were a small proportion of the population and made relatively few demands on city services. Only one of every 14 Baltimore residents was older than 65. Baltimore also has a slightly higher percentage of senior residents than the state, with 17 percent of city residents currently over the age of 60, versus 14 percent statewide. In 2000, Baltimore's population was less youthful than during the post-World War II "baby boom" period. The number and proportion of city youth have declined steadily since 1950. In particular, the population under five years of age decreased by nearly 30 percent between 1990 and 2000. In contrast, today, residents over 65 account for 13.2 percent of the population compared to 7.3 percent in 1950.

In the last decade, the number of seniors decreased. However, the number of residents between 45 and 64, the Baby Boom generation, increased dramatically. Over the next 25 years, these aging Baby Boomers are anticipated to cause a significant increase in the size of the city's senior population, with an expected 31 percent rise in the number of senior citizens living in the city.

Baltimore's racial composition has changed significantly since 1950. In the last half-century, racial change in the city has been defined by a decline in the white population offset by a remarkable increase in the black population. From 1950 to 2000, the black population nearly doubled, from 225,000 to 420,000. During the same period, the white population declined by more than 500,000. By 2000, 65 percent of Baltimore's population was black compared to less than a quarter of the population in 1950.

Between 1990 and 2000, for the first time in half a century, the black population also started to decline. In a single decade, the city lost almost 17,000 black residents. In the same decade, the proportion of residents who reported themselves as "other race" doubled, representing an increase in diversity. Over the last five years, a new developing demographic shift seen in Baltimore is the increasing number of white millennials moving into the city.

<sup>2</sup> Key Trends Report, City of Baltimore Comprehensive Master Plan, Office of Planning and Zoning, 2018.

<sup>3</sup> Key Trends Report, City of Baltimore Comprehensive Master Plan, Office of Planning and Zoning, 2018.

With respect to education, Baltimore's residents have become more educated over time. However, the city lags behind surrounding counties in terms of adult educational attainment. In 2000, more than 30 percent of the city adults had not completed high school, double the average rate for the surrounding counties. Only 22 percent of Baltimore residents have a college degree compared to 36 percent in Baltimore County and 59 percent in Howard County.

Two contemporary challenges that the city of Baltimore is currently facing are the high rates of gentrification and incarceration, which threatens the economic and financial stability of the city's black citizens and that consequently have increased the racial tensions.

## Gentrification in Baltimore

Baltimore experienced one of the highest rates of gentrification in the U.S. From 2000 to 2013, Baltimore, making it the fifth-highest rate of gentrification in the United States, ranking behind bustling cities such as New York, Los Angeles, Washington D.C., and Philadelphia, according to a new study by the National Community Reinvestment Coalition (NCRC), a nonprofit organization. Baltimore joined those four cities and San Diego and Chicago in accounting for half the gentrification that occurred nationwide in that time frame in the U.S.

Using Census data, the NCRC determined that 171 of Baltimore's 679 census tracts were eligible for gentrification, defined as having home values in the bottom 40 percent of the city in 2000. Of those, 38 tracts — or 22 percent — experienced gentrification, which researchers defined as areas that rank in the 60th percentile of increases in median home value and the number of residents with college degrees. Five of these tracts saw the displacement of black residents, with

an average loss of 673 black residents and an average increase of 110 white residents, 235 Hispanic residents, and 22 Asian residents. That rate of black displacement ranks ninth in the country.

By and large, however, the flow of investment dollars and wealthy residents have followed a familiar trend in Baltimore. According to NCRC, in order to support local communities facing rapid gentrification, municipalities should enact measures such as the right of first refusal for renters in apartment buildings that are slated for redevelopment (something tenants in single-family rental properties currently have in Baltimore), down payment assistance programs, more affordable housing in new development projects, and tax abatement programs for people on fixed incomes (the city caps annual tax increases on homes at 4 percent, and the state offers the Homestead Tax Credit for the assessed value that increases more than 10 percent). Such policies can help residents participate in revitalization rather than be priced out.<sup>4</sup>

## Incarceration in Baltimore

The NASCC survey is consistent with the American Community Survey. Both surveys provide representative samples of the general racial breakdown of Baltimore's population, with blacks constituting 62.4 percent and whites constituting 30.5 percent of the total population. These statistics differ when comparing them to the racial breakdown of the national population, in which blacks constitute 13.4 percent and whites constitute

76.3 percent. According to the US Census, it is worth pointing out that Baltimore grew to having a black majority in the 1970s, which has been maintained in the last two decennial censuses at approximately 63 percent of the population.

<sup>4</sup> Weigel, Brandon, 2019, Baltimore has seen one of the highest rates of gentrification in the U.S., Baltimore – FishBowl.

**TABLE 1. Incarceration Rate Comparison among the Nation, State, and City**

Jurisdiction	Prison Population (2010)	Census Population	Incarceration Rate
Baltimore City	7,795	620,961	1.26%
Maryland	22,087	5,773,552	0.38%
United States	1,404,032	308,745,538	0.45%

**Sources:** Baltimore City, Maryland Department of Planning and Redistricting, “Congressional and Legislative Districts, Data for Download, July 2014. Maryland people in prison: Maryland Department of Public Safety and Correctional Services, Secretary’s End of Year Report FY2010 (Towson, MD: Maryland Department of Public Safety and Correctional Services, 2010). U.S: E. Ann Carson, Prisoners in 2013 (Washington, DC: Bureau of Justice Statistics, September 2014).

Given the size and percentage of the black population and the persistent mistreatment of black citizens by the police in the city of Baltimore, it is not surprising to see a city incarceration rate of 1.26 percent — which triples the state of Maryland (0.38 percent) and the country (0.45 percent) as shown in Table 1. According to the 2019 report on incarceration, 72 percent of the state’s prison population is black, compared with about 30 percent of the state population. The proportion of Maryland’s black prison population is more than double the national average of 32 percent.<sup>5</sup> Sadly, this is not unique to Maryland, in 11 states around the nation, more than half of the prison population is black: Alabama, Delaware, Georgia, Illinois, Louisiana, Maryland, Michigan, Mississippi, New Jersey, North Carolina, South Carolina, and Virginia. Maryland, however, tops the nation with 72 percent of its prison population being black.<sup>6</sup>

Incarceration represents a serious issue for the city of Baltimore and the US, contributing to widespread social ills and the breakdown of the family unit. For example, close to six million kids in America have experienced having a parent taken to prison or jail at some point in their lives. The incarceration of a parent can be devastating to a household’s stability and have as much impact on a child’s well-being as abuse or domestic violence.<sup>7</sup> As many as one in ten African

American students has an incarcerated parent. One in four has a parent who is or has been incarcerated. The incarceration of black parents is a notable cause of black children’s lowered performance, especially in schools where the impact of the trauma of parental imprisonment on academic performance is measurable. Many studies show that parental incarceration leads to an array of social and economic challenges for kids and their families contributing to a broader racial wealth gap (Morsy Leila, and Rothstein, Richard. 2016).

In 2014, over 700,000 prisoners nationwide were serving sentences of a year or longer for nonviolent crimes. Over 600,000 of these were in state, not federal, prisons, highlighting state prisons’ role in driving incarceration rates (Morsy Leila, and Rothstein, Richard. 2016). In terms of black incarcerations, most of them are of poor or financially disadvantaged individuals leading to an ever-revolving vicious cycle of poverty and imprisonment. Over the years, the incarceration rate of middle-class blacks declined and did not contribute to the rapidly rising rate of incarcerations. The wave of incarceration seen from the 1970s through 2010s, started with the 1971 launch of the “War on Drugs” and maintained by the Sentencing Reform Act of 1984 and the 1994 Violent Crime Bill, among others, has led to a deterioration of race relations and trust of police particularly in

<sup>5</sup> 2019 Report – Proportion of Maryland black prison population is more than double the national average of 32%. By Jessica Anderson

<sup>6</sup> Nellis, Ashley. The Color of Justice: Racial and Ethnic Disparity in State Prisons. The Sentencing Project. 2016.

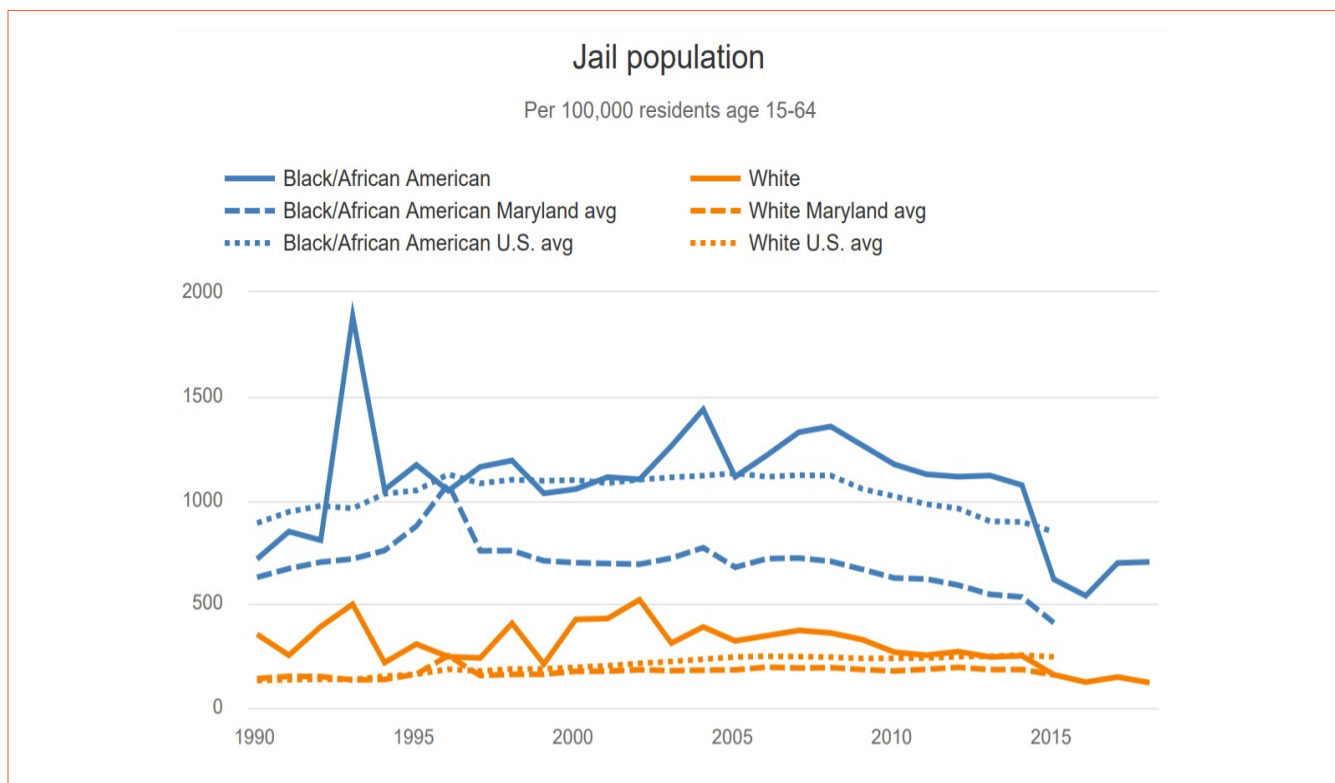
<sup>7</sup> Nearly Six Million Kids Are Impacted by Parental Incarceration – November 17, 2011, by The Annie E. Casey Foundation. [https://www.aecf.org/blog/a-growing-number-of-kids-are-impacted-by-parental-incarceration/?gclid=Cj0KCQjw6-SDBhCMARIsAGbI7UgFUKAUMhg8XByCfdHtM80RYn6RDwTfK5Bv27F0hBiCvzja5KMOxUaAILgEALw\\_wcB](https://www.aecf.org/blog/a-growing-number-of-kids-are-impacted-by-parental-incarceration/?gclid=Cj0KCQjw6-SDBhCMARIsAGbI7UgFUKAUMhg8XByCfdHtM80RYn6RDwTfK5Bv27F0hBiCvzja5KMOxUaAILgEALw_wcB)

neighborhoods of concentrated disadvantage. It does not help the fact that approximately 80 percent of the police officers patrolling these neighborhoods in Baltimore are white and are less likely to live in the city.<sup>8</sup>

The overrepresentation of blacks in the imprisoned population highlights institutional discrimination in the policing of black neighborhoods. Research shows that young black men are no more likely to use or sell drugs than young white men, but they are nearly three

times as likely to be arrested for drug use or sale; once arrested, they are more likely to be sentenced; and, once sentenced, their jail or prison terms are 50 percent longer on average. Similarly, black drivers are no more likely than white drivers to change lanes without signaling. Still, they are more likely to be stopped by police for doing so, and, once stopped, they are more likely to be caught up in the penal system, including jail time for inability to pay fines (Morsy Leila, and Rothstein, Richard. 2016).

**FIGURE 1. Jail and Prison Population**



**Source:** Vera assembled the Incarceration Trends dataset using information provided to the U.S. Department of Justice Bureau of Justice Statistics (BJS) by state and local corrections authorities and information from the websites of state correctional authorities. For complete detail on data sources, see the Incarceration Trends Codebook and methodology.

**Notes:** Dramatic year-over-year changes and conspicuously high or low values may merit further inquiry and are best corroborated by the applicable state or local correctional authority. State and local governments often report race and ethnicity data in a way that is inconsistent with federal standards. Some of the more common issues are the misclassification of Latino people as White, and incomplete race data, more generally. For more information, see “Challenges surrounding the collection of jail data about race and ethnicity,” in *Divided Justice: Trends in Black and White Jail Incarceration, 1990–2013*.

<sup>8</sup> See “Black cops say discrimination, nepotism behind U.S. police race gap” by Andrea Shalal and Johanathan Landsay. Reuters July 2, 2020. <https://www.reuters.com/article/us-minneapolis-police-blackofficers/black-cops-say-discrimination-nepotism-behind-u-s-police-race-gap-idUSKBN2432T8>

Since the early 2010s, incarceration rates have decelerated citywide, state-wide, and nationally (see Figure 1). The recent drop in incarcerations coincides with police killings of blacks across the city, state, and the country that received national attention and the renewal of the Crime Bill in 2013. Figure 1 shows that the largest drop was for the incarceration of blacks. Out of the three jurisdictions (city, state, and national),

the city of Baltimore experienced the largest decline. In 2018, the Trump administration signed into law the First Step Act, a bipartisan effort to improve the criminal justice outcomes, reduce the size of the federal prison population, and maintain public safety. This critical “first step” could have positive spillover effects at the state and local level, given that approximately 85 percent of the prison population is in state prisons.<sup>9</sup>

## ● 3. Methodology

In 2016-2017, RTI International conducted data collection for one component of a far-ranging research effort known as the National Asset Scorecard for Communities of Color. Through a contract with Duke University, with funding from the Ford Foundation and the Annie E. Casey Foundation, RTI conducted telephone interviews with 254 respondents in Baltimore City for the intersectional

study on race, wealth, and incarceration exposure. The study addressed gaps in current research and was developed soon after the arrest and death of Freddie Gray and the subsequent race riots in April 2015. For more details on the methodological approach and survey administration, please see Appendix A and Appendix B, respectively.

## Research Questions

The overarching research questions of the study are: What is the racial wealth gap between white and black households in the city of Baltimore? Are these racial gaps made worse by the high rate of household incarceration exposure? Moreover, in light of incarceration exposure and financial services discrimination, do black and white families behave differently regarding household financial and wealth-building decisions?

The limited available funding prohibited an in-person survey for the current study, so we opted for a random digit dial (RDD) telephone survey. We considered a web-based survey but rejected that mode for two main reasons: (1) the survey was lengthy (approximately 35-40 minutes), so it needed to be accessed on laptops or desktops and not mobile devices, and (2) the target population of interest — households in Baltimore City with incarceration history — is less likely to be reached and successfully recruited using web-based ads or

web-based panels. We also considered a mail-in survey, but the response rate would likely be extremely low given our target population.

### **A potential sample member was defined as an individual who met the following criteria:**

- A. Lived within the geographic boundaries of Baltimore City.**
- B. Was at least 18 years old.**
- C. Had a household member (including the individual) who was convicted or had spent more than 30 days in a correctional institution, including a jail, prison, or youth correctional facility.**

<sup>9</sup> Source: Prison Policy Initiative, Department of Justice Statistics.

## ● 4. Descriptive Analysis and Discussion

Our NASCC Baltimore sample consists of 254 observations at the household level. Out of these, 155 identify themselves as blacks and 99 as whites, with some identifying themselves as mixed (see Table 2). When comparing the incarceration rates among different racial groups, blacks consistently experience higher incarceration rates than the other groups, leading to an overrepresentation of blacks within the prison and jail population. Participants were asked several questions regarding their financial and incarceration status to better understand the impact of incarceration exposure on wealth acquisition and inequality.

In terms of incarceration exposure, we define a household as being exposed to incarceration if at least one of the household members has been in prison at any point in their lives. Four of every ten households in our sample have been exposed to incarceration. Among black households, 37.4 percent have an incarceration history, while only 26.3 percent of white households have incarceration exposure (see Table 2).

**TABLE 2. Racial and Incarceration Status**

Race/Incarceration Status	Sample	Percent
Black Only	151	59.4
Black and Other Non-white	4	1.6
Black and White	7	2.8
White and Other Non-black	3	1.2
White Only	89	35
Incarceration Exposure	101	39.8
Black – No Incarceration Exposure	97	62.6
Black – Incarceration Exposure	58	37.4
White – No Incarceration Exposure	73	73.7
White – Incarceration Exposure	26	26.3
<b>Total Observation</b>	<b>254</b>	<b>100</b>

Unfortunately, such a difference in incarceration exposure negatively impacts the household wealth generation potential for black households, contributing to the racial wealth gap in America. Research shows that incarceration imposes a significant financial burden on a family. In addition to the possible reduction in household income when a household member is incarcerated, families incur substantial costs while supporting incarcerated loved ones (Grinstead et al., 2001; Harris et al., 2010; Wagner and Rabuy, 2017). Other costs associated with incarceration have both short and long-term effects on household wealth and debt accumulation. For example, families often bear the costs for bail bonds, legal fees and debts (Harris et al., 2010), pay-per-minute phone calls (Grinstead et al., 2001;

Wagner and Rabuy, 2017), commissary purchases (Wagner and Rabuy, 2017), and travel back and forth to jails and prisons (Grinstead et al., 2001).

Furthermore, the persistent black-white wealth gap is correlated with federal and state policies that have systematically deprived black Americans.<sup>10</sup> From the exploitation of blacks during slavery to systematic oppression in the Jim Crow South to today's institutionalized racism — apparent in disparate access to and outcomes in education, health care, jobs, housing, and criminal justice — government policy has created or maintained hurdles for African Americans who attempt to build, maintain, and pass on wealth.<sup>11</sup>

## Financial Account Usage

Access to quality and fair financial services is vital to create and maintain wealth. We use financial service accounts to measure household usage. Our study defines financial account usage as having access to financial tools and services like banking, stocks, retirement, and checking account/cash. The results on the question pertinent to account usage support the disparity between white and black households. More specifically, when comparing the use of banking services, investment in stocks, and having a retirement account, white households with no incarceration exposure show more engagement, suggesting a much better financial prospect in terms of net wealth accumulation (see Table 3). The overall correlation

of incarceration on the usage of financial accounts in Baltimore is negative, as indicated by the household usage rates of those households with incarceration history compared to black and white households with no incarceration exposure, respectively. Furthermore, households with incarceration exposure are much more dependent on the cash economy, as indicated in column (4). Black families, independent of incarceration history, are more likely to depend on cash and checks. The results in Table 3 suggest a substantial disparity in the usage of financial tools between white and black families. Such disparity worsens when including the incarceration factor.

**TABLE 3. Financial Accounts Usage Baltimore**

Race and Interaction	Banked	Stocks	Retirement	Check/Cash
Black – No Incarceration Exposure	0.76	0.08	0.4	0.13
Black – Incarceration Exposure	0.56	0.04	0.16	0.19
White – No Incarceration Exposure	0.92	0.35	0.83	0.03
White – Incarceration Exposure	0.77	0.19	0.5	0.03
Incarceration Exposure	0.61	0.08	0.25	0.16

<sup>10</sup> Western, Bruce and Pettit, Becky. Incarceration & social inequality, DÆDALUS, 2010.

<sup>11</sup> Weller, Christian E. and Robert, Lily. Eliminating the Black-White Wealth Gap Is a Generational Challenge, Center for American Progress, 2021.



According to the 2019 Survey of Consumer Finances (SCF), white households have more emergency savings than black families. Nearly all families have some liquid assets, such as checking accounts, savings accounts, or prepaid cards. Conditional upon having a liquid asset, however, the average white household has considerably more liquid savings than the average black family. While the average black family has \$2,000 or less in liquid savings, the average white family has more than four times that amount.

Participation in retirement accounts and retirement plans is another important channel through which families build wealth and help provide financial security in retirement. These assets include individual retirement accounts (IRAs), which typically are not dependent on a family's employer, and two types of employer-sponsored plans: defined-contribution plans (DC), which are account-type job pensions such as 401(k)s, and traditional pensions (defined benefit plans, DB). Assets held in IRA and DC account plans are subject to preferential tax treatment, and DB plans guarantee a stream of income in retirement.

Ownership of IRA and DC retirement accounts rises among middle-aged families and then falls among older families. In all age groups, blacks and people of color are far less likely to have such retirement accounts. For example, among middle-aged families — which tend to have the highest rates of retirement account ownership — 65 percent of white households have at least one retirement account, compared to 44 percent of black households.

Overall, these gaps in retirement plan access, participation, and account balances suggest non-white families will be less financially secure in retirement than white families. The above discussion ignores Social Security benefits and the net present value of DB plans, which are vital components of many families' retirement planning. These benefits are hard to account for because they involve assumptions about families' future earnings and years of work. Still, research suggests that accounting for these benefits can reduce overall wealth inequality in retirement resources (Bricker, Goodman, Moore, and Volz, 2020; Sabelhaus and Volz, forthcoming).<sup>12</sup>

## Tangible and Business Assets

Historically, homeownership rates tend to be higher for white households than for black households. Recent data show that white households have about twice the mean housing equity of households belonging to other racial groups. This means that black families are much less likely to purchase a home, and if they do, they are less likely to have homes that appreciate in value. They're also more likely to lose their homes through foreclosure. These housing-related gaps help explain, in part, the staggering disparity in wealth between whites and people of color, given that real estate is a significant component of wealth-building.<sup>13</sup>

Our findings show that although most households have positive non-housing equity, on average, the mean value of non-housing equity is at least four times greater

for white households than for black households — and the ratio is far more dramatic when looking at median values. Thus, the sizable difference in net worth appears to result largely from disparities in non-housing equity. Again, these results are not surprising in light of previous wealth studies (Wolf, 2000).

Non-housing equity is made up of financial assets and tangible assets. The mean financial wealth of white families is five times that of black families. We find that while most households in each group own liquid assets, ownership of stocks, bonds, IRAs, and other assets varies widely. About 36 percent of white households report owning stocks; the mean value of those stocks is \$24,933. However, less than 10 percent of black households report owning stock, resulting in much

<sup>12</sup> Jesse Bricker, Sarena Goodman, Kevin Moore, and Alice Henriques Volz. 2020. "Wealth and Income Concentration in the SCF: 1989-2019," FEDS Notes. John Sabelhaus and Alice Henriques Volz (forthcoming). "Social Security Wealth, Inequality, and Lifecycle Saving," in *Measuring and Understanding the Distribution and Intra/Inter-Generational Mobility of Income and Wealth*. NBER Book Series Studies in Income and Wealth. The University of Chicago Press.

<sup>13</sup> White, Gillian B, 2016, *Why Blacks and Hispanics Have Such Expensive Mortgages* High-cost lenders are targeting these communities, preventing them from building wealth to pass on to their children. *The Next Economy*.

lower mean holdings: \$3,387 and \$1,608, respectively. It is important to note that the median value of stocks, bonds, and other assets is zero for all households, regardless of race or ethnicity. Thus, even though white households report high mean values as a group, fewer than half own stocks, bonds, or other assets.

Tangible assets are larger, on average than financial assets. Mean tangible assets of white households are more than three times those of black households. Most households have equity in one or more vehicles.

Relatively few households in any group own equity in a business, but among those that do, the differences are large for whites but not for blacks when comparing across incarceration exposure. About one-third of white households and about one-fifth of black households own real estate other than their primary residence. The median household of all groups owes no debt, and the mean debt owed by all groups is roughly the same.<sup>14</sup>

**TABLE 4. Tangible and Business Assets Baltimore**

Race and Incarceration	Home Owner	Vehicle	Business	Other Real Estate
Black – No Incarceration Exposure	0.34	0.52	0.06	0.1
Black – Incarceration Exposure	0.13	0.27	0.05	0.03
White – No Incarceration Exposure	0.70	0.89	0.09	0.23
White – Incarceration Exposure	0.35	0.65	0.001	0.04
Incarceration Exposure	0.19	0.37	0.04	0.03

Table 4 depicts a negative impact of incarceration exposure in relation to homeownership, possessing a vehicle, and owning a business. Among all these mentioned characteristics, black households with incarceration exposure have the lowest percentages, indicating significant gaps in all these indicators. Owning a vehicle, which is needed to commute to work, shows a gap of 25 percent, regardless of race, between persons with incarceration and no incarceration exposure. This statistic shares a clear detrimental impact of imprisonment. Furthermore, there is almost a 40 percent disparity when pertaining to owning a vehicle between white households with no incarceration and black households with no incarceration history, portraying the racial gap experience in America.

Racial and ethnic differences in housing equity narrow among households in the higher income quartiles, whereas differences in non-housing equity generally widen as income increases. The widening gap in non-housing equity stems from differences in financial asset holdings, particularly risky assets. At every income quartile and educational level, the percentage of black households that own risky, higher-yielding assets is considerably smaller than that of white families. Thus, some of the wealth gaps appear to be attributable to differences in assets and saving behavior.

<sup>14</sup> <https://www.ssa.gov/policy/docs/ssb/v64n4/v64n4p1.html#mn11>

## Intergenerational Transfers

An intergenerational transfer is the transmission of an asset or something of value from a member of one generation to a member of another. Unlike an exchange, loan, or purchase, there is no expectation that the recipient will repay the giver either directly or indirectly. Often, this refers to a transfer across generations of kin, for example, from a grandparent to a grandchild. However, generation is a loosely defined concept, and it can simply mean a different age group.

Although transfers do not involve a quid pro quo between the giver and the receiver, they may instead involve an understanding or at least an expectation that the recipient will make a similar transfer in the future to someone in a similar position. For example, children may receive transfers from their parents with an implicit understanding that they will, in turn, make similar transfers to their own children when they are adults. Alternatively, adult children may support their elderly parents with the implicit understanding that their children will support them in their old age.

Wealth-holding can differ across groups due to the intergenerational transmission of wealth. There are numerous ways families can transmit wealth and resources across generations. Families can directly transfer their wealth to the next generation in the form of a bequest. They can also provide the next generation with inter vivos transfers (gifts), for example, providing

down payment support to enable a home purchase or a substantial wedding gift. By some estimates, bequests and transfers account for at least half of aggregate wealth (Gale and Scholz 1994), have recently averaged 3 percent of total household disposable personal income (Feiveson and Sabelhaus 2018), and account for more of the racial wealth gap than any other demographic or socioeconomic indicator (Hamilton and Darity 2010). In addition to direct transfers or gifts, families can make investments in their children that indirectly increase their wealth. For example, families can invest in their children's educational success by paying for college or private schools, which can increase their children's ability to accumulate wealth. For these reasons, wealth (or a lack thereof) can persist across generations and reflect, among other factors, a legacy of discrimination or unequal treatment in housing, education, and labor markets.

One reason wealth-holding is relatively high among white families is they are considerably more likely to have received an inheritance or gift. White families report other indicators associated with higher levels of family support. For example, we find that nearly 30 percent of white households report having received an inheritance or gift, compared to about 10 percent of black households. Conditional upon receiving an inheritance or gift, white families also tend to receive larger inheritances.

**TABLE 5. Intergenerational Transfers**

Race and Incarceration	In Vivo Transfer	Inheritance	Inheritance or Transfer	Parents Inheritance
Black – No Incarceration Exposure	0.17	0.08	0.25	0.07
Black – Incarceration Exposure	0.11	0.05	0.19	0.12
White – No Incarceration Exposure	0.35	0.23	0.42	0.21
White – Incarceration Exposure	0.35	0.08	0.31	0.27
Incarceration Exposure	0.19	0.06	0.22	0.16

Table 5 shows that 35 percent of white households with and without incarceration exposure report receiving in vivo transfers. This is significantly higher than the respective number for black households, 17 percent and 11 percent; while 23 percent of whites with no incarceration history report receiving an inheritance, this number shoots up to 42 percent when considering both inheritance or transfers. This compares to only 25 percent for blacks with no incarceration history. While 31 percent of white households with incarceration exposure say they received an inheritance or a transfer. This compares to only 19 percent for black families with incarceration exposure. This underlines the existence of both racial and incarceration-related inheritance gaps.

Some households may not yet have received an inheritance (for example, if their parents are still alive) but expect to receive one in the future. White households are both more likely to have received

an inheritance. They are also more likely to expect to receive an inheritance: About 17 percent of white households expect an inheritance, compared to 6 percent of black households. Similarly, conditional upon expecting to receive an inheritance in the future, white families expect to receive relatively larger inheritances.

Additionally, white and other families are more likely to report other indicators associated with higher levels of family support. For example, white families are considerably more likely to report being able to obtain \$3,000 from a family member or friend in a financial emergency than black families. They are also more likely to have a parent with a college degree. Since higher levels of education are associated with higher levels of wealth (Bhutta et al., 2020), this association suggests white families are likely to have wealthier parents than black or families.<sup>15</sup>

## Student Loans, Fines & Fees, and Legal & Medical Fees

As in prior NASCC studies, participants responded to questions on whether they were holding debts that were not supported by an underlying asset: credit card debt, student loans, and medical debts fall into this category. The comparison of these debts also needs to consider

the type of investment and planning behind their creation. Student loans represent long-term plans, while credit card and medical debts could reflect a response to short-term shocks.

**TABLE 6. Student Loans, Fines & Fees, and Legal & Medical Fees**

Race and Incarceration	Student Loans	Legal Bills	Fine or Fees	Medical Bills
Black – No Incarceration Exposure	0.28	0.07	0.02	0.34
Black – Incarceration Exposure	0.23	0.15	0.15	0.33
White – No Incarceration Exposure	0.38	0.02	0.40	0.12
White – Incarceration Exposure	0.12	0.04	0.08	0.27
Incarceration Exposure	0.20	0.12	0.13	0.32

**Note:** Because of the small sample, the proportions are likely to be biased by the number of participants who responded to these questions. More discussion is needed to define these questions better such that all participants are encouraged to respond to them.

<sup>15</sup> Federal Reserve Bulletin, Division of Research and Statistics, Board of Governors of the Federal Reserve System, 2020, Vol 106, N 5. <https://www.federalreserve.gov/publications/files/scf20.pdf>

Table 6 shows the proportion of households that responded to holding any debt related to credit cards, student loans, and medical bills. Although the proportions follow a pattern of a better debt position among non-incarceration-exposed white households, the differences are not statistically significant. Student loans penetration is the highest for white families with no incarceration history (38 percent) and lowest for white households with incarceration exposure (12 percent).

Legal fees are highest for blacks with incarceration (15 percent) and lowest for white families with no incarceration history (2 percent). In terms of fines and fees, whites with no incarceration exposure have the highest penetration at 40 percent. At the same time, medical bills seem to be the highest and very similar for blacks independent of incarceration history (average of 33.5 percent). White households with no incarceration history reported the lowest medical bills penetration.

## Alternative and Predatory Finance

One interesting element of the phone survey was that participants were asked about their use of non-traditional financial services. According to García-Pérez, et al., 2020, these alternative services provide access to some of the main financial resources for the incarcerated population and low-income households. Table 7 shows the proportions of self-reported financial status and the debt of non-traditional financial services. Our sample shows that the non-incarceration households have the lowest penetration of respondents saying that they use non-traditional services at 5 percent. In

comparison, the average for blacks and whites with incarceration history hovers around 17 percent. This shows that non-traditional financial services tend to charge marginalized communities with higher fees than traditional financial services. According to García-Pérez, et al., 2020, respondents using non-traditional financial services debts also have low FICO credit scores.<sup>16</sup> This last finding provides the base for predatory financial practices against vulnerable members of society.

**TABLE 7. Alternative and Predatory Finance**

Race and Incarceration	Payday Loan	Pawn Shop	Non-Traditional Finance	Non-Traditional or Check/Cash
Black – No Incarceration Exposure	0.11	0.07	0.18	0.25
Black – Incarceration Exposure	0.05	0.09	0.16	0.27
White – No Incarceration Exposure	0.03	0.02	0.05	0.06
White – Incarceration Exposure	0.001	0.15	0.19	0.27
Incarceration Exposure	0.04	0.11	0.17	0.27

<sup>16</sup> FICO score is a credit score created by the Fair Isaac Corporation (FICO).

## Median Asset Values

Because liquid assets are considered safer and include common instruments such as checking and savings accounts, it is not surprising that a substantial proportion of households in every income quartile report having some liquid assets. In the lowest income quartile, a much higher proportion of white families own liquid assets than do black households (Choudhury, 2002). In comparison, racial differences in liquid asset ownership rates decline in higher-income quartiles.

From a different perspective, stock ownership and the value of stock ownership vary not only between the top and the bottom income quartiles but also between white and black households. Stock ownership is known to be very skewed to higher-income quartiles (Wolff, 1998). According to Choudhury, (2002) even families in the lowest quartile own some stock, and while stock ownership generally rises with income, it does so much more slowly among black households (Choudhury, 2002). In the highest income quartile, 26 percent of black families own stock. The mean value of stocks is

less skewed across stock-owning households than it is across all households. The substantial variation in value across all households results from the patterns of stock ownership observed across the different racial groups.

Bond ownership is much lower than stock ownership. Even within the top income quartile, less than 20 percent of white households own bonds. Across all income quartiles, the mean bond wealth of all households is smaller than the mean value of stock portfolios. Too few black households own bonds across all income quartiles to allow further comparisons (Choudhury, 2002).

A larger percentage of households in all income and racial groups own IRAs than own other risky financial assets such as stocks and bonds. Ownership rates of IRAs increase with income in all racial groups. A sizable proportion of white households in all income quartiles and black households in the top quartile own some form of other assets, including money owed by others, valuable collections, and annuities.

**TABLE 8. Median Asset Values**

Race and Incarceration	Liquid Assets	Financial Assets	Tangible Assets	Assets
Black – No Incarceration Exposure	\$333	\$449	\$0	\$2,692
Black – Incarceration Exposure	\$0	\$0	\$0	\$2
White – No Incarceration Exposure	\$18,996	\$72,299	\$28,500	\$137,500
White – Incarceration Exposure	\$960	\$1,550	\$2,150	\$3,568
Incarceration Exposure	\$50	\$31	\$0	\$145

The results in Table 8 reveal that previous-incarcerated households have the lowest levels of liquid assets showing the median household with \$50 in liquid assets. When broken down by racial group, we see that the median black households have \$0 in liquid assets while the median white household has \$960. When comparing non-incarceration exposure households, we find that the sample of black families with no incarceration history has a balance of \$333 in liquid assets compared to \$18,996

for white families, representing 1.75 percent of the liquid assets held by white families. This is comparable to the findings from *The Color of Wealth in Washington, DC*, where a typical black household possesses 5 percent of the liquid assets of white households. Across all assets in Table 8, the median for black households with incarceration exposure is zero or close to zero. In terms of total assets, among never-incarcerated households, black families hold only two percent of the median

amount for white families. But interestingly, white households with incarceration exposure show higher levels of assets (\$3,568) than black households with no

previous incarceration, showing that at the median, we observe racial and incarceration exposure-driven disparities.

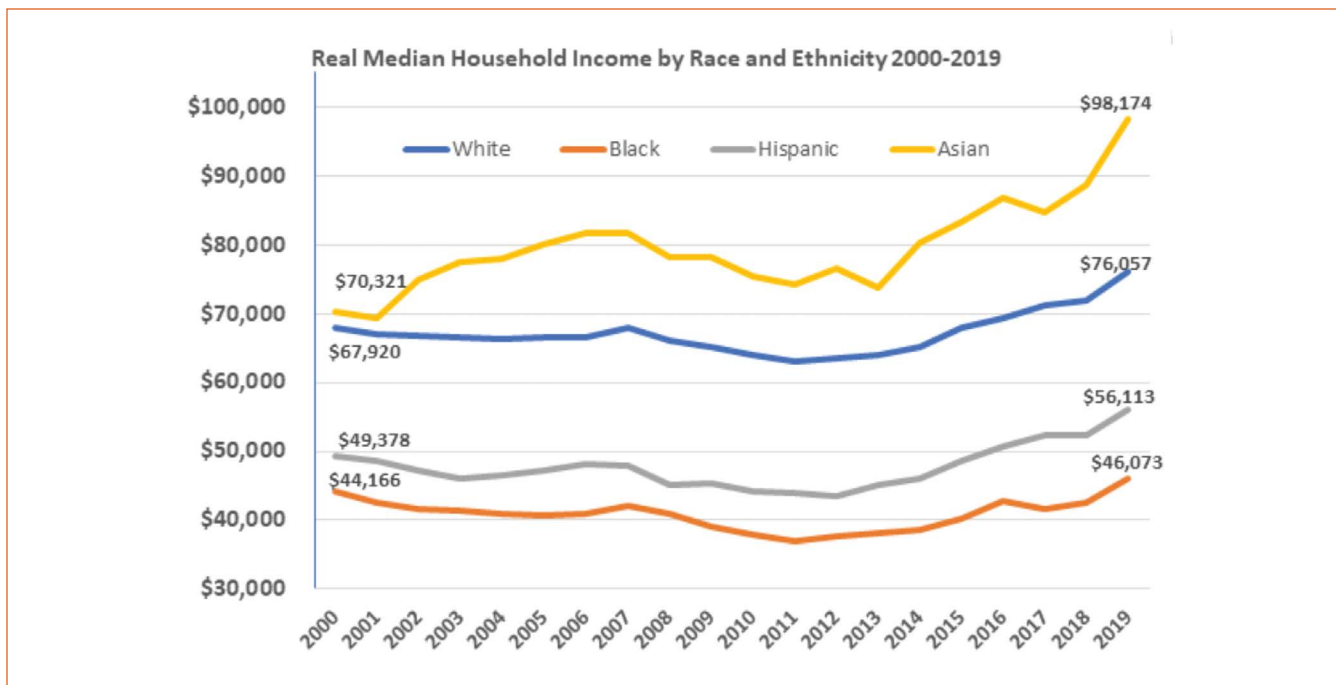
## Household Income Distribution

According to a study conducted by the Economic Policy Institute (EPI), family income has a positive and statistically significant effect on the rate of response among blacks (both never incarcerated and ever-incarcerated).<sup>17</sup>

In 2019, the median black household earned just 61 cents for every dollar of income the median white household earned (up from 59 cents in 2018). Based

on EPI's imputed historical income values (see the note under Figure 2 for an explanation), black households finally surpassed their pre-recession median income 12 years after the start of the Great Recession in 2007 — the last racial group to do so. Unfortunately, this recovery of income has been cut short by massive job losses, particularly among blacks and people of color workers, during the current pandemic and recession.

**FIGURE 2. Real Median Household Income by Race and Ethnicity 2000-2019**



**Source:** EPI analysis of Current Population Survey Annual Social and Economic Supplement Historical Poverty Tables (Table H-5 and H-9).

**Note:** Because of a redesign in the CPS ASEC income questions in 2013, we imputed the historical series using the ratio of the old and new methods in 2013. Solid lines are actual CPS ASEC data; dashed lines denote historical values imputed by applying the new methodology to past income trends. The break in the series in 2017 represents data from both the legacy CPS ASEC processing system and the updated CPS ASEC processing system. White refers to non-Hispanic whites, Black refers to Blacks alone or in combination, Asian refers to Asians alone, and Hispanic refers to Hispanics of any race. Comparable data are not available prior to 2002 for Asians. Shaded areas denote recessions.

<sup>17</sup> [s://www.epi.org/blog/racial-disparities-in-income-and-poverty-remain-largely-unchanged-amid-strong-income-growth-in-2019/](https://www.epi.org/blog/racial-disparities-in-income-and-poverty-remain-largely-unchanged-amid-strong-income-growth-in-2019/)

Table 9 exhibits a pervasive household income gap between whites and blacks (no incarceration experience) of about 250 percent. In short, whites household income is on average 2.5 times greater than black household income, while it is 1.7 times greater for white households than black households with incarceration expiration. A

key finding of this analysis is that the mean and the 75th percentile of responses indicated that white households with incarceration experience have a higher level of household income than black households without incarceration experience.

**TABLE 9. Household Income Distribution**

Race and Incarceration	25th Percentile	75th Percentile	Median	Mean
Black – No Incarceration Exposure	\$5,000	\$60,000	\$27,000	\$36,997
Black – Incarceration Exposure	\$2,300	\$38,000	\$12,060	\$25,493
White – No Incarceration Exposure	\$42,000	\$120,000	\$77,500	\$88,195
White – Incarceration Exposure	\$5,000	\$70,000	\$20,800	\$41,220
Incarceration Exposure	\$2,400	\$40,000	\$15,000	\$29,542

## Wealth Distribution

Recent national data from the 2019 Survey of Consumer Finances (SCF) show that long-standing and substantial wealth disparities between families of different racial groups have changed little since the last survey in 2016; the typical white family has eight times the wealth of the typical black family.<sup>18</sup>

In the 2019 SCF, white households have the highest median and mean household wealth levels: \$188,200 and \$983,400, respectively. While black families' median and mean wealth amounts are \$24,100 and \$142,500, respectively, less than 15 percent of the amounts for white households. Other people of color have lower wealth than white households but higher wealth than black households. The same patterns of inequality in the distribution of wealth across all families are also evident within race/ethnicity groups; for each of the four-race/ethnicity groups, the mean is substantially higher than the median, reflecting the concentration of wealth at the top of the wealth distribution for each group.

Between 2016 and 2019, median wealth rose for all racial and ethnic groups. Growth rates for the 2016–19 period were faster for black and Hispanic families, rising 33 and 65 percent, respectively, compared to white families, whose wealth rose 3 percent, and other families, whose wealth rose 8 percent. That said, the faster growth in wealth for black and Hispanic families only resulted in modest changes in the gaps in wealth between these families and white families. The white-black gap in median wealth was little changed, from \$163,700 in 2016 to \$164,100 in 2019, and the white-Hispanic gap fell modestly from \$160,000 in 2016 to \$152,100 in 2019.

While the NASCC study in Baltimore was conducted earlier, in 2016, its findings still align with Bhutta et al. (2020) research, showing that nationally black households' wealth tends to be below the national mean and median household wealth. These statistics are consistent for black households even at the 75th percentile.

<sup>18</sup> Neil Bhutta, Andrew C. Chang, Lisa J. Dettling, and Joanne W. Hsu with assistance from Julia Hewitt, Disparities in Wealth by Race and Ethnicity in the 2019 Survey of Consumer Finances. Division of Research and Statistics, Board of Governors of the Federal Reserve System. September 28, 2020.



Using the NASCC data for Baltimore, Table 10 shows that the average wealth for white households with no incarceration exposure in Baltimore is \$279,666. While for white households with incarceration history, the mean wealth is \$28,865. In comparison, black households with no incarceration exposure have a mean wealth of \$33,180, and for black households with incarceration exposure, it is -\$407. In other words, the average wealth for white households with

no incarceration is more than eight times greater than for black households with no incarceration experience. When comparing it to black households with incarceration exposure, the wealth gap is more prominent. Furthermore, our study finds that white households with incarceration history have a higher median level of wealth than black households with no incarceration history.

**TABLE 10. Wealth Distribution**

Race and Incarceration	25th Percentile	75th Percentile	Median	Mean
Black – No Incarceration Exposure	-\$7,799	\$46,998	\$0	\$33,180
Black – Incarceration Exposure	-\$7,639	\$2,000	-\$150	-\$407
White – No Incarceration Exposure	\$6,350	\$440,997	\$125,400	\$279,666
White – Incarceration Exposure	-\$500	\$49,850	\$2,100	\$28,865
Incarceration Exposure	-\$6,500	\$6,250	\$0	\$6,680

It is worth noting that the patterns for the 2016-2019 period follow variation across groups in experiences in the Great Recession (2007 to 2010), the immediate aftermath (2010 to 2013), and the continued economic expansion (2013-2019). Median wealth fell about 30 percent for all groups during the Great Recession. However, black and Hispanic households' wealth

continued to fall an additional 20 percent from 2010 to 2013, while white households' wealth was essentially unchanged. After 2013, median wealth rose for all groups, with faster growth for black, Hispanic, and other families; nevertheless, these historical statistics illustrate the volatility and vulnerability of the financial stability of different racial groups.<sup>19</sup>

<sup>19</sup> <https://www.federalreserve.gov/econres/notes/feds-notes/disparities-in-wealth-by-race-and-ethnicity-in-the-2019-survey-of-consumer-finance-20200928.htm>

## ● 5. Racial Wealth Gap Decomposition Analysis

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Although the above descriptive analysis provides some insight into the relationship between household incarceration exposure and earning and wealth, the question of whether incarceration exposure exacerbates the racial wealth gaps and intra-group differences is worth exploring.

This part of the analysis focuses on studying the wealth and earnings gaps by racial group and incarceration exposure. As before, we define a household with incarceration exposure as a household in which one or more of the household members have been in prison or jail at any point in their lives.

We begin by first analyzing the demographic and wealth-related variable summary statistics by racial groups and incarceration exposure in Baltimore and test for significance. Table 11 provides the summary statistics for our key variables used for our decomposition analysis, which we perform below, broken down by white and black racial groups. Household exposure to incarceration is defined as above. The variables for age, bachelor's degree or higher, married, female, born in the US, and earnings are for the head of the household and have the standard definitions. The variables for household income and net worth (or wealth) are for the total household. We expect variables such as age, education, marital status, and US-born to correlate positively with earnings and wealth while expecting the dummy variables for female and exposure to incarceration to correlate negatively. The mean is provided for the demographic characteristics for each of the racial groups, and the "Diff" column presents the difference between the two groups of interest. The

stars in the Diff columns indicate the level of statistical significance, \*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.1$ . The number of observations shown at the bottom of the tables is for the whole subsamples unless otherwise indicated.

Before discussing the descriptive analysis, it is important to note that our NASCC data have some missing observations for some of these variables included below. For example, the variable for age has missing values for 24 whites and 46 blacks. Earnings have missing values for 37 whites and 88 blacks. Annual household income has missing values for 10 whites and 26 blacks. Hence, the following analysis should be interpreted as indicative while keeping these sample limitations in mind.

We find that on average black households tend to be led by younger heads of household — approximately 4 years younger but the difference is not statistically significant; have lower education (16 percent with BA degree or higher versus 43 percent for whites); are less likely to be married; are more likely to be female; have a similar likelihood to be born in the US as whites and are more likely to be exposed to incarceration (37 percent versus 26 percent for whites but it is not statistically significant).

Annual earnings, household income, and wealth variables are shown in the second panel of Table 11. White households are the group with the higher average earnings, household income, and wealth of \$61,725 and \$76,378 and 217,858, respectively. The results show a substantial and statistically significant white-black racial earning, household income, and net worth gaps of \$29,929, \$43,008, and \$187,835, respectively.

**TABLE 11. Racial and Incarceration Exposure Summary Statistics**

	Racial Gap			Incarceration Gap		
	White	Black	Diff	Non-Incarceration	Incarceration	Diff
<b>Demographic Characteristics:</b>						
Age	42.31	38.18	4.12	40.02	39.53	0.5
Bachelor's Degree or Higher	0.43	0.16	0.27***	0.36	0.08	0.28***
Married	0.39	0.13	0.26***	0.25	0.2	0.04
Female	0.45	0.62	-0.16*	0.64	0.39	0.24***
Born in U.S.	0.96	0.97	-0.01	0.95	1	-0.05**
HH Exposure to Incarceration	0.26	0.37	-0.11	0	1	-1
<b>Earnings and Wealth:</b>						
Total Annual Earnings	61724.56	31795.51	29929.05***	48555.27	34768.07	13787.19
Annual Household Income	76377.5	33369.02	43008.48***	61553.9	29173.71	32380.20***
Net Worth	217858.29	30023.14	187835.15**	167430.77	-26686.59	194117.36***
<b>Observations</b>	<b>99</b>	<b>155</b>	<b>254</b>	<b>170</b>	<b>84</b>	<b>254</b>

These findings are consistent even when we use the medians to calculate the racial gaps, as shown in Table 12. An interesting result is that when we look at the median, the net worth for the median black household in Baltimore is \$0, whereas for white households it is \$59,430. Therefore, the median net worth gap is \$59,430, a fraction of the wealth gap we obtained when using the mean (\$217,858), which shows that outliers (wealthy white individuals) widen the racial wealth gap.

Table 11 also provides the summary statistics broken down by household incarceration exposure. It shows that households with incarceration exposure tend to be younger, less likely to have a female as the head of the household, more likely to be born in the US, and have lower annual household income (gap of \$32,380) and lower household net worth (a gap of \$194,117). The descriptive results show an earnings gap of \$13,787 for households with incarceration exposure as expected, but the gap is not statistically significant.

**TABLE 12. Median Earnings and Wealth by Race**

	Whites	N	Blacks	N
<b>Total Annual Earnings:</b>				
Median	60000	57	28000	67
<b>Annual Household Income:</b>				
Median	66000	88	20050	129
<b>Net Worth:</b>				
Median	59430	99	0	155

## Comparative Analysis of Incarceration Exposure

Table 13 explores the differential characteristics across racial groups and incarceration exposure relative to white households with no prior history of incarceration. Table 13 first compares white families with no incarceration history to white families with an incarceration history. We find that white households with incarceration exposure tend to be led by individuals with less education and by males. In terms of earnings, there is an earnings gap of \$25,956, but the gap is not statistically significant. However, we do find household income and net worth gaps that are statistically significant of \$60,680 and \$384,327, respectively. As a result, when looking at the within-group inequality for whites, we do see that incarceration history does, in fact, correlate with lower household income and wealth.

Hence, there is a wealth penalty for being exposed to incarceration.

When we compare white households with no incarceration history with black households with no incarceration history, white households tend to be led by more educated individuals and are more likely to be married. In terms of earnings, household income, and wealth, we find substantial and statistically significant gaps, \$34,183, \$56,163, and \$265,273, respectively. These income and wealth gaps are somewhat similar in both magnitude and significance when comparing white families with no incarceration history and black families with an incarceration history.

**TABLE 13. Racial and Incarceration Exposure Relative to White Households with Non-Incarceration History**

	vs. White Inc			vs. Black No Inc		vs. Black Inc	
	White NInc	White Inc	Diff	Black NInc	Diff	Black Inc	Diff
Age	43.13	39.89	3.23	37.51	5.62	39.35	3.77
Bachelor's Degree or Higher	0.53	0.15	0.38***	0.23	0.31***	0.05	0.48***
Married	0.44	0.27	0.17	0.1	0.34***	0.17	0.27***
Female	0.56	0.15	0.41***	0.69	-0.13	0.5	0.06
Born in U.S.	0.95	1	-0.05*	0.96	-0.01	1	-0.05*
Total Annual Earnings	65822.92	39866.67	25956.25	31640.02	34182.90***	32218.78	33604.14**
Annual Household Income	92927.44	32244.33	60683.10***	36764.94	56162.50***	27638.4	65289.04***
Net Worth (Wealth)	318792.62	-65534.23	384326.85**	53519.28	265273.34***	-9272.13	328064.75***
<b>Observations</b>	<b>73</b>	<b>26</b>	<b>99</b>	<b>97</b>	<b>170</b>	<b>58</b>	<b>131</b>

The above findings suggest that race trumps incarceration history in terms of household income and wealth gaps. However, if this is true, we should still see a “white wealth premium” when comparing white households with incarceration history to black households with and without incarceration exposure. We perform this exercise in Table 14 to disentangle these relationships. Table 14 compares blacks with and without incarceration exposure to whites with an incarceration history. Our findings provide interesting insights. The results show no statistical significance

for the income and wealth gaps. This indicates that white households with incarceration history and blacks, independent of incarceration history, tend to have similar income and wealth outcomes. In other words, these findings suggest that the existent racial wealth gaps are identical in size and effect to the incarceration-related wealth gaps. Furthermore, this perhaps highlights that the societal association of blackness with criminality is so strong that it affects all black households independent of incarceration history, in the same way, as households with incarceration history.

**TABLE 14. Racial and Incarceration Exposure Relative to White Households with Incarceration History**

	vs. Black No Inc			vs. Black Inc	
	White Inc	Black NInc	Diff	Black Inc	Diff
Age	39.89	37.51	2.39	39.35	0.54
Bachelor's Degree or Higher	0.15	0.23	-0.07	0.05	0.1
Married	0.27	0.1	0.17	0.17	0.1
Female	0.15	0.69	-0.54***	0.5	-0.35***
Born in U.S.	1	0.96	0.04*	1	0
Total Annual Earnings	39866.67	31640.02	8226.65	32218.78	7647.89
Annual Household Income	32244.33	36764.94	-4520.6	27638.4	4605.94
Net Worth (Wealth)	-65534.23	53519.28	-119053.51	-9272.13	-56262.1
<b>Observations</b>	<b>26</b>	<b>97</b>	<b>123</b>	<b>58</b>	<b>84</b>

If the above inferences are valid, we should not see significant differences when comparing only black households with and without incarceration exposure. Table 15 provides the findings for such a comparison. It helps validate our inferences showing only significance for net worth but not for earnings and household income. This is as expected given that racial

and incarceration history discrimination is more likely to affect labor-related variables and wealth if affected by multiple factors such as inheritance, housing, and financial markets, risk appetite, among others. Please see the different wealth-related factors in the below subsection.

**TABLE 15. Non-Incarceration vs. Incarceration Exposure for Black Households Only**

	Black No Inc	Black Inc	Diff
Age	37.51	39.35	-1.84
Bachelor's Degree or Higher	0.23	0.05	0.18***
Married	0.1	0.17	-0.07
Female	0.69	0.5	0.19*
Born in U.S.	0.96	1	-0.04*
Total Annual Earnings	31640.02	32218.78	-578.76
Annual Household Income	36764.94	27638.4	9126.54
Net Worth	53519.28	-9272.13	62791.41**
<b>Observations</b>	<b>97</b>	<b>58</b>	<b>155</b>

## Wealth: Total Assets and Liabilities (Debts)

To shed some light on what drives this alarming wealth gap between whites and blacks, we break down our calculations of wealth (net worth). Our wealth variable is measured as the total household net worth — calculated by subtracting each respondent’s reported total debts (or liabilities) from total assets. The value of total assets includes home equity, other real estate, vehicle equity, business equity, money in checking, savings, and money market accounts, stocks, mutual funds, retirement assets, and other assets. Total debt includes debts from credit cards, installment loans, student loans, medical debt, legal debt, money owed to friends and relatives, and other debts (see Appendix C for more details). Table 16 shows the average dollar amount for the different assets and liabilities by race and incarceration exposure. Table 16 shows the average dollar amount for each of these components.

The findings show drastic differences in black and white portfolios. The results show that home equity and other real estate investments are the two main components of total assets for black households in Baltimore. For white families, the main component of total assets is retirement assets, followed by home equity. Whites also hold a significant portion of their total assets in stocks, mutual funds, and other assets, unlike for black households. In terms of debt, we find that legal and medical debts are the top two liabilities for white families, while student loans and other debts are the main two liabilities for black families.

**TABLE 16. Total Assets and Liabilities by Racial Group and Incarceration Exposure**

	Racial Gap			Incarceration Gap		
	White	Black	Diff	Incarceration	Non-Incarceration	Diff
<b>All Assets:</b>						
Home Equity	57727.12	21317.98	36409.14	48203.57	9848.1	38355.46
Other Real Estate	39318.37	7346.41	31971.96*	29594.01	416.67	29177.35***
Vehicle Equity	10853.61	5215.79	5637.82*	9121.35	4073.78	5047.57*
Business Equity	16067.71	1042.48	15025.22	10074.85	237.8	9837.05*
Checkings, Savings, and Money Market Accounts	41758.01	6772.6	34985.41**	26039.54	9012.79	17026.74*
Stocks	25396.28	901.96	24494.32*	14506.4	1761.45	12744.96*
Mutual Funds	13528.39	180.65	13347.74**	7386.39	731.71	6654.68*
Retirement Assets	61464.02	5624.38	55839.65**	38867.75	1986.42	36881.34***
Other Assets	11522.89	3163.33	8359.55	8778.86	1665.8	7113.05
<b>All Liabilities (Debts):</b>						
Credit Card Debt	16731.58	4220.34	12511.24	3757.72	22492.73	-18735.01
Installment Loan Debt	1809.52	2156.92	-347.4	2561.11	908.57	1652.54
Student Loan Debt	16358.06	11003.82	5354.25	15433.04	8206.52	7226.52
Medical Debt	21751.96	7015.73	14736.23	5204.57	23541.07	-18336.5
Legal Debt	27027.03	1974.15	25052.87	505.42	25546.51	-25041.09
Debt to Friends and Relatives	769.23	428.28	340.95	462.71	703.05	-240.34
Other Debt	1225.63	11184.2	-9958.57	2393.44	14382.58	-11989.13
<b>Observations</b>	<b>99</b>	<b>155</b>	<b>254</b>	<b>170</b>	<b>84</b>	<b>254</b>

Interestingly, we observe statistical significance only on different assets components but not on liabilities. Particularly, we find that whites tend to have larger values for other real estate, vehicle equity, checking/savings/money market accounts, stocks, mutual funds, and retirement assets. The only three assets categories for which we do not observe significance are home equity and business equity, and other assets. When

making the comparison by incarceration exposure, we find similar patterns as for the racial comparisons – with the only exception being that business equity is now statistically significant.

We investigate if these findings hold when analyzing the intersection of race and incarceration exposure jointly. Table 17 performs a similar exercise as before but now for the assets and liabilities relative to white

households with no incarceration history. We find that white families with incarceration exposure tend to differ only regarding the value in other real estate, mutual funds, and retirement assets relative to white families with no incarceration exposure. We find no statistically significant behavior in terms of liabilities between white families with and without incarceration history. When making the relative comparison with black families, we

find that, generally speaking, the results found in Table 16 and Table 17 are consistent. One exception is that now, black households with incarceration history have fewer student loans and more legal debt than white households with no incarceration history, as expected. Perhaps, fewer student loans are an indication of having less access to lenders and financial mechanisms to support education.

**TABLE 17. Total Assets and Liabilities by Racial Group Relative to Whites with Non-Incarceration Exposure**

	vs. White Inc			vs. Black No Inc		vs. Black Inc	
	White NInc	White Inc	Diff	Black NInc	Diff	Black Inc	Diff
<b>All Assets:</b>							
Home Equity	69119.27	24500	44619.27	32114.56	37004.71	3454.55	65664.73
Other Real Estate	53100	1153.85	51946.15**	11778.95	41321.05*	86.21	53013.79**
Vehicle Equity	12481.69	6407.69	6074	6555.94	5925.75*	2990.18	9491.51***
Business Equity	21725.35	0	21725.35	1458.33	20267.02	342.11	21383.25
Checkings, Savings, and Money Market Accounts	49976.88	18681.96	31294.92	8024.84	41952.04**	4678.34	45298.54**
Stocks	32956.62	5623.08	27333.54	1437.5	31519.12*	0	32956.62*
Mutual Funds	17364.35	2500	14864.35*	288.66	17075.69**	0	17364.35**
Retirement Assets	83182.06	4454.17	78727.90***	8522.09	74659.98**	947.37	82234.70***
Other Assets	14240.14	3697.2	10542.94	4595.74	9644.39	758.93	13481.21
<b>All Liabilities (Debts):</b>							
Credit Card Debt	3896.49	55236.84	-51340.35	3625.88	270.61	5211.11	-1314.62
Installment Loan Debt	2533.33	0	2533.33	2580.95	-47.62	1382.61	1150.72
Student Loan Debt	16982.61	14562.5	2420.11	14204.07	2778.54	4816.67	12165.94*
Medical Debt	2162.12	57666.67	-55504.55	6798.24	-4636.12	7376.32	-5214.19
Legal Debt	0	76923.08	-76923.08	852	-852	3283.33	-3283.33*
Debt to Friends and Relatives	625	1000	-375	351.43	273.57	531.73	93.27
Other Debt	240	2765.69	-2525.69	3888.89	-3648.89	22127.17	-21887.17
<b>Observations</b>	<b>73</b>	<b>26</b>	<b>99</b>	<b>97</b>	<b>170</b>	<b>58</b>	<b>131</b>



Interestingly, when we perform the comparison relative to whites with incarceration history, we find no significance across assets and liabilities - with one exception being that black with no incarceration history has higher installment loan debt than whites with

incarceration history. See Table 18. This further supports our findings above that incarceration exposure wealth penalty is of similar magnitude and significance as the racial wealth gap.

**TABLE 18. Total Assets and Liabilities by Racial Group Relative to Whites with Incarceration Exposure**

	White Inc	vs. Black No Inc		vs. Black Inc	
		Black NInc	Diff	Black Inc	Diff
<b>All Assets:</b>					
Home Equity	24500	32114.56	-7614.56	3454.55	21045.45
Other Real Estate	1153.85	11778.95	-10625.1	86.21	1067.64
Vehicle Equity	6407.69	6555.94	-148.24	2990.18	3417.51
Business Equity	0	1458.33	-1458.33	342.11	-342.11
Checkings, Savings, and Money Market Accounts	18681.96	8024.84	10657.13	4678.34	14003.63
Stocks	5623.08	1437.5	4185.58	0	5623.08
Mutual Funds	2500	288.66	2211.34	0	2500
Retirement Assets	4454.17	8522.09	-4067.92	947.37	3506.8
Other Assets	3697.2	4595.74	-898.54	758.93	2938.27
<b>All Liabilities (Debts):</b>					
Credit Card Debt	55236.84	3625.88	51610.96	5211.11	50025.73
Installment Loan Debt	0	2580.95	-2580.95**	1382.61	-1382.61
Student Loan Debt	14562.5	14204.07	358.43	4816.67	9745.83
Medical Debt	57666.67	6798.24	50868.43	7376.32	50290.35
Legal Debt	76923.08	852	76071.08	3283.33	73639.74
Debt to Friends and Relatives	1000	351.43	648.57	531.73	468.27
Other Debt	2765.69	3888.89	-1123.2	22127.17	-19361.48
<b>Observations</b>	<b>26</b>	<b>97</b>	<b>123</b>	<b>58</b>	<b>84</b>

Furthermore, when we compare the assets and liabilities by incarceration exposure for black households only, as in Table 19, our findings corroborate our inference on why we observe significance in the wealth gap when comparing blacks with and without incarceration exposure. We find that black households without

incarceration history are more highly educated; hence they have more student loans. Consequently, they tend to have higher home equity, higher stock values, and retirement assets; therefore, there exists an incarceration-related wealth gap within-group for blacks.

**TABLE 19. Total Assets and Liabilities by Incarceration Exposure for Black Households Only**

	Black No Inc	Black Inc	Diff
<b>All Assets:</b>			
Home Equity	32114.56	3454.55	28660.01*
Other Real Estate	11778.95	86.21	11692.74
Vehicle Equity	6555.94	2990.18	3565.76
Business Equity	1458.33	342.11	1116.23
Checkings, Savings, and Money Market Accounts	8024.84	4678.34	3346.5
Stocks	1437.5	0	1437.50*
Mutual Funds	288.66	0	288.66
Retirement Assets	8522.09	947.37	7574.72**
Other Assets	4595.74	758.93	3836.82
<b>All Liabilities (Debts):</b>			
Credit Card Debt	3625.88	5211.11	-1585.23
Installment Loan Debt	2580.95	1382.61	1198.34
Student Loan Debt	14204.07	4816.67	9387.40*
Medical Debt	6798.24	7376.32	-578.08
Legal Debt	852	3283.33	-2431.33
Debt to Friends and Relatives	351.43	531.73	-180.3
Other Debt	3888.89	22127.17	-18238.28
<b>Observations</b>	<b>97</b>	<b>58</b>	<b>155</b>

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## Racial Gap Decomposition for Earnings and Wealth

The above discussion provides valuable insights on the intersection of race and incarceration exposure. It is possible that some of our results are driven by certain observables such as education, gender, age, etc. and unobservables such as network effects (labor, investment, etc.), discrimination (racism, prejudice in the labor and “opportunity” markets, etc.), among others. To help us further explore such effects, we estimate racial and within-group differences in wealth (or net worth) and annual earnings, using the Blinder-Oaxaca decomposition to shed some light on the relationship between race and incarceration and its implication on the income and wealth gaps.

In particular, we use a twofold decomposition method with a pooled regression model. This method decomposes the gap in average outcomes (e.g., earnings and net worth) into one component that observable differences in age, education levels, gender, and marital status can be explained; and an unexplained component that differences in these covariates cannot explain. The unexplained component can be attributed to unobservable characteristics across racial groups and incarceration exposure history; often, this unexplained component helps identify evidence of potential discrimination in various markets – labor, financial, etc. (Oaxaca, 1973; Blinder, 1973; Card and Krueger 1992; Fortin et al., 2011). For example, an individual with an incarceration history is likely to be discriminated against in certain labor markets that require potential job applicants to provide their background history, including felony charges, for instance.

Our first set of results of these decompositions are in Table 20. For each decomposition, “group 1” denotes the baseline comparison group, white households, and “group 2” denotes the other racial household group of interest, black households. The rows titled “group 1” and “group 2” give the average outcome of each racial group, and the row titled “difference” shows the difference in outcome between the two groups. Positive differences mean that the average outcome for white households is higher than that for blacks.

We find substantial racial differences in the earnings between black and white heads of household in Baltimore (columns 1-3). The racial gap in average earnings is \$33,970, with only 34 percent of this gap explained by group differences in age, education, and gender. In other words, 66 percent is unexplained, indicative of potential discrimination that contributes to the racial earning gap. Some possible discrimination could be racial or incarceration exposure motivated. Columns 4-6 give the result of these decompositions for net worth. The units for these estimates are standard deviations. We find a substantial difference between the average net worth of blacks and whites in Baltimore. The difference is 0.63 standard deviations, with only 28 percent of this gap explained by group differences in age, education, gender, and marital status, which means that 72 percent is unexplained and statistically significant.

**TABLE 20. Decomposition of Earnings and Net Worth (Wealth) by Race**

Variables	Earnings (in \$)			Net Worth (in standard deviation)		
	overall	explained	unexplained	overall	explained	unexplained
Group 1	66,937*** (9,410)			0.450*** (0.147)		
Group 2	32,967*** (3,722)			- 0.183*** (0.035)		
Difference	33,970*** (10,120)			0.633*** (0.151)		
Explained	11,623** (5,330)			0.176* (0.092)		
Unexplained	22,347*** (7,791)			0.458** (0.182)		
Age		6,662 (5,265)	121,063 (92,384)		- 0.0203 (0.060)	1.272 (1.711)
Age^2		-5,477 (5,087)	-49,073 (42,189)		0.0605 (0.061)	- 0.293 (0.859)
Bachelor's Degree or Higher		9,408** (4,129)	18,102** (7,456)		0.0845* (0.046)	0.0618 (0.090)
Female		1,030 (1,614)	- 9,827 (11,147)		0.00636 (0.026)	- 0.019 (0.160)
Married					0.0445 (0.061)	- 0.0206 (0.143)
Constant			- 57,918 (52,719)			- 0.543 (0.759)
<b>Observations</b>	<b>98</b>	<b>98</b>	<b>98</b>	<b>177</b>	<b>177</b>	<b>177</b>

Robust standard errors in parentheses.

\*\*\* p<0.01, \*\* p<0.05, \* p<0.1

We use the Blinder-Oaxaca decomposition to estimate within-race differences in earnings and net worth decomposed by household exposure to incarceration. A household is said to have an exposure to incarceration if any household member has been incarcerated at any point.

Table 21 gives the results of these decompositions for earnings. We find differences in the average earnings for white heads of household with household exposure to

incarceration, consistent with recent literature (Agan and Starr 2017; Pager, Western, and Sugie 2009; Blair and Chung 2018). For white households, we find a difference of \$39,403, with those exposed to incarceration earning less than those not exposed. However, we find no statistical significance for both the explained and the unexplained parts. This could be interpreted as incarceration being the primary factor driving the difference, identifying a causal effect.

On the other hand, for black households, we find no statistically significant difference in the earnings between the two groups - black households with and without incarceration exposure. The explained and unexplained portions are also insignificant. This is consistent with the findings discussed earlier: When it comes to earnings and household income, all black

households receive similar earnings and income independent of whether they have been exposed to incarceration or not. In other words, society's association of blackness with criminality may have the effect that the incarceration penalty is distributed across all black households equally independent of whether a black family has an incarceration history.

**TABLE 21. Decomposition of the Within Race Earnings Gap by Family Exposure to Incarceration**

Variables	Whites			Blacks		
	overall	explained	unexplained	overall	explained	unexplained
Group 1	72,703*** (10,660)			32,480*** (3,931)		
Group 2	33,300*** (10,007)			34,329*** (9,032)		
Difference	39,403*** (14,621)			-1,849 (9,850)		
Explained	22,234 (24,036)			-4,668 (4,035)		
Unexplained	17,169 (21,230)			2,819 (9,719)		
Age		28,712 (38,318)	367,601** (162,461)		-3,551 (3,831)	-244,902* (126,858)
Age^2		-12,746 (28,351)	-174,897** (86,135)		519.6 (3,461)	167,364** (82,461)
Bachelor's Degree or Higher		12,931 (11,817)	20,730 (13,228)		789.5 (1,219)	3,169 (3,808)
Female		-6,663 (7,238)	7,721 (6,523)		-2,426 (3,795)	12,921 (10,556)
Constant			-203,987** (94,892)			64,267 (55,880)
<b>Observations</b>	<b>41</b>	<b>41</b>	<b>41</b>	<b>57</b>	<b>57</b>	<b>57</b>

Robust standard errors in parentheses

\*\*\* p<0.01, \*\* p<0.05, \* p<0.1

Now, it is important to note that the sample sizes are very small for these decompositions. For example, for the one for white, there are 35 families not exposed and six exposed. In the decomposition for blacks, there are 49 families not exposed and eight exposed. This is

because the subsample used for this decomposition contains only observations with non-missing values for all the covariate and earnings variables used. Hence, the results discussed here should be interpreted, keeping these sample limitations in mind.

Table 22 gives the results of these decompositions for net worth (wealth). We find an incarceration penalty in the average net worth for both white and black households, with households with no incarceration history having higher net worth. For whites, we find an incarceration penalty, a difference of 0.745 standard deviations with only 4.2 percent of the wealth gap explained by group differences in age, education,

gender, and marital status. We find a smaller difference of 0.181 standard deviations for black households, with 27 percent of the difference being explained by group differences in age, education, gender, and marital status.

**TABLE 22. Decomposition of the Within Race Net Worth Gap by Family Exposure to Incarceration**

Variables	Whites			Blacks		
	overall	explained	unexplained	overall	explained	unexplained
Group 1	0.625*** (0.185)			- 0.117** (0.048)		
Group 2	- 0.119 (0.078)			- 0.298*** (0.039)		
Difference	0.745*** (0.201)			0.181*** (0.062)		
Explained	0.0316 (0.181)			0.0483 (0.037)		
Unexplained	0.713*** (0.245)			0.133** (0.056)		
Age		0.052 (0.154)	2.862 (2.119)		0.00642 (0.016)	0.457 (0.508)
Age^2		0.0138 (0.101)	- 0.974 (1.049)		- 0.00127 (0.022)	- 0.133 (0.246)
Bachelor's Degree or Higher		0.0885 (0.095)	0.00602 (0.096)		0.0506* (0.031)	0.0188 (0.015)
Female		- 0.118 (0.114)	0.0471 (0.093)		- 0.00452 (0.010)	0.0921 (0.100)
Married		- 0.00502 (0.078)	- 0.108 (0.203)		- 0.00292 (0.010)	- 0.0312 (0.037)
Constant			- 1.12 (0.960)			- 0.271 (0.298)
<b>Observations</b>	<b>68</b>	<b>68</b>	<b>68</b>	<b>109</b>	<b>109</b>	<b>109</b>

Robust standard errors in parentheses  
 \*\*\* p<0.01, \*\* p<0.05, \* p<0.1

These decomposition results further support earlier findings from our comparison exercises above. More specifically, our findings confirm that for white, incarceration exposure has a negative effect on earnings (\$39,403) and wealth (0.745 standard deviations). If we take the impact for whites as our baseline effects for incarceration exposure and compare them to the racial gap effects for earnings (\$33,970) and wealth (0.633 standard deviations), we find them to be very

similar in both magnitude and significance. As shown in the comparison exercises above, these effects go away when comparing only whites with incarceration exposure and blacks with and without incarceration. This suggests that the racial income and wealth gaps we see are equivalent to the incarceration exposure penalty. This is interesting, yet not surprising, given the faulty association of blackness with criminality in our society.

## ● 6. Implications and Conclusion

The Color of Wealth in Baltimore sheds light on the racial differences in financial portfolios of households across the city of Baltimore. The report, additionally, explores the potential impact of family exposure to incarceration on household income, debt accumulation, intergenerational asset transfers, and household net worth.

This study finds substantial and statistically significant white-black racial gaps in earnings, household income, and net worth of \$29,929, \$43,008, and \$187,835, respectively, with white households having higher average earnings, household income, and wealth of \$61,725 and \$76,378 and \$217,858, respectively. When looking at net worth, the median net worth of black households in Baltimore is \$0, whereas, for white households, it is \$59,430. Comparing white and black households without incarceration exposure, we find that the racial gaps in earnings, household income, and wealth increase to \$34,183, \$56,163, and \$265,273, respectively, and remain statistically significant.

This study offers insight into the racial differences in the impact of household exposure to incarceration on wealth building for black and white families in Baltimore. For white households, we find that household exposure to incarceration is associated with earnings and net worth gaps of \$39,403 and 0.745 standard deviations, respectively. The earnings gap is relatively small for black families and not statistically significant; however, the net worth gap is 0.181 standard deviations. While these earnings gaps are estimated using household exposure to incarceration instead of individual or

household head exposure, these results suggest racial statistical discrimination in Baltimore's labor markets. White households experience an incarceration penalty on their earnings, but black households do not. Instead, black families without incarceration exposure face the same limited employment prospects as those families with incarceration histories. This finding suggests a societal association of blackness with criminality, which leads to employers treating blacks without criminal records similar to those with criminal records.

For both white and black households, we find a significant incarceration penalty on household net worth. This could be explained by the substantial financial burden that incarceration imposes on a family. In addition to the possible reduction in household income when a household member is incarcerated, families incur high costs while supporting incarcerated loved ones (Grinstead et al., 2001; Harris et al., 2010; Wagner and Rabuy, 2017). Families bear costs for bail bonds, legal fees and debts (Harris et al., 2010), pay-per-minute phone calls (Grinstead et al. 2001; Wagner and Rabuy, 2017), commissary purchases (Wagner and Rabuy, 2017), and travel back and forth to jails and prisons (Grinstead et al., 2001). These costs can result in an inability to acquire assets (or the selling of assets) and/or increasing debt levels during both the period of incarceration and after (especially when considering legal, financial obligations, including court fines and fees, bail bonds, and restitution payments). These financial consequences can significantly reduce household net worth in both the short- and long run.

We find differences in financial account usage between black and white households when comparing families with and without exposure to incarceration. For example, while white households with no incarceration exposure have access to quality financial services, black households with no incarceration exposure have equal access as whites with an incarceration history. Black families with exposure to incarceration fare the worst among all the groups studied. This finding highlights racial disparities in access to quality financial services and practices, which can open doors for predatory financial services that target blacks and other disadvantaged groups. When evaluating the usage of stocks, retirement accounts, and CheckCash, our study illustrates that white families fare better than black families among the responses with no exposure to incarceration. We also find similar racial and incarceration exposure differences in the use of student loans, medical bills, legal bills, fines, and fees.

Understanding how people save — in particular, knowing who will be more financially vulnerable because of their saving choices — helps policymakers assess older Americans' financial preparedness for retirement and anticipate their economic well-being thereafter. Our findings show that lower investment rates in the financial market result in slower wealth creation in minority households. Recognizing this, policymakers should focus on creating opportunities to encourage minority households to invest in the financial market at an early age. Doing so would be a positive step toward narrowing the wealth divide. Such efforts would become even more critical if Social Security reform places increased responsibility on individuals to manage personal accounts.

Home and vehicle ownership rates depict the same challenging reality as financial instrument usage, where white families with incarceration fare better than black families with no exposure to imprisonment. Real estate

ownership (not including ownership of the primary residence) displays a similar pattern where whites own more assets than blacks. The only anomaly we found with tangible assets is with business ownership, where whites with exposure to incarceration have lower rates of entrepreneurship. Perhaps, this results from blacks creating their own businesses because they cannot find quality employment (Apel et al., 2018; Western, 2002). It is interesting to note that blacks with and with no incarceration experience have just about the same rate of business ownership.

The intergenerational transfers and inheritance responses also deliver a clear picture of racial differences in wealth building. The responses show that white households have a considerable advantage in both in-vivo transfers and inheritances. We find that whites with incarceration history receive inheritances at a higher rate than blacks without incarceration history. This suggests that whites with incarceration history are more likely to build wealth more quickly than blacks with and without incarceration exposure.

This report paints the unfortunate reality of racial differences in financial portfolios and wealth building in Baltimore. Systemic racism in the criminal legal system has led to a persistent incarceration penalty for blacks independent of their incarceration history, which negatively impacts household income and wealth. While whites can pass down wealth to future generations, society passes down an incarceration penalty to future black generations. The need for criminal legal system reform and economic policies that promote wealth building among blacks is essential for reducing poverty rates and advancing the well-being of blacks in the city of Baltimore.



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# ● Appendix A

## Methodology

### Sample Size

The target sample size was driven by the amount of available resources, informed by power analyses that suggested the ability to detect differences between key characteristics of interest. We targeted completed interviews with approximately 140 nonincarcerated and 140 incarcerated households, with each of those

evenly divided between African Americans and whites. Demographic characteristics of the Baltimore City population (Exhibit 1) showed that reaching the white, incarcerated population would be challenging because of their relatively low prevalence in the city — and that proved to be the case.

### EXHIBIT 1. Estimated Population of Baltimore City Ever Incarcerated, by Race

Race	Population	Ever Incarcerated (%)	Population Ever Incarcerated
White	188,380	1.4%	2,637
Black or African American	392,312	8.9%	34,916

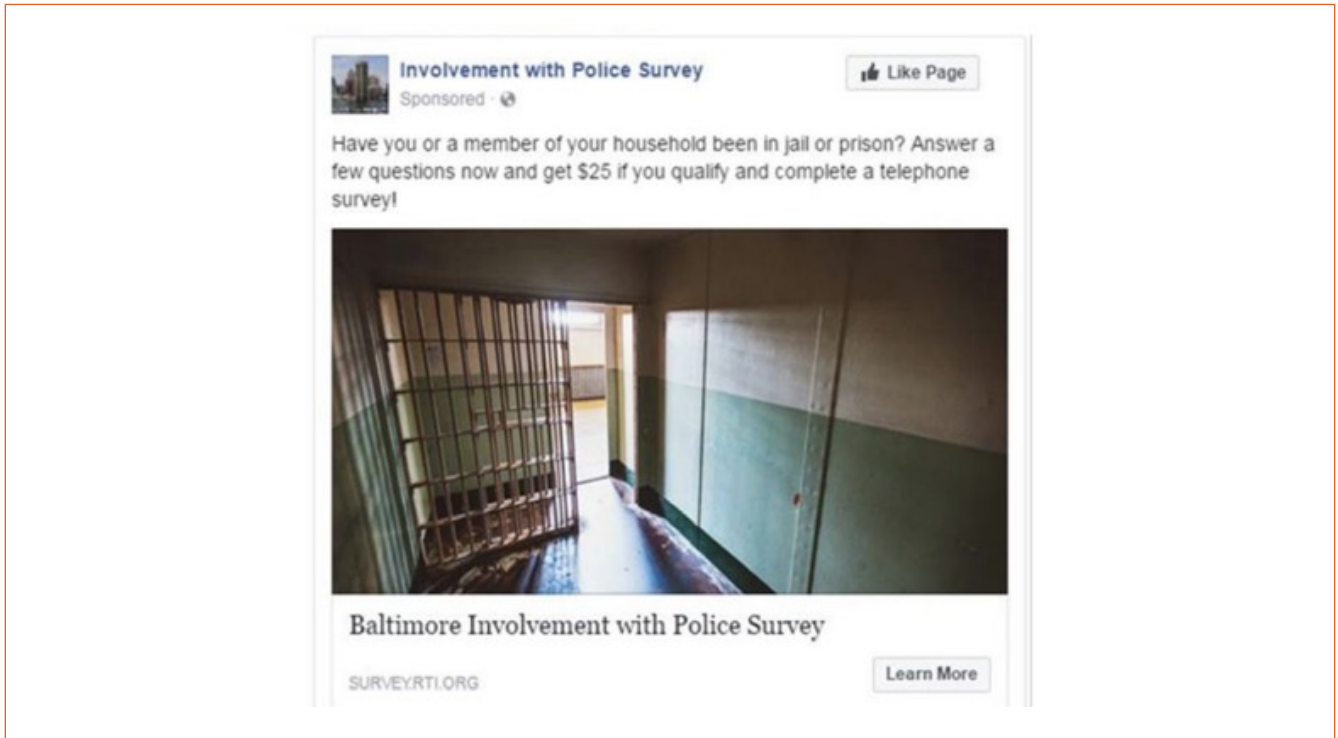
**Sources:** Population data: U.S. Census Bureau, 2011-2015 American Community Survey 5-Year Estimates. Incarceration data: Thomas P. Bonczar. (2003). Prevalence of Imprisonment in The U.S. Population, 1974-2001 (Special Report No. NCJ 197976). Washington, D.C.: Bureau of Justice Statistics. Retrieved from <https://www.bjs.gov/index.cfm?ty=pbdetail&iid=836>.

### Sample of Convenience

Because the study could not continue an RDD approach and expect to gain many more completed interviews, we consulted with the study's co-Principal Investigators and devised a low-cost option to increase the sample size by recruiting individuals through Facebook. We ran an ad (Exhibit 2); RTI interviewers telephoned respondents who answered a few questions and appeared to meet the eligibility criteria. If they were, in fact, eligible and willing to participate, the interview was conducted. The Facebook ad targeted individuals in Baltimore city. The ad campaign ultimately reached 181,754 Facebook

users. Fully 696 Facebook users clicked the ad's link, completed the screener questionnaire to determine eligibility, and provided a telephone number where they could be reached. We completed 34 total interviews with individuals recruited through Facebook and stopped attempting to contact Facebook respondents (1) after the study's target for African Americans with an incarceration history had been reached and (2) none of the remaining Facebook respondents were whites with an incarceration history (the target population that needed more respondents).

## EXHIBIT 2. Facebook Advertisement



Some of the challenges with utilizing a sample of convenience are the limitation to generalize the results of the survey to the population as a whole., following by the possibility of under-or over-representation of the population, potentially creating biased results, due to

the reasons why some people choose to take part and some do not. These limitations were taken into account very carefully and put into context by the researchers when analyzing the data.

## EXHIBIT 3. Number of Completed Interviews, by Race and Incarceration Status

Baltimore	Initial Target Number	Final Sample Size
<b>Black/African American</b>		
No Incarceration	72	82
Incarceration	71	73
<b>White</b>		
No Incarceration	71	71
Incarceration	71	28
<b>Total</b>	<b>285</b>	<b>254</b>

The number of completed interviews from both samples is shown in Exhibit 3. We met the target number of completed interviews for African American households, both with and without an incarceration history. We met the target number for whites without an incarceration history but not for whites with an incarceration history.

Characteristics of RDD and Facebook respondents with household incarceration are presented in Exhibit 4. Because of small cell sizes, findings are somewhat inconsistent but show that for the African American group, Facebook resulted in more female respondents and higher-income households; for the white group, Facebook resulted in respondents with a slightly higher level of education.

#### EXHIBIT 4. Demographic Characteristics of Probability and Convenience Samples

Group	RDD	Facebooks
<b>Black/African American Incarceration (n=73)</b>		
Number of Completed Interviews	50	23
Sex (Portion of Females)	48	70
Median Household Income	\$12,030	\$25,000
Average Educational Level	High School Graduate	High School Graduate
<b>White Incarceration (n=28)</b>		
Number of Completed Interviews	17	11
Sex (Portion of Females)	35	18
Median Household Income	\$12,030	\$11,808
Average Educational Level	High School Graduate	Some College

#### Response Rates

To calculate the survey response rate, all sampled cases were assigned a final disposition based on the American Association for Public Opinion Research Standard Definitions. Exhibit 5 provides the final distribution of cases. Response rates are typically only reported for probability-based samples. Since this study used

both probability and nonprobability samples, we have reported the outcomes in Exhibit 4 for both (1) the probability portion of the sample (i.e., the RDD sample) and (2) the probability and nonprobability (i.e., the Facebook sample) portions combined.

## EXHIBIT 5. Disposition of the Study Cases

Dispositions	RDD		RDD & Facebook Sample	
	n	%	n	%
Completed Interviews (I)	220	0.50	254	0.58
Refusals and Break-off (R)	586	1.34	586	1.33
No Contact Made with Respondent (NC)	110	0.25	112	0.25
Household of Unknown Eligibility (UH)	19,453	44.51	19,536	44.45
Not an Eligible Household Unit (Vacant, Not a Residence, etc.) (IE)	10,009	22.90	10,050	22.87
Unknown if Eligible Responded in the Household (UO)	13,329	30.50	13,424	30.54
<b>Total</b>	<b>43,707</b>		<b>43,950</b>	

Based on the case dispositions, we calculated the survey response rate using the formula for AAPOR response rate 3, which estimates the number of eligible cases for those with unknown eligibility.

### The Questionnaire

The Wealth Inequality instrument was based on the questionnaire used in previous telephone and in-person surveys conducted under the National Asset Scorecard for Communities of Color project. We modified some procedures to make them suitable for the mode of

administration, deleted some questions that did not seem particularly central to the purpose of the study, and added a few about incarceration. Please refer to Appendix B for information related to the Recruiting and Training of Interviewers.

## ● Appendix B

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### Recruiting and Training for Interviewers

During the first phase of the data collection (October – November 2016), we initially recruited 20 telephone interviewers. Some degree of attrition occurs throughout field-based data collection studies, and this one was no exception. Some interviewers left because they had other job opportunities or had unexpected family obligations; others were released from the study because they could not perform to expected levels. We replaced these individuals with other staff; by the end of the study, we had trained and determined as qualified a total of 16 interviewers. Similarly, for the second phase of data collection (January – March 2017), we initially trained 28 interviewers (of whom 15 had also conducted interviews during the 2016 previous round); through attrition, the study ended with 25.

#### Training for Interviewers

All interviewers completed 8 hours of training specific to the Wealth Inequality study (this is in addition to the 4 hours of training they had previously received when hired as a telephone interviewer). We used a combination of instructor-led and participatory training sessions. The goal was to have interviewers become fully familiar with the questionnaire and its administration, along with background information about the study (helpful for gaining cooperation), responses to frequently asked questions, refusal avoidance techniques, methods of establishing rapport with sample members and how to handle difficult situations. The training session's agenda is presented in Exhibit 6.

#### Quality Control Procedures

Specific tools helped maintain a high level of quality. The questionnaire had built-in logic and range checks so that if an interviewer entered a questionable response, she/he was queried and had to confirm or correct the response before proceeding to the next question. Interviews were conducted from RTI's call center, where Quality Experts and floor managers are available at all times to answer questions or address any issues interviewers encountered. RTI's Quality Experts are responsible for monitoring staff performance as interviews are being conducted. They monitored real-time interviews using special audio-visual stations to check that staff was using proper interviewing techniques (e.g., asking questions exactly as worded and using a neutral voice). Each interviewer routinely received feedback on skills for gaining cooperation, identifying sample members appropriately, and using standardized interviewing techniques. Project staff routinely monitored automatically generated production reports to assess whether interviewers were meeting targets. They reviewed individuals' production rates, including the number of interviews completed, the number of hours per completed interview, and the number of refusals and break-offs that staff experienced. If any fell short, they were provided with additional training and supervision until their performance improved or they were released from the project. We regularly held Quality Circle meetings attended by RTI technical staff, call center, supervisors, Quality Experts, and interviewers to discuss operations, such as progress with production, the wording and structure of interview questions, special screens, quality control monitoring, gaining cooperation during the interview, and the overall interviewing environment. These meetings were well-received by all participants in past projects as an opportunity for interviewers to provide insight on daily operations and share effective techniques with each other.

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## EXHIBIT 6. NASSC – Baltimore – Operational Survey Features

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Feature	Details
Dates of the Survey Administration	October 2016 Through March 2017*
Average Duration of Survey	44 minutes
Range of Survey Duration	17 – 75 minutes
Financial Incentive Amount	\$25.00 in (Cash or Electronic Gift Card)
Language	English

**Note:** (\*) to accommodate funding streams, the study needed to be spread over specific time periods. Data collection went on hiatus during December 2016.

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# ● Appendix C

## Measuring Wealth

<p><b>+ Assets</b></p> <p><b>Financial assets</b> Liquid assets (assets that can be quickly converted into cash): Checking or savings accounts, money market funds, certificates of deposit, government savings bonds, stocks</p> <p>Other financial assets: Individual retirement accounts, private annuities value, business equity net value</p> <p><b>Tangible assets</b> Home, vehicles, other real estate</p>	<p><b>- Debts</b></p> <p>Credit card debt Medical Debt Student loans Installment loans Loans from family and friends</p> <p><b>Secured debt</b> Mortgage, Vehicle debt</p>
<p><b>Wealth (net worth) = Assets - Debts</b></p>	

As in any company, families have to balance what they own with what they owe. Wealth, also called net worth, captures what families have at their disposal to use in case of emergencies or to invest for future gains. Wealth is measured by taking into account the difference between assets (financial assets that include liquid assets such as savings and checking accounts, government bonds, and stocks and other financial assets such as retirement accounts and nonfinancial assets including homes and vehicles) and liabilities (mortgages, auto loans, credit card debt, and family loans).

Three main surveys collect periodic information on wealth: the Survey of Consumer Finances (SCF), the Panel Study of Income Dynamics (PSID) and the Survey of Income Program Participation (SIPP). Wealth and wealth gap estimates vary depending on the source used.

The SCF provides detailed information on assets and liabilities and provides insights into changes in family income and net worth. The survey is conducted every three years; it includes detailed information on family balance sheets, on the use of financial services, on pensions, on labor force participation, and on demographic characteristics. The SCF is sponsored by the Federal Reserve Board. More information available at <http://www.federalreserve.gov/econresdata/scf/scfindex.htm>

The PSID is a longitudinal survey conducted every other year, which allows for intergenerational studies. This nationally representative panel oversamples lower-income families and provides a detailed inventory of real and financial assets and liabilities. PSID is directed by faculty at the University of Michigan.

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The SIPP is administered by the U.S. Census Bureau. A major use of the SIPP has been to evaluate the use of and eligibility for government programs and to analyze the impact of options for modifying them. The entire sample was interviewed at four-month intervals. Its large sample size allows for detailed subgroup analysis.

The SCF is different from the PSID in that it oversamples higher income households, and it provides a more detailed picture of assets and debts including

information on the current value of pension plans. Also, the PSID and SIPP provide longitudinal data on assets and liabilities, but they don't have the same level of detail as the SCF.

A major shortcoming of all these surveys has been the lack of detailed information by race and ethnicity. At the most, using these surveys, comparative analyses can be done for whites and nonwhites and, in some cases, for whites, Hispanics, and blacks.



