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Nine Facts About the Disparities

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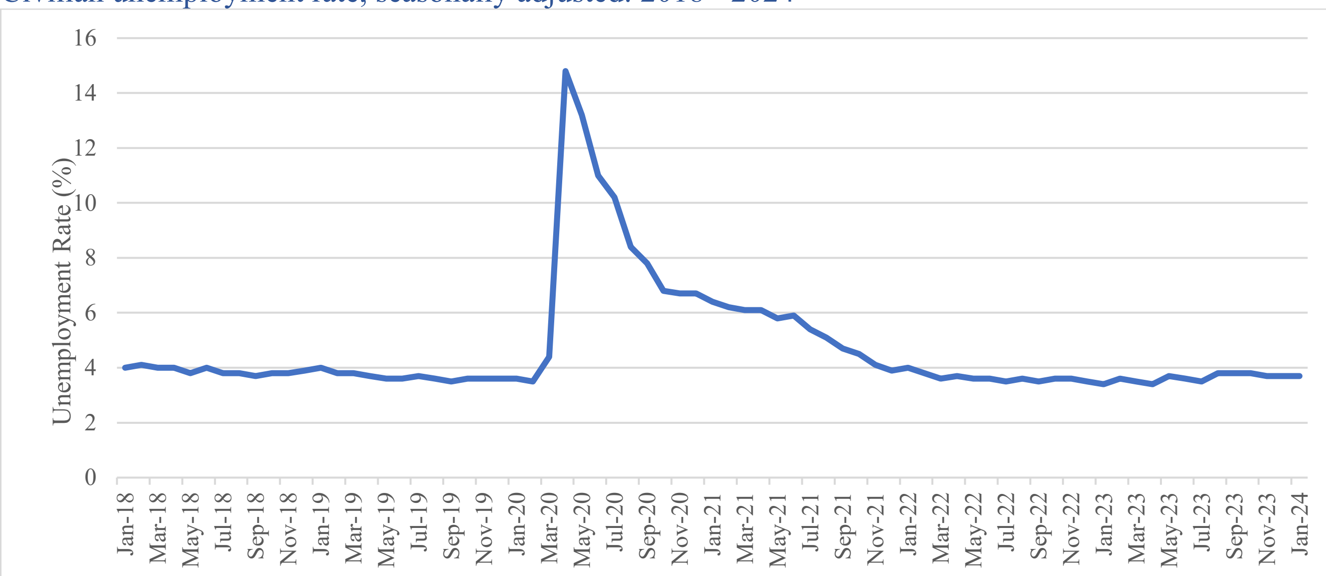
Introduction

On March 14, 2020, the U.S. declared a public health emergency due to the onset of the Covid-19 pandemic. The early months of the pandemic saw a brief but sharp recession, which included a large spike in the unemployment rate. Figure A shows the seasonally adjusted civilian unemployment rate for January 2018 through January 2024. The unemployment rate increased from 4.4 percent in March 2020 to 14.8 percent in April 2020 (Bureau of Labor Statistics, 2023). Congress acted quickly to pass legislation to provide stimulus and relief and to temporarily enhance the social safety net. In July 2022, the unemployment rate returned to its pre-pandemic level, 3.5 percent. The federal Covid-19 public health emergency declaration was ended on March 11, 2023, and a new normal emerged (CDC, 2023). The unemployment rate remained stable at 3.7 percent between November 2023 and January 2024, according to the most recent BLS Employment Situation Summary released on February 2, 2024 (BLS, 2024).

Figure A.
Civilian unemployment rate, seasonally adjusted: 2018 - 2024



Source: U.S. Bureau of Labor Statistics (2024).

Nearly four years after the onset of the pandemic, the U.S. economy has fully recovered and is now outpacing the pre-pandemic growth forecast from the Congressional Budget Office (Washington Post, 2023.) The labor market remains strong and prominent labor strikes have delivered gains to workers in various industries, including entertainment, hospitality, healthcare, and education. Finally, most households that own assets have experienced growth in their overall wealth, including from home appreciation, business equity, and stock market performance. Nevertheless, for many households, inflation continues to erode purchasing power, and rising interest rates have made credit-based financing more expensive.

It is vital for policymakers to have a clear picture of consumers' financial health as we fully emerge from the pandemic. To that end, every three years, the Federal Reserve System conducts the Survey of Consumer Finances (SCF) – one of the most detailed examinations of household wealth in the U.S. Fortuitously, the two most recent surveys were conducted in 2019 and 2022, thus providing a valuable resource to researchers who wish to explore wealth changes during the Covid-19 pandemic. This working paper draws from the SCF and other important sources to present data on the racial wealth gap and socioeconomic factors that impact the racial disparity in net worth between households by race and ethnicity. We demonstrate that the racial wealth gap continues to worsen, despite increased educational attainment, business formation, and homeownership.

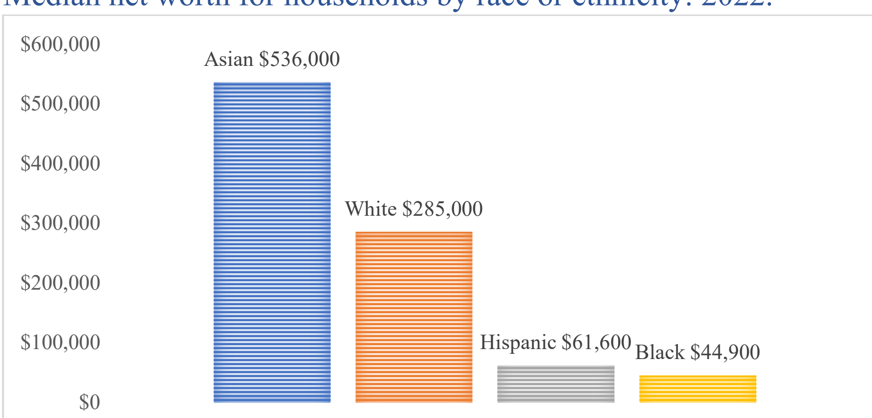
Facts about the Racial Wealth Gap

1. **Despite a greater percentage of wealth gains among minority households, the racial wealth gap is still significant.**

Wealth, as measured by net worth, is the value of the assets a person or corporation owns, minus the liabilities they owe (Ganti, 2022). As an economic resource, wealth has at least two advantages over wages: Wealth is taxed at lower rates than income from work and it can serve as a source of savings to cover periods of financial instability, such as those that may result from loss of employment (Moss et al., 2020). Additionally, wealth is iterative in that it can be used to provide the initial capital to purchase appreciating assets, which continue to generate wealth and can be transmitted intergenerationally (Hamilton and Darity, 2017).

Data from the 2022 Survey of Consumer Finances show a significant wealth disparity between households by race and ethnicity, with the average Asian American household having a median net worth of $536,000, 1.8 times greater than that of the typical White American household ($285,000), 8.7 times greater than that of the typical Hispanic or Latino American household ($61,600), and 11.9 times greater than that of the typical Black American household ($44,900). The 2022 SCF is the first to provide wealth data for Asian American households as a separate racial category. Figure 1 shows median net worth for households by race or ethnicity in 2022.

Figure 1.
Median net worth for households by race or ethnicity: 2022.



Source: 2022 Survey of Consumer Finances.

According to data from the 2019 SCF the average White household had a median net worth of $189,100, 5.2 times greater than the median net worth of the average Hispanic household

($36,050) and 7.8 times greater than the median net worth of the average Black household ($24,100). For comparison, in 2022, the average White household's median net worth was 4.6 times greater than that of the typical Hispanic household, and 6.3 times greater than the median net worth of the average Black household. While the multiplier for the Black/White wealth gap decreased from 9.9 in 2016 to 7.8 in 2019 to 6.3 in 2022, the gap in dollar terms increased from $153,850 to $165,000 to a staggering $240,100, showing that the disparity is getting worse, a point recently underscored by a recently released Brookings Institution analysis led by Andre Perry (Perry, et al, 2024).

The typical Black and Hispanic households experienced a greater percentage increase in their wealth than did the typical White household between 2019 and 2022 (61 and 47 percent, compared to 31 percent). The sources of wealth gains also differed substantially across groups. Most of the wealth gains for White households stemmed from the stock market, whereas for Black and Hispanic households, most gains came from home value appreciation, which is a far more illiquid form of wealth. In contrast, liquid wealth (cash and savings) increased for White households, stayed constant for Hispanic households, and decreased for Black households.

2. **There are still sharp racial disparities in earned income, but a tight labor market and union activity continue to provide worker leverage across a variety of industries and wage distributions.**

According to data from the U.S. Census Bureau, in 2022 real median household income was $74,580, down 2.3 percent from 2021, and average household income was $106,400, a decrease of 3.5 percent from 2021 (Guzman and Kollar, 2023).

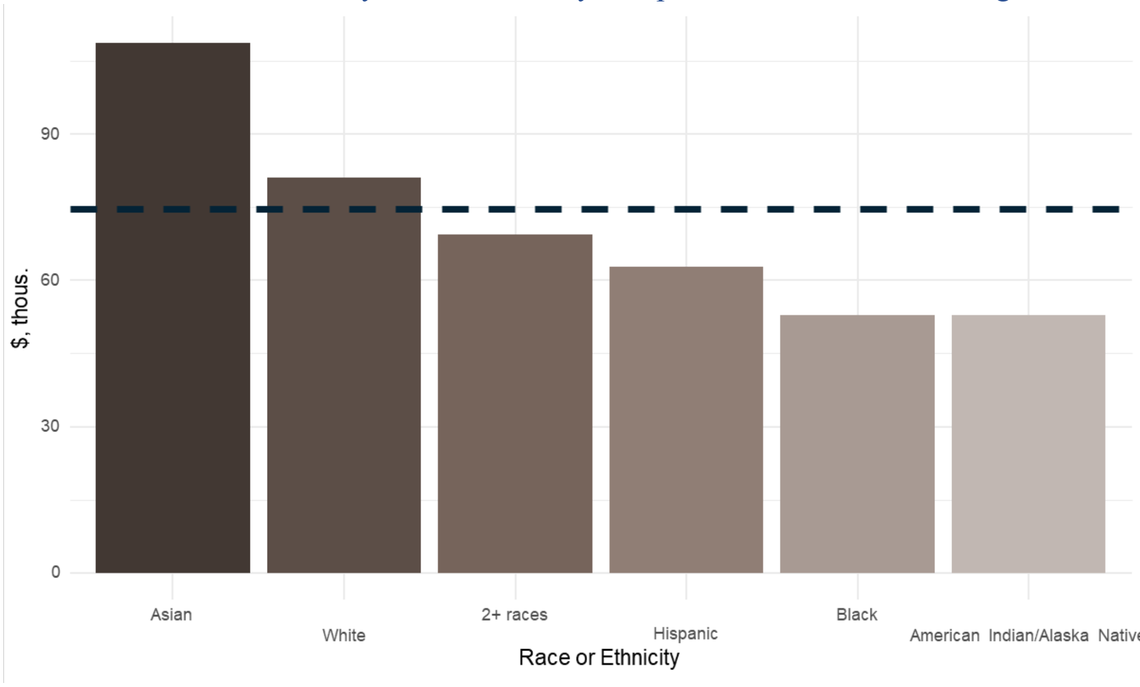
Table 1 shows households by total money income, race and Hispanic or Latino origin of the householder with income percent distributions for 2022. Figure 2 shows median household income by race or ethnicity compared to the national average, with horizontal dashed line representing the average national median household income. Disaggregating by race reveals sharp disparities in household income. Asian American households had the highest median income, $108,700, two times greater than Black households with a median income of $52,860. Black, Hispanic or Latino, and American Indian and Alaska Native households were more likely than White and Asian households to have a median income below $50,000.

Table 1.
Households by total income, race, and Hispanic or Latino origin of householder: 2022.

Race or Ethnicity	Number (thousands)	Percent Distribution							Median income (dollars)	Mean income (dollars)
		Under $15,000	$15,000 to $34,999	$35,000 to $74,999	$75,000 to $99,999	$100,000 to $149,999	$150,000 to $199,999	$200,000 and over		
All	131,400	8.3	15	26.8	12.3	16.4	9.2	11.9	$74,580	$106,400
Asian	7,609	7.5	9.2	18.9	10.4	18.6	12.4	23.1	$108,700	$147,700
White	84,490	6.9	14.1	25.6	12.4	17.6	10.1	13.4	$81,060	$114,000
Two or more races	2,482	9.5	14.3	30.4	14.3	14.5	7.6	9.5	$69,470	$97,870
Hispanic or Latino	19,320	9.8	17	31.2	13.5	14.7	6.9	6.8	$62,800	$85,210
Black	18,080	13.7	20.2	30.6	11.4	11.9	6	6	$52,860	$76,520
American Indian and Alaska Native	1,371	12.5	20.2	32	13.2	11	5.4	5.6	$52,810	$75,220

Source: U.S. Census Bureau, Income in the United States: 2022 (Guzman and Kollar, 2023).

Figure 2.
Median household income by race or ethnicity compared to the national average: 2022



Source: U.S. Census Bureau, Income in the United States: 2022 (Guzman and Kollar, 2023) via Haver Analytics

Between 2019 and 2022, Black and Hispanic households experienced a larger increase in their share of income from non-retirement government transfer programs such as food stamps. The Federal Reserve notes that "compared to wage income, these [governmental transfer] sources are likely to be less available in the future given the unprecedented pandemic-era fiscal support that has already ended or will end." In contrast, investment income (including interest, dividends, and capital gains) contributed substantially to income growth for White households but not for non-White households, and the Federal Reserve notes that unlike the pandemic-era governmental transfers, this source of income is far more durable as a source of wealth.

Concerningly, the child poverty rate doubled from the record low of 5.2 percent in 2021 to 12.4 percent in 2022 – the largest one-year jump in child poverty on record. Consistent with the concern noted above about the transient nature of pandemic-era governmental transfers, recent analysis from Columbia's Poverty Center suggests that much of this rise in child poverty is due to the expiration of the enhanced child tax credit. Indeed, the Center estimates that had the enhanced credit continued in 2023, child poverty would have risen only 3 percent rather than 7 percent (Koutavas, et al., 2023.)

The labor market has remained tight throughout the pandemic and post-pandemic recovery and has continued to pull workers into the labor force and provide them with leverage as they seek higher compensation or better benefits (Bognar, et al., 2023.) In addition, 2022 and 2023 saw continued union activity, with major strikes among auto workers, healthcare workers, Hollywood writers and actors, and teachers. The National Labor Relations Board reports that in 2022, election petitions were up 53% and in 2023, it received the highest number of cases filled since 2016, further signs that workers continue to seek representation and challenge unfair labor practices. Currently, 14.3 million workers belong to a union, according to the Bureau of Labor Statistics, representing roughly 10.1 percent of all workers. Roughly 6 percent of the private sector is unionized, and 33.1 percent of the public sector. While the number of union members has grown over the past few years, the percentage has remained fairly static. But consistent with the past, Black workers remain most likely out of all racial groups to belong to a union.

Historically, public and private sector unions have provided higher wages for workers. Mellow (1981) found convincing evidence of the existence of a union wage effect, with workers who become union members experiencing wage improvements of about 7.5 percent (Mellow, 1981). The study also found that union membership had a larger wage impact during cyclical downturns than during expansions and a much stronger effect on the wages of younger workers. Reilly (1996) found that when the establishment union density is greater than 26 percent, the union's impact on wages affects all workers in the establishment, not just those who are union members, and that the wage gain is 20 percent for establishments with a union density between 26 percent and 75 percent. Individuals working for an establishment with an establishment union density greater than 75 percent achieved wage gains of 64 percent (Reilly, 1996).

In addition to higher wages, union jobs are more likely to ensure access to healthcare and retirement benefits (including pension-based plans) than are non-union jobs (Bureau of Labor Statistics, 2023.) Healthcare helps safeguard wealth in the event of unexpected illness or injury, while retirement benefits help build future wealth, including intergenerational wealth.

3. **Minorities are increasing their college enrollment, but higher education is not a silver bullet.**

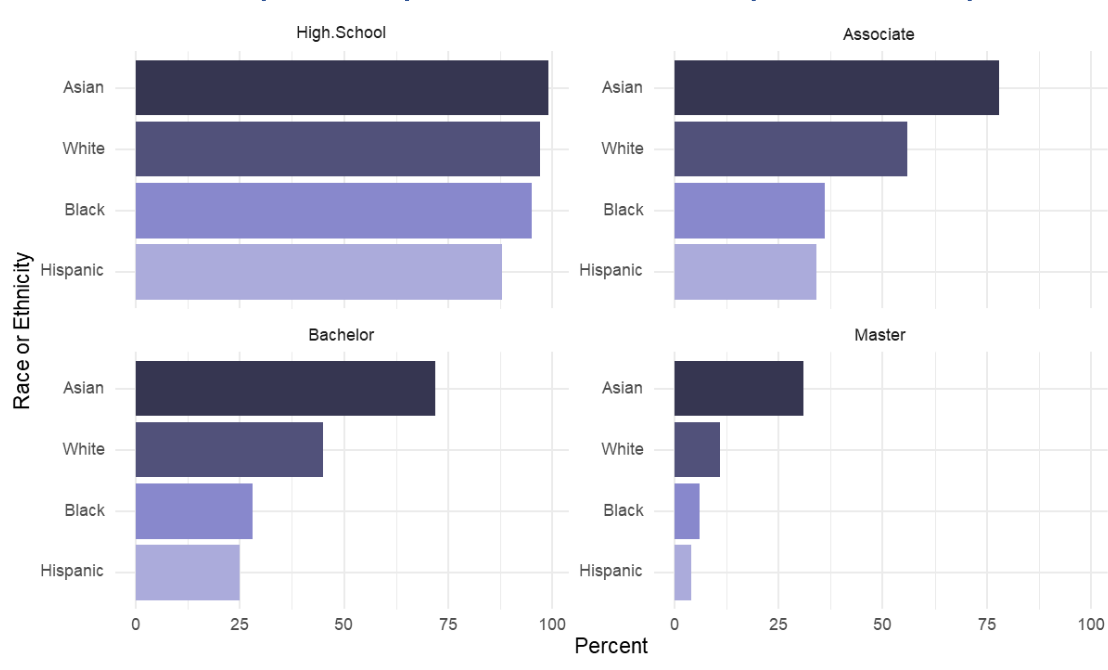
Table 2 shows the percentage of 25-to-29-year-olds by educational attainment by race or ethnicity in 2022 (National Center for Education Statistics, 2023). White and Asian Americans were more likely to have earned a baccalaureate or master's degree than members of other racial or ethnic groups.

Table 2.
Percent of 25-to-29-year-olds by educational attainment, by race or ethnicity: 2022

Race or Ethnicity	At Least High School Completion	Associate's or higher degree	Bachelor's or higher degree	Master's or higher degree
Total	95	49	40	10
White	97	56	45	11
Black	95	36	28	6
Hispanic	88	34	25	4
Asian	99	78	72	31
American Indian/Alaska Native	92	19	12	ǂ
Pacific Islander	90	36	28	ǂ

Source: National Center for Education Statistics (2023). Educational Attainment of Young Adults. Condition of Education. U.S. Department of Education, Institute of Education Sciences.
Note: ǂ Reporting standards not met - either there are too few cases for a reliable estimate, or the coefficient of variation is 50 percent or greater

Figure 3.
Percent of 25-to-29-year-olds by educational attainment, by race or ethnicity: 2022



Source: National Center for Education Statistics (2023). Educational Attainment of Young Adults. Condition of Education. U.S. Department of Education, Institute of Education Sciences.
Note: This figure includes educational attainment for racial or ethnic groups for which all data was available.

Undergraduate enrollment increased 2.1 percent in the fall of 2023 – the first increase since the pandemic began. Black, Hispanic, and Asian American students accounted for the majority of the growth in undergraduate and graduate enrollment, while White student enrollment declined by 1.9 percent at the graduate level and 0.9 percent at the undergraduate level, but most acutely among freshmen, declining by 9.4 percent (National Student Clearinghouse Research Center, 2023). Undergraduate enrollment at Historically Black Colleges and Universities (HBCUs) also increased by 6.2 percent in fall 2023 and is up 8.8 percent from fall 2021.

While the pandemic depressed enrollment in 2020 and 2021, outside of this anomaly, enrollment rates for Black and Hispanic young adults have remained constant over the past decade and have been within a few percentage points of White enrollment rates (National Student Clearinghouse Research Center, 2023). Furthermore, the number of Black and Hispanic adults with a college degree has more than doubled since 2000 (Pew Research, 2021 and 2022).

While higher education can drive mobility, it is not a silver bullet for solving the racial wage or wealth gap for at least three reasons. First, according to Pew Research, Black and Hispanic students are less likely to study science, technology, engineering or mathematics (STEM), fields which typically lead to higher paying jobs relative to other fields (Fry, et al., 2021.) Second, in many local labor markets, Black and Hispanic workers with a college degree still face racial disparities in wages and are underrepresented in managerial roles (Perry, et al., 2021.) Third, low-wealth households must often use debt to finance this education, which can then slow the process of further capital accumulation such as by delaying the ability to afford a mortgage.

A 2020 study reports that 43 percent of White students were able to go to college without taking on student loan debt. In contrast, only 25 percent of Black students were able to attend college with no loans (Shapiro, 2020). In a 2018 report for the Federal Reserve Bank of St. Louis, Fenaba Addo found that the wealth of the parent can partly explain student loan dept. In the study, 58 percent of Black students reported that their parents helped pay for college, with an average of $4,200 in total. Meanwhile, 72 percent of White students reported receiving help from their parents in paying for college and received an average of $12,000 in assistance (Addo, 2018).

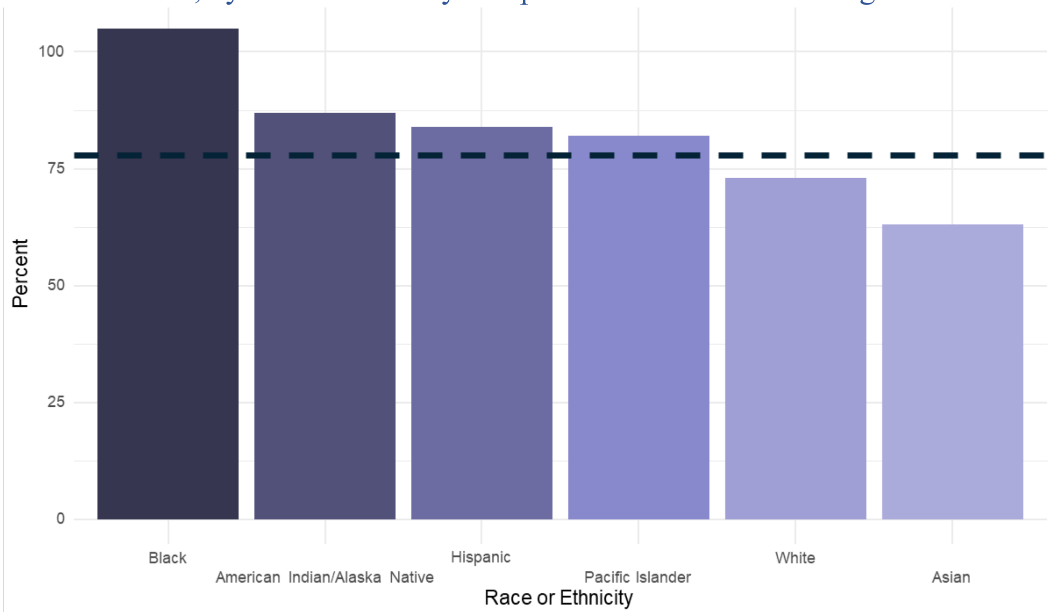
Table 3 and Figure 4 show among federal student loan borrowers, the average amount borrowed as of four years after completing a baccalaureate degree during the 2015-16 academic year by race or ethnicity. Black graduates had the highest average amount borrowed, $58,400 and the highest amount owed as a percentage of the amount borrowed, 105 percent.

Table 3.
Average amount borrowed as of 4 years after 2015-16 bachelor's degree completion for federal loan borrowers, by race or ethnicity

Race or Ethnicity	Average ($)	Amount owed as a percentage of amount borrowed
Total	$45,300	78
White	$43,300	73
Black	$58,400	105
Hispanic	$41,700	84
Asian	$49,100	63
American Indian/Alaska Native	$36,900	87
Pacific Islander	$46,300	82

Source: National Center for Education Statistics. Loans for Undergraduate Students and Debt for bachelor's degree Recipients (May 2023)

Figure 4.
Average amount borrowed as of 4 years after 2015-16 bachelor's degree completion for federal loan borrowers, by race or ethnicity compared to the national average



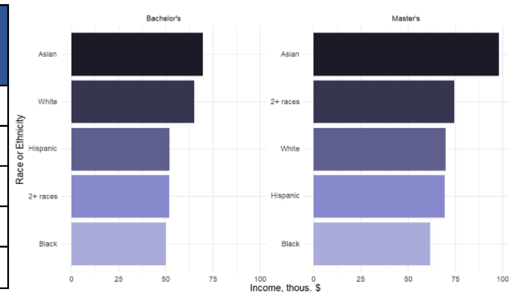
Source: National Center for Education Statistics. Loans for Undergraduate Students and Debt for bachelor's degree Recipients (May 2023)

In the third quarter of 2023, there was more than 1.6 trillion dollars in outstanding student loan debt. After a 3-year pandemic-era pause on student loan payments and interest accumulation, interest and payments resumed in October 2023. Recent data from the U.S. Department of Education shows that almost half (40%) of borrowers hadn't submitted their October payment by mid-November. This missed payment from some 9 million borrowers fits with an earlier analysis from the Consumer Finance Protection Bureau which found that 1-in-5 borrowers have risk factors suggesting they might struggle to make their payments.

Table 4 shows median earnings for 25- to 34-year-old full-time, year-round workers with a bachelor's degree by race or ethnicity in 2021. While Black bachelor's and master's degree graduates had the highest average amount of student loans, they had the lowest income, making repayment even more of a challenge.

Table 4.
Median earnings among 25-to-34-year-old full-time, year-round workers with a bachelor's degree or master's degree by race or ethnicity: 2021

Race or Ethnicity	Bachelor's or higher degree	Master's or higher degree
White	$65,000	$69,800
Black	$50,000	$61,500
Hispanic	$52,000	$69,200
Asian	$69,700	$98,100
Two or more races	$51,700	$74,300



Source: National Center for Education Statistics. Annual Earnings by Educational Attainment (2023)

4. Unemployment rates are stable at near pre-pandemic levels but are higher for Black and Hispanic or Latino workers.

Unemployment rates for all major groups spiked during the early months of the pandemic as the broader economy contracted, and rates remained above pre-pandemic levels until 2022 (Bureau of Labor Statistics, 2023). Figure 5 shows the unemployment rate by race or ethnicity from January 2018 through January 2024. Figure 6 shows the labor force participation rate by race or ethnicity for the same time period. Black and Hispanic workers experienced a higher unemployment rate than White workers throughout the pandemic, and that elevated rate also took longer to peak and longer to subside (Congressional Research Service, 2021).

Figure 5.
Unemployment rate, seasonally adjusted, by race or ethnicity: 2018 – 2024

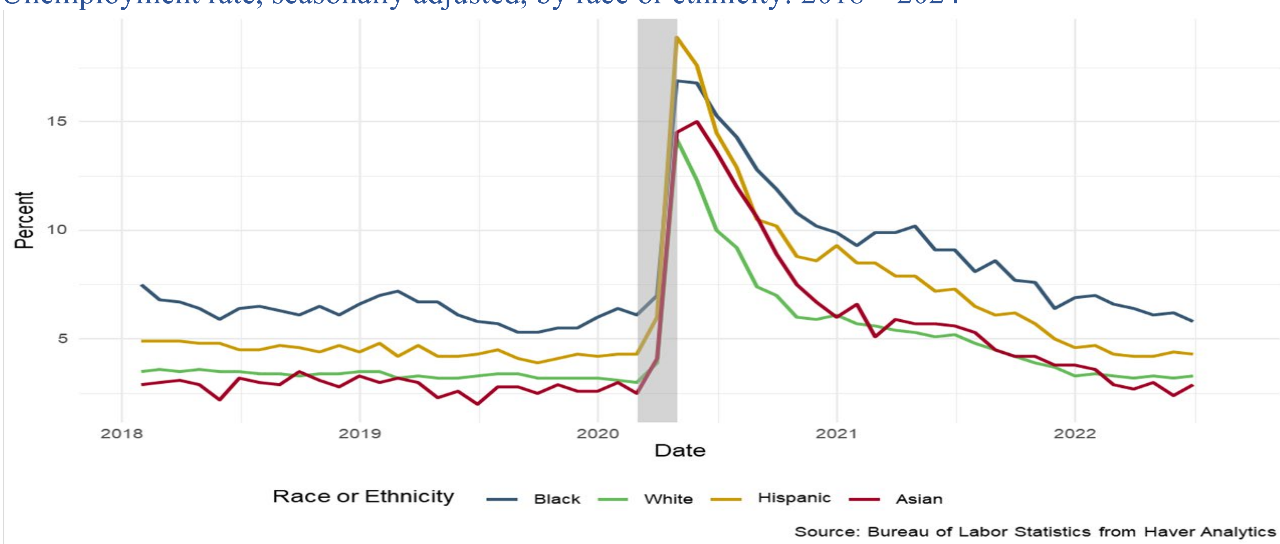
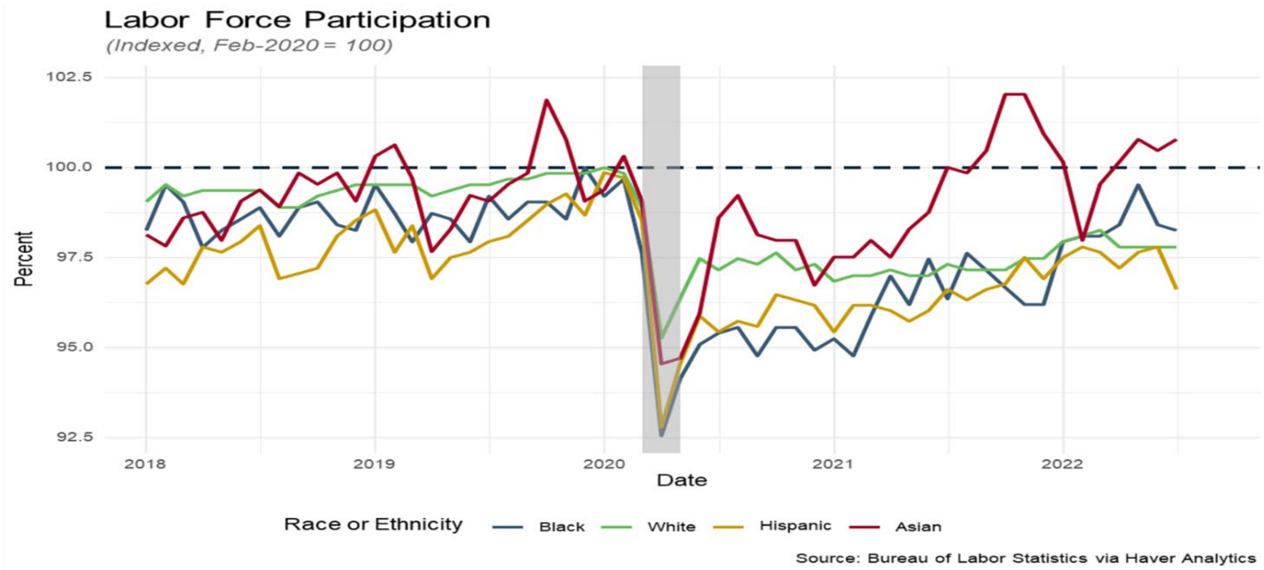


Figure 6.
Labor force participation rate, by race or ethnicity: 2018 – 2024



As shown in Table 5, unemployment rates continue to be higher for Black and Hispanic or Latino workers during the recent period of economic expansion following the pandemic. Table 6 shows the difference from the national unemployment rate by race or ethnicity. In each time period, the unemployment rate for Black and Hispanic or Latino workers was higher than the national average, while the unemployment rate for White and Asian American workers was lower than the national average.

Table 5.
Unemployment rate by race and ethnicity: January 2019 – January 2024

Year	Total	White	Black	Asian	Hispanic or Latino
2019	4	3.5	7	3	4.8
2020	3.6	3.1	6.4	3	4.3
2021	6.4	5.7	9.3	6.6	8.5
2022	4	3.4	7	3.6	4.7
2023	3.4	3.1	5.4	2.9	4.7
2024	3.7	3.4	5.3	2.9	5

Source: U.S. Bureau of Labor Statistics (2024)

Table 6.
Difference from national unemployment rate by race or ethnicity: January 2019 – January 2024

Year	Total	White	Black	Asian	Hispanic or Latino
2019	4	-0.5	3	-1	0.8
2020	3.6	-0.5	2.8	-0.6	0.7
2021	6.4	-0.7	2.9	0.2	2.1
2022	4	-0.6	3	-0.4	0.7
2023	3.4	-0.3	2	-0.5	1.3
2024	3.7	-0.3	1.6	-0.8	1.3

Source: U.S. Bureau of Labor Statistics (2024).

Recent research that examines data over a 30 year period prior to the pandemic finds that the typical Black worker is more likely to be displaced in any given year, and suffer worse ongoing financial harm from experiencing unemployment than do White workers (Shiro and Butcher, 2022.) And similar research finds that Black and Hispanic households are twice as sensitive to income shocks as White households, largely due to wealth inequality (Ganong, et al., 2020.)

5. Black people are less likely to own homes and are more likely to have their homes be undervalued.

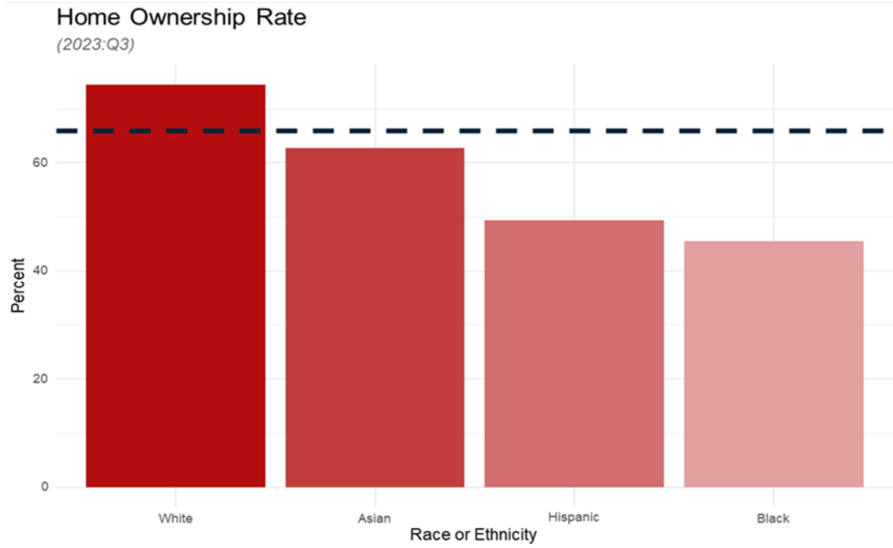
Table 7 shows the third-quarter homeownership rate by race or ethnicity from 2019 to 2023, and Figure 7 shows the 2023 third-quarter homeownership rate by race or ethnicity compared to the national average homeownership rate. In the third quarter of 2023, the homeownership rate was 66 percent (U.S. Census Bureau). Black and Hispanic or Latino Americans had lower homeownership rates than their White and Asian American counterparts. Approximately 89.6 percent of U.S. housing units were occupied, and 10.4 percent were vacant. Owner-occupied housing units made up 59.1 percent of total housing units, while renter-occupied units made up 30.5 percent of the inventory (U.S. Census Bureau).

Table 7.
Third Quarter Homeownership Rates by Race and Ethnicity of Householder: 2019 to 2023

Homeownership Rates (percent)					
Year	U.S.	White	Black	Asian	Latino or Hispanic
2019	64.8	73.4	42.7	58.5	47.8
2020	67.4	75.8	46.4	61	50.9
2021	65.4	74	44	60.2	48.3
2022	66	74.6	45.2	61.6	48.7
2023	66	74.5	45.5	62.7	49.4

Source: Quarterly Residential Vacancies and Homeownership, Third Quarter 2023, U.S. Census Bureau

Figure 7.
Third quarter homeownership rate compared to national average by race or ethnicity of householder: 2023.



Source: Quarterly Residential Vacancies and Homeownership, Third Quarter 2023, U.S. Census Bureau.

Depending on the interest rate environment, refinancing a mortgage can result in lower monthly payments. As recently explained in a research brief from the JPMorgan Chase Institute, refinancing when interest rates are lower can be particularly beneficial for cash-strapped households whose lowered payments provide more leftover income for consumption or savings (Wheat, et al., 2023.) The early part of the pandemic featured low interest rates, particularly relative to later in the pandemic when monetary policy tightened to curb inflation. But this same research brief finds that Black and Hispanic households were less likely to refinance across all income quartiles and faced disproportionately greater costs when they did refinance compared to White and Asian American households. (Wheat, et al., 2023.)

Finally, research from The Brookings Institution demonstrates persistent undervaluation of between 21 percent and -23 percent of homes in Black-majority communities. Rothwell and Perry (2022) estimate that "the cost of devaluation across the 113 metro areas in the U.S. with at least one majority-Black neighborhood is approximately $162 billion." This loss from devaluation inhibits wealth-building for individual homeowners at the point of sale and can also deflate the tax base for the surrounding community, which can further inhibit home value appreciation in a vicious cycle.

6. Black and Latino or Hispanic workers are less likely to have retirement savings accounts or own stocks.

Having a retirement account can be an important part of wealth accumulation. These plans are important for building wealth, as often these programs come with an employer match. Employer plans such as 401(k) plans and stock options for managers are the types of plans than can assist with wealth building. Having a retirement plan can be critical in assisting in the payment of living expenses as individuals leave work and no longer have an earned income from their jobs. This can assist families in keeping wealth by not forcing sales of assets to pay for living expenses or helping to prevent family members from having to carry the financial responsibilities of older members.

Table 8 shows retirement account ownership and average dollar amount held by race or ethnicity Survey of Consumer Finances (2022). White workers were more likely than Black or Hispanic workers to have a retirement savings account and the average White account holder had more than three times the retirement savings of the average Black or Hispanic account holder.

Table 8.
Retirement account ownership and average amount held by race and ethnicity: 2022

Race or Ethnicity	Percent Holding	Average ($)
White, non-Hispanic	61.8	$380,330
Black, non-Hispanic	34.8	$117,530
Hispanic	27.5	$120,320
Other	52.9	$257,360

Source: Survey of Consumer Finances (2022)

7. A higher share of Black and Latino adults are unbanked.

In 2022, 6 percent of adults were unbanked, the same percentage as in 2019 and 2021 (Report on the Economic Well-Being of U.S. Households in 2022 - May 2023). But a significantly higher share of Black and Hispanic adults are unbanked (13 percent and 10 percent) than White adults (3 percent), a pattern that has persisted across time (Report on the Economic Well-Being of U.S. Households in 2022 - May 2023). Table 9 shows the unbanked rate and use of nonbank check cashing and money orders by race or ethnicity in 2022. The cost of being unbanked or underbanked is substantial. For example, a recent analysis from the Financial Health Network estimates that financially underserved consumers in 2018 spent $189 billion on fees and interest for financial products (2019).

Table 9.
Unbanked rate and use of nonbank check cashing and money orders by race or ethnicity: 2022

Race or Ethnicity	Unbanked	Use of nonbank check cashing and money orders
White	3	8
Black	13	28
Hispanic	10	19
Asian	5	7

Source: Survey of Consumer Finances (2022).

Sakong and Zentefis (2023) found that many banks are less likely to locate branches in Black communities than in low-income communities. Relatedly, Black and Hispanic Americans are more likely to use nonbank check-cashing establishments. In addition to being more likely to be unbanked, Black and Hispanic households are also more likely to be denied credit or denied the full amount requested. Credit denial rates for Black and Hispanic households are higher than for White households for every income level (Report on the Economic Well-Being of U.S. Households in 2022 - May 2023.) This pattern even held true for Black and Hispanic business owners applying for Paycheck Protection Program loans during the pandemic, even though these loans were fully guaranteed by the government.

8. U.S. Households are increasingly relying on credit card debt, and minority households are more likely to carry a monthly balance.

For the third quarter of 2023, the Federal Reserve Bank of New York estimated that the U.S. had more than $17 trillion dollars in household debt, roughly a quarter of which (27 percent) was non-housing debt (Quarterly Report on Household Debt and Credit). Overall, debt has increased by $3.1 trillion since the end of 2019, directly prior to the pandemic.

The U.S. currently holds $1 trillion in credit card debt, a record high. Credit card debt continues to trend upward, with Q3 of 2023 marking the eighth consecutive quarter of rising credit card debt. The year over year increase in credit card debt of $154 billion is the largest one-year increase on record. Concurrent with the growth in debt is the rise in delinquencies, with delinquency rates above pre-pandemic levels for each income quintile, and especially for low-income households. (Federal Reserve Bank of New York, 2023.)

Federal Reserve data shows that Black and Hispanic households are more likely to carry a monthly balance on their credit cards, thus increasing the cost of using credit and introducing the danger of falling into a debt trap. Table 10 shows the percentage of households carrying a monthly credit card balance and the average dollar amount.

Table 10.
Percentage of households carrying monthly balance by race or ethnicity: 2022

Race or Ethnicity	Percent Holding	Average ($)
White, non-Hispanic	42.2	$6,930
Black, non-Hispanic	56.3	$4,360
Hispanic	55.8	$4,150
Other	43.3	$5,910

Source: 2022 Survey of Consumer Finances.

In addition to credit card debt, many minority and low-income households rely on Buy Now, Pay Later (BNPL) programs offered by fintechs to finance their consumption. Notably, Black and Hispanic adults are twice as likely to use BNPL, according to recent Federal Reserve data, and "very little of this difference can be explained by other factors, such as income, age, and self-perceived credit rating."

A recent New York Times article notes that BNPL is a relatively new service but it has already generated controversy: while some advocates for BNPL argue that this service provides an alternative to predatory loans, critics warn that BNPL induces excess spending and results in increased indebtedness. Recent analysis from the Consumer Finance Protection Bureau finds that

BNPL borrowers are "much more likely to be highly indebted, revolve on their credit cards, have delinquencies in traditional credit products, and use high-interest financial services such as payday, pawn, and overdraft compared to non-BNPL borrowers." Additional academic research from deHaan et al. (2022) finds evidence of BNPL having a negative effect on financial health.

9. During the pandemic, new business applications surged, particularly in Black and Hispanic-majority counties.

The last three years have seen record high new business applications across a broad range of industries and dispersed across the nation, though particularly elevated in the South (Newman, 2023). Analysis of Census Bureau data by Third Way reveals that Black and Hispanic majority counties led the surge in new business formation (McSwigan, 2022.) That same analysis further finds that "Black counties' share of new business applications in 2021 was over 60 percent higher than it was in 2005 and Hispanic counties' share was nearly 13 percent larger." Recent research also establishes a meaningful relationship between the timing of federal relief, including stimulus checks, and the filing of new business applications in Black-majority neighborhoods (Fazio, et al., 2021).

Business ownership is a key driver of wealth. Importantly, the 2022 Survey of Consumer Finance data reveals that business equity contributed a greater share of wealth gains as a percentage for Black and Hispanic households than White households. Despite the surge in minority entrepreneurship, there are still fewer Black and Hispanic businesses than would be proportional to their share of the U.S. population. Indeed, recent Brookings research reveals that not a single metro in the U.S. has a proportional number of Black firms (Perry, et al., 2022). In addition, the typical Black, Hispanic, and Asian-American owned firm experienced greater financial hardship during the pandemic, including a greater share of diminished revenue, greater likelihood of being denied some or all of credit applied for, and a greater likelihood of tapping into personal funds to sustain operations, according to that same Brookings analysis of Federal Reserve data (Perry, et al., 2022). If these newly formed firms are unable to sustain operations, any wealth gains derived from the firms are likely to be transitory.

While Black entrepreneurs may start businesses in an effort to increase wealth and income mobility, without proper support and tools, their efforts may prove inadequate to increase wealth or even become detrimental.

Table 11 shows business profitability by race or ethnicity in 2022 using data provided by the U.S. Census Bureau's 2023 Annual Business Survey. Black owned employer firms were least likely to have earned a profit and most likely to have taken on losses in 2022. Table 12 shows the impact of the COVID-19 pandemic on business sales by race or ethnicity.

Research indicates that Black-owned businesses are less likely to be in business after four years when compared with White-owned businesses. Consequently, business ownership is more likely to result in a reduction of economic mobility and less likely to result in increased economic mobility for Black entrepreneurs than for White entrepreneurs, according to Kroeger and Wright (2021). Their results suggest that improving the success rate of Black entrepreneurs, rather than simply increasing the startup rate of Black entrepreneurs, should be the goal of efforts to reduce the racial wealth gap.

Table 11.
Business profitability by race or ethnicity: 2022

Race or Ethnicity	Business had profits, losses, or broke even		
	Percent of employer firms		
	Profits	Losses	Break even
Total	65.6	19.6	14.8
White	66.9	18.9	14.2
Black or African American	49.5	30.2	20.3
American Indian and Alaska Native	59.1	22.1	18.9
Asian	60.7	21.3	18.0
Native Hawaiian and Other Pacific Islander	55.0	20.7	24.3
Hispanic	59.9	21.8	18.4

Source: U.S. Census Bureau and National Center for Science and Engineering Statistics, 2023 Annual Business Survey.

Table 12.
Impact of Covid-19 pandemic on business sales by race or ethnicity: 2022

Race or Ethnicity	Impact of coronavirus pandemic on business sales in 2022				
	Percent of employer firms				
	Increased significantly	Increased somewhat	Little to no change	Decreased somewhat	Decreased significantly
Total	6.2	13.7	39.4	25.0	15.7
White	6.1	13.6	40.8	24.6	14.8
Black or African American	9.2	13.3	28.3	26.2	23.0
American Indian and Alaska Native	7.2	14.2	31.2	25.7	21.6
Asian	6.7	14.7	30.1	27.9	20.5
Native Hawaiian and Other Pacific Islander	5.7	12.4	30.4	28.0	23.5
Hispanic	7.9	14.1	31.2	25.6	21.2

Source: U.S. Census Bureau and National Center for Science and Engineering Statistics, 2023 Annual Business Survey.

Conclusion

While this working paper presents data on the racial wealth gap and economic factors that influence it, the data show that no single factor fully explains the disparity in net worth between households of various races and ethnicities. However, it is important for policymakers to understand the economic factors that impact the racial disparity in net worth between households and the historical structural factors that have blocked opportunities for economic mobility for Black and Hispanic or Latino Americans as they work to make recommendations aimed at reducing the racial wealth gaps.

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