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Racial Wealth Gap Comes Under Microscope at Chicago Fed Event

By Chicago Fed Staff Writer

Regional Economy Housing Community Development

Experts examined new data about the racial wealth gap—and discussed how progress in closing it could be accelerated—during a recent Federal Reserve Bank of Chicago Economic Mobility Project event.

Entitled *Racial Wealth Gains and Gaps: 9 Economic Facts about the Disparities*, the [February 8 virtual event](#) was centered on [new research](#) of the same title led by Kristen Broady, the director of the Chicago Fed’s Economic Mobility Project. Drawing primarily from the Federal Reserve Board’s latest *Survey of Consumer Finances (SCF)*, the research explored nine areas—wealth, income, education, employment, home ownership, savings, banking, debt and entrepreneurship—and included data from a wide range of sources.

Panelists tended to agree on the basics—that wealth measures income plus savings minus debt—and shared, briefly, different ideas for policy solutions that could speed up the clock on narrowing the racial wealth gap.

“While we have shared data on the racial wealth gap and economic factors that influence it,” said Broady, who is also a Chicago Fed senior economist and economic advisor, “the data shows that no single factor fully explains the disparity in net worth between households of various races and ethnicities. By analyzing economic factors that impact the disparities, policymakers can make recommendations aimed toward reducing the racial wealth gaps.”

A few of the topics at the center of the conversation, moderated by *New York Times* economics reporter Ben Casselman:

Wealth gap

The *2022 Survey of Consumer Finances* was, according to Frederick Martin, chief financial officer of the Federal Reserve Bank of Chicago, “the first in the data series history to provide data specifically for Asian-American households and revealed that Asian-American households have significantly more wealth than households of other racial and ethnic groups.”

Specifically, “the average Asian-American household has a median net worth of \$536,000,” Broady went on to say. “This is 1.8 times greater than that of the typical White household, 8.7 times greater than the typical Hispanic or Latino household, and 11.9 times greater than the typical Black household.”

Another statistic Broady shared suggested some progress has been made but also revealed the complex nature of the issue. “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,” she wrote in the *Nine Economic Facts* research paper.

Employment

Since 2022, according to the Bureau of Labor Statistics, the rate of labor force participation for Black Americans has surpassed that for White Americans. “This may indicate, especially during a recovery period, that a tight labor market has the potential to pull in workers previously on the margins back into the labor force,” said Anthony Barr, one of Broady’s co-authors and research and impact director for the National Bankers Association Foundation.

Entrepreneurship

Thanks in part to a surge in new business applications, business equity contributed a greater share of wealth gains for Black and Hispanic households during the pandemic than for White households, Broady explained in her presentation.

“This is the entrepreneurial renaissance era, and I’m excited to say that the category that is leading that is both women and Black women,” said event panelist Natalie Madeira Cofield, chief executive officer for the Association for Enterprise Opportunity and a board member for the Harbor Bank of Maryland. However, data presented from the U.S. Census Bureau’s 2023 Annual Business Survey challenged the perception that business ownership promises economic mobility, as it revealed that Black-owned firms were least likely to earn a profit and most likely to take a loss compared to other groups.

Savings

“The average White stockholder has \$568,000 in stock compared to \$80,000 for Black or \$97,000 for Hispanic [stockholders],” Broady said. “According to the *2022 Survey of Consumer Finances*, White workers were more likely than their Black and Hispanic counterparts to have retirement savings accounts, and the average White account holder had more than three times the retirement savings of the average Black or Hispanic account holder.”

Home ownership

Madeira Cofield said that according to Forbes, home value rates among Black homeowners have reached their highest levels ever, and majority Black communities have experienced the greatest amount of home value appreciation. “We’ve seen an increase in home ownership rates, particularly for Black women,” she said. “And for Black men they increased by about 2.5% during Covid,” which was a higher growth rate than what was experienced by their White counterparts.

However, demonstrating that home ownership alone is not always enough to boost wealth, Barr shared that “a 2022 Chicago Fed working paper shows that minority households are more likely to buy when prices are high and sell when prices are low, which can have a negative effect from a wealth standpoint.”

Wealth and debt

“Wealth is sticky,” said panelist Gary Hoover, executive director of the Murphy Institute and economics professor at Tulane University. He said that, compared to income, wealth is “transferable and intergenerational,” and being able to pass wealth from one generation to the next will be key to closing the racial wealth gap.

But American structural issues can present severe challenges to building wealth, said panelist Scott Winship, senior fellow and director of the Center for Opportunity and Social Mobility at the American Enterprise Institute. “Because of the nation’s long historic history of anti-Black discrimination, there are gaps in educational attainment. There are gaps in marriage rates,” he said. “There are huge gaps in the poverty rates of the communities that people live in.”

Like wealth, debt can also transfer across generations. Barr pointed out that minority groups are disproportionately impacted here as well. “U.S. households are increasingly relying on credit card debt, and minority households are more likely to carry a monthly balance,” he said—78% of Black households and 62% of Hispanic households versus 42% of White households and 27% of Asian households. Carrying such debt is an expensive way of using credit that “suggests that there’s a struggle to kind of smooth over consumption,” said Barr.

To close the discussion, panelists presented ideas for policies that could address the racial wealth gap. Among the notions brought up were investing in early childhood learning to try to close test-score gaps, issuing “baby bonds” that would mean people have money waiting for them upon reaching adulthood, de-bundling large contracts to provide more opportunity for small firms to compete for business, and granting flexibility in the use of money in college savings programs.

To learn more

Please see the [event page](#), with agenda, speaker bios, video replay, and transcript, and the [working paper](#) by Kristen Broady, Anthony Barr, and co-authors that helped guide the discussion.

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