AEA Papers and Proceedings 2024, 114: 169–173
https://doi.org/10.1257/pandp.20241102

Setting the Record Straight on Racial Wealth Inequality†

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Anti-Black and personal responsibility narratives dominate conventional discussions about the drivers of racial wealth inequality (Hicks et al. 2021). The mainstream economic view of the drivers of racial disparities in wealth is a human capital view: more human capital, typically in the form of additional education, leads to higher earnings and income, enabling higher levels of savings—leading, finally, to growth in wealth. By this line of reasoning, Black households have less wealth because their lower levels of human capital generate lower earnings and less savings. The dominant economic modeling of racial wealth gaps also ignores or dismisses the significance of the racially uneven transmission of resources across generations. Contemporary racial wealth differences reflect historical racial differences in wealth; the primary cause of the Black-White wealth gap is the gap in the capacity of Black and White households to transmit resources across generations.

This paper sets the record straight.

A large sociological literature describes structural determinants of Black-White wealth inequality (Oliver and Shapiro 2006). More recent work by social psychologists catalogs the misperceptions of racial economic inequality and racial progress among Americans. For example, in a 2019 paper, Kraus et al. find that Black and White survey participants underestimated the racial wealth gap and overestimated Black-White wealth equality. They also find that, in line with false narratives of racial economic progress, participants were more likely to underestimate the wealth gap in the past by about 40 percentage points (1963) and by about 80 percentage points in the present (2016).

Black-White wealth inequality has remained unchanged or increased slightly for over 50 years (Derenoncourt et al. 2023). Recent data from the 2019 and 2022 Federal Reserve's Survey of Consumer Finances indicates that despite a 61 percent increase in median wealth among Black households, the median gap in net worth between Black and White households rose from \$164,100 to \$241,120, an increase of \$77,020, or about 45 percent. The mean gap rose from \$841,900 to more than \$1.15 million, an increase of about 38 percent (Aladangady. Chang, and Grimmel 2023). The inflation rate between 2020 and 2022 was 21.4 percent; therefore, the real disparity in Black and White wealth grew by about 23 percent at the median and about 16 percent at the mean.

Black Americans have consistently faced inequitable opportunities at wealth building throughout US history (Baker and Addo 2023). Therefore, the story of Black-White wealth inequality in the United States is one of the typical White households consistently having more and the typical Black household holding a relatively small percentage of White wealth.

From the foreclosure crisis and subprime mortgages (homeownership) to racial disparities in student debt (higher education) and the Great Recession—and, most recently, the COVID-19 pandemic that pushed many into temporary unemployment or permanent layoffs (labor market/earnings)—standard mechanisms considered as vehicles for wealth creation have failed to reduce racial disparities in net worth. Conventional claims about the drivers of the Black-White wealth gap are dampened after recognizing that the disparity persists with age and employment status and that, along the wealth distribution, the widest racial gaps are at the uppermost and lowest quintiles (see Figure 1).

Labor economists have dominated the analysis of wealth inequality, whether overall or by race and ethnicity. Because of their intrinsic emphasis on incomes generated in the labor market,

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†Go to https://doi.org/10.1257/pandp.20241102 to visit the article page for additional materials and author disclosure statement(s).

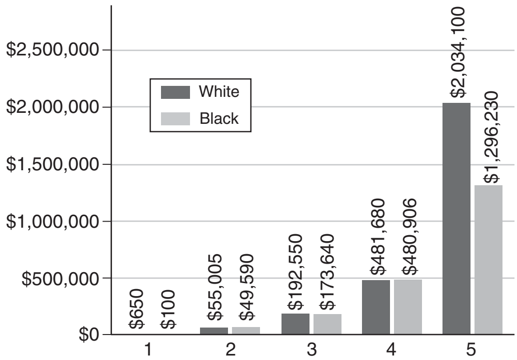

Figure 1. Median Black and White Household Wealth by Wealth Quintiles, SCF 2022

they tend to prioritize savings out of earnings as the primary source of wealth accumulation.

Their basic narrative, best represented in the work of economists at various branches of the Federal Reserve system, is the following: we can close the wealth gap if we close the earnings gap (Aliprantis, Carroll, and Young 2022; Sabelhaus and Thompson 2023). We refer to this human capital–centered focus as the Fed view of the causes of racial wealth inequality.

A simple accounting exercise examining the relationship between wealth and income indicates that the Fed view is a weak argument for understanding Black-White wealth disparity. Black households in the third (or middle) income quintile held less than one-third of the wealth of White households in the same quintile in 2016 and 2019; by 2022, they still held less than half of the median wealth (46.5 percent) of White households in the same quintile (Table 1, panel A).

Delineating households by occupational status as an indicator of social class reinforces the relationship. The typical Black household headed by someone in a managerial or professional position consistently had less wealth than a White household headed by someone with working-class employment and considerably less than White household heads in professional and managerial occupations (Table 1, panel B).

An additional indication of the inadequacy of the Fed view is the relationship between educational attainment and wealth. Black households with a college degree hold less wealth than White households headed by someone with a high school diploma or GED. When assets are restricted to nonhousing possessions, any positive relationship between education and wealth disappears among Black households, and only black household heads with advanced degrees have more nonhousing wealth than White households with less than a high school diploma or GED (Table 2).

The Fed's myopic view reinforces the tendency to devalue the importance of past generations' wealth in shaping the younger generations' net worth position. In fact, the intergenerational transmission chain is typically overlooked altogether by labor economists. A justification frequently offered for ignoring the intergenerational transmission chain is the observation that at any moment in time, a relatively small percentage of persons receive inheritances. Of White households, 17 percent expect an inheritance of any amount, but only 6 percent of Black households expect the same (Bhutta et al. 2020).

The conceptualization of how parental and intergenerational wealth influences child outcomes and, in particular, their wealth positioning differs from its operationalization in most empirical studies that tend to explore the contribution of inheritances or gifts to racial wealth inequality using data gleaned from the Survey of Consumer Finances. These questions focus on large transfers of assets that may require legal documentation like trusts or wills and ask if the respondent ever received an inheritance, when it was transferred, and the amount.

The survey data indicate that American households typically do not receive inheritances and that only a wealthy few receive large sums, but these analyses underestimate wealth transfers and provide, at best, a lower bound estimate of how wealth actually migrates through our society.

The role of in vivo transfers, or gifts made while the donor is still living, are rarely analyzed or considered. Ignoring gifts for education or access to homeownership or even a vehicle is highly pertinent to explaining the ineluctable character of racial economic inequality and White socioeconomic advantage. Wealth transfers, not to mention the timing of those transfers, help reduce debt accrual and facilitate asset accumulation. The anticipation of a gift or an inheritance matters as well, as it allows individuals to plan and make riskier investments, and it mitigates their anxiety.

Table 1— 2016, 2019, 2022 SCF Median Wealth of Black and White Households

	2016		2019		2022	
	White	Black	White	Black	White	Black
Panel A. Median wealth by income quintiles						
Income quintiles						
1	$14,961	$3,712	$26,546	$2,318	$43,100	$5,101
2	$92,898	$16,922	$102,091	$12,288	$85,600	$19,000
3	$140,358	$38,457	$173,649	$54,367	$215,970	$100,440
4	$265,051	$98,349	$282,962	$108,154	$335,970	$218,650
5	$1,204,633	$328,447	$1,030,673	$401,085	$1,429,800	$554,100
Panel B. Wealth by working-class status						
Professional/managerial class	$329,680	$53,504	$319,941	$44,977	$402,650	$103,510
Working class	$116,800	$17,588	$132,462	$23,091	$157,100	$31,710

Notes: 2016 and 2019 prices adjusted to 2022 dollars. Panel B sample restricted to household heads ages 25–64.

Table 2— Median Wealth by Educational Attainment, 2022 SCF

	Total wealth		Total nonhousing wealth	
	White	Black	White	Black
No HS diploma/GED	$72,800	$5,770	$8,800	$570
HS diploma or GED	$153,050	$45,000	$19,801	$4,470
Some college/associate degree	$199,400	$26,850	$26,700	$3,420
Bachelor's degree	$432,000	$102,360	$135,500	$670
Master's/professional/doctorate	$944,600	$140,100	$486,000	$18,010

Parental and grandparental wealth has a stage-setting function (Pfeffer and Killewald 2018), creating economic security and opportunity for the younger generation that goes beyond the actual transfers. The Fed studies assume a one-for-one rather than a multiplier effect from inheritances. This leads to an incorrect interpretation of how a given amount of inherited wealth translates into the child's portfolio.

Further confounding the Fed view is evidence that income and earnings are dependent upon parental and grandparental wealth (Toney and Robertson 2021). Differences in income by race are influenced significantly by differences in the wealth position of the two preceding generations.

Connected to the claim that the wealth gap is driven by the earnings gap is the focus on identifying a single driver of Black-White wealth differences. As mentioned previously, the timing of transfers matters given that the magnitude of the wealth gap grows over the life cycle, narrowing slightly only at the oldest age categories (over age 75) (see Figure 2). After the age of 35, White median wealth remains higher than Black mean and median wealth. The role and timing of intergenerational transfers is particularly germane when examining older households. Myers et al. (2023), using the RAND Health and Retirement Survey (HRS) Longitudinal Sample 1992–2018, show that among preretirement age and older participants in the survey, the accumulation of wealth is lower for Black households than for White households with the same initial wealth. The racial wealth accumulation gap widens as initial wealth increases. For households with positive wealth and total debt not exceeding 300 percent of their wealth, Myers et al. then demonstrate that on average, 72 percent of Black households leave a bequest, while 92 of White households leave a bequest. Even among these preretirement age and older households, however, there are startling differences in having received an inheritance as part of their wealth. While 9 percent of Black older households received inheritances, more than twice as many White households (19 percent) received inheritances. Thus, intergenerational transfers

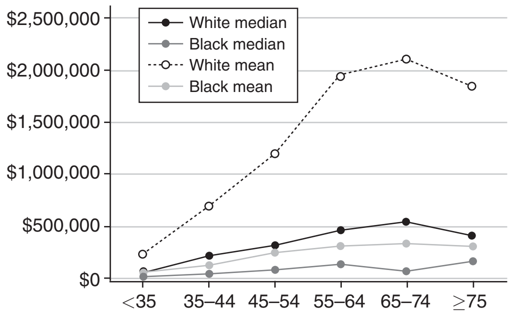

FIGURE 2. MEDIAN AND MEAN HOUSEHOLD NET WORTH BY AGE AND RACE OF HOUSEHOLD HEAD

arguably play an outsized role in perpetuating racial gaps in wealth.

Finally, an important feature of wealth and wealth policy over the past 40 years has been the ability to pass wealth forward intergenerationally at relatively low cost, in part due to explicit federal taxation policies that have primarily benefitted wealthier White families (Brown 2021; Darity et al. 2023). We believe that the role of tax policy is a plausible area of future analysis for understanding racial wealth inequality and the potential of tax policy to serve as a wealth equalizing mechanism.

However, we urge caution since redistributive policies built around tax reform can be the source of substantial political resistance and create large behavioral responses regarding tax avoidance. Moreover, it is difficult to conceive of a tax reform that would eliminate the racial wealth gap without driving White wealth down toward Black levels. Instead, we support alternative policy proposals that would raise the wealth of Black households while not lowering the wealth of White households, regardless of the tax regime. Most prominent among these would be reparations for Black Americans whose ancestors were enslaved in the United States. While also politically difficult to achieve, the most comprehensive plan for Black reparations does not involve confiscation of White assets (Darity and Mullen 2020).

The net worth of Black and White households increased during a period that included the COVID-19 pandemic. However, the enormous breach in Black and White wealth was sustained during the interval. The persistence of the racial wealth gap points to the intersection of the cumulative impact of US racial history and the racially uneven transmission of resources across generations as critical for explaining Black-White economic inequality in the United States.

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