Tracing the Color Line: An Overview of Black-White Economic Inequality in the United States

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Introduction

For many Americans, the arc of social and economic progress for Black Americans is punctuated by select, seminal moments in the nation's history: slavery; the emancipation of the enslaved; the ostensible relaxation of remaining barriers by way of economic, legal, and social policy reforms up to and throughout the 1960s; and a string of Black "firsts" culminating with the election of the first Black president. This account of the "Black" experience in the United States omits a more complex story, one documented in decades of research and evidence on the progress and setbacks that many Black Americans have experienced economically.

Many contemporary discussions of Black economic progress—such as the ones surrounding the recent Supreme Court case on affirmative action—begin with naive comparisons to international migrant groups—*why haven't Black Americans made progress, relative to one or another migrant community?* And, with the limited knowledge of historical and current-day conditions facing many Black households, some journalists and public intellectuals approach the topic of racial inequality with a misguided view of initial conditions facing these families across multiple generations – including their levels of income, wealth, and access to local amenities. With more background, the orientation of casual observers might shift toward amazement at the levels of growth and progress Black Americans have made amid persistent roadblocks throughout their history in the United States.

A number of studies demonstrate the extent of public misperception regarding current racial inequality and overconfidence regarding how much progress has been made in the last few decades. For example, researchers asked a sample of respondents in 2017 how much Black workers earned in wages for every $100 earned by comparable White workers, and how much this has changed over time. Despite this number decreasing between $5 and $6 from 1973 to 2015, respondents on average guessed that Black wages increased by $20 over the period, relative to White wages. The survey takers accurately reported that Black wages were lower than White wages in the past, but greatly overestimated how close Black wages were to White wages today. Moreover, White respondents were significantly more likely to overestimate this racial progress, as compared to Black respondents.

A similar pattern was found when questions were asked about progress toward racial equality in wages separately for college or high school graduates, for income—which includes earnings from investments and across multiple household members—and for wealth. On average, respondents overestimated progress in racial equality by 25%.[1]

In a separate study focused on upward economic mobility, researchers asked respondents to report, among 100 children born to families in the lowest 20% of households by income, how many would, upon reaching adulthood, earn an amount greater than the lowest 20% of households. The question was asked separately for Black children and White children. Respondents guessed that between 72% and 74% of White children would climb out from the bottom 20% of incomes in adulthood, a guess slightly above the actual rate of 69%. In contrast, respondents thought between 60% and 65% of Black children would similarly rise in income rankings, when in fact only 52% do. While respondents did believe there were racial gaps in income mobility, they underestimated the extent of these gaps by overstating how much economic mobility there is for Black children. In this case, it was not only White study participants who perceived the situation to be more equitable than the truth—the same held for Black respondents.[2] These findings are replicated in other studies, where researchers further

[1] Kraus, Michael W., Julian M. Rucker, and Jennifer A. Richeson. "Americans misperceive racial economic equality." Proceedings of the National Academy of Sciences 114.39 (2017): 10324-10331.
[2] Davidai, Shai, and Jesse Walker. "Americans misperceive racial disparities in economic mobility." *Personality and Social Psychology Bulletin* 48.5 (2022): 793-806.

found a partisan divide: White Republican respondents were more likely than Democrats to overstate the chances that Black children might climb the economic ladder and are more likely to blame poor economics outcomes among Black people on a lack of individual effort.[3]

Throughout this report, we explore several questions aimed at addressing the gaps between actual progress, or lack thereof, in racial equity for Black Americans and the perceptions that many hold regarding this progress. How have Black Americans fared with respect to economic progress? What are their rates of poverty and employment? How have incomes progressed for Black Americans over the past 50 years or more? With fewer barriers to educational attainment and capital accumulation, have they as a group closed gaps with their non-Black counterparts? Perhaps, most important, what are some of the larger drivers of these trends, and what are areas that remain open for investigation and inquiry for journalists and others interested in racial economic inequality?

While the range of potential economic outcomes might include consumption, political agency, educational attainment, and allocation and redistribution of goods and services by the state, we will focus our discussion on the processes that leave individuals, families, and households with more or less resources with which to provide for their needs and pursue their goals. We will, therefore, start with the primary resource for most households, the wages and salary they earn within the labor market. We will go into considerable detail on trends in Black and White inequality in the labor market over the historical period beginning post-Emancipation up to and including the current COVID-19 pandemic recovery. We will then extend the scope of resources to examine how households and families combine their earnings as a unit, as well as the returns they gain from their investments, which distinguishes household income from labor market wages.

These inflows of income are measured at a given point in time, for example, over the course of a given year, while household wealth captures the accumulation of income saved over many years,

[3] Alesina, Alberto, Matteo F. Ferroni, and Stefanie Stantcheva. Perceptions of racial gaps, their causes, and ways to reduce them. No. w29245. National Bureau of Economic Research, 2021.

and inheritances passed on across generations. We, therefore, continue our analysis by examining the racial wealth gap between Black and White households.

The tangible wealth passed from one generation to the next only partially captures the entirety of social status and resources that persist across generations. So, we turn to a discussion of intergenerational mobility to widen our lens and document the general relationship between parents' income and wealth and their children's subsequent income and wealth, and how that process differs by race. We conclude by complementing these temporal patterns—that is, during subsequent historical periods, over a lifetime and across generations—by exploring the spatial patterns of racial economic inequality between regions and states and across the neighborhoods that make up these localities.

Black Americans tend to have lower levels of income, employment, and wealth than their White counterparts. At the same time, there is evidence of a fairly robust and growing Black middle class, and today there are more Black families who occupy positions of relative economic prosperity. Over the long run, there has been an improvement in the relative standing of Black households, but that progress stalled in many ways beginning in the late 1970s and early 1980s. Some recent signs of renewed progress may have emerged during the last decade, though it is too early to conclude that a new trend has taken hold.

Throughout this report, we will summarize data and prior research on major trends, including how broad economic trends in inequality either drive or mitigate trends in Black-White economic inequality. Our survey of evidence will demonstrate a diversity of outcomes for Black Americans.

We will discuss common predictors and theories of the causes associated with stretches of economic convergence and divergence between these racial groups. We will also highlight key governmental policies and macroeconomic developments that helped to shape and steer the economic paths of Black Americans. Many of the standard pathways to economic stability and growth, including skill accumulation through additional education and training, home ownership, access to capital markets and small business starts, have been pursued by many Black households, but there have been roadblocks along that path. Structural racism, occupational and geographical segregation, and limited access to lending markets represent just a few of the hazards facing many Black families in their pursuit of economic mobility. Their pursuits have been buoyed in a select few cases by more general equitable growth within the overall economy. At other times, successful political and social gains, such as those during the Civil Rights era were necessary to meaningfully improve the relative standing of Black Americans.

While we cannot cover all the aspects of racial economic inequality, nor all the factors contributing to that inequality, we hope to provide an understanding of common themes that Illuminate the underlying causes and ongoing differences among those who have found themselves on different sides of the color line during the last one and half centuries.

Box: Scope and Measurement of Racial and Gender Inequality

As will quickly become apparent, there is a large body of evidence regarding economic inequality between Black and White Americans over time and across different indicators. We will attempt, to the best of our ability, to summarize a significant portion of this scholarship, at times going back more than 100 years. Our focus on racial inequality between Black and White households is not meant to imply that is the only form of racial inequality worth studying. Rather, we find inequality across many racial and ethnic groups—Native and Indigenous, Latino/x/e, Asian American, Native Hawaiian, and Pacific Islander, and Middle Eastern and/or North African—to be of great importance and nuance, and thus, beyond the scope of our current treatment. In part, our work makes use of the extensive catalog of existing research that has focused on Black and White economic inequality, especially examining earlier historical periods in the U.S., while welcoming and looking forward to similar summary of research on broader groups over the same periods. We also acknowledge that existing work has tended to focus on differences in some outcomes only between men, especially when looking at more distant historical periods. In that case, we do perform some supplemental analysis to describe patterns of racial inequality for more than just men. However, we also acknowledge that the data and studies that we do encounter almost always operate within a limited binary construct. In what follows, we generally use the term “men” and “women” to refer to these categories as they are labeled in our data, while understanding that a more accurate approach would recognize the difference between sex assigned at birth and gender and would attempt to account for the distinct experiences of transgender and nonbinary people as a part of the data collection process.

Labor Market Inequality

For the most recent year when data are available, Black workers earned a significantly lower wage than White workers: the average hourly wage for Black workers in 2021 was $24.60, compared to $33.11 for White workers, or 74 cents on the dollar. This has been a persistent feature of the U.S. labor market for as far back as these data can be measured. There are a number of reasons why these differences exist, and a common first step in the field of economics is to ask whether this is due to differences in levels of education and skill. In Figure 1, we compare the wages of full-time workers age 16 and older by race and gender for Black and White workers. Within each educational attainment group, racial differences in wages remain, and actually get larger at higher levels of education: Black workers with advanced degrees, for example, are paid only 79 cents for every dollar in wages that White workers receive.

Wages for Black workers also lag behind White workers when people in the same gender category are compared to each other: Black women earn 82 cents for every dollar of wages received by White women, and Black men earn 70 cents for every dollar of the wages received by White men. The figure also demonstrates a gender wage gap: Men receive higher wages than women at each level of education, with the gap predominantly driven by higher wages for White men relative to the other three groups. In this section we discuss how these Black-White gaps in wages and other labor market outcomes have evolved over time, going back as far as the 19th century's post-Emancipation period. Rather than uncovering a continual and linear process of convergence, we will see that there are specific periods in which Black workers made gains relative to their White counterparts, interspersed with periods of persistent racial differences in the labor market.

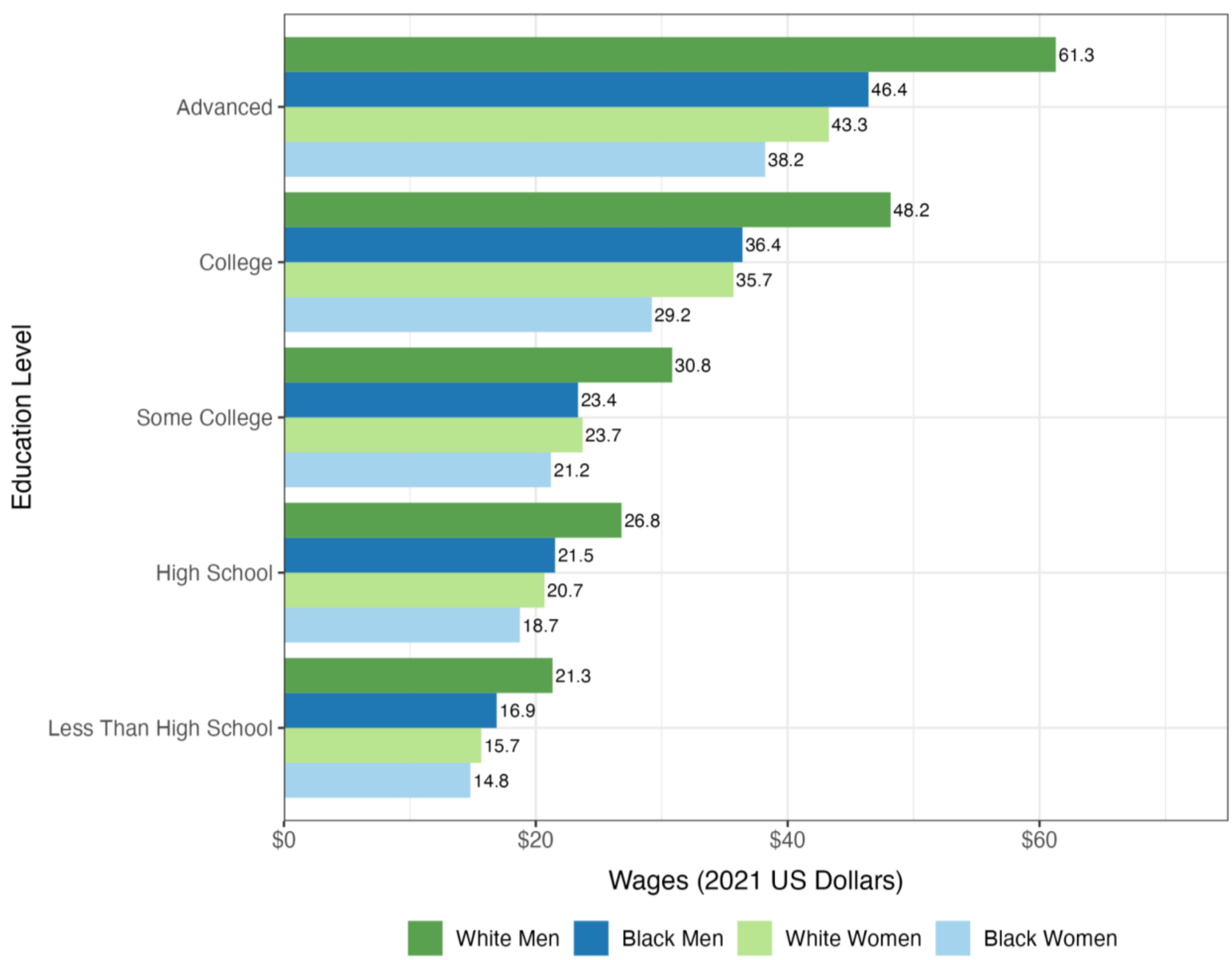

Figure 1: Average Hourly Wages by race, gender, and education level (2021)
Note: Data from Economic Policy Institute CPS ORG extracts, for full-time workers with positive earnings, ages 16+ with a positive earner sample weight and in outgoing rotation months

Overcoming Occupational Segregation (Emancipation to World War II)

We would like to document racial economic inequality as far back as possible, while recognizing that systematic labor market data for the period following Emancipation until World War II are sparse and inconsistent. The Current Population Survey, the primary data source for monthly measures of unemployment and annual measures of wages and earnings, only began in 1940.[4] Despite these challenges, researchers have combined information from various sources that allow us to gain some insights into labor market dynamics across racial groups. In the U.S., the primary comparisons between racial groups for this period focus on Black-White disparities, as will be the case for our study. During this period, the absence of direct measures of wage rates means that most analyses focus on how Black workers slowly entered into higher paying occupations over time.

In one summary, Arthur M. Ross describes five key factors that drove Black workers' relative standing in the labor market during the pre-World War II period. First, entry into more desirable trades was constrained by competition with other low-wage workers, especially poor White workers and European immigrants. Second, a legacy of slavery and the marginalization of Black workers meant that when they did enter into new industries, they were most likely to take on the so-called "unskilled" positions within those sectors. Third, progress was most common during periods of overall economic expansion, such as the first and second World Wars or the Roaring '20s. Conversely, Black-White inequality was most pronounced during economic downturns, such as the Great Depression. Fourth, Black workers were least likely to enter into stagnant or declining industries with highly organized incumbent White workers. Finally, employment gains were disproportionately found in the public sector, where government regulations provided some reprieve from discriminatory hiring practices, or in industries that primarily contracted with the government and that were therefore subject to similar dynamics.[5]

[4] https://www.bls.gov/respondents/cps/history.htm
[5] Arthur Max Ross, "The Negro in the American Economy," in Arthur Max Ross and Herbert Hill, eds., Employment, Race and Poverty (New York: Harcourt, Brace and World, 1967)

When Southern White elites were able to capture all proceeds of skilled Black labor during the era of slavery, they were willing to invest in training for Black workers and to block the efforts of some poor White workers to exclude Black labor from craft trades. In fact, it is estimated that in 1865, the majority of skilled industrial workers in the South were Black.[6] With this incentive removed after Emancipation, poor White workers in the South were more successful at efforts of exclusion, including restrictions on membership in many unions. This, coupled with Black codes, which limited Black workers' mobility and access to education, and, at various times, outright violence in response to labor tensions, resulted in limited occupational options for Black workers.

Similar forces prevailed in the North, where Black workers were confronted with exclusionary efforts of many unions serving European immigrants that were only more stoked by employers' willingness to leverage Black workers to undercut strikes. In the South, Reconstruction provided some promise for redistribution of power and increased investment in public education, while in the North, Black workers attempted to organize, build schools, and unionize; and some efforts, such as the National Labor Union, sought to bring together Black and White workers in a shared struggle against the Southern elite.[7] However, by the turn of the 20th century, Black workers found themselves largely confined to the agricultural and domestic service sectors, home to 80% of Black workers in 1900 and 87% of Black workers in 1910.[8]

Occupational segregation was so stark, that a class of jobs was referred to as "Negro Jobs," given their high prevalence of Black workers.[9] This confinement of Black workers to certain sectors worked to the advantage of their employers, who were generally able to pay lower wages when workers had fewer outside options. This took the form of not only occupational confinement, but also residential and regional segregation by race. In addition, legally supported coordination

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[6] Foner, Philip Sheldon, and Ronald L. Lewis, eds. The Black Worker to 1869. Temple University Press, 2019.

[7] Foner, Philip Sheldon, and Ronald L. Lewis, eds. The Black Worker to 1869. Temple University Press, 2019.

[8] Arthur Max Ross, "The Negro in the American Economy," in Arthur Max Ross and Herbert Hill, eds., Employment, Race and Poverty (New York: Harcourt, Brace and World, 1967)

[9] Logan, Frenise A. "The Economic Status of the Town Negro in Post-Reconstruction North Carolina." The North Carolina Historical Review 35.4 (1958): 448-460.

between employers, such as enticement fines, which restricted employers from hiring Black workers who were already working for another employer, further limited the movement of Black workers. These combined forces led to a small set of jobs open for Black workers, with many potential employees, which drove down Black wages—a so-called "crowding effect." At the same time, another set of jobs, essentially off limits to Black workers, allowed White workers to enjoy inflated wages.[10] Research shows that when these barriers to worker mobility are lifted—for example when natural disasters disrupt regional confinement, or when enticement fees are repealed—Black workers' standing in the labor market, relative to White workers, improves.[11]

The transition of Black workers from the agricultural and domestic service sectors to others picked up in the first two decades of the 1900s, as employment opportunities greatly improved during World War I, fueled by both an increase in demand for manufacturing workers and a drop in European immigration. For example, between 1900 and 1920, the number of Black manufacturing workers grew from 250,000 to 960,000, the number of transportation workers more than doubled, and the number of steelworkers grew from 12,000 to 129,000.[12] These labor market transitions accelerated after World War I, with the onset of the Great Migration of Black Southerners to the North. However, within these new industries, Black workers were disproportionately likely to fill positions at the bottom of the hierarchy, and Black women experienced smaller gains in occupational progress than Black men when moving to the North because of fewer opportunities in more industrial sectors. Nonetheless, the late 1920s were seen as a high point in relative economic progress for Black workers. In fact, in the 1930 Census, the unemployment rate, measured by the fraction of workers who are actively looking for a job, but cannot find one, was roughly equal for Black and White workers.[13]

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[10] Bergmann, Barbara R. "Occupational Segregation, Wages and Profits When Employers Discriminate by Race or Sex." Eastern Economic Journal, vol. 1, no. 2, 1974, pp. 103–10. JSTOR, http://www.jstor.org/stable/40315472. Accessed 8 Nov. 2022.

[11] Hornbeck, Richard, and Suresh Naidu. 2014. "When the Levee Breaks: Black Migration and Economic Development in the American South." American Economic Review, 104 (3): 963-90; Naidu, Suresh. "Recruitment Restrictions and Labor Markets: Evidence from the Postbellum U.S. South." Journal of Labor Economics, vol. 28, no. 2, 2010, pp. 413–45. JSTOR, https://doi.org/10.1086/651512. Accessed 8 Nov. 2022.

[12] Arthur Max Ross, "The Negro in the American Economy," in Arthur Max Ross and Herbert Hill, eds., Employment, Race and Poverty (New York: Harcourt, Brace and World, 1967)

[13] Johnson, Charles S. "The Changing Economic Status of the Negro." The Annals of the American Academy of Political and Social Science, vol. 140, 1928, pp. 128–37. JSTOR, http://www.jstor.org/stable/1016841. Accessed 8 Nov. 2022.

The stock market crash of 1929, which brought about the Great Depression, ended the sometimes uneven, but nonetheless notable, relative gains of the early 1900s. From 1929 to 1939, agricultural production, still the most common sector for Black workers, declined by more than 50% in Southern states, with Black laborers bearing the brunt of the downsizing.

In the North, Black workers were often the first to be let go, both due to their outsized exposure to positions that required fewer formal educational credentials, lower likelihood of union representation, and direct discrimination. In this setting of scarce employment opportunities, laws barring Black workers from holding certain licenses re-emerged as a tactic to benefit White workers. Black workers did enjoy some protection in industries where they had made better inroads into unions, although rules that favored workers based on seniority and that were, therefore, unfavorable to Black workers, at times compromised these protections. By the end of the decade, Black workers' occupational gains began to trend downward: Between 1930 and 1940, the number of Black workers in manufacturing, mechanical, and mining occupations decreased by 33%, and by 28% in wholesale and retail trade occupations.[14]

A Time of Convergence (Post-World War II to Mid-1970s)

In general, the period between the 1940s and the 1970s is one of uncommon convergence between Black and White workers across a number of labor market measures. During this period, White men's earnings grew by a factor of 2.5, while Black men's earnings grew four-fold.[15] In Figure 2, we can see that for every dollar earned by the median White worker in 1940, the median Black worker only received 35 cents. This number had increased to 59 cents in 1980. For Black male workers at the 90th percentile, the relative growth was even steeper, with its ratio to the 90th percentile of White men's earnings going from 44 cents on the dollar to 69 cents on the dollar. In Figure 3, we show the same trends for Black and White women, but focus on the 90th percentile of earnings for single women. The reason is that more than half of women did not

[14]Arthur Max Ross, "The Negro in the American Economy," in Arthur Max Ross and Herbert Hill, eds., Employment, Race and Poverty (New York: Harcourt, Brace and World, 1967)
[15] Smith, James P., and Finis R. Welch. "Black Economic Progress After Myrdal." Journal of Economic Literature, vol. 27, no. 2, 1989, pp. 519–64. JSTOR, http://www.jstor.org/stable/2726688. Accessed 8 Nov. 2022.

work during the earlier periods, with even higher rates of nonwork among married women and especially White women, complicating comparisons at the median. Among single high earners, we see the ratio of Black women's earnings to White women's earnings more than doubled from 37 cents to 83 cents on the dollar, between 1940 and 1980.[16]

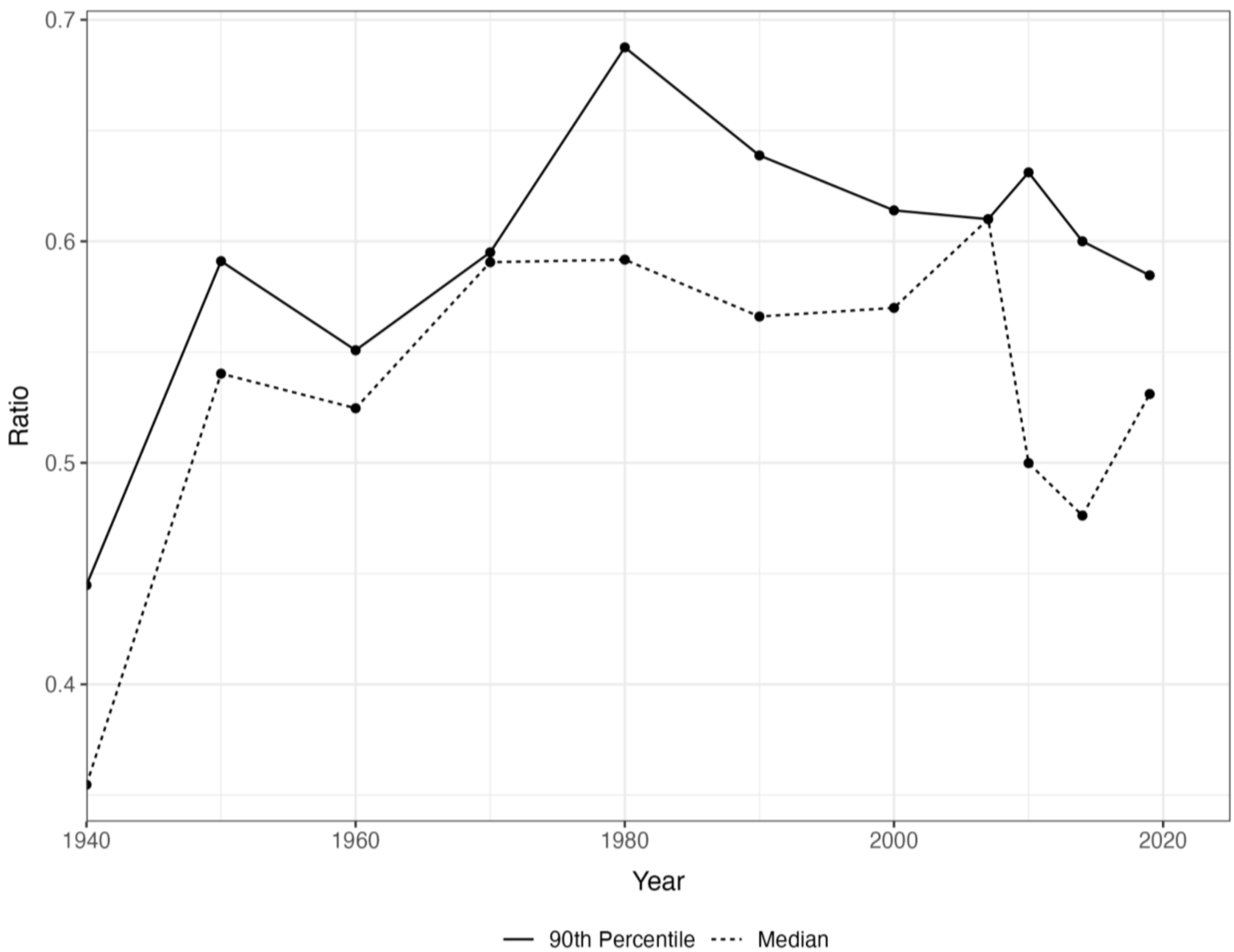

Figure 2 Black-White Earnings Ratio, men, 1940-2019
Note: Data for total population, men, non-Hispanic, 25-54, including nonworkers, from Decennial Census 1940-2000 and ACS 2004-2019

[16] Note: these comparisons include the entire population, including people who are not working or who are incarcerated.

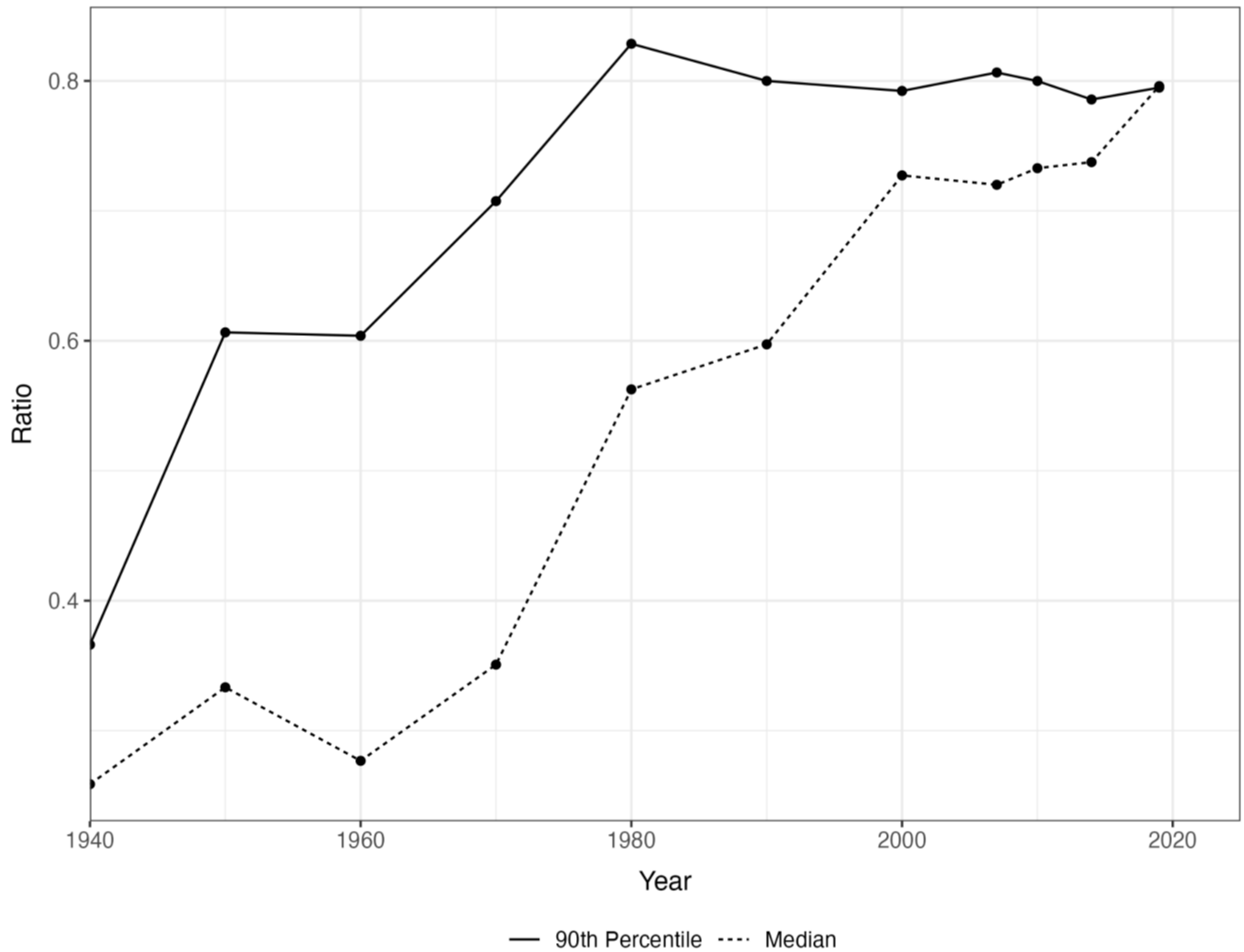

Figure 3: Black-White Earnings Ratio, single women, 1940-2019
Note: Data for total population, single women, non-Hispanic, 25-54, including nonworkers, from Decennial Census 1940-2000 and ACS 2004-2019

Box: Labor Market Statistics

Beginning in the 1940s, statistical agencies in the U.S. began to collect more standardized data on labor markets, including measurement of wages for workers and by race and gender, as well as such characteristics as educational attainment and work experience. This allows researchers to report various statistics that summarize pay differences between racial groups. The most common statistic, the average, gives a summary across all workers - those with the lowest wages, those in the middle of the wage distribution, and those earning the very most. A concern with the average, however, is that outliers with extremely high wages can skew the data and paint a less accurate picture of the typical worker. Therefore, it is also common for researchers to report the median wage, which is the wage level at which half a group earns less than that amount, and half earns more. Other measures, such as the 90th percentile, capture the level of earnings at which 90% of all other workers earn less. When comparing across racial groups, we may see how different the median or 90th percentile is for each group. To summarize, we will ask for every dollar earned by a White worker, how much is earned by a Black worker, for the median workers of each group, or for the 90th percentile earner. For example, in 2021, Black workers earned roughly 74 cents for every dollar a White worker received. When this ratio increases, the gap between the two shrinks, and we have convergence; otherwise, we have divergence.

One limitation of the above measures is that they were defined only among those workers who have a job. However, there are a number of people who are unemployed or not even looking for a job, to whom we refer as not being in the labor force. Therefore, there are two additional types of measures. First, to track who is working, we can measure the unemployment rate -- the share of people in the labor force who are also employed. A second measure, the employment to population ratio, or "EPOP," asks how many people are employed as a share of the entire population, including those who are not looking for a job.

Once we include the people who are not working, and therefore earning zero, we can ask how much the median and 90th percentile workers earn. In most cases, we will favor this measure, which captures both the differences in pay among those who work and the differences in the likelihood that people are working within a group.

The 1940s featured a general reduction in U.S. labor market inequality for all workers due to a combination of (1) increasing demand for lower wage workers in defense and manufacturing industries that pushed up wages at the bottom of the distribution; (2) an influx of college-educated workers supported by the GI Bill, which pushed down wages at the top of the distribution; (3) National War Labor Board restrictions on wage changes; (4) minimum wage increases; and (5) strong unions. The result was a closing of the earnings gap between college-educated and non-college-educated workers and a reduction in inequality within those groups, collectively referred to as the "Great Compression."[17] These general trends also contributed to convergence in wages between Black and White workers, since Black workers were disproportionately found in the lower end of the wage distribution where wages grew the most during the decade.[18]

A part of the convergence during this period is also attributed to the movement of Black workers into higher-paying jobs—such as manufacturing operator and sales and clerical work—a closing of gaps in education, continued migration from the South to the North, and the entrance of younger workers into the labor market, for whom educational and regional differences tended to be less pronounced as compared to previous age groups.[19] For Black women in particular, the 1940s represented a break with past trends in employment and wages, with increased movement from agricultural and domestic service jobs into formal sector jobs, where the share of Black women in that sector increased from 27% to 50%.[20]

Still, even amid a period of relative progress and prosperity, city-level analysis of racial inequality and employment segregation shows that discouraging inequity remained. Detroit, for example, was home to stark levels of occupational segregation across the city's then-robust automobile sector during this period. Despite a relatively large Black population, Black workers were significantly less likely to be employed within the sector – outside of the Ford Motor Company.[21]

While the relative economic positions of Black and White workers remained somewhat flat during the 1950s, they began to again converge during the 1960s. The wages and salaries of Black workers grew at higher rates per year, with larger relative gains for Black women workers.

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[17] Claudia Goldin, Robert A. Margo, The Great Compression: The Wage Structure in the United States at Mid-Century, The Quarterly Journal of Economics, Volume 107, Issue 1, February 1992, Pages 1–34, https://doi.org/10.2307/2118322

[18]; Margo, R. A. (1995). Explaining Black-White Wage Convergence, 1940–1950. ILR Review, 48(3), 470–481. https://doi.org/10.1177/001979399504800306

[19] Margo, R. A. (1995). Explaining Black-White Wage Convergence, 1940–1950. ILR Review, 48(3), 470–481. https://doi.org/10.1177/001979399504800306

[20] BAILEY, M., & COLLINS, W. (2006). The Wage Gains of African-American Women in the 1940s. The Journal of Economic History, 66(3), 737-777. doi:10.1017/S0022050706000313

[21] Farley, Reynolds, Sheldon Danziger, and Harry J. Holzer. Detroit Divided. Russell Sage Foundation, 2000.

During the same period, however, the gap in employment rates between Black and White workers grew. The underlying reasons for this divergence in employment differ by gender.

As shown in Figure 4, an increasing fraction of Black men reported not working during this period, while the rate for their White counterparts went in the opposite direction. Conversely, we see in Figure 5 that the fraction not working decreased for both Black and White women during this period, but more so for White women, who began the period at higher levels of nonwork.[22] If we take into account both forces, convergence in earnings and divergence in employment rates, we still find in Figures 2 and 3 that the median wages for Black workers increased during the 1960s relative to White workers. The same was true at the higher end of the wage distribution: the 90th percentile of Black workers' wages increased relative to that of the White workers.[23] Zooming in within the decade, studies have found that the convergence in wages was more pronounced during the latter half of the 1960s, which we will see below, has been attributed to the passage of Civil Rights legislation and increases in the minimum wage.[24]

[22] Freeman, Richard B., et al. "Changes in the labor market for black Americans, 1948-72." Brookings Papers on Economic Activity 1973.1 (1973): 67-131.
[23] Patrick Bayer, Kerwin Kofi Charles, Divergent Paths: A New Perspective on Earnings Differences Between Black and White Men Since 1940, The Quarterly Journal of Economics, Volume 133, Issue 3, August 2018, Pages 1459–1501, https://doi.org/10.1093/qje/qjy003
[24] Card, David, and Alan B. Krueger. "Trends in Relative Black-White Earnings Revisited." The American Economic Review, vol. 83, no. 2, 1993, pp. 85–91. JSTOR, http://www.jstor.org/stable/2117645. Accessed 8 Nov. 2022; Ellora Derenoncourt, Claire Montialoux, Minimum Wages and Racial Inequality, The Quarterly Journal of Economics, Volume 136, Issue 1, February 2021, Pages 169–228, https://doi.org/10.1093/qje/qjaa031

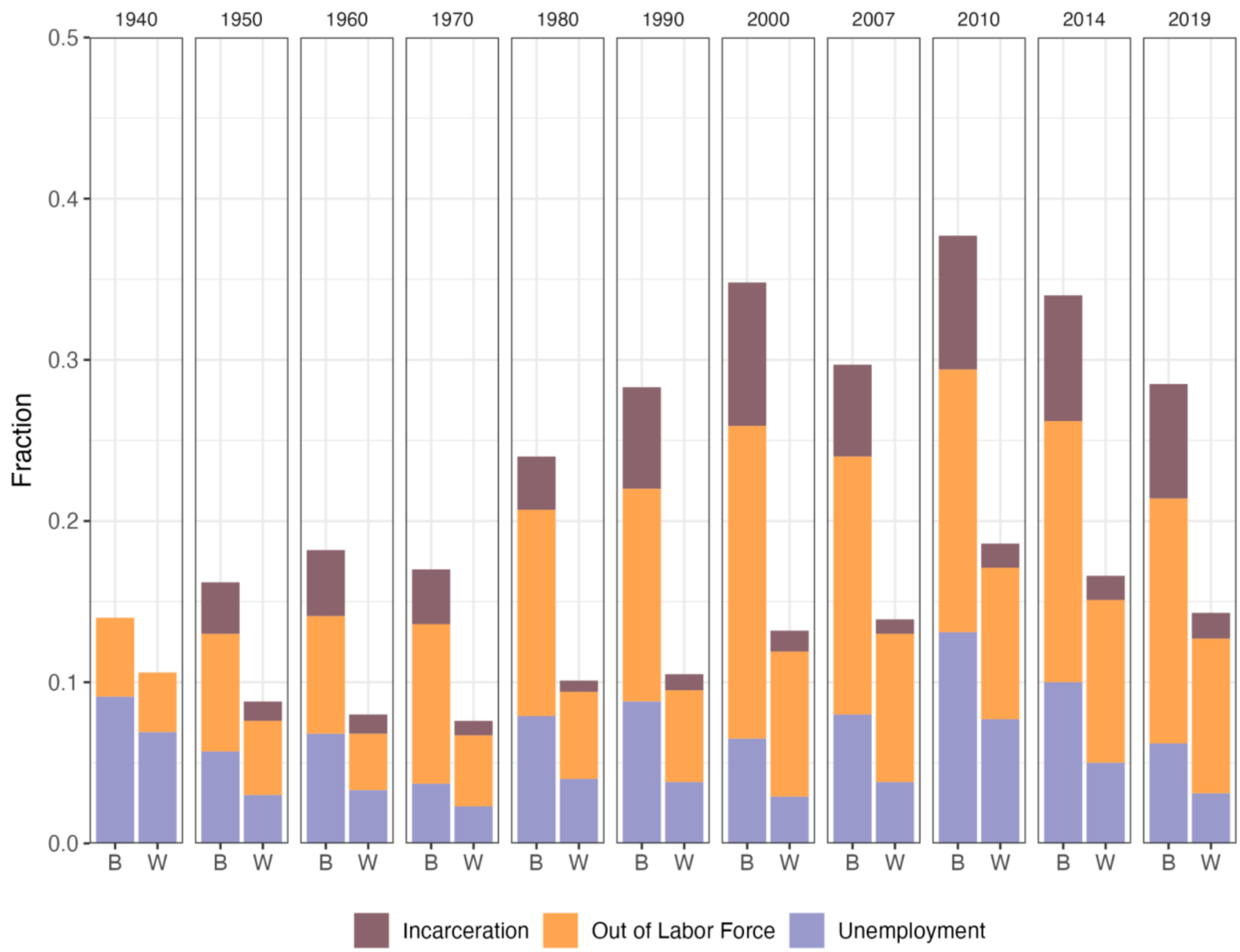

Figure 4: Fraction not currently working, men, 1940-2019
Note: Data for total population, men, non-Hispanic, 25-54, including nonworkers, from Decennial Census 1940-2000 and ACS 2004-2019

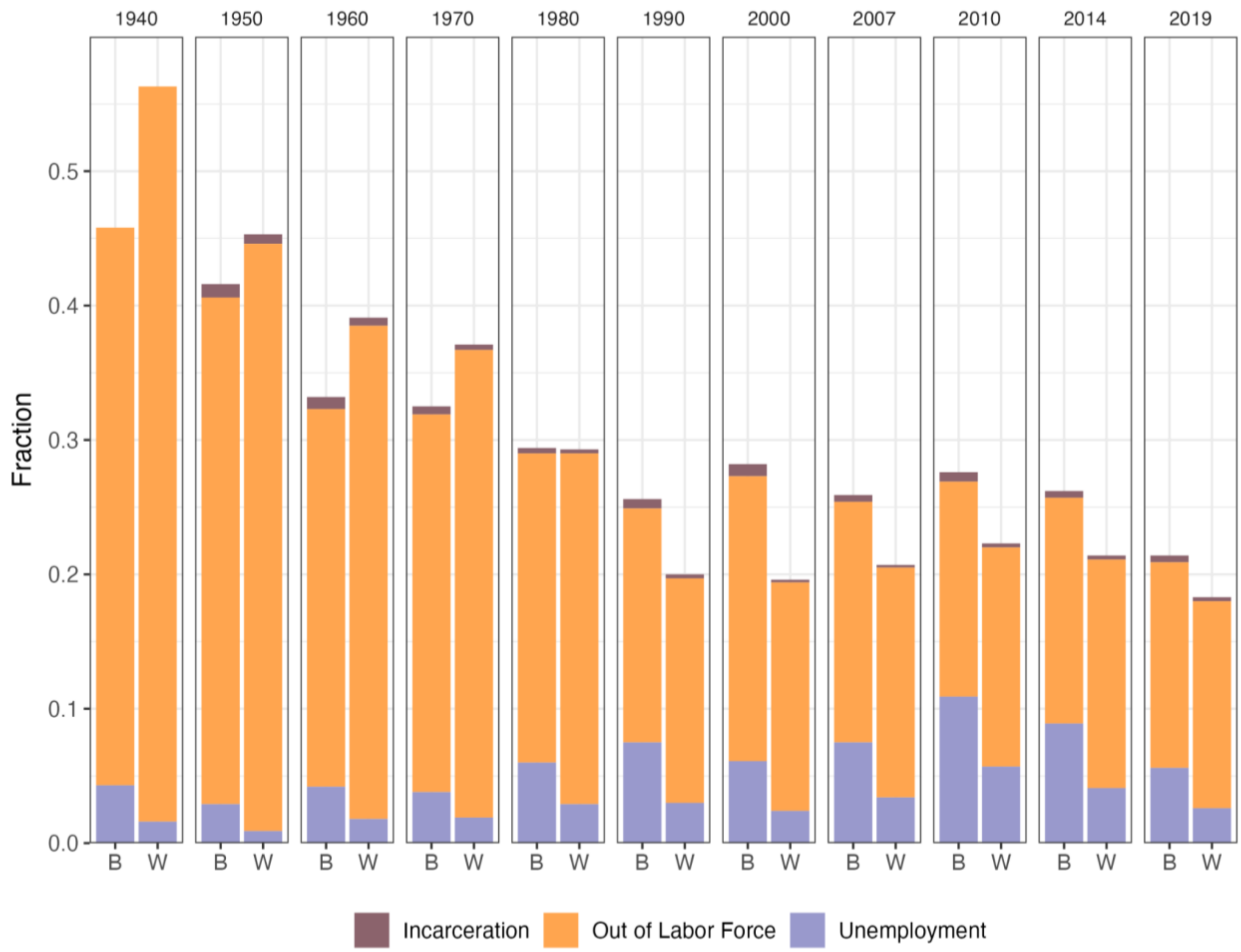

Figure 5: Fraction not currently working, women, 1940-2019
Note: Data for total population, women, non-Hispanic, 25-54, including nonworkers, from Decennial Census 1940-2000 and ACS 2004-2019

The End of Convergence (Late 1970s through the Great Recession)

Across a number of dimensions, the progress in economic standing within the labor market for Black workers, relative to White workers, began to falter during the 1970s, especially during the latter part of that decade. Though some early studies found continued progress during the 1970s, others have questioned whether the analysis holds up once those workers who have exited the labor market are also considered.[25] This slowdown in the 1970s is an early warning of the halt in

[25] Smith, James P., and Finis R. Welch. "Black-White Male Wage Ratios: 1960-70." The American Economic Review, vol. 67, no. 3, 1977, pp. 323–38. JSTOR, http://www.jstor.org/stable/1831403. Accessed 8 Nov. 2022; Darity, W. A., & Myers, S. L. (1980). Changes in Black-White Income Inequality, 1968–78: A Decade of Progress? The Review of Black Political Economy, 10(4), 354–354. https://doi.org/10.1007/BF02689713

convergence between Black and White workers in wages and salary, and other outcomes, that persisted for the next three to four decades.

In Figure 2, we can see that from 1970 to 2007, the Black-White ratio in median earnings for men hovers around 60 cents on the dollar, breaking with the prior trend of convergence. For those with higher wages and higher levels of education—Black men at the 90th percentile—convergence continued until 1980, relative to their White counterparts. However, this pattern at the top reverses with declines in the ratio from 69 cents on the dollar in 1980 to 61 cents by 2007. At the end of this episode, the Great Recession took a particular toll on Black workers, especially those at the median, returning the ratio in median earnings for Black and White workers to below its 1950s level and completely erasing the gains of the 1960s. The drop off was not nearly as pronounced for Black male workers at the 90th percentile, who found themselves just about where they were in 1950. [26]

For Black female workers, the stalled convergence in wage rates is most visible among single workers at the 90th percentile. As shown in Figure 3, the earnings ratio for these high earners, which had been steadily increasing the two decades prior to 1980, stalls and hovers at around 80 cents to the dollar from 1980 onward. Conversely, the Black/White earnings ratio for female workers at the median continued to improve past 1980, but again, this story is complicated by the lack of labor force participation of women, particularly White women, in earlier years, which we discuss below,

Another major marker of the end of labor market convergence during this period was the accelerated divergence of the Black-White employment rate gap, in particular for Black men. As we can see in Figure 4, between 1940 and 1960, the Black-White gap in the share of men not working had grown from 4 percentage points to 10 percentage points. By 2000, that gap had doubled to 22 percentage points, and remained at 20 percentage points in 2019. When looking at the status of those unemployed men during this period, a very sobering pattern emerges across racial lines. The share of Black men not currently working grew steadily from the 1970 to 2010.

[26] Freeman, Richard B., et al. "Changes in the labor market for black Americans, 1948-72." Brookings Papers on Economic Activity 1973.1 (1973): 67-131.

The part attributable to unemployment, that is, those looking for work but unable to find it, fluctuated with booms and recessions. However, the part attributable to dropping out of the labor force, that is, the share not currently looking for work at all, increased over this period, and significantly so, as compared to White men, who also saw increases in this category but not by nearly as much.

The final factor, and one that is most unique to Black men, is the increasing rate of incarceration during this period—an increase that is not present for White men. As shown in Figure 4, the share of Black men incarcerated, and thus also not counted as employed, was 3.4% in 1970, compared to only 0.9% for White men, or a ratio of almost 4 to 1. By 2000, this ratio had increased to 7 to 1. By 2019, it declined to a ratio of 4.4 to 1.[27]

These patterns constitute one of the most persistent and hard to overcome barriers to economic progress, as those who fall out of that labor force often face permanent reductions in their future wages and employment prospects, and a host of associated economic and wellbeing challenges. This is especially so for the formerly incarcerated, who lack sufficient pathways to social and economic reintegration.

The patterns of employment and labor force participation follow an inverted path for Black and White women during this period, albeit due to a different set of undercurrents. As shown in Figure 5, Black women begin this period with a lower fraction out of the workforce, 44% in 1972, compared to 54% for White women, or a 23% gap. Though traditional gender norms generally frame this outcome as a marker of economic progress for men, the story is more nuanced for women. Prior to this period, and lasting until the late 1990s, White women saw the share outside the workforce steadily decrease, closing a longstanding gender gap in employment among White men and women, eventually reaching the employment levels of Black women by the mid-1980s. A different set of expectations for Black women has generally been held in the

[27] Patrick Bayer, Kerwin Kofi Charles, Divergent Paths: A New Perspective on Earnings Differences Between Black and White Men Since 1940, The Quarterly Journal of Economics, Volume 133, Issue 3, August 2018, Pages 1459–1501, https://doi.org/10.1093/qje/qjy003

U.S., resulting in higher employment rates, disproportionately in lower wage jobs.[28] This is compounded by a generally lower level of household income, increasing the need for two-worker households for Black couples. Starting in 1990, the share of Black women not working exceeded that of White women for the first time, with the gap slowly closing during the first two decades after 2000.

The COVID-19 Pandemic: A Major Shock, a Strong Safety Net, and a Tightening Labor Market

The COVID-19 pandemic initiated an across-the-board reduction in economic activity. Overall, the unemployment rate shot up from 3.5% to 14.7%.[29] The resulting unemployment levels for Black workers were even greater. From the onset of the pandemic in February 2020 until the point in April 2020 at which the economy bottomed out and began to recover—also referred to as the "trough"—unemployment for Black men went from 6.1% to 16%, as compared to an increase from 2.8% to 12.3% for White men. For Black women, the increase was even more steep -- from 4.8% to 16.4% -- and White women experienced the greatest proportional increase from 2.7% to 15%. In general, the drop in female labor force participation was greater than for male workers, especially for women with younger children. Some estimates suggest that nearly half of the greater drop in labor force participation for Black women, relative to White women, was due to a greater presence of young children, and concentration in industries that were harder hit by the pandemic.[30] While they were only 12% of the workforce, Black workers made up 17% of workers in frontline industries.[31] This means that Black workers were more likely than other workers to be in harms' way during the onset of the pandemic.

Although the pandemic brought on an unusually rapid drop in employment, it also featured a historically generous safety net response by the federal government, including an unprecedented $650 billion in unemployment insurance (UI) expansions between March 2020 and September

[28] Wicks-Lim, Jeannette. "The Persistence of Racial Inequality: The Earnings Gap Among Women from 1979-2016." (2019).
[29] https://www.whitehouse.gov/cea/written-materials/2022/06/20/juneteenth-reflecting-on-some-of-the-progress-and-challenges-for-black-americans-during-the-pandemic/
[30] Lim, Katherine, and Michael A. Zabek. "Women's labor force exits during Covid-19: Differences by motherhood, race, and ethnicity." (2021).
[31] https://www.eeoc.gov/sites/default/files/2021-04/4-28-21%20Meeting%20-%2005%20Ramirez%20-%20Supporting%20Materials.pdf

2021.[32] Because of the desire to act swiftly, a flat increase of $600 in weekly benefits was given to all Unemployment Insurance claimants as a part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, resulting in nearly three-quarters of workers qualifying for benefits that were higher than their wages in their previous job.[33] This was particularly the case for workers with lower than average earnings, and therefore disproportionately benefited Black workers over White workers. Estimates suggest that Black poverty rates declined by 2.5% in 2020 as a result of UI benefits, as compared to only 1% for their White counterparts.[34]

The pandemic labor market has also been characterized by a more rapid employment recovery than previous recessions. While it took nearly six years for U.S. employment to reach its pre-recession level following the Great Recession, employment returned to pre-pandemic levels after only two and half years.[35] As shown in Figure 6, the employment-to-population ratio (EPOP) for Black workers has grown at a faster pace than that of White workers, since the onset of the recovery in April 2020. This is especially true for Black men, who have outpaced White men in EPOP growth for the majority of the pandemic recovery. Meanwhile, Black women's recovery in employment has outpaced that of White women according to this metric since March of 2021.

As with the EPOP, Black workers have also experienced relatively strong wage growth during this most recent recovery. During the 12-month period leading into July 2022, the median Black worker's wage grew by 7.8% percent, as compared to only 6.3% for all workers. This means that even with 7.4% inflation over the same period, Black workers managed to see their real wages, that is, wages adjusted for inflation, increase slightly.[36] It is important to note that while the relatively strong recovery means that Black workers may be making some progress in closing employment and wage gaps, these changes have not been enough to erase the pre-existing

[32] https://www.cbpp.org/research/economy/historic-unemployment-programs-provided-vital-support-to-workers-and-the-economy
[33] Ganong, Peter, Pascal Noel, and Joseph Vavra. "US unemployment insurance replacement rates during the pandemic." Journal of Public Economics 191 (2020): 104273.
[34] https://www.census.gov/library/stories/2021/09/did-unemployment-insurance-lower-official-poverty-rates-in-2020.html
[35] https://www.americanprogress.org/article/the-swift-jobs-recovery-under-biden-will-have-long-lasting-benefits-for-workers/
[36] https://www.whitehouse.gov/cea/written-materials/2022/08/24/pandemic-shifts-in-black-employment-and-wages/

disparities. In October 2022, the ratio of Black to White EPOP was still slightly less than one, at 0.97, and the median wage among Black full-time workers was still only 80 cents for every dollar received by the median White worker.[37]

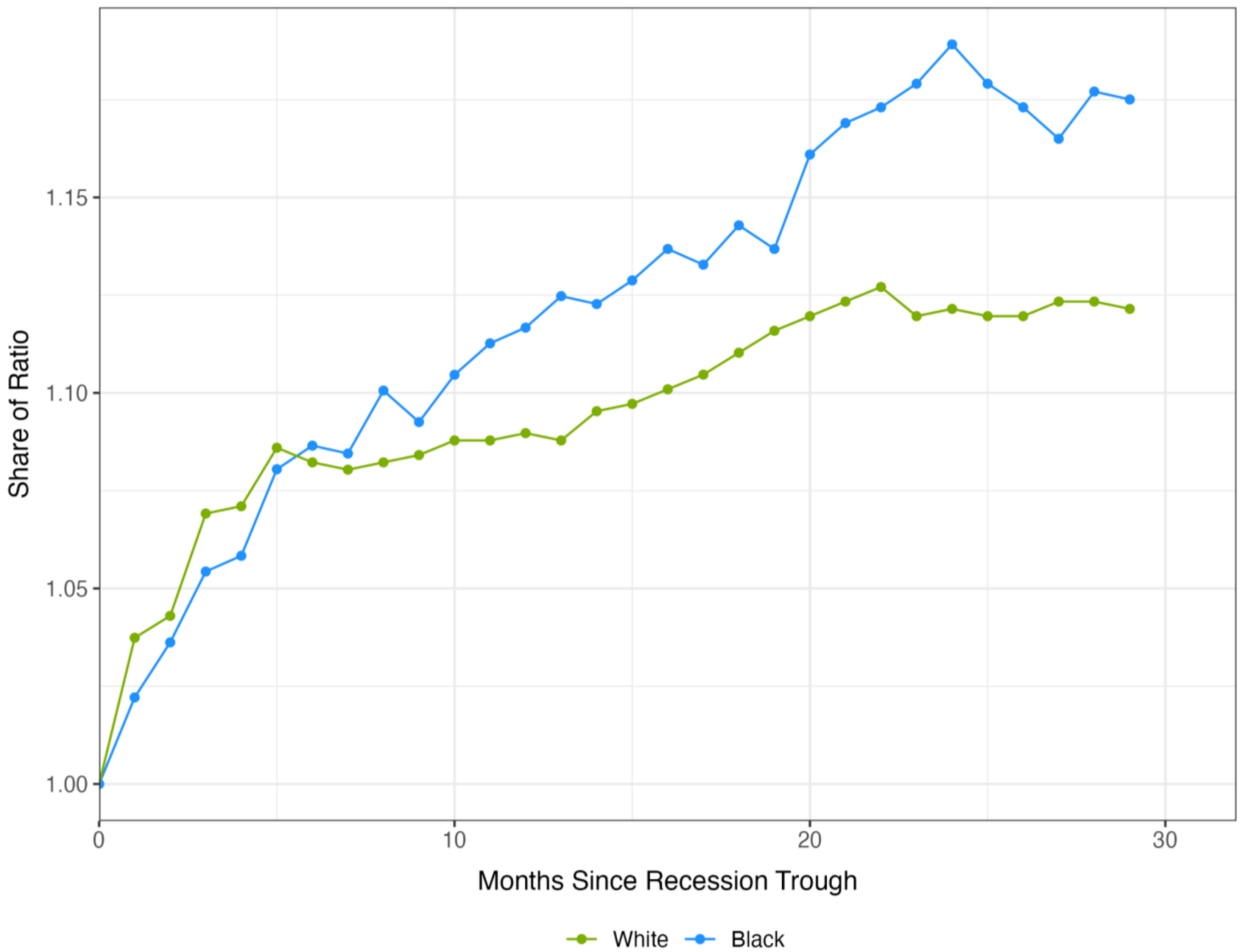

Figure 6: Employment to Population Ratio, Relative to the Start of the Pandemic Recovery (2020-2022)
Note: Data for civilian non-institutional population, white, Black or African-American, from U.S. BLS CPS Household Survey, retrieved from FRED.

Potential Causes and Factors

Over time, there are a number of factors that are consistently cited by economists in explaining persistent racial gaps in the labor market, and periods of convergence or the lack thereof. A common approach in the literature is to take an individualistic approach, attributing wage differences either to differences in "human capital"—also known as pre-market factors—and

[37] https://www.bls.gov/webapps/legacy/cpswktab3.htm

direct forms of discrimination that happen at the time of hiring or when wages are paid to workers. This is in contrast to more structuralist frameworks that incorporate differences in power, political forces, and the persistence and feedback of past discrimination on present resources, opportunities, and outcomes. The latter type of approach is centered on the subfield of "stratification economics," which recognizes the socially constructed nature of race itself and grapples with the material motivations to establish social differences between groups and implications of those dichotomies.[38]

Education, Training, and Skills

In a somewhat circular fashion, human capital refers to the attributes of workers that lead to higher earnings in the labor market. In a standard labor economics model of employment and wages, one's level of education, years of experience in the labor force, and/or latent ability – sometimes measured by a standardized test, are important contributions. The model has robust predictive power: For all workers, and for Black workers separately, those with higher educational attainment tend to have higher wages and earnings. Moreover, the wage gaps that are observed between White and Black workers are smaller when those with similar levels of education are observed.[39] In addition, researchers have found that school characteristics over time help to illuminate even more of the Black-white gap in earnings and income when more detailed measures of education are used, such as per-pupil spending, student-to-teacher ratios, or teacher salaries.[40] Researchers have found, across a number of studies and samples, that anywhere from 25% to as much as 100% of the wage difference between Black and White workers is statistically attributable to differences in educational attainment or performance,[41]

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[38] Darity, William A Jr. 2022. "Position and Possessions: Stratification Economics and Intergroup Inequality." Journal of Economic Literature, 60 (2): 400-426; Chelwa, Grieve, Darrick Hamilton, and James Stewart. 2022. "Stratification Economics: Core Constructs and Policy Implications." Journal of Economic Literature, 60 (2): 377-99; and https://www.minneapolisfed.org/~/media/assets/people/william-spriggs/spriggs-letter_0609_b.pdf

[39] Maxwell, Nan L. "The effect on black-white wage differences of differences in the quantity and quality of education." ILR Review 47, no. 2 (1994): 249-264; Rodgers III, William M, and William E Spriggs. 2002. "Accounting for the Racial Gap in AFQT Scores: Comment on Nan L. Maxwell, 'The Effect on Black-White Wage Differences of Differences in the Quantity and Quality of Education.'" ILR Review 55 (3): 533–41.

[40] David Card, Alan B. Krueger, School Quality and Black-White Relative Earnings: A Direct Assessment, The Quarterly Journal of Economics, Volume 107, Issue 1, February 1992, Pages 151–200, https://doi.org/10.2307/2118326

[41] Carruthers, Celeste K., and Marianne H. Wanamaker. "Separate and unequal in the labor market: human capital and the jim crow wage gap." Journal of Labor Economics 35.3 (2017): 655-696.

Despite these empirical successes, a framework that primarily focuses on human capital has its limitations. First, a residual Black-White gap in wages remains even after accounting for differences in measure of education or test scores in most studies, leaving the human capital explanation at best incomplete.[42]

Second, these models typically abstract from the ultimate source or origin of gaps in education and other labor market skills. Economists often treat educational differences as beyond the scope of study, or, when probed, sometimes reveal troubling theories of Black-White differences in productivity. Some explanations have assumed that genetic traits or ingrained cultural differences lead to racial differences in ability, or general differences in taste, foresight, and patience. These deficit-based models of labor market differences have long faced criticism, particularly from Black economists.[43] Such models fail to account for the fact that there are far larger differences within "racial" groups than between such groups, and that racial designations fall along lines of demarcation that change over time, very much dependent upon societal norms. What this also means is that the phenomenon captured by a person identifying or identified as Black is likely a catchall for historical and current-day differences in treatment across a range of product, human capital, and labor market contexts; it also reflects a broad range of shared cultural traditions and norms. As a result, it is difficult to separate out events and choices that take place in the lives of Black workers, including educational attainment, employment, and housing choice, from their experience and existence as Black Americans. How is a majority-Black neighborhood valued? How are prospective Black workers with post-secondary educational credentials perceived in the labor market? How do potential customers view a majority-Black workforce?

Alternatively, differences in schooling or skills might be less of a result of intentional underinvestment and more a result of constraints or a lack of resources. In this case, however,

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[42] Gyimah-Brempong, Kwabena, and Rudy Fichtenbaum. 1993. "Black-White Wage Differential: The Relative Importance of Human Capital and Labor Market Structure." The Review of Black Political Economy 21 (4): 19–52. https://doi.org/10.1007/BF02689961.
[43] Darity, William A. "The Human Capital Approach to Black-White Earnings Inequality: Some Unsettled Questions." The Journal of Human Resources, vol. 17, no. 1, 1982, pp. 72–93. JSTOR, https://doi.org/10.2307/145525. Accessed 8 Nov. 2022.

while a statistical determinant of labor market disparity may well be the differences in education or training, the ultimate source of disparity is traced back to underlying difference in resources and access, which requires more than just a model of human capital.

One final shortcoming that has been noted is that while the convergence in educational attainment and quality between new Black and White labor market entrants has been gradual over many decades, there have been periods of much more rapid convergence in labor market outcomes, such the second half of the 1960s, which were not accompanied by equally rapid changes in Black-White differences in educational attainment.[44]

Direct Discrimination

A natural explanation for the differential outcomes by race that remain even among those with similar levels of education or training, is racist discrimination. One direct form of discrimination is observed at the time of hiring, in the form of differential rates of hiring by race, or within occupations and industries or firms, in the form of differential pay by race for similar jobs or tasks. The economics literature has traditionally highlighted two versions of this discrimination. The first, taste-based discrimination, occurs when an employer has a distaste for working with members of a specific racial group, or, indirectly, when the customers of a business are less likely to purchase goods or services if the company employs certain types of workers.

Alternatively, models of statistical racial discrimination argue that when employers are not entirely sure how well a potential employee may perform, they may crudely use race as a predictor of performance in a way that penalizes Black workers. In these models, discrimination could arise from (1) accurate predictions about racial differences in performance, (2) inaccurate predictions when the ability to predict performance for Black workers is harder, or (3) inaccurate

[44] Card, David, and Alan B. Krueger. “Trends in Relative Black-White Earnings Revisited.” The American Economic Review, vol. 83, no. 2, 1993, pp. 85–91. JSTOR, http://www.jstor.org/stable/2117645. Accessed 8 Nov. 2022; Ellora Derenoncourt, Claire Montialoux, Minimum Wages and Racial Inequality, The Quarterly Journal of Economics, Volume 136, Issue 1, February 2021, Pages 169–228, https://doi.org/10.1093/qje/qjaa031

predictions that do not get corrected.[45] Though the distinction is the subject of much focus in the economics literature, surveys suggest that people largely view both forms as equally offensive.[46]

The clearest empirical evidence of these direct forms of discrimination is found in correspondence audit studies, where fictitious resumes with identical qualifications and credentials are sent to real-world employers, differentiated only by whether the name on the resume is chosen to signify a Black applicant or White applicant. From as early as 1989 to as recently as 2017, studies found lower call-back rates for Black resumes, with the gap 36% higher for call-backs of White applicants, and the gap has shown no sign of waning.[47] Correspondence audit studies provide evidence of discrimination; however, researchers cannot always disentangle whether discrimination is taste-based, statistical, or the result of implicit bias.

Structural Racism and Labor Coercion

A more comprehensive framework, a so-called "structuralist" approach, goes beyond the individual behavior, ability, or effort of individuals either seeking work or hiring employees to explore systemic forms of discrimination and racism in determining racial disparities in the labor market. These models need not deny that educational differences can have explanatory power when comparing Black and White wages, but also allow one to contend with the source of these differences, incorporating historic factors, social structures, and power imbalances. Such an approach is taken in the subfield of economics known as "stratification economics," which takes into account the formation of racialized groups and the role of identity-based power structures in influencing and constraining choices and outcomes.[48]

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[45] Charles, Kerwin Kofi, and Jonathan Guryan. "Studying discrimination: Fundamental challenges and recent progress." (2011).
[46] Kuhn, Peter J., and Trevor T. Osaki. When Is Discrimination Unfair? No. w30236. National Bureau of Economic Research, 2022.
[47] Bertrand, Marianne, and Sendhil Mullainathan. 2004. "Are Emily and Greg More Employable Than Lakisha and Jamal? A Field Experiment on Labor Market Discrimination." American Economic Review, 94 (4): 991-1013; Quillian, Lincoln, et al. "Meta-analysis of field experiments shows no change in racial discrimination in hiring over time." Proceedings of the National Academy of Sciences 114.41 (2017): 10870-10875.
[48] Darity, William A Jr. 2022. "Position and Possessions: Stratification Economics and Intergroup Inequality." Journal of Economic Literature, 60 (2): 400-426; Chelwa, Grieve, Darrick Hamilton, and James Stewart. 2022. "Stratification Economics: Core Constructs and Policy Implications." Journal of Economic Literature, 60 (2): 377-99

In the case of the labor market, structural approaches allow for the possibility that employers stand to profit from market power that comes from having immobile labor, confined to limited employment opportunities, and constrained from bargaining for better pay due to a lack of attractive outside options. Underinvestment in public education opportunities, residential and occupational segregation, and social norms that justify lower pay for Black workers based on notions of racial inferiority work together to benefit employers. Enforcement of these conditions include coercion and violence, which, in the extreme, takes the form of slavery, sharecropping, and prison labor. These conditions can also be implemented through "softer" forms of coercion that include restriction of political freedom, the weakening of unions and collective action, and the erosion of safety-net programs or minimum wage laws that leave workers with less room to bargain.[49]

Macroeconomic Factors

Across different eras of convergence and divergence in Black-White labor market outcomes, the role of more general economic trends in inequality looms large. As the economy rises to the peaks of economic booms and then falls to the troughs of recessions, the gap in Black and White unemployment moves in an inverse fashion, as can be seen in Figure 7, where economic recessions are shaded in gray. In times of economic expansion, the racial gap in unemployment for men tends to contract. Conversely, these gaps tend to grow during recessions, as Black workers are observed to be the "last to be hired, and first to be fired." This pattern holds up statistically in labor market data going back as far as the 1940s and was notably apparent when employment rates dropped precipitously at the beginning of the pandemic. Moreover, following a recession, Black workers typically take longer to return to their prior levels of employment, as compared to White workers, with the exception being the latest recovery during the pandemic, where the opposite was true.[50]

[49] See Daron Acemoglu's notes at https://economics.mit.edu/sites/default/files/inline-files/Lecture%201%20-%20Economics%20and%20Politics%20of%20Labor%20Coercion%20and%20Discrimination.pdf

[50] Cajner, Tomaz, et al. "Racial gaps in labor market outcomes in the last four decades and over the business cycle." (2017); https://www.whitehouse.gov/cea/written-materials/2022/08/24/pandemic-shifts-in-black-employment-and-wages/

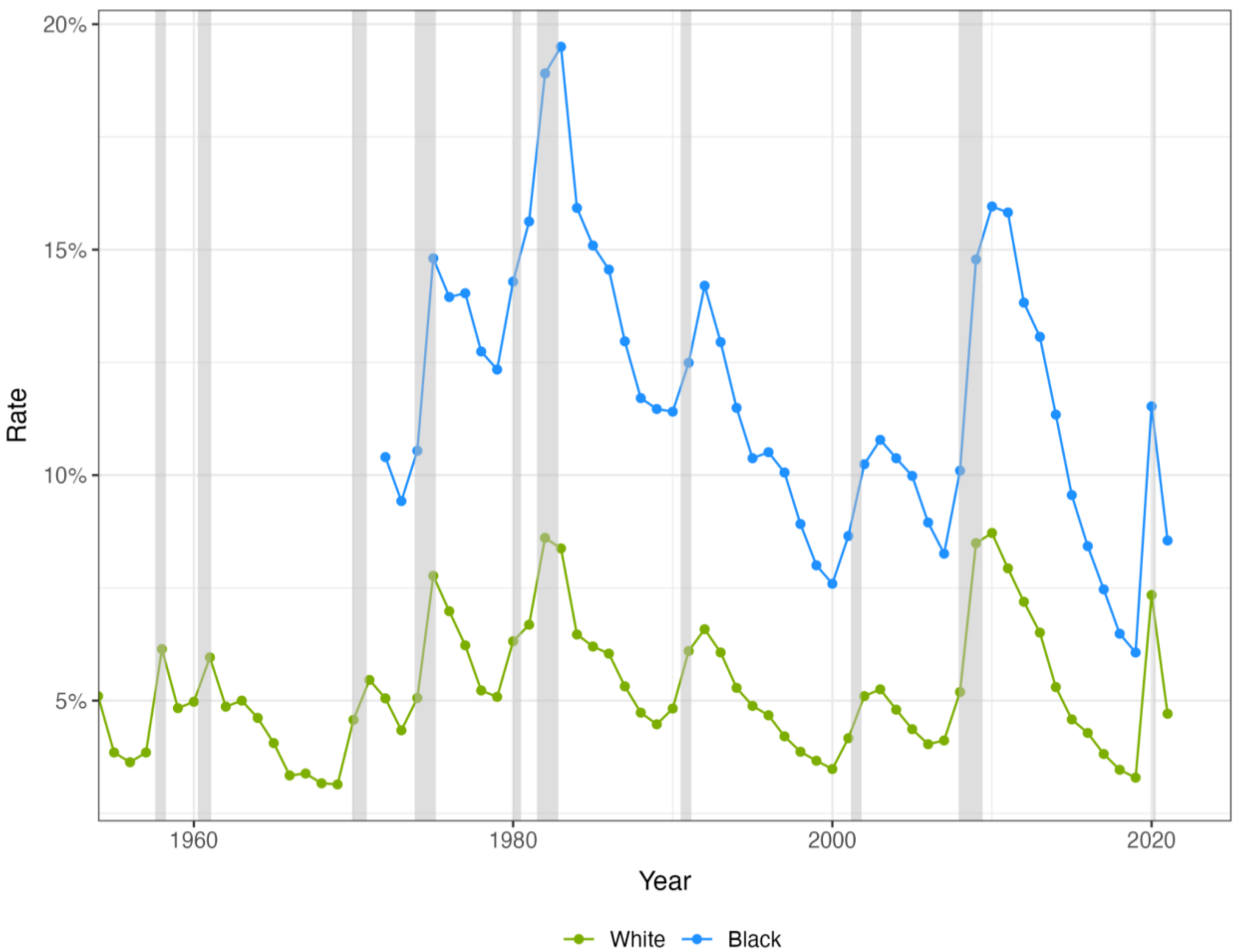

Figure 7: Unemployment Rate, by race, 1954 to 2021
Note: Seasonally adjusted, annual average unemployment rate from the Bureau of Labor Statistics Current Population Survey (CPS), civilian noninstitutional population. Gray bars represent recessions, dates from NBER, https://www.nber.org/research/data/us-business-cycle-expansions-and-contractions.

Beyond cyclical patterns, longer-term trends in Black-White labor market inequality mirror more general trends in the U.S. wage distribution. Over the 20th century, a large and growing literature documents a "U-shaped" pattern of economic inequality, with disproportionate income accruing to the richest households in the early part of the century, followed by a period of more broadly distributed economic growth in the middle of the 20th century (see discussion of the "Great Compression" above), followed by 30 years of growing inequality starting in the 1980s.[51] More

[51] Thomas Piketty, Emmanuel Saez, Gabriel Zucman, Distributional National Accounts: Methods and Estimates for the United States, The Quarterly Journal of Economics, Volume 133, Issue 2, May 2018, Pages 553–609, https://doi.org/10.1093/qje/qjx043

recently, as the economy began to recover from the Great Recession, growth in income inequality, at least at the bottom of the income distribution, began to slow down, as those with the lowest wages saw the fastest wage growth.[52] This trend of stronger wage growth at the bottom has also been a feature of the pandemic recovery.[53]

Mirroring national trends during the middle of the 20th century, Black-White wage gaps began to improve beginning in the 1940s, in part due to compression in the overall distribution of wage. And as compensation and income concentrated at the top for the 1980s onward, so, too, did the Black-White gap in wages expand. Even as Black workers have continued to close gaps in educational attainment over the years and beyond 1980, the remaining gap in college degree achievement, combined with the massive boost to earnings associated with having a college degree during this period, led to a widening of the Black-White earnings gap.[54]

Figure 8 shows how these patterns in general inequality, and in Black-White inequality, track each other. As a measure of equitable growth, we show the share of total income going to the bottom 50% of households over time. As this share increases, so, too, does the ratio of Black-to-White earnings. Starting in 1980, as the overall measure of inequality slows down, so, too, do the different measures of Black wages relative to White wages.

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[52] Aeppli, Clem, and Nathan Wilmers. "Rapid wage growth at the bottom has offset rising US inequality." *Proceedings of the National Academy of Sciences* 119.42 (2022): e2204305119; https://www.bls.gov/opub/mlr/2022/article/were-wages-converging-during-the-2010s-expansion.htm
[53] Blanchet, Thomas, Emmanuel Saez, and Gabriel Zucman. Real-time inequality. No. w30229. National Bureau of Economic Research, 2022.
[54] Patrick Bayer, Kerwin Kofi Charles, Divergent Paths: A New Perspective on Earnings Differences Between Black and White Men Since 1940, The Quarterly Journal of Economics, Volume 133, Issue 3, August 2018, Pages 1459–1501, https://doi.org/10.1093/qje/qjy003

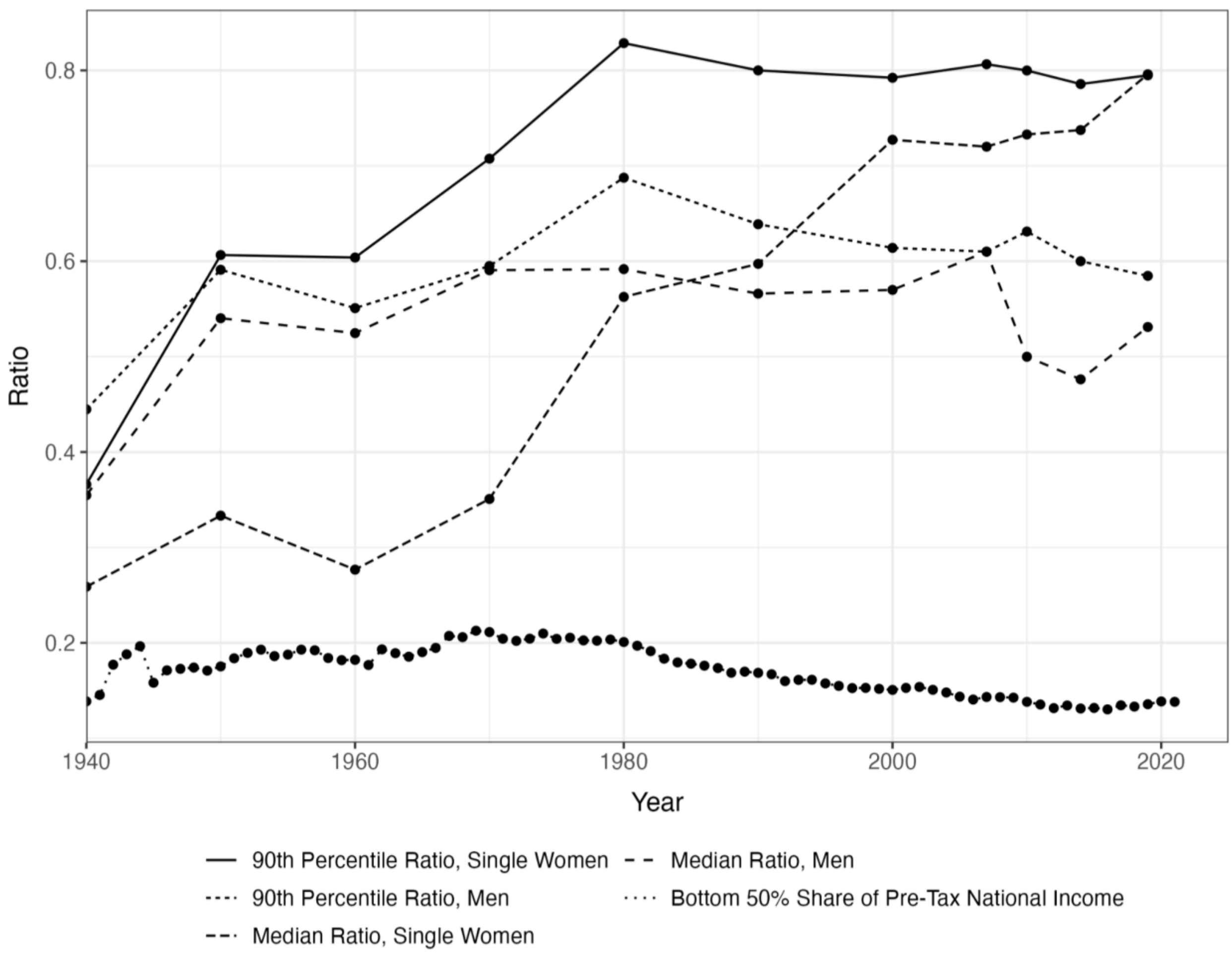

Figure 8: Black-white and national income inequality, 1940 to 2021
Note: Data for total population, men, single women, non-Hispanic, 25-54, including nonworkers, from Decennial Census 1940-2000 and ACS 2004-2019. Pre-tax income share from Piketty, Saez and Zucman (2018). "Distributional National Accounts: Methods and Estimates for the United States*," The Quarterly Journal of Economics, vol 133(2), pages 553-609.

Alongside trends in wage inequality, labor force participation for all men has been in steady decline for decades, dropping from 83% in 1960 to 69% at the beginning of 2020. Starting in the 1990s, and continuing through the Great Recession, the decline had been greater for Black men: the Black-White ratio of labor force participation 0.96 in 1991 to 0.92 in 2014. A prime explanatory factor is the concurrent rise in incarceration during this period, which disproportionately contributed to Black men being out of the labor force.[55] A second major

[55] Neal, Derek, and Armin Rick. The prison boom and the lack of black progress after Smith and Welch. No. w20283. National Bureau of Economic Research, 2014; Patrick Bayer, Kerwin Kofi Charles,

contribution to men's declining labor force participation has come from the growth in U.S. trade, and, in particular, the resultant decline in domestic manufacturing, which began in earnest in 1979 and transformed U.S. labor markets.[56] The effects of these trade shocks by race have been varied. For example, increased imports from Japan between the mid-1970s and mid-1980s were associated with a drop in Black men's employment in manufacturing, especially among those with a high school degree or less. There was no similar effect on White manufacturing employment in the U.S., as U.S. manufacturing shifted to higher-educated workers. The result was a broadening of the Black-White gap in labor force participation and median wages for men.[57] In contrast, Black workers were less exposed than White workers to manufacturing job losses due to increased trade with China, which in turn reduced the Black-White gap in employment by 15%.[58]

As the trend in wage inequality receded for those at or below the median in the decade following the Great Recession, Black-White differences in labor force participation, unemployment, and employment-to-population ratios began to modestly improve, a pivot from decades of persistent gaps, and, with the exception of unemployment rates, this pattern also held during the aftermath of the COVID-19 pandemic.[59] At the tail end of this latest chapter, during the latter half of 2022, wage growth for Black workers has also been stronger than that of their White counterparts.[60] These latest developments have arisen in the context of a so-called "tight" labor market, where a shortage of labor relative to the number of job vacancies can lead to wage increases meant to draw more workers into the labor force. This tight labor market has coincided with slightly

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Divergent Paths: A New Perspective on Earnings Differences Between Black and White Men Since 1940, The Quarterly Journal of Economics, Volume 133, Issue 3, August 2018, Pages 1459–1501, https://doi.org/10.1093/qje/qjy003

[56] Fort, Teresa C., Justin R. Pierce, and Peter K. Schott. "New perspectives on the decline of US manufacturing employment." Journal of Economic Perspectives 32, no. 2 (2018): 47-72.

[57] Batistich, Mary Kate, and Timothy Bond. "Stalled racial progress and Japanese trade in the 1970s and 1980s." (2019).

[58] Kahn, Lisa B., Lindsay Oldenski, and Geunyong Park. Racial and Ethnic Inequality and the China Shock. No. w30646. National Bureau of Economic Research, 2022.

[59] https://www.federalreserve.gov/econres/feds/racial-gaps-in-labor-market-outcomes-in-the-last-four-decades-and-over-the-business-cycle.htm; https://www.whitehouse.gov/cea/written-materials/2022/06/20/juneteenth-reflecting-on-some-of-the-progress-and-challenges-for-black-americans-during-the-pandemic/

[60] https://www.whitehouse.gov/cea/written-materials/2022/08/24/pandemic-shifts-in-black-employment-and-wages/

reduced Black-White gaps, but has not erased them completely, and while the patterns are observable for men and women, they have held more so Black men.

Policy Discussion

The above trends of labor market inequality are not solely the result of incidental economic trends. Labor market institutions and policies, both the result of intentional and strategic political interventions, also shape the patterns we observe. Here, we highlight a subset, reviewing some of the research in each area and briefly discussing existing proposals to further combat racial disparities.

Civil Rights Legislation

During the most notable period of economic convergence between Black and White workers, the period between 1940 and 1980, a sizable share of the convergence took place in the latter half of the 1960s, with a common explanation being the anti-discriminatory laws passed as a result of the Civil Rights Movement.[61] One study found, for example, that the Black-White wage gap among men decreased by 5-to-6 percentage points between 1950 and 1980 in counties where the Voting Rights Act of 1965 was most tightly enforced. The authors found the effect to operate through two channels. First, Black employment in the public sector expanded where wages were relatively high, and this improvement in enfranchisement supported the enforcement of anti-discrimination and affirmative action policies. Moreover, higher public sector wages led to increases in Black worker wages in the private sector, which now faced competition from the newly accessible public sector.[62]

Following the Civil Rights era, affirmative action policies were introduced in a number of labor market contexts. In particular, Executive Order 11246 in 1965 prohibited federal contractors, and in some cases their subcontractors, from discriminating on the basis of protected identities that include race, and required these contractors to take positive steps to ensure that equal opportunity

[61] Card, David, and Alan B. Krueger. “Trends in Relative Black-White Earnings Revisited.” The American Economic Review, vol. 83, no. 2, 1993, pp. 85–91. JSTOR, http://www.jstor.org/stable/2117645. Accessed 10 Nov. 2022.
[62] Aneja, Abhay, and Carlos F. Avenancio-Leon. "The effect of political power on labor market inequality: Evidence from the 1965 Voting Rights Act." Unpublished working paper (2019).

is extended to all groups.[63] Research on these policies found the enforcement of this policy to lead to an increase in Black employment in the first five years following a firm's first contract, and a continued increase in the share of Black employees at these companies more than a decade thereafter. In some cases, this held even after the companies were no longer contractors, and, therefore, no longer subject to regulations. The change in hiring was likely the result of some combination of an increased ability to recruit Black applicants, possibly through referral networks, the dispelling of inaccurate stereotypes, or the establishment of a critical mass of Black workers that increase further hiring.[64]

Similar evidence was found in the 1980s in the case of city-level minority set-asides for construction contractors, which led to a 25%-to-40% reduction in the Black-White self-employment gap in those areas.[65] These policies contributed to the convergence in Black and White labor market outcomes following the Civil Rights era, but were significantly weakened at the federal level starting in the Reagan Administration in the 1980s, and gradually challenged in courts at the local level, until they were much less common during the 1990s. Their decline in this latter period may, therefore, have also contributed to the end of economic convergence between Black and White workers that began to occur in the 1980s.

As discussed above, the legal protection of civil rights requires monitoring and enforcement of these regulations. An ongoing recommendation, then, would be the continued investment in upholding key antidiscrimination laws, such as the 1935 National Labor Relations Act, the 1938 Fair Labor Standards Act, the 1964 Civil Rights Act, the Americans with Disabilities Act of 1990, the Family and Medical Leave Act of 1993, future proposed measures, such as the Equality Act. Policy experts also recommend investing in better data collection on labor market outcomes by race, including collecting data on workers of different races within the same employer, which may shed light on the nature, patterns, and origins of employment

[63] https://www.dol.gov/agencies/ofccp/executive-order-11246/ca-11246
[64] Miller, Conrad. 2017. "The Persistent Effect of Temporary Affirmative Action." American Economic Journal: Applied Economics, 9 (3): 152-90.
[65] Aneja, Abhay, and Carlos F. Avenancio-Leon. "The effect of political power on labor market inequality: Evidence from the 1965 Voting Rights Act." Unpublished working paper (2019).

discrimination.[66] A recent resume correspondence study, for example, found racial discrimination in job applicant callbacks to vary significantly across companies, with 20% of the firms responsible for more than half of the discrimination.[67] Improved data on the racial makeup of the workforce at different firms could aid similar analysis. Finally, the federal government has the ability to influence labor market outcomes by holding both federal employers and federal contractors to strong anti-discrimination standards.

Tax Credits

One set of tax and transfer policies worth noting was implemented as part of what is known as "welfare reform" of the 1990s. During this period, traditional welfare, then known as Aid to Families with Dependent Children (AFDC) was replaced by the Temporary Assistance to Needy Families (TANF) program, which reduced funding significantly, and gave states more flexibility in defining the parameters of the program. At the same time, the Earned Income Tax Credit (EITC), which adds a subsidy on top of a household's earned income, replaced traditional welfare as the primary cash benefit to low-income families. There were also large expansions to the nation's Supplemental Nutrition Assistance Program (SNAP). Crucially, AFDC was available to families even if they did not work, while the EITC is only available to those who were employed, and increases as the household earns more income, up to a limit. Taken together, a historically strong macroeconomy, coupled with expansions to the EITC and SNAP led to a significant increase in the employment of low-income families with children, which were disproportionately households headed by Black women.[68] On the other hand, evidence from the

[66] Wilson, Valerie, and William M. Rodgers III. "Black-white wage gaps expand with rising wage inequality." (2016).
[67] Kline, Patrick, Evan K. Rose, and Christopher R. Walters. "Systemic discrimination among large US employers." The Quarterly Journal of Economics 137.4 (2022): 1963-2036.
[68] Eissa, Nada, and Hilary W. Hoynes. "Behavioral responses to taxes: Lessons from the EITC and labor supply." Tax policy and the economy 20 (2006): 73-110; Kleven, Henrik. The EITC and the extensive margin: A reappraisal. No. w26405. National Bureau of Economic Research, 2019.
Gundersen, Craig, and James P. Ziliak. "Poverty and macroeconomic performance across space, race, and family structure." *Demography* 41, no. 1 (2004): 61-86.

welfare reform era suggests that many low-income families ultimately substituted public assistance benefits for work at low wages.[69]

These outcomes, and their targeted impact on Black women, are readily apparent in the data. Between 1995 and 2000, the ratio of employment rates between Black men and White men remained steady at about 95%. In contrast, the ratio between Black women and White women rose over the same period from parity to a 10% higher rate for Black women. While work-related tax credits like the EITC have been shown to have impacts on labor force participation for Black heads of households, they represent a substitution away from income support at the very bottom of the income distribution to the working poor. In our next section on household income, we return to this in the context of child allowance and guaranteed income policies, which balance a focus on work-requirements with attentiveness to the social safety net.

Minimum Wage Policy

The 1966 Fair Labor Standards Act, which was not an explicitly race-conscious policy, had a significant effect on closing Black-White wage gaps. This law extended minimum wage coverage to previously excluded sectors, including agriculture, laundries, hotels, and other services, where a disproportionate share of Black workers was employed. Black wages increased more than white wages as a result of the new wage floor in these sectors, and this is estimated to account for a 20% reduction in the racial earnings gap during that decade.[70] Although this policy was not itself a race-specific one, the conditions for its different impact by race are themselves in part due to prior racist forces. First, the initial introduction of a minimum wage in the 1938 Fair Labor Standards Act excluded sectors and jobs that were concentrated in the South, to appease southern White employers who wished to retain the ability to pay low wages to their predominantly Black workforce. Second, occupational and regional segregation, both resulting

[69] Blank, Rebecca M., and Lucie Schmidt. "Work, wages, and welfare." In The new world of welfare (2001): 70-102.
Bollinger, Christopher, Luis Gonzalez, and James P. Ziliak. "Welfare reform and the level and composition of income." Welfare reform and its long-term consequences for America's poor (2009): 59-103.
[70] Ellora Derenoncourt, Claire Montialoux, Minimum Wages and Racial Inequality, The Quarterly Journal of Economics, Volume 136, Issue 1, February 2021, Pages 169–228, https://doi.org/10.1093/qje/qjaa031

from intentional processes of stratification, disproportionately affected Black workers because of the exclusion of select industries. The combination set the stage for a differential impact of expanding the minimum wage in 1966.

In more recent decades, the federal minimum wage has remained stagnant, not increasing in real terms since 2009. When the minimum wage fails to keep up with inflation, we tend to see compensation for low wage workers to fall behind that of higher paid workers, and this has a disproportionate impact on Black workers. While minimum wages have been lifted beyond the federal standard in many cities and states, an increase at the federal level can help support workers in areas where legislative barriers have been persistent, and where, incidentally, Black people are overrepresented relative to the rest of the country.

Unionization

Though the share of workers who are unionized today has declined precipitously from its peaks during the middle of the 20th century, unions have historically played an integral part in U.S. labor markets. Workers covered by unions, who enjoy greater bargaining power relative to their employers, consistently receive 10%-to-20% percent higher earnings than non-unionized workers. Thus, unionization also provides a countervailing force to wage inequality over time.[71] Black workers, however, have historically faced an uphill battle in being fully integrated into the ranks of organized labor.[72] Barriers they have faced include the prevailing norms of racial segregation that were reflected in White laborers' exclusionary preferences, the use of Black laborers as strike-breakers by employers, and disagreement among Black leaders on the efficacy of collective bargaining relative to cooperation with capitalist owners of companies. At the same time, efforts have always existed among Black laborers to organize, as in the case of the

[71] Henry S Farber, Daniel Herbst, Ilyana Kuziemko, Suresh Naidu, Unions and Inequality over the Twentieth Century: New Evidence from Survey Data, The Quarterly Journal of Economics, Volume 136, Issue 3, August 2021, Pages 1325–1385, https://doi.org/10.1093/qje/qjab012
[72] Herbert Hill. "Labor Unions and the Negro: The Record of Discrimination." *Commentary*. December 1959

Brotherhood of Sleeping Car Porters, or in the case of the Knights of Labor—a multiracial labor organization.[73]

Indeed, when comprehensive measures of union membership are collected, Black households are more likely to have a union member than White households starting in 1950 and continuing until 2000. This is partly because unionization was generally more common among lower wage workers in that era. Moreover, during that same time period, the boost to earnings enjoyed by union members relative to nonmembers was larger for Black workers than it was for White workers.[74] Since 2000, these differences in membership are no longer prominent in the data, but during the second half of the 20th century, Black workers were overrepresented in unions, and those who were able to join a union were insulated somewhat from labor market discrimination. Despite declines in membership for decades, a near majority of workers who are not unionized report interest in joining one if given the opportunity.[75] Proposed laws, such as the Protecting the Right to Organize (PRO) Act, have the potential to support those who seek to organize and collectively bargain in the workplace.

Targeted Educational Interventions

An alternative set of education-oriented labor market interventions target intensive post-secondary training opportunities for potential workers within a local labor market setting. Examples of these programs, including the WorkAdvance and Year Up models of training, typically involve collaboration among major local employers, community colleges and other educational institutions, and local nonprofits. The training programs are targeted to address labor market shortages that anchor employers face, and intentionally develop firm-specific skills. Companies then commit to hiring participants on the back end of the training program. These programs generally provide wrap-around services to support workers, including assistance with housing, transportation, and childcare. Scaling up such programs requires a larger public

[73] Conrad, Cecilia, et al., eds. African Americans in the US economy. Rowman & Littlefield Publishers, 2005., Chapters 6-8

[74] Henry S Farber, Daniel Herbst, Ilyana Kuziemko, Suresh Naidu, Unions and Inequality over the Twentieth Century: New Evidence from Survey Data, The Quarterly Journal of Economics, Volume 136, Issue 3, August 2021, Pages 1325–1385, https://doi.org/10.1093/qje/qjab012

[75] Hertel-Fernandez, Alexander. "Aligning US labor law with worker preferences for labor representation." Washington Center for Equitable Growth. 2020

financial commitment. In the absence of such commitment, many expensive and lower-quality educational options fill the gap and target Black workers–at great cost and often limited benefit.[76]

Summary

Over the long term, Black workers have on average seen their standing in the labor market relative to White workers improve, though the pace of progress has varied significantly across different eras. The period between 1940 and 1980, and particularly during the 1960s, was host to the starkest convergence in Black and White wages and occupational status. Thereafter, economic gains remained relatively stagnant for many decades. In the aftermath of the Great Recession, which presented Black workers with significant setbacks, there has been another period of increased inequality in the overall labor market, and Black workers have disproportionately benefited from this most recent development. Following sharp and dramatic adverse shocks of the COVID-19 pandemic, the relative wage gains for Black workers in a tight labor market have continued. With the onset of historically high levels of inflation and the potential for a recession in response to monetary policy aimed to rein in inflation, whether the recent gains for Black workers will continue or not is yet to be seen. Education is an important driver of upward mobility in general, but interventions to help lift Black workers and families up the economic ladder require a combination of high quality and lower cost—which exist in relatively short supply within a subset of community colleges and training programs. Finally, evidence suggests that education alone is not enough to close Black/White labor market gaps. Raising the minimum wage and better enforcement of anti-discrimination labor laws are also necessary interventions.

[76] Holzer, Harry. “Do sectoral training programs work? What the evidence on Project Quest and Year Up really shows.” Brookings Institution, January 12, 2022; Holzer, H. J. (2018). A “race to the top” in public higher education to improve education and employment among the poor. RSF: The Russell Sage Foundation Journal of the Social Sciences, 4(3), 84-99.

Household Income Inequality

From Wages to Income

By accounting for a broader set of sources of money, income provides a related, but more expansive measure of economic well-being than one solely based on wages and employment. Economists define income as a measure of pre-tax money accruing over a period of time, from individual labor, assets (investment income, business income, inheritance, etc.), and government transfers.[77] A key distinction between earnings and income is that income is often measured both at the individual level and at the household level. By looking at the sources of income that accrue to everyone in a given family unit, the measurement accounts for the practical ways that connected individuals share resources among each other. Furthermore, household income can be measured even for people who are not working in the formal labor market, which is especially relevant for historical analyses that include women. It can also be defined to include government taxes and transfers, and therefore can capture the impact of redistribution on the ultimate level of inequality. Notably, wages and earnings are still likely to be the predominant source of income for an individual or a household, and in these instances, there is a tight relationship between if and how the factors that affect employment also affect income. We will draw inferences about Black-White differences in economic well-being by looking at the income distribution within and across these groups over time. As we will see, multiple measures of income will be useful in capturing how well-being is changing and for whom.

Figure 9 summarizes the extent of Black-White inequality in household income in recent years. The average Black household had an income of $71,500, compared to a mean income for White households, $111,000, or 65 cents on the dollar. This pattern continues to hold when we look at median household incomes, which are less driven by extreme incomes at the top, and where the median Black household has only 63 cents for every dollar income of the median White household. Note, the gap in household income is larger than the gap in just wages, in part because the addition of capital income to household income is likely to favor White households.

[77] E.g., https://www.cbo.gov/sites/default/files/113th-congress-2013-2014/reports/44604-AverageTaxRates.pdf

Figure 9 also reports the share of households, by race, in poverty, as measured by the supplemental poverty measure (SPM). This measure considers the impact of government transfers on household resources. The Black poverty rate, 10.9%, is nearly double that of the White households, at 5.7%. Finally, using data from 2018, we are able to calculate, among households with children, the share of all Black and White households that are in the top 10% and top 1% of incomes for all households. If incomes were distributed evenly by race, we would expect to see 10% of Black households among the top 10% of all households. Instead, we find that only 2% of Black households reach this group, compared to 13% of White households. Again, when looking at the top 1% of households, less than .1% percent of Black households reach this income level, compared to 1.4% of White households—a 20-fold difference.

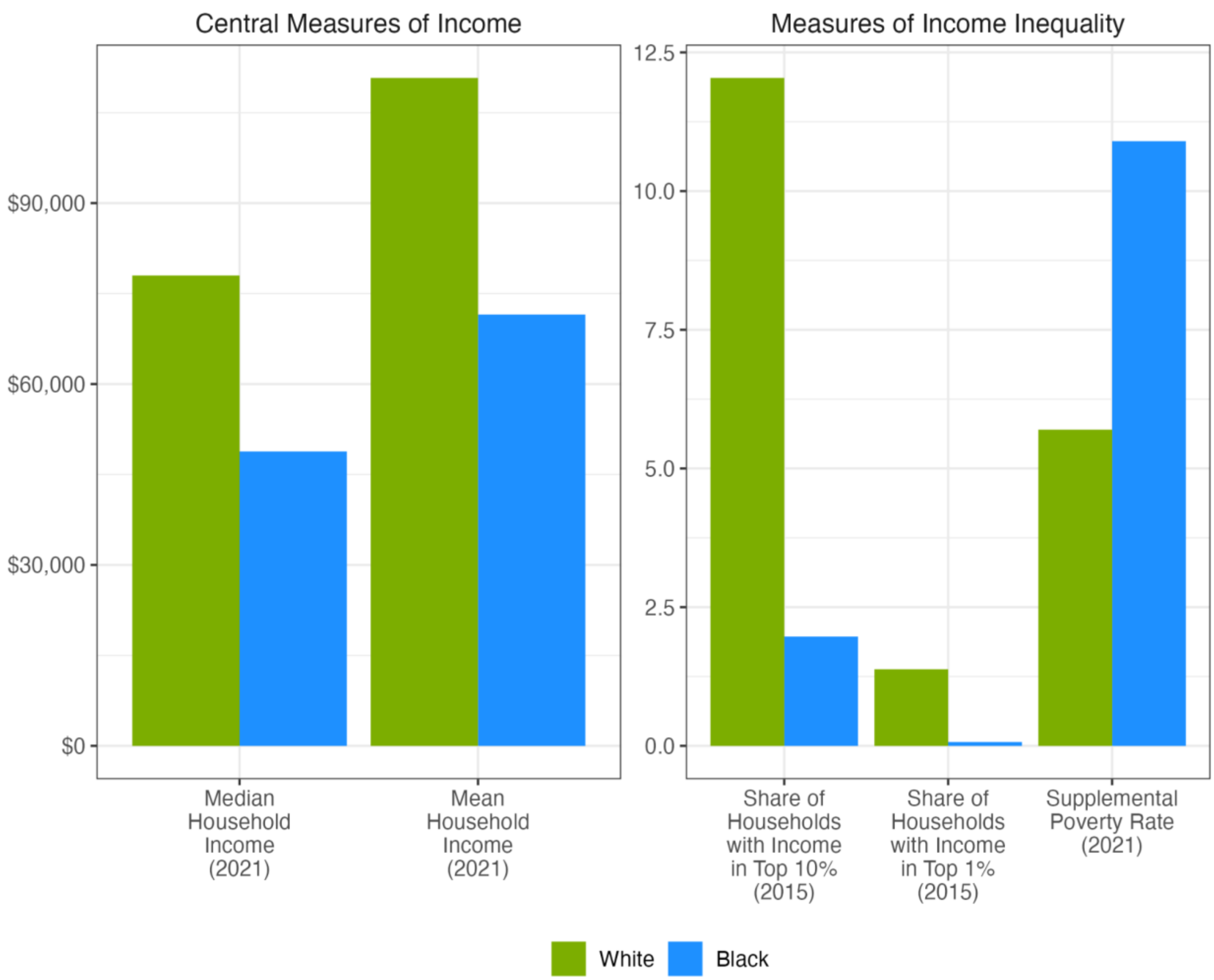

Figure 9: Distribution of Income by Race: Mean and Median Income, Poverty and Top Income Rates (2018, 2021)

Note: Mean and median income data from Census Bureau, 2021. Supplemental poverty rate—which measures the share of families in poverty even after government assistance—from Census Bureau, 2021. Top 10 percent and 1 percent income rates from Chetty, Hendran, Jones, Porter, 2022 data depository.

In examining income inequality, where we focus our attention largely depends on how we understand the goals of a modern, unequal society. If the goal is to give everyone equal opportunity to succeed, then it will be important to pay attention to how the average or median Black and White households generate income, and their ability to rise to the top of the income distribution. If the goal is to provide safety and sustainably care for more vulnerable members of the society, then progress in increasing incomes and reducing racial income gaps at the bottom of the income distribution will be important. From this standpoint, periods of convergence in the Black-White income gap, and especially the periods in which the poverty rate of Black Americans and the Black-White poverty gap are reduced, are especially notable. As we will see, they demonstrate the country's capacity to raise the economic floor, and fundamentally improve Black people's quality of life.

Box: Measuring Income

In order to characterize the nature of the changes in the Black-White gap in income, we will look at the available historical trajectory of income in Black and White households separately, and relative to each other. When measuring income, we typically analyze several different instances of income across the income distribution, because this gives us insights into how economic well-being is changing for affluent households, for middle-income households, and for households navigating poverty.

Median income: Median income refers to the income of the person or household at the middle of the income distribution, such that one half of the population has an income higher than the median and the other half of the population has an income lower than the median. Changes in the median income over time tell us how income is changing for a typical individual but are not informative about what is happening at other parts of the distribution, such as the top or the bottom.

Average income: Average income refers to the mean income in the population. By construction, average income considers all of the values of income in the population, including the top and bottom of the distribution. By comparing average and median income to each other, or by comparing the median to other quantiles in the distribution, we can develop a more comprehensive understanding of how incomes are distributed across the population. One limitation of the average is that it is very sensitive to outliers, or very large, positive numbers. Adding a few billionaires to the population can increase the measure of average income, even though the overwhelming majority of people have had no change in their incomes. The median, on the other hand, will remain largely unaffected.

Poverty: A poverty line refers to a threshold of income that is calculated by a country as necessary to afford a minimum level of well-being. The threshold varies for families of different sizes and with different numbers of children. The poverty rate refers to the fraction of the population whose incomes lie below this threshold. Measuring the poverty rate is important, independent of its relationship to other parts of the income distribution because it tells us about the ability of households to achieve a minimum standard of living. The U.S. Census Bureau has calculated the official poverty measure consistently since 1978 to identify low-income households over time. However, the official measure does not include in-kind transfers, such as the Supplemental Nutrition Assistance Program (SNAP) or the Supplemental Nutrition Program for Women, Infants, and Children (WIC). The supplemental poverty measure (SPM) was developed to extend the official poverty measure and account for additional sources of income and income transfers from government programs that aid low-income individuals and households.[78] Comparing the two poverty measures is useful in determining how successful government programs have been in moving people out of poverty or keeping them from going into poverty.

Top income shares: More recently, a popular measure of inequality, especially when looking at periods after 1980, is the share of total income accruing to the top 1% of households. The concentration of income at the very top is potentially a source of growing inequality in political influence, across racial lines and class lines in general. When comparing different groups, we may also examine whether any group is over- or underrepresented among these top income brackets.

Income inequality: Income inequality refers to the relative distance between the top of the income distribution and other parts of the income distribution. What is the share of total income in the country going to the highest income groups? As this share increases, the share going to households in other parts of the income distribution necessarily decreases, indicating a greater level of inequality.

Another key issue when considering each type of income is whether and how well it can be measured or not. For capital income, there is an issue of timing: Should we look at capital gains as they accrue or when they are realized? Also, income may be hidden, for example, overseas, to avoid taxes. This mainly affects measurement at the top of the distribution. But measurement issues are also present at the very bottom of the distribution as well, since people navigating poverty are less likely to be captured in tax data and other surveys, etc. Measurement affects both our assessment of how much change there has been and our ability to affect that change, since policy decisions are often based on observable measures of income.

Measurement and Trends Over Time

Income Per Capita and Median Income

Over the long term, Black income per capita has grown at a higher annualized rate than White income per capita between 1870 and 2020, partly because, for a given dollar amount of change, the rate of growth in income will be larger for the group that has lower income to begin with.[79] The higher rates of growth for Black households have not happened consistently over the last century. There have been two major periods of convergence: (1) from 1860-1900, when the Black-White income ratio went from 24 cents on the dollar to approximately 35 cents, and (2) starting during the Civil Rights era in 1960 up until 1980, when the ratio went from 38 cents to 58 cents on the dollar. Thereafter, any gains in Black incomes relative to White incomes were much more modest. This is depicted in Figure 10.

These periods of convergence are closely related to the convergence in earnings featured in our

[78] Renwick, Trudi. "Overview of Poverty Statistics for the United States." Census Bureau, 2021.
[79] Derenoncourt, Ellora, et al. Wealth of two nations: The US racial wealth gap, 1860-2020. No. w30101. National Bureau of Economic Research, 2022.

earlier discussion of wages, both because the government policies that were enacted largely affected wages and employment opportunities especially for Black people (e.g., civil rights legislation, minimum wage changes, and anti-discrimination regulations in the labor market), and because in the early part of the 21st century, Black people's income was largely determined by their wages, especially at the lower end and middle parts of the income distribution.[80] However, there are other policies—particularly related to social welfare and income tax policy—that are essential to contextualizing these income trends. For this context, we turn to a detailed discussion of each major period.

[80] Ellora Derenoncourt, Claire Montialoux, Minimum Wages and Racial Inequality, The Quarterly Journal of Economics, Volume 136, Issue 1, February 2021, Pages 169–228, https://doi.org/10.1093/qje/qjaa031

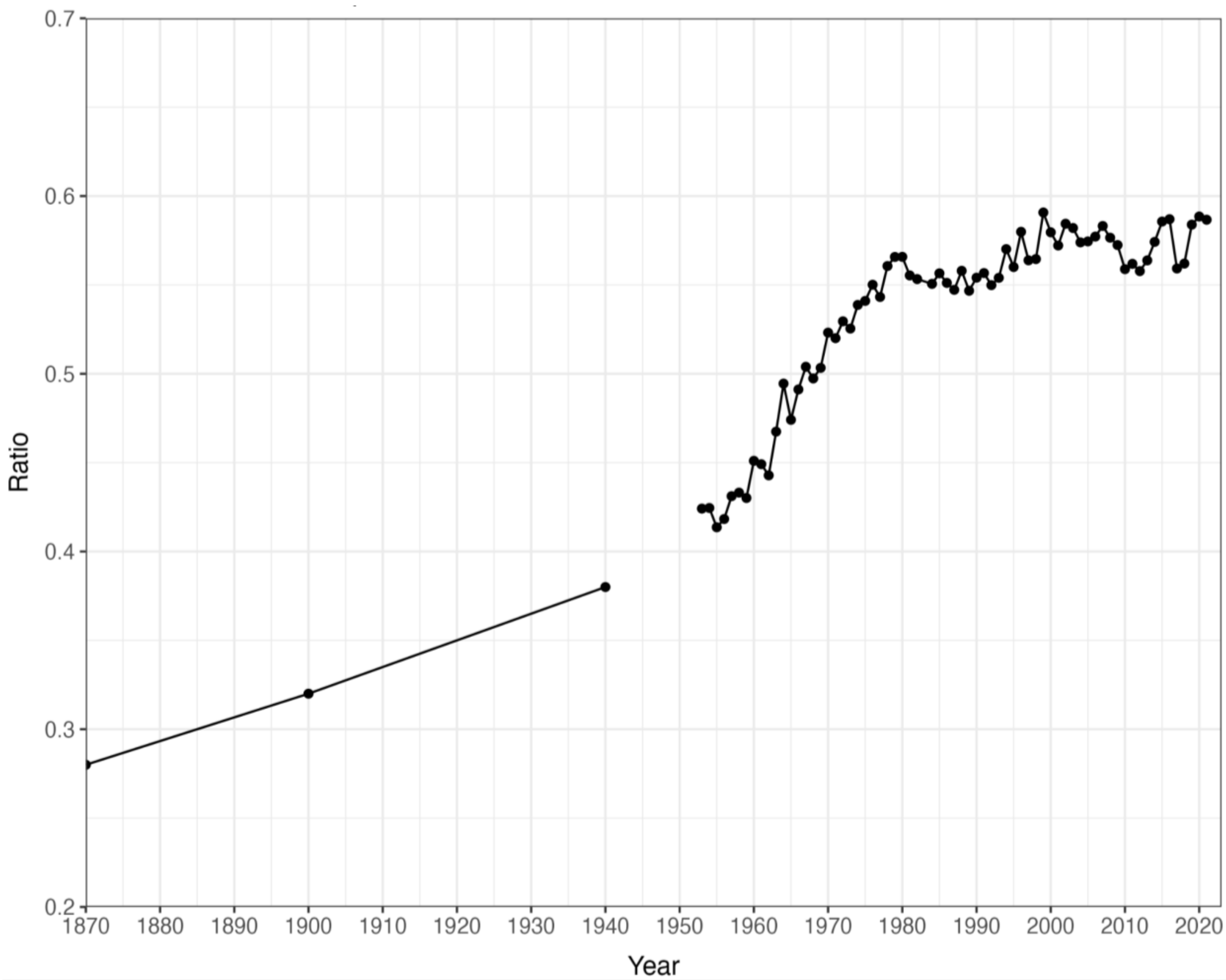

Figure 10: Black-White Per Capita Income Ratios, 1870 to 2014

Note: Source, Robert Margo, 2016. "The persistence of racial inequality in the US"

Initial convergence in income per capita from 1870-1940:

The Census Bureau began asking about individuals' income in 1940, but prior to that there was no standardized measure of income across different parts of the population, separately for Black and White households. To understand the racial gap in household resources before 1940, many economic historians have combined various primary and secondary sources documenting wages and earnings to construct a race-specific measure of income per capita—the average income received by a Black or White person in the United States in a given year.[81,82,83] Three income per capita benchmarks, from 1870, 1900 and 1940, provide snapshots that can be used to calculate income ratios for the period from post-emancipation to pre-World War II.

Multiple studies estimate that the ratio of Black to White income per capita increased by about 10 percentage points between 1870 and 1940, although, as shown in Figure 10, they disagree about whether most of this growth happened before 1900, or if growth occurred steadily throughout the entire period.[84] Both estimates agree: Black income grew at a faster rate than White income during this time period.[85] This rapid growth is attributed to improved conditions following the end of slavery, including: (1) the migration of formerly enslaved Black people to better opportunities;[86] (2) access to education and declines in illiteracy; and (3) some increase in agricultural ownership.[87] These factors mostly affected wages, rather than other forms of capital or assets. There would have been a greater reduction in Black-White income gaps during this period if formerly enslaved people had equal access to capital, education and labor market opportunities. In addition to these barriers, the backlash in response to Reconstruction suppressed Black economic progress in the latter half of the period, so that most of the gains in income were likely realized before 1900.[88]

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[81] Margo, R. (2016). Obama, Katrina, and the Persistence of Racial Inequality. The Journal of Economic History, 76(2), 301-341. doi:10.1017/S0022050716000590; Derenoncourt, Ellora, et al. Wealth of two nations: The US racial wealth gap, 1860-2020. No. w30101. National Bureau of Economic Research, 2022.
[82] Higgs, Robert. Competition and Coercion: Blacks in the American Economy, 1865-1914. New York: Cambridge University Press, 1977.
[83] Higgs, Robert. "Black Progress and the Persistence of Racial Economic Inequalities, 1865-1940." In The Question of Discrimination: Racial Inequality in the U.S. Labor Market, edited by Steven Shulman and William Darity, Jr., 9-31. Middletown, CT: Wesleyan University Press, 1989.
[84] Margo, R. (2016). Obama, Katrina, and the Persistence of Racial Inequality. The Journal of Economic History, 76(2), 301-341. doi:10.1017/S0022050716000590
[85] Derenoncourt, Ellora, et al. Wealth of two nations: The US racial wealth gap, 1860-2020. No. w30101. National Bureau of Economic Research, 2022.
[86] Collins, William J., and Marianne H. Wanamaker. 2014. "Selection and Economic Gains in the Great Migration of African Americans: New Evidence from Linked Census Data." American Economic Journal: Applied Economics, 6 (1): 220-52; Boustan, Leah Platt. "The Great Black Migration: Opportunity and competition in northern labor markets." Focus 32.1 (2015): 24-27.
[87] Higgs, Robert. Competition and Coercion: Blacks in the American Economy, 1865-1914. New York: Cambridge University Press, 1977.
[88] Margo, R. (2016). Obama, Katrina, and the Persistence of Racial Inequality. The Journal of Economic History, 76(2), 301-341. doi:10.1017/S0022050716000590

Accelerated convergence during the Civil Rights Era from 1940-1980:

As was the case for wages, the period between 1940 and 1980 featured more general convergence in Black and White household incomes. With the introduction of questions about income in the 1940 Census, we are able to compare incomes more consistently during this period than in prior years. The "Great Compression" in wages following World War II extended to incomes, as Black income grew 0.45 percentage points faster per year than White income during this period.[89] As can be seen in Figure 10, the increase in the Black-White income ratio during this time period was most significantly driven by a sharp jump in Black income levels in the latter part of the 1960s, predominantly in the South, for workers across the age distribution. Having already completed all of their education, older workers would not have experienced any changes in the quality or length of their schooling during this period. This leads some researchers to rule out improvements in educational quality as the primary force behind this relative growth for Black incomes and turn to a different explanation: waning racial discrimination and desegregation in the South.[90] As mentioned above during our discussion of wages, key to the curtailment of discrimination during this period were anti-discrimination policies and Civil Rights Laws and increases in the minimum wage that disproportionately impacted Black workers.[91]

Few studies during this period study women separately, but when they do, they find, similar to the case of men, that Black women's income and occupational status increased substantially relative to White women during this period and wages increased substantially due to transitions from agricultural and domestic service work to other sectors.[92] The relative gains for Black

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[89] Margo, R. (2016). Obama, Katrina, and the Persistence of Racial Inequality. The Journal of Economic History, 76(2), 301-341. doi:10.1017/S0022050716000590; Derenoncourt, Ellora, et al. Wealth of two nations: The US racial wealth gap, 1860-2020. No. w30101. National Bureau of Economic Research, 2022.

[90] Donohue, John J., and James Heckman. "Continuous Versus Episodic Change: The Impact of Civil Rights Policy on the Economic Status of Blacks." Journal of Economic Literature, vol. 29, no. 4, 1991, pp. 1603–43. JSTOR, http://www.jstor.org/stable/2727792. Accessed 10 Nov. 2022.

[91] Margo, R. (2016). Obama, Katrina, and the Persistence of Racial Inequality. The Journal of Economic History, 76(2), 301-341. doi:10.1017/S0022050716000590; Ellora Derenoncourt, Claire Montialoux, Minimum Wages and Racial Inequality, The Quarterly Journal of Economics, Volume 136, Issue 1, February 2021, Pages 169–228, https://doi.org/10.1093/qje/qjaa031

[92] Margo, R. (2016). Obama, Katrina, and the Persistence of Racial Inequality. The Journal of Economic History, 76(2), 301-341. doi:10.1017/S0022050716000590;

women were, however, uneven. Black women at the middle and bottom of the income distribution barely changed the position they occupied within the White income distribution, whereas Black women with higher incomes saw the largest reduction in income differences relative to their White counterparts.[93]

Convergence stalls from 1980 onward:

Much like the cases of wages, multiple studies document a stalling of convergence in the income gap starting in 1980.[94] This is evident in Figure 10, where the ratio of Black to White per capita income grows far more slowly, starting in 1980. One explanation for this stall is the larger decline in labor force participation among Black men relative to White men, which we highlighted earlier in our discussion of wages and employment.[95] One of the key contributors to these differences in labor force participation–the sharp changes in incarceration rates that began in the 1980s–has both direct and indirect effects on the potential income of a household. Incarceration directly takes individuals out of the labor market where they can earn a market wage (as opposed to the coercive labor system within prisons), and indirectly reduces their future likelihood and ability of participating in the labor force in the future.[96]

Poverty and the Bottom of the Income Distribution

Inferring Black-White gaps in poverty status using sociological methods from 1870-1950

Prior to 1950, there was no nationally coordinated poverty threshold.[97] This makes it difficult to identify when and how minimum standards of living were conceptualized across the country.

BAILEY, M., & COLLINS, W. (2006). The Wage Gains of African-American Women in the 1940s. The Journal of Economic History, 66(3), 737-777. doi:10.1017/S0022050706000313

[93] Lukas Althoff. (2022). "Two Steps Forward, One Step Back: Racial Income Gaps Among Women Since 1950." Unpublished Working Paper

[94] Margo, R. (2016). Obama, Katrina, and the Persistence of Racial Inequality. The Journal of Economic History, 76(2), 301-341. doi:10.1017/S0022050716000590; Ellora Derenoncourt, Claire Montialoux, Minimum Wages and Racial Inequality, The Quarterly Journal of Economics, Volume 136, Issue 1, February 2021, Pages 169–228, https://doi.org/10.1093/qje/qjaa031

[95] Patrick Bayer, Kerwin Kofi Charles, Divergent Paths: A New Perspective on Earnings Differences Between Black and White Men Since 1940, The Quarterly Journal of Economics, Volume 133, Issue 3, August 2018, Pages 1459–1501, https://doi.org/10.1093/qje/qjy003

[96] Pager, Devah. Marked: Race, crime, and finding work in an era of mass incarceration. University of Chicago Press, 2008.

[97] Fisher, G. "Poverty Lines and Measures of Income Inadequacy in the United States Since 1870: collecting and using a little-known body of historical material." *Washington DC: Paper presented at the 22nd meeting of the Social Science History Association*. 1997.

Although some unofficial early poverty lines and family budgets were created by labor reformers and referenced in sociological studies of specific cities and demographic groups, limited systematic attention was paid by these (mostly White) researchers to poor Black people.[98] Still, the limited historical sources that document living conditions among Black people post-emancipation and up to the Great Depression describe disproportionate levels of precarity and impoverishment faced by Black people relative to their population size, in both the North and the South.

Researchers have noted that one of the earliest references to the word "poor" used in conjunction with "a specific dollar figure" was provided by W.E.B. DuBois in his study, *The Philadelphia Negro.*[99] DuBois includes "an implicit poverty line for the Philadelphia Negro community," and he discusses how low wages and discrimination—not unemployment—are the source of this poverty, again demonstrating the tight link between employment and income (or lack thereof).[100]

Another setting where race and poverty were clearly linked was among sharecroppers in the South. Given that sharecropping was the industry where most Black people were employed—approximately 3 million Black people lived in southern "tenant and cropper families" in 1930—they were especially vulnerable to impoverished conditions. Those facing these more historically persistent conditions were deemed the "old poor," a group distinct from the individuals who became newly unemployed during the Great Depression.[101]

Black people's experience of poverty at disproportionate rates to their population size was not limited to the South. Those who were already in the North in the second half of the 19th century

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[98] Gilens, Martin. "How the poor became Black: The racialization of American poverty in the mass media." *Race and the politics of welfare reform*, edited by Schram, Sanford F., et al., editors. Race and the Politics of Welfare Reform. University of Michigan Press, 2003 (2003), pp. 101-130

[99] Fisher, Gordon M. "From Hunter to Orshansky: An overview of (unofficial) poverty lines in the United States from 1904 to 1965." Washington, DC: US Census Bureau (1997).

[100] He calculated that 78 percent of Negroes in Philadelphia's seventh ward had "gainful employment" compared to 55.1 percent of the whole population, see Katz, Michael B. "Race, Poverty, and Welfare: Du Bois's Legacy for Policy." The Annals of the American Academy of Political and Social Science, vol. 568, 2000, pp. 111–27. JSTOR, http://www.jstor.org/stable/1049475. Accessed 14 Nov. 2022. page 113.

[101] Trotter Jr., Joe William. "African Americans and the Industrial Revolution." OAH Magazine of History, vol.15.1, 2000, pp. 19-23.

were also excluded from industrial employment.[102] These sociological narratives of poverty also line up with the employment statistics from this time period, which show that Black workers at the turn of the century more frequently occupied the lowest paying occupations compared to their White counterparts.[103] These disproportionate levels of poverty persisted into the 1900s and by 1940, 70% of Black families were poor, compared to 31% of White families.[104] Although limited employment and educational opportunities increased the likelihood of Black impoverishment everywhere, a confluence of racist structures led to a greater and more persistent Black-White poverty gap in the South.[105]

Declining Black-White poverty differentials from 1950-1980:

The post-war period from 1950-1970 saw substantial convergence in the Black-White poverty ratio due to a steep decline in the poverty rate among Black households and limited movement in the poverty rate among White households. Although many historical accounts of this period of poverty reduction start with the "Great Society" domestic programs initiated during the Johnson Administration, including the Voting Rights Act, Fair Housing Act, and Higher Education Act, we can see that the Black poverty rate actually began its decline before these programs were implemented. Some scholars argue that the initial reduction in poverty over this decade was likely driven by substantial labor market gains for Black workers in wages and occupation type following World War II, with especially large gains for Black women driven by access to additional years and better quality of schooling.[106]

Figure 11 plots the poverty rates separately for Black and White households, using the official poverty rate. The official Black poverty rate, which was first measured in 1959, declined sharply

[102] Hayden, Robert C. "A Historical Overview of Poverty among Blacks in Boston, 1950-1990." Trotter Review 17.1 (2007): 8.
[103] Arthur Max Ross, "The Negro in the American Economy," in Arthur Max Ross and Herbert Hill, eds., Employment, Race and Poverty (New York: Harcourt, Brace and World, 1967)
[104] Smith, James P., and Finis Welch. "Race and Poverty: A Forty-Year Record." The American Economic Review, vol. 77, no. 2, 1987, pp. 152–58. JSTOR, http://www.jstor.org/stable/1805443. Accessed 14 Nov. 2022.
[105] Baker, Regina S. "The historical racial regime and racial inequality in poverty in the American south." American Journal of Sociology 127.6 (2022): 1721-1781.
[106] Smith, James P., and Finis Welch. "Race and Poverty: A Forty-Year Record." The American Economic Review, vol. 77, no. 2, 1987, pp. 152–58. JSTOR, http://www.jstor.org/stable/1805443. Accessed 14 Nov. 2022.

until the 1970s. The plateau of Black poverty rates coincided with (1) increasing residential segregation, (2) declining returns to low-skilled workers at a time when Black workers were "relatively more concentrated" at the bottom half of the skill distribution, and (3) the increase in the fraction of Black men with zero earnings.[107] One study found that patterns of segregation during the Great Migration were in part determined by how much a city or region was divided by railroad tracks laid during the 19th century. Those places that had higher segregation also had higher Black poverty rates, larger Black-White income disparities, and lower White poverty rates. Also, in the more segregated places there was more inequality among Black households by 1980. The negative effects of segregation on Black-White income disparities were found at the middle and bottom of the income distribution, but not among relatively high-income families, allowing upper-middle class Black households to pull away from lower-income Black families. Finally, there is additional evidence that such segregation caused gaps in Black-White educational attainment.[108]

[107] Patrick Bayer, Kerwin Kofi Charles, Divergent Paths: A New Perspective on Earnings Differences Between Black and White Men Since 1940, The Quarterly Journal of Economics, Volume 133, Issue 3, August 2018, Pages 1459–1501, https://doi.org/10.1093/qje/qjy003

[108] Ananat, Elizabeth Oltmans. 2011. "The Wrong Side(s) of the Tracks: The Causal Effects of Racial Segregation on Urban Poverty and Inequality." American Economic Journal: Applied Economics, 3 (2): 34-66.

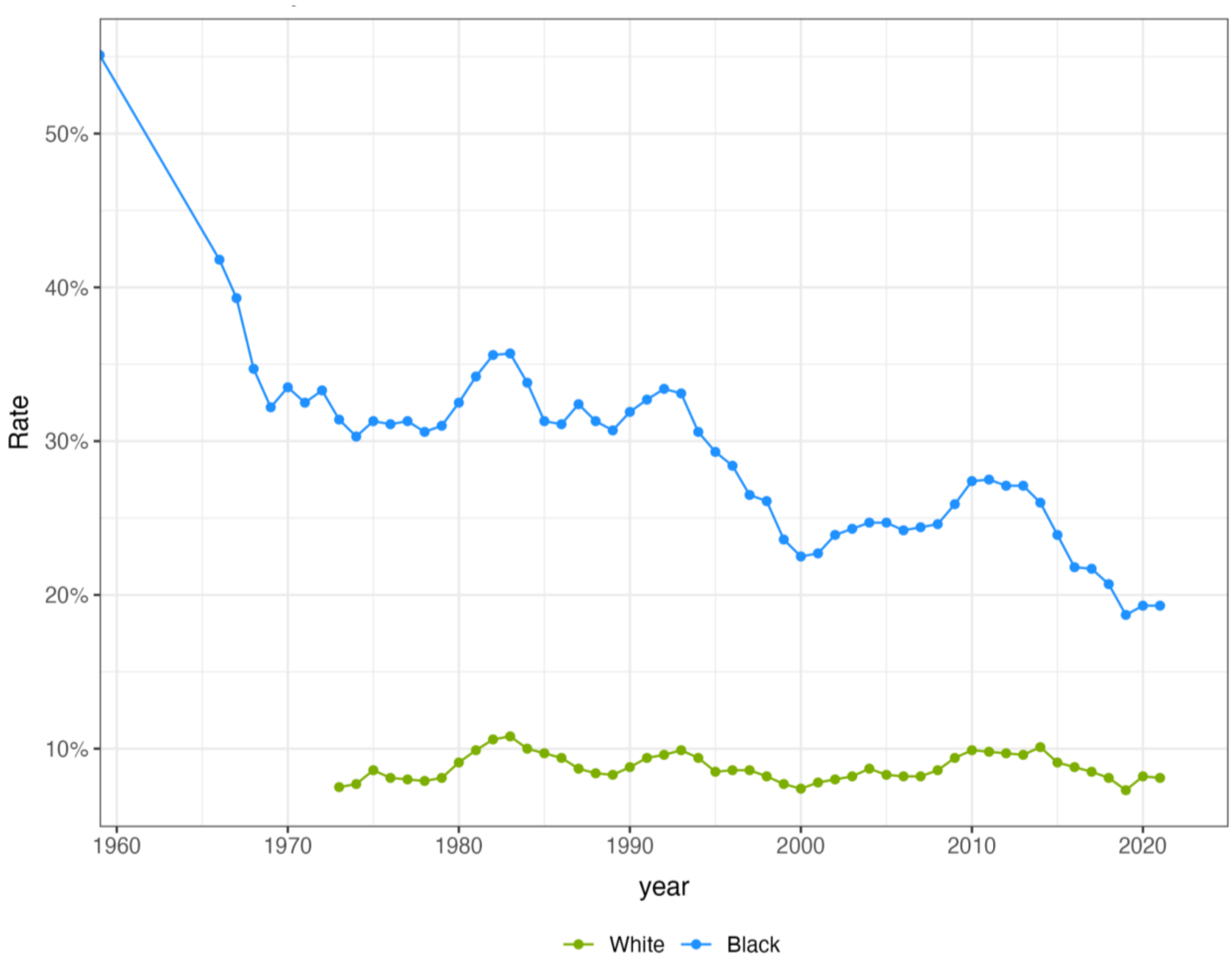

Figure 11: Official Poverty Rate, by Race, 1959 to 2021
Note: Data for population, white non-Hispanic, Black alone or in combination, from Table 2. Poverty Status of People by Family Relationship, Race, and Hispanic Origin, CPS ASEC

Broad reductions in poverty rates, but no change in the Black-White poverty differential from 1980-present:

The story of race and poverty in the U.S. post-1980 is two-fold. First, poverty rates among both Black and White households have continued to decline substantially over this time period when using the supplemental poverty measure (SPM) to measure poverty, a measure that includes the impact of government benefits on a household's resources. Second, the overall rate of decline for Black poverty has been greater: the ratio of Black to white poverty rates went from 2.85 in 1980 to 2.22 in 2019. These patterns are shown in Figure 12, though the decline has not always been continuous. During recessions, Black poverty rates rise more than those of White families. More recently, the child tax credit, unemployment insurance, and stimulus payments introduced during the COVID-19 pandemic caused an acceleration in the convergence of Black and White poverty rates. This is apparent in the relatively sharp drop in Black poverty at the far right of Figure 12.

Several researchers have assessed trends in poverty over the past four decades using the SPM, which incorporates the value of various types of near-cash, in-kind benefits, and tax credits into measurements of household income to determine a family's poverty status.[109] One study separates the evolution of poverty for Black and White families with children into three periods: 1980 to 1992, 1992 to 2002, and 2002 to 2014. From 1980-1992, the authors calculate a moderate decline in the SPM for Black and White households, but almost no change in the Black-White poverty differential.[110] They show government transfers to Black families increased more than transfers to White families during this period, but this was offset by a slight increase in the Black-White earnings gap among families in poverty. Interestingly, they show that the safety net for White families was more likely to operate through work-related benefits, such as the Earned Income Tax Credit (EITC), Unemployment Insurance (UI), and workers compensation, while the safety net for Black families was more likely to come from programs like Aid to Families with Dependent Children (AFDC), the Supplemental Nutrition Assistance Program (SNAP, formerly food stamps), and housing assistance.[111]

[109] Wimer, Christopher, et al. "Trends in Poverty with an Anchored Supplemental Poverty Measure." (2013); Nolan, Laura, et al. "Trends in Child Poverty by Race/Ethnicity: New Evidence Using an Anchored Historical Supplemental Poverty Measure." Journal of Applied Research on Children 7.1 (2016): 3.; Sullivan, D. H., & Ziegert, A. L. (2021). Family Poverty in Black and White: Results From a New Poverty Measure. The Review of Black Political Economy, 48(4), 410–454.

[110] There was a severe economic recession in 1980, and the following decade of the Reagan administration featured cuts to federal spending on social programs, slow economic growth, and a meteoric rise in incarceration rates, which disproportionately affected Black men (Smith and Welch 1987).

[111] Sullivan, D. H., & Ziegert, A. L. (2021). Family Poverty in Black and White: Results From a New Poverty Measure. The Review of Black Political Economy, 48(4), 410–454. https://doi.org/10.1177/00346446211006152

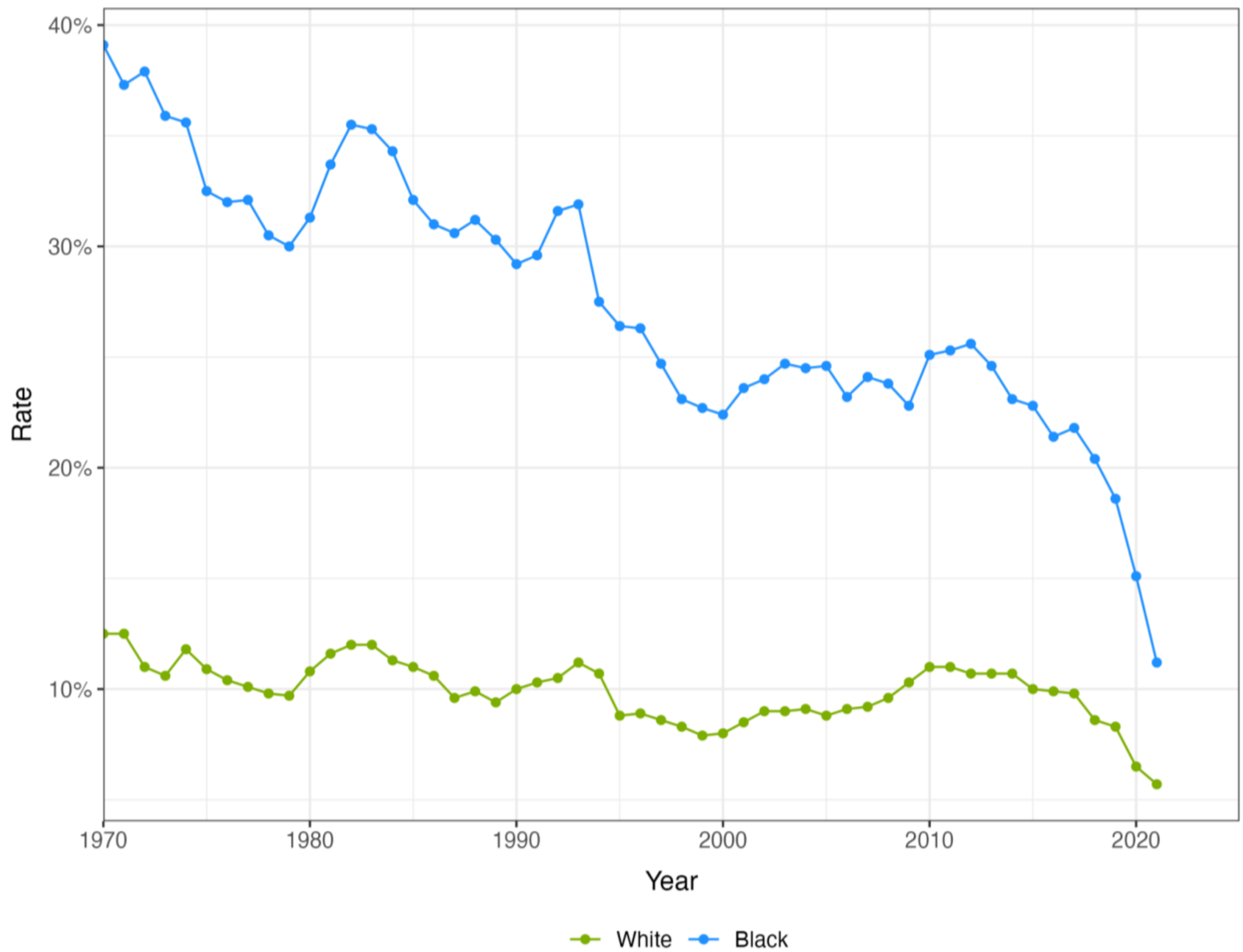

Figure 12: Historical Supplemental Poverty Measure Poverty Rate by race, 1970-2021

Note: Data for historical SPM poverty rate, Black non-Latino, white non-Latino, from Center on Poverty & Social Policy at Columbia University

During the 1990s, the changing thrust of the social safety net— including the emphasis of welfare reform on work subsidies and discouragement of in-kind transfers—is reflected in the nature of poverty rate decreases. In both the official poverty measure (OPM), which uses a much narrower concept of income to determine poverty status, and in the SPM, a steep decline in the Black poverty rate resulted in a reduction in the Black-White poverty gap. The decline in the official poverty measure reflects the fact that earned income, wages, and hours worked among Black households all rose significantly, bolstered by a tight labor market and historically low unemployment rates.[112] Consistent with federal and state trends in welfare reform, there has been a substantial decline in the likelihood of receiving TANF and SNAP and in the total amount received by both Black and White families. However, the negative effect of this benefit reduction on total family income has been offset by a positive effect of the expansion of the EITC, which had a substantial effect on poverty during this period.[113] Over the 1990s, both Black and White families experienced increases in the EITC, but compared to white families, the fraction of Black families receiving EITC credit increased by 9 percentage points, while the fraction of white families receiving it increased by less than 1 percentage point, helping to explain the reduction in the Black-White poverty gap.

Comparing the official poverty rate and the SPM during the Great Recession provides further insight into how the social safety net offset negative labor market outcomes for low-income families, and how this translated into a smaller Black-White poverty differential despite the recession. During the recession, there was a 5.5 percentage point increase in poverty rates when calculated using the official poverty measure, but a 0.6 percentage point *decrease* when calculated using the SPM, which, again, captures the additional effects of the social safety net. For White households, there was a 2-percentage point increase in the official poverty measure, and a 0.6 percentage point *increase* in the SPM. The closing gap between Black and White poverty during this period is, in part, driven by the disproportionate eligibility of Black families for SNAP and housing assistance, and an expansion in UI eligibility.

Overall, this evidence demonstrates how the social safety net might have the capacity to partially offset the labor market consequences of weak economic conditions in a way that also reduces gaps in Black and White poverty rates. Unfortunately, there is also a growing body of research documenting racial inequality in the eligibility for, and the receipt of, benefits targeted to low-income families, and unemployment insurance, which keeps these programs from reaching their

[112] Gould, Elise, and Jessica Schieder. "Poverty persists 50 years after the Poor People’s Campaign: Black poverty rates are more than twice as high as white poverty rates." (2018).
[113] Nichols, Austin, and Jesse Rothstein. "The earned income tax credit." Economics of Means-Tested Transfer Programs in the United States, Volume 1. University of Chicago Press, 2015. 137-218.

full anti-poverty potential.[114] Taken together, the patterns suggest that there is room yet to expand the scope of such transfers and further reduce poverty rates and eliminate disparities in poverty between Black and White households.

Trends in Child Poverty

During the period between 1970 and 2014, there has been a long-term reduction in the gap in poverty rates experienced between Black and White children. Though the poverty rate for Black children is higher than that of White children throughout, using the official poverty measure, the poverty rate declines 6% for Black children and increases 0.6% for White children. Similarly, when the SPM is used, the poverty rate declines by 27% for Black children and by only 8% for White children. Researchers argue that the antipoverty role of government transfer programs has grown for both groups of children.[115] When looking at the more recent period, from the early 1990s to 2019, the change in poverty for Black and White Children is much more similar, and the ratio of Black and White poverty rates in 2019 was 2.8, almost the same as it was in 1993. This evidence reveals significant progress in reducing child poverty rates over the past 50 years, although disparities in poverty rates between Black and White Children have proven harder to address during the latter half of that period.

Some observers note the rise in non-marital fertility among Black households, particularly from the 1960s onward, as a potential driver of elevated poverty among Black households. The relationship is potentially more complex, symptomatic of larger underlying factors that shape dating and marriage trends, including mass incarceration and labor discrimination.[116] And, even

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[114] Kuka, Elira, and Bryan A. Stuart. *Racial Inequality in Unemployment Insurance Receipt and Take-Up*. No. w29595. National Bureau of Economic Research, 2021.
Hardy, Bradley L., Rhucha Samudra, and Jourdan A. Davis. "Cash assistance in America: The role of race, politics, and poverty." *The Review of Black Political Economy* 46, no. 4 (2019): 306-324.
[115] Nolan, Laura, et al. "Trends in Child Poverty by Race/Ethnicity: New Evidence Using an Anchored Historical Supplemental Poverty Measure." Journal of Applied Research on Children 7.1 (2016): 3.
[116] Wilson, W.J., Neckerman, K.M., 1986. Poverty and family structure: the widening gap between evidence and public policy issues. In: Danziger, S.H., Winberg, D.H. (Eds.), Fighting Poverty: What Works and What Doesn't. Harvard University Press, Cambridge, pp. 232–259.
Ellwood, D., Crane, J., 1990. Family change among black Americans: what do we know? Journal of Economic Perspectives 4, 65–84.
Darity Jr., W., Myers, S.L., 1995a. Family structure and the marginalization of black men: policy implications. In: Tucker, M.B., Mitchell-Kernan, C. (Eds.), The
Decline in Marriage Among African Americans. Russell Sage Foundation, New York, pp. 263–308.

as welfare reform was predicated, in part, on promoting two-parent family formation, recent evidence suggests that the link between family structure and children's subsequent educational attainment–an important economic mobility indicator– may be weak or nonexistent among Black families.[117]

Income Inequality and the Top of the Income Distribution

The recent literature on income inequality has increasingly focused on the concentration of income at the very top of the distribution. For example, the top 1% of households had much higher income growth than other households, going from earning 10% of all income in 1980 to earning 20% of all income in 2014.[118] Contributing factors include higher demand for the labor of college-educated workers, which led to wage growth, declines in working-class wages due to increased trade and declining unionization rates, and declining marginal tax rates on higher-income households.[119]

This growth in top incomes led to increased Black-White income gaps, as White households were more likely to begin this period among the top earning households and were therefore better-poised to enjoy the skewed growth at the top of the income distribution. By the year 2000, analysis of IRS administrative data finds that more than 90% of every dollar earned by the top 1% went to White households, even though White households made up only 75% of the population. By contrast, of the money earned by the top 1%, less than .1% went to Black households, even though they were nearly 10% of households in the population. By 2014, the White share of top 1% earnings had decreased slightly, and the share earned by Black households had increased slightly, but the gap in representation among the top 1% percent

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Darity Jr., W., Myers, S.L., 1995b. Changes in black family structure: implications for welfare dependency. American Economic Review 73, 59–64

117 Cross, Christina J. "Racial/ethnic differences in the association between family structure and children's education." Journal of Marriage and Family 82.2 (2020): 691-712.

118 Blanchet, Thomas, Emmanuel Saez, and Gabriel Zucman. *Real-time inequality*. No. w30229. National Bureau of Economic Research, 2022.

119 Katz, Lawrence F., and Kevin M. Murphy. "Changes in relative wages, 1963–1987: supply and demand factors." The quarterly journal of economics 107.1 (1992): 35-78.; Autor, David H., David Dorn, and Gordon H. Hanson. "The China shock: Learning from labor-market adjustment to large changes in trade." Annual review of economics 8 (2016): 205-240.; Farber, Henry S., et al. "Unions and inequality over the twentieth century: New evidence from survey data." The Quarterly Journal of Economics 136.3 (2021): 1325-1385.; Alvaredo, Facundo, et al. "The top 1 percent in international and historical perspective." Journal of Economic perspectives 27.3 (2013): 3-20.

remained tremendous.

Since 2014, incomes for households at the median or below have grown at about the same rate as income among the top percent, ending decades of unequal growth. The concentration in income at the top that emerged since 1980, however, remains intact, as does an overrepresentation of White households at the top, relative to Black households. One study that focused on households with children found that in 2018 that only 2% of Black households earned enough to be among the top 10% of all household incomes, and almost no Black households (less than one-tenth of 1%) were found among the top 1% of households. In contrast, 13% of White households were among the top 10% of all households, and 1.4% were among the top 1% of all households, meaning they were overrepresented among the rich and ultra-rich.[120]

The COVID-19 Pandemic

As was the case with employment and wages, the rebound in incomes during the pandemic recovery has been more equitable across racial groups than in prior economic downturns. Figure 13 shows how incomes fell and recovered during the COVID-19 recession and the Great Recession. During the Great Recession, White incomes recovered more quickly, and it took Black incomes nearly nine years to catch back up, in relative terms. By contrast, the relative drop and rebound of incomes were very similar for Black and White households during the COVID-19 recession, and, furthermore, the pre-recession levels of income were reached again in only two years. The more equitable recovery owes partly to the higher-than-average growth in incomes among lower wage workers in a so-called “tight” labor market, combined with the fact that Black workers were more likely to be in those jobs. As compared to our earlier discussion of wages, the broader concept of income also includes capital income, or income generated from asset and equity ownership, which likely generated disproportionate gains for White households. The two forces appear to balance out, leaving the income paths for Black and White households aligned during the two years following the onset of the pandemic.[121]

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[120] Calculations using data from Chetty, Raj, et al. "Race and economic opportunity in the United States: An intergenerational perspective." The Quarterly Journal of Economics 135.2 (2020): 711-783.
[121] Blanchet, Thomas, Emmanuel Saez, and Gabriel Zucman. Real-time inequality. No. w30229. National Bureau of Economic Research, 2022.

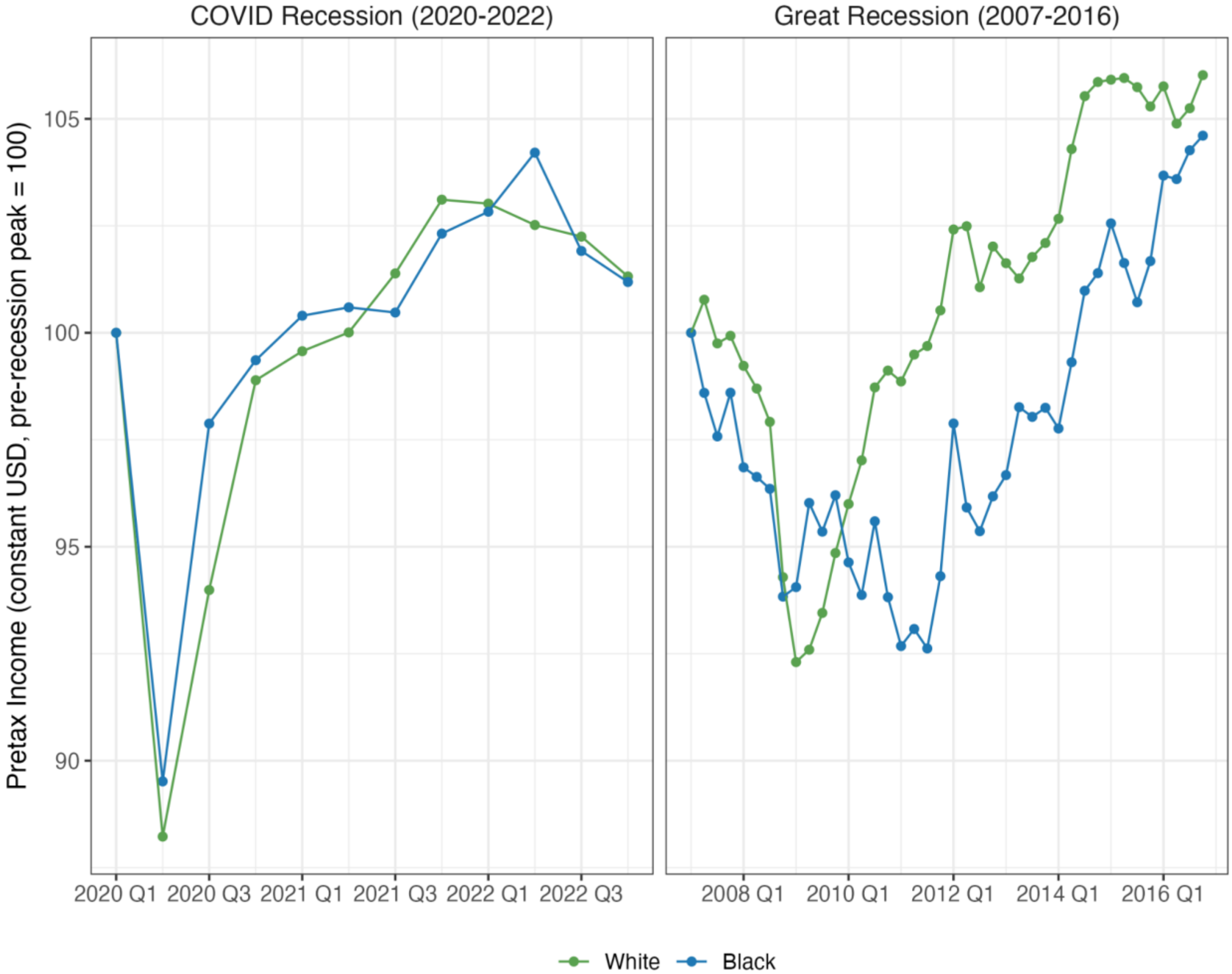

Figure 13: Income Dynamics by Race: COVID-19 vs. Great Recession

Note: Figures from Blanchet et al. 2022, measure pre-tax income, using the distributional national accounts

Turning to households with the lowest incomes, a breakthrough in reducing racial disparities in poverty rates was achieved during the COVID-19 pandemic. A growing literature on the expansion of the Child Tax Credit (CTC) during the coronavirus pandemic found that the program led to a historic decline in child poverty across racial groups. One study estimated that the CTC lifted 6 million children out of poverty when it was introduced in June 2021.[122] The poverty rate among Black children fell from 22.2% to 18.4%, translating to approximately

[122] Parolin, Zachary, Sophie Collyer, Megan Curran, and Christopher Wimer. Monthly poverty rates among children after the expansion of the Child Tax Credit. No. 20412. Center on Poverty and Social Policy, Columbia University, 2021.

420,000 fewer Black children in poverty. The poverty rate among White children fell from 10.5% to 7.7%, which meant approximately 1 million fewer White children in poverty. Black and White disparities in child poverty would likely have reduced even more if access had been more equalized across these families: White children's families were more likely to have filed taxes in the prior year, making them more likely to automatically receive the first CTC payment. At the end of this policy experiment, Black children still had a poverty rate twice as large as White children, and with the expiration of this version of the CTC at the beginning of 2022, the gap is likely to revert back to its pre-pandemic level.

Policy Discussion

Household income and the inequality therein, especially in the case of after-tax income, can be significantly impacted by policy. For households in the middle of the income distribution and lower, wages and salary comprise the greatest share of income. As such, the proposals discussed in our previous section related to inequality in wages, employment, and other labor market outcomes continue to apply. Inequality in household income can be addressed through antidiscrimination laws, minimum wage policies, robust labor protections, including support for collective bargaining efforts, and progressive tax reforms. Below we discuss additional policies that target outcomes at the extremes of the income distribution, near the bottom and near the top.

Child Allowances and the Extended Child Tax Credit

Child allowances are cash transfers given to families based on the number of children they have. In the U.S., the primary form of cash support for children with families comes in the form of tax credits such as the Child Tax Credit (CTC) and the Earned Income Tax Credit (EITC), which are partly refundable. However, both require recipients to work and/or have taxable income. In 2021, the temporary extension to the CTC provided a fixed cash transfer for each child, for people with incomes below a specific amount. Families were able to claim the credit even if they had no earnings, which made the policy a true child allowance. During that period, it is estimated that child poverty decreased significantly and disproportionately for Black children. Because of fears that it would give parents an incentive to work less, this version of the credit expired at the beginning of 2022. However, the anti-poverty impacts of the policy and its potential to address racial gaps in poverty rates might easily outweigh such concerns.

Guaranteed Income

In one sense, the extended version of the Child Tax Credit (CTC) provided a minimum amount of income for any child whose household income falls below a certain threshold and can therefore be thought of as a guaranteed income during childhood. In general, a guaranteed income provides an income floor for all, children and adults alike, creating a cash safety net for families. There has been increasing discussion of guaranteed income policies, such as so-called Universal Basic Income (UBI) proposals, which are a form of guaranteed income that provides enough for households to meet their basic needs and remain above the poverty line. In the U.S., one state currently has a universal guaranteed income program – Alaska. Once a year, all residents, including children, receive a payment – the Alaska Permanent Fund Dividend – that has averaged near $1,000 historically. One criticism of guaranteed income programs is that they may discourage employment, although multiple studies fail to find any strong evidence of this in the Alaska context.[123] More recently, a number of guaranteed income pilots have emerged in cities and states across the U.S., with no less than 46 currently underway or completed.[124] The impact of a guaranteed income program on Black households will depend on the design of the program and its eligibility requirements, but at a general level, a program that provides an income floor will have its largest impact on households with lower incomes, and this is currently a group where Black households are disproportionately present.

Taxing the Rich

As it stands, the U.S, income tax system is generally progressive: After taxes and transfers, household incomes become less unequal than at baseline. However, there may be key ways to further reduce after-tax income inequality. A more progressive tax code is likely to also reduce inequality between Black and White households, given their relative positions within the overall distribution of income. Policy reforms include raising the marginal tax rate on incomes in the highest tax bracket, which has the potential to reduce the amount of income concentrated at the

[123] Jones, Damon, and Ioana Marinescu. "The labor market impacts of universal and permanent cash transfers: Evidence from the Alaska Permanent Fund." American Economic Journal: Economic Policy 14.2 (2022): 315-40.; Bibler, Andrew and Guettabi, Mouhcine and Reimer, Matthew, Universal Cash Transfers and Labor Market Outcomes (March 21, 2019).
[124] https://mashable.com/article/cities-with-universal-basic-income-guaranteed-income-programs

top.[125] However, in order for progressive tax credits, such as the Earned Income Tax Credit (EITC), to have their full impact on racial inequality, they also need to be made accessible. For example, a recent study by the U.S. Treasury found that among the very lowest income households, White taxpayers were significantly more likely to receive this credit than Black taxpayers.[126]

In addition, capital income, such as the gains from owning assets that appreciate in value or dividends paid to shareholders, is currently taxed at lower rates than income earned through wages and salary. Moreover, the taxes for this income are not paid until the gains are "realized," that is, not until owners of the shares sell their holdings. In the interim, their earnings are able to grow and compound before being taxed. Both these factors work in combination to yield lower effective tax rates for recipients of capital income. One analysis found that these rules mean that the wealthiest 400 households, who receive the majority of their income through these channels, are effectively only paying tax rates between 6% and 12%, much lower than what they would pay if they earned their money through their labor.[127] Again, the current treatment of capital income tends to favor richer households that are also more likely to be White households than Black households, and thus is likely to widen Black-White income gaps. In the same Treasury study mentioned above, it was found that this preferential tax treatment is primarily enjoyed by households in the top 5% of income, and, among that group, significantly more by White households.[128] One way to more fairly tax capital income would be to raise tax rates on capital income to be the same as the tax rates levied on other forms of ordinary income.

Another source of inequality by income and across racial groups is the extent to which different households are able to evade taxes and the extent to which the IRS enforces tax compliance for

[125] Piketty, Thomas, Emmanuel Saez, and Stefanie Stantcheva. 2014. "Optimal Taxation of Top Labor Incomes: A Tale of Three Elasticities." American Economic Journal: Economic Policy, 6 (1): 230-71.
[126] Cronin, Julie-Anne, Portia DeFilippes, and Robin Fisher. "Tax Expenditures by Race and Hispanic Ethnicity: An Application of the U.S. Treasury Department's Race and Hispanic Ethnicity Imputation." Office of Tax Analysis Working Paper 122. January 2023
[127] https://www.whitehouse.gov/cea/written-materials/2021/09/23/what-is-the-average-federal-individual-income-tax-rate-on-the-wealthiest-americans/
[128] Cronin, Julie-Anne, Portia DeFilippes, and Robin Fisher. "Tax Expenditures by Race and Hispanic Ethnicity: An Application of the U.S. Treasury Department's Race and Hispanic Ethnicity Imputation." Office of Tax Analysis Working Paper 122. January 2023

these households. Income earned through wages and salary are typically reported to the IRS directly by the employer, and it is estimated that as much as 99% of the taxes owed on this income is paid. Meanwhile, for certain types of capital and business income, the tax compliance rate is between 85% and 45%.[129] Higher income households achieve this by making use of very sophisticated methods of shrouding their income, including the use of shell businesses or offshore accounts.[130]

Though this suggests that tax evasion is a much larger issue for higher income households, IRS enforcement is disproportionately targeted at lower income tax files. A recent report combed through IRS data and found that audit rates for low-income households receiving the EITC were the same as the audit rates for the top 1% of households, despite the fact that the scope for evasion and the amount of dollars evaded is likely to be much greater in the latter group. The report also found that these targeted audits were more likely to be in poor, rural, southern counties with high shares of Black residents.[131] Recent research also found that after being audited, these families are less likely to claim tax credits in the future for which they may qualify and are less likely to have wage employment. Moreover, another study found that within the group most targeted by audits—EITC recipients—Black tax filers are three to five times more likely to be audited than non-Black filers with similar characteristics, especially single Black men with dependents.[132] These disparities effectively reshuffle the financial and psychic burden of the tax system toward lower income households and in particular toward Black tax filers. Refocusing the IRS on these larger scale cases could help to improve economic and racial equity by increasing funding for the IRS, so it can pursue higher income tax evaders.

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[129] https://www.irs.gov/pub/irs-pdf/p1415.pdf

[130] Guyton, John, et al. Tax evasion at the top of the income distribution: theory and evidence. No. w28542. National Bureau of Economic Research, 2021.

[131] https://www.propublica.org/article/irs-now-audits-poor-americans-at-about-the-same-rate-as-the-top-1-percent

[132] Elzayn, Hadi, Evelyn Smith, Thomas Hertz, Arun Ramesh, Jacob Goldin, Daniel E. Ho, and Robin Fisher. “Measuring and Mitigating Racial Disparities in Tax Audits.” Stanford Institute for Economic Policy Research Working Paper. January 2023.

Summary

As we have seen, the relative paths of Black and White household incomes have followed similar trends to those of the relative wages of the two groups. The greatest period of convergence coincided with the so-called Great Compression following World War II and the Civil Rights Era, followed by a protracted period of stagnant Black-White gaps in income, beginning in the 1980s. Though the trends have been similar, the overall gap in household income is larger than that of wages, owing to the fact that capital income is included in addition to wages, and White households tend to receive more capital income. A steadier progress is present in the case of poverty rates. Black poverty rates began at a significantly elevated level compared to those of white households in the late 1950s, and there has been a steady decline in this gap over time. Nonetheless, the Black poverty rate remains nearly twice that of White households. Finally, we see that in terms of presence among the very top of household incomes, there is the greatest disparity between Black and White households, with the former nearly nonexistent among those ranks and latter significantly overrepresented.

Wealth Inequality

From Income to Wealth

Wealth disparities should be examined separately from wage and income disparities for many reasons. Wages and income impact a family's ability to meet day-to-day expenditures and can feed into a family's ability to accumulate wealth through savings and investment of income. Wealth, however, provides additional benefits beyond those provided by stable wages and income. Having wealth can provide a protective cushion, helping families weather economic shocks such as unexpected unemployment or inability to work due to adverse health events.[133] Such safety nets may also reduce stress and anxiety.[134]

[133] Ganong, Peter, et al. Wealth, race, and consumption smoothing of typical income shocks. No. w27552. National Bureau of Economic Research, 2020.
[134] Braveman P, Acker J, Arkin E, et al. Wealth Matters for Health Equity. Robert Wood Johnson Foundation; 2018.

Wealth also provides access to opportunity. Households with greater wealth are better able to afford homes in neighborhoods with better schools, lower crime, and fewer environmental and health stressors.[135] Ironically, wealthier households may find it easier to borrow and access credit at lower interest rates and a lower down payment. The risks associated with entrepreneurship can be less costly for higher wealth individuals who have more of a cushion to fall back on should their businesses not succeed. And wealth may also provide access to beneficial social networks.

Moreover, while income provides an account of the net change in resources for an individual or household over a given time interval—say a month or a year—wealth captures the accumulation of income and savings over longer periods of times, including over one's lifetime, and reflects the number of resources a person may have inherited a birth or later in life. For all these reasons, no account of economic inequality is complete without an examination of racial disparities in wealth.

Box: What is Wealth?

While wealth can be defined in many ways, the economic definition of wealth typically refers to net worth – or assets (the value of what someone owns) minus liabilities (the value of what someone owes). That last part is why a person who owns an $80,000 car but has a $70,000 car loan would have a lower net worth than someone who owned a $20,000 car outright.

Assets can include financial assets such as cash, bank account balances, investments in stocks or bonds, certificates of deposit, retirement accounts; property such as land, a house, and other buildings; and personal property such as vehicles, jewelry, and art or other collectibles.

Liquidity refers to how easily an asset can be converted to cash. Liquid assets like cash and bank deposits can be easily used for economic exchanges, while illiquid assets like real estate and collectibles take longer to convert to cash and can lose value during the conversion process. Other assets like stocks, and certificates of deposit fall in between these two extremes.

Liabilities on the other hand, can include mortgage debt, credit card debt, student loan debt, medical debt, and any other types of outstanding debt.

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[135] Hoffman, Jeremy S., Vivek Shandas, and Nicholas Pendleton. "The effects of historical housing policies on resident exposure to intra-urban heat: a study of 108 US urban areas." Climate 8, no. 1 (2020): 12.

"Is That a Typo?": The Black-White Wealth Gap

In 2015, researchers, led by a team at the Boston Federal Reserve released a report called "The Color of Wealth in Boston"[136] that estimated the median net worth for White households in Boston was $247,500 while the median net worth for U.S. born Black households was a mere $8. The figures were so disparate that when media outlets reported on it, some readers thought the $8 figure must be a typo.[137] It was not.

While the wealth gap in other cities and nationally may not be as stark as the gap reported in Boston, there is still a pattern of significant differences in Black-White wealth. In Miami, in 2019, researchers estimated the median net worth for White households at $107,000 and for U.S. born Black households at only $1,200.[138] In Washington, D.C., in 2013 and 2014, the figures were $284,000 for White households and $3,500 for Black households[139], and in Los Angeles in 2016, $355,000 for White households and $4,000 for U.S. born Black households.[140]

Nationally, the median wealth of White households was nearly 10 times that of the median wealth of Black households ($171,000 compared to $17,409) in 2016.[141] By 2019, the gap had not narrowed. White median household net worth was $188,200 while Black median household net worth was $24,100.[142] Similarly to income differences, wealth differences are often measured using the median as opposed to the average difference since very high income or wealth households can skew the average. However, racial differences in average wealth are also informative as they give us a picture of both overall wealth inequality (a few high wealth households at the top pulling the average up) as well as inequality between racial groups. In

[136] https://www.bostonfed.org/publications/one-time-pubs/color-of-wealth.aspx
[137] https://www.bostonglobe.com/metro/2017/12/11/that-was-typo-the-median-net-worth-Black-bostonians-really/ze5kxC1jJelx24M3pugFFN/story.html
[138] https://socialequity.duke.edu/portfolio-item/the-color-of-wealth-in-miami/
[139] https://www.urban.org/research/publication/color-wealth-nations-capital
[140] https://www.frbsf.org/community-development/publications/special/the-color-of-wealth-in-los-angeles/
[141] https://apps.urban.org/features/wealth-inequality-charts/
[142] https://www.federalreserve.gov/econres/notes/feds-notes/disparities-in-wealth-by-race-and-ethnicity-in-the-2019-survey-of-consumer-finances-20200928.html

2019, White households had an average wealth of $983,400 compared to $142,500 for Black households.[143]

Relating these differences in wealth to differences in income, the wealth gap is starker than the income gap. For example, in 2018, the median income for Black households was about 57% of the median income for White households ($40,000 compared to $70,000), however the median Black household's wealth was only 10% of the median White household's wealth.[144] Further, there is a substantial wealth gap at every point along the income distribution. Although the ratio between Black and White wealth improves as we move up the income distribution, median White net worth is still about twice that of median Black net worth among the highest 20% of income earners.[145]

Trends over Time

The Black-White wealth gap has persisted over many years. A team of economists constructed a continuous measure of White to Black wealth ratios in the U.S. from 1860 to 2020, compiled from multiple historic and contemporary sources.[146] For example, they digitized 50 years of state tax reports and benchmarked their estimates against multiple established data sources. For the contemporary data, they relied heavily on the Survey of Consumer Finances. Figure 14, produced using this comprehensive dataset, demonstrates differences in Black and White wealth over time.

While Black wealth has never really come close to White wealth, there have been periods of convergence over time. The greatest convergence between Black and White wealth occurred during the first 40 years after emancipation. From 1870 to 1900, the annual convergence rate—

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143 Ibid

144 Hardy, Bradley L., and Trevon D. Logan. "Racial economic inequality amid the COVID-19 crisis." The Hamilton Project (2020).

145 Darity Jr., William, Darrick Hamilton, Mark Paul, Alan Aja, Anne Price, Antonio Moore, and Caterina Chiopris (2018). "What We Get Wrong about Closing the Racial Wealth gap." Report. Samuel Du Bois Cook Center on Social Equity and Insight Center for Community Economic Development

146 Derenoncourt, Kim, Kuhn, Schularick (2022). "Wealth of two nations: The U.S. racial wealth gap, 1860-2020." Working Paper

the difference in the annual growth rates of Black and White wealth—was about 2.5%, while from 1900 to 1930 it was only 0.3%.

Between 1960 and 1980 there was another period of increased convergence—an annual rate of about 1.5%—as Black wealth grew. However, after 1980 the trend of convergence began to reverse: Actually, the Black-White wealth gap grew larger between 1980 and 2020, driven mainly by a growing gap in income growth rates between White and Black households that allowed White households to save more, and dramatic increases in the returns to stock market investments that favored White households who were more likely to own those types of assets.[147]

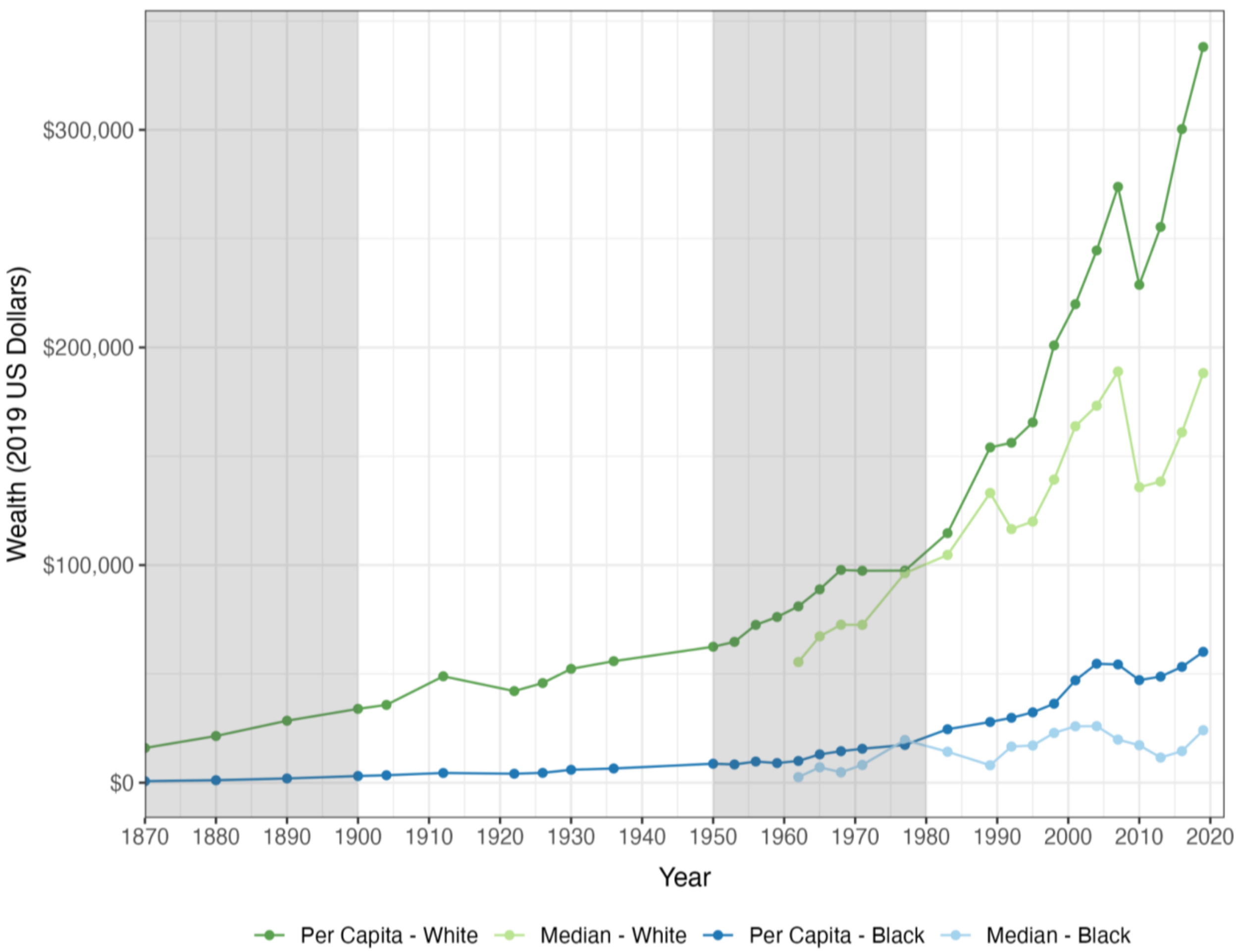

Figure 14: Per Capita Wealth, 1870 to 2019, and Median Wealth, 1962 to 2019, by Race
Note: Data on per capita wealth come from Derenoncourt, Kim, Kuhn, & Schularick, M. (2022), median data up to 2016 are from Kim, Kuhn, and Schularick (2020), and 2019 median wealth data are from Hernández, Kent, and Ricketts (2020)

[147] Derenoncourt, Kim, Kuhn, Schularick (2022). p. 18.

Explaining Racial Wealth Gaps

There are many factors that could contribute to the observed patterns of Black-White wealth gaps in the U.S. over the 20th century. As is the case when explaining differences in wages and labor market outcomes, there are theories that focus on individual behaviors, such as whether there are differences in average savings rates between Black and White households, or whether there are differences in investment portfolio allocations that bring greater returns for White investors than Black investors. Black households are also discriminated against in lending markets, housing markets, and other arenas that create hurdles to wealth accumulation that White households are less likely to face. Additionally, it is plausible that differences in individual behaviors can themselves be the result of rational responses to current or past discrimination.

The strongest research in this area indicates that, while there are some individual factors that may contribute to Black-White wealth gaps, they do not fully account for the enormity of the wealth gap. Therefore, structural factors such as discrimination may play a direct role in maintaining racial wealth differentials and may also play a proximate role in racial differences in some of the individual factors.

Savings, Investment, and Debt

One way wealth is accumulated is through savings and investments, and through avoiding debt. Thus, if Black households save less on average, receive lower returns for their investment portfolios, and/or incur more debt, these could be explanations for observed disparities in wealth accumulation between Black and White households.

In one study, researchers explored patterns of wealth accumulation using a longitudinal sample of households, tracking them in the Panel Study of Income Dynamics (PSID) from 1984 to 1994. By observing households over time, one can estimate what part of wealth growth is due to inheritances or intergenerational transfers, what part is due to differences in savings behavior, and what part is due to differences in returns on investments. The study found that inheritances contributed to 14% of the wealth accumulation for White households and only 3% for Black households. The researchers also found that White households saved about 7.6% of family income while Black families saved about 3.9%. However, given that savings tend to increase with income, and the average income of the Black families in their study is a little more than half of the average income of the White families in their study, these savings rates are possibly skewed by income differences. And when researchers account for these differences in income, the savings rates are no longer significantly different between racial groups.[148]

Aside from savings, portfolio allocation can have an impact on wealth accumulation. Black households are more likely to hold housing wealth, while White households are more likely to hold business equity. For this reason, periods with relatively higher stock market gains tend to widen racial wealth gaps while periods with relatively higher housing market gains tend to narrow racial wealth gaps. This difference in portfolio allocation may have played a key role in the divergence in the wealth gap from the 1980s onward since stock market gains over that period greatly outpaced housing market appreciation.[149]

Black families are also more likely to be unbanked or underbanked, relying on alternative financial services such as payday loans and check cashing services. Over 16% of minority families and only 3% of White families are unbanked. In 2015, about 31% of Black families and 16% of White families were underbanked. Being unbanked or underbanked can significantly impact wealth accumulation since alternative financial services often charge exorbitant fees and the lack of a bank account is also associated with disconnection from financial services and savings and investment.[150]

Finally, debt plays an important role in wealth accumulation. Higher levels of debt directly offset asset values in the calculation of net worth. Additionally, carrying debt can be associated with burdensome financing charges and interest payments that further inhibit a debtor's ability to save, invest, and otherwise grow wealth. Research by the Federal Reserve Bank of New York on racial

[148] Gittleman, Maury, and Edward N. Wolff. 2004. “Racial Differences in Patterns of Wealth Accumulation.” Journal of Human Resources XXXIX (1): 193–227. https://doi.org/10.3368/jhr.XXXIX.1.193.
[149] Derenoncourt, Kim, Kuhn, Schularick (2022)
[150] Barcellos, S., & Zamarro, G. (2021). Unbanked status and use of alternative financial services among minority populations. Journal of Pension Economics and Finance, 20(4), 468-481.

differences in debt indicates that Black individuals are more likely than their White counterparts to hold student loan debt by the time they are 30 years old, but they are less likely to hold consumer debt, mortgage debt, or auto debt.[151]

Higher levels of student loan debt for Black households reflects the fact that Black students are less likely to receive help paying for college from parents or grandparents than White students, partly because their parents and grandparents likely have less wealth than those of White students.[152] Racial disparities in student loan debt are particularly relevant to racial wealth gaps since differences in education levels are often indicated as a potential cause for racial wealth gaps and, therefore, an area for potential solutions.

Education and Earnings

Researchers often home in on education as a key explanatory factor when studying racial wealth differences. They theorize that higher education can lead to higher income, better savings and investment decisions, and, therefore, better wealth accumulation. The implication then becomes that the wealth gap would narrow if Black Americans had higher educational attainment. One part of this theory holds up empirically: Black households with higher levels of education tend to have higher levels of wealth. Median net worth for a Black household with only a high school diploma was $14,000 in 2019, while for those with a college degree, it was $51,000. The catch is that this pattern holds even more strongly, in absolute terms, for White households, for whom median net worth goes from $115,000 to $298,000 when moving from a high school to college degree.[153] As shown in Figure 15, the Black-White wealth gaps grows larger at each additional level of educational attainment. So, while it is true, that if we were to hold White educational levels constant, and increase Black educational levels, the racial wealth gap would shrink, this would not completely close the gap. In fact, if all Black households had the median wealth of

[151] https://libertystreeteconomics.newyorkfed.org/2021/11/uneven-distribution-of-household-debt-by-gender-race-and-education/

[152] Addo, Fenaba R., Jason N. Houle, and Daniel Simon. "Young, black, and (still) in the red: Parental wealth, race, and student loan debt." Race and social problems 8, no. 1 (2016): 64-76.

[153] Kent, Ana Hernández, and Lowell Ricketts. "Wealth Gaps between White, Black, and Hispanic Families in 2019." Federal Reserve Bank of St. Louis On the Economy Blog (2021).

Black households with advanced graduate degrees—$115,000—they would only reach the median wealth level of White households with only a high school degree.

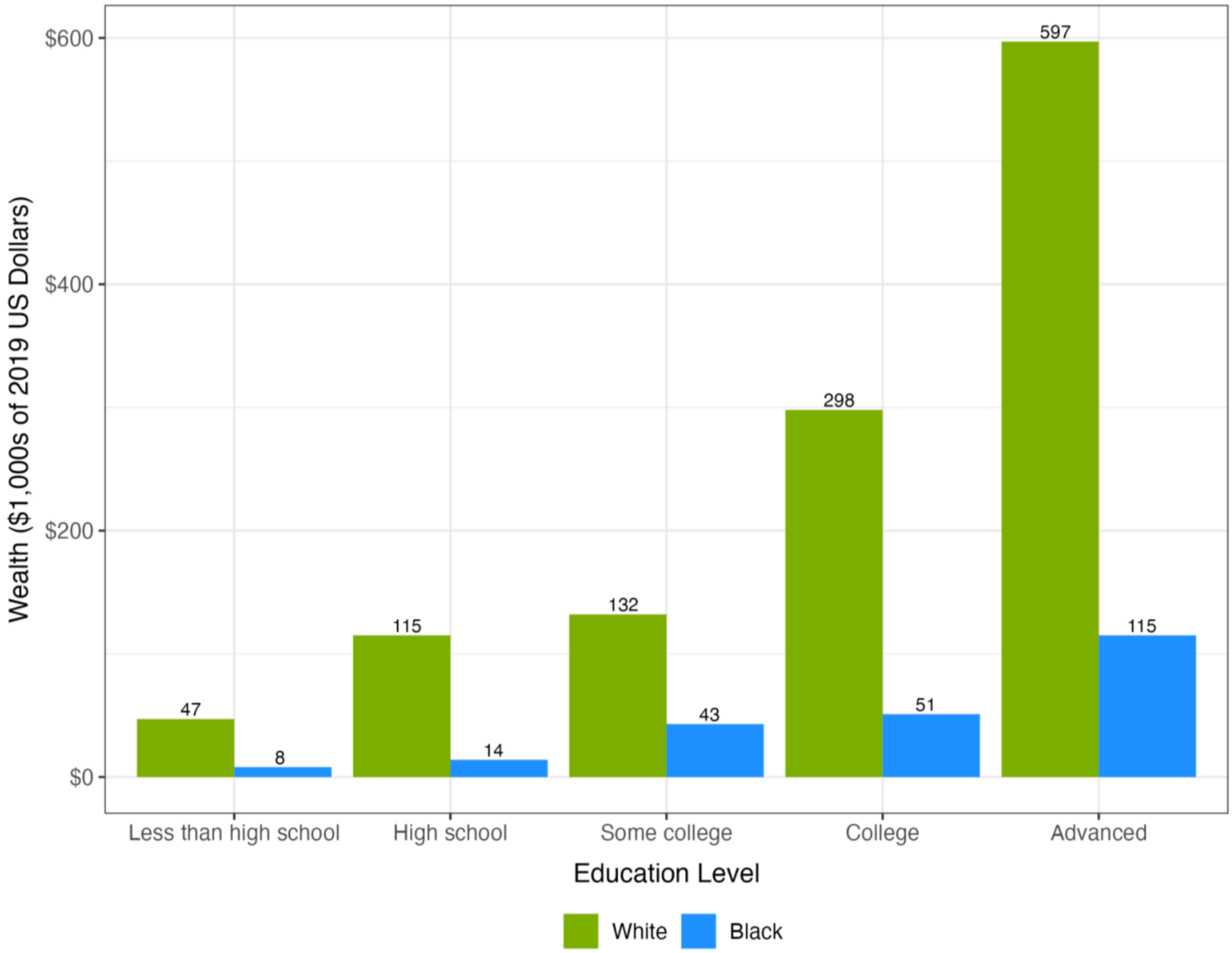

Figure 15: Median Household Wealth in 2019 dollars, by Education and Race
Note: Data on median household wealth come from Kent and Ricketts (2021)

As a result, the Black-White wealth gap is significantly larger among the college educated and beyond.[154] One key factor is that educational attainment creates more debt for Black households than for White households. Therefore, the boost to wealth from college attendance goes farther for White households than for Black households.[155] In addition, White college graduates generally come from households that are far wealthier than Black college graduates and are thus

[154] What We Get Wrong about Closing the Racial Wealth gap." Report. Samuel Du Bois Cook Center on Social Equity and Insight Center for Community Economic Development
[155] Houle, Jason N., and Fenaba R. Addo. "Racial disparities in student debt and the reproduction of the fragile black middle class." Sociology of Race and Ethnicity 5, no. 4 (2019): 562-577.

more likely to receive inheritances and wealth transfers that further increase the racial wealth gap among college graduates.[156]

Part of the racial wealth gap is also attributable to income differences. Higher earning individuals may have more disposable income to save and invest and are less likely to have to rely on debt to finance aspects of their lives. In a 2002 study, researchers estimated how much of the Black-White wealth gap was due to racial differences in earnings versus other factors. They find that differences in earnings can explain up to two-thirds of the Black-White wealth gap.[157] Differences in trends in income growth also help to explain trends in Black-White wealth gaps. Between 1870 and 1980, Black incomes grew between 0.45 and 0.6 percentage points faster than White incomes, but at about the same rate as White incomes after 1980. In turn, the Black-White wealth gap decreased before 1980, but began to diverge again thereafter.[158] As we discussed in the section on labor markets, wages, and earnings, there are both structural factors (like discrimination) and individual factors (like education choice) that contribute to differences in earnings. These factors, by extension, also contribute to differences in wealth since earnings differences make up a significant portion of the wealth gap.

While individual characteristics like savings, investment decisions, educational attainment, and earnings may explain some of the racial wealth gap, there is a significant portion that remains unexplained. According to simulations calibrated to real wealth data across racial groups, when any one of these individual components is targeted, it would take decades to close the racial wealth gap.[159] In fact, in one simulation, researchers estimated that to close the racial wealth gap by the year 2050, Black households would have to earn double the return on investments that White households earn, or have six times the savings rate of White households, or have income

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156 https://www.urban.org/urban-wire/however-you-measure-it-parents-white-college-graduates-are-about-10-times-wealthier-their-black-counterparts

157 See Barsky, Robert, John Bound, Kerwin Charles, and Joseph Luptow. (2002). "Accounting for the Black-White Wealth Gap: A Nonparametric Approach." *Journal of the American Statistical Association.* Note, there are numerous studies which take a decomposition approach similar to this, the so-called Kitigawa-Blinder-Oaxaca method. These studies find a wide range of answers to the question of how much of the wealth gap can be explained by observable differences across racial groups, with results that are highly sensitive to methodological assumptions.

158 Derenoncourt, Kim, Kuhn, Schularick (2022). P. 24

159 Gittleman and Wolff (2004).

growth four times as fast.[160] Under current economic conditions and with current racial economic disparities in income and employment, these types of individual, behavior-based solutions will not feasibly bring about a complete close to the racial wealth gap.

Intergenerational Wealth and Structural Discrimination

From the date of Emancipation, Black households were at a significant disadvantage with regards to wealth accumulation. While the relatively small share of Black Americans who were free prior to the Civil War had accumulated some wealth and property, the vast majority of Black Americans were formerly enslaved with virtually no property or wealth at the time of Emancipation. Estimates suggest that in 1860, five years prior to Emancipation, Black Americans owned 2 cents for every dollar of White wealth. In 1870, five years after Emancipation the figure increased to a little over 4 cents for every dollar.[161] The gap at Emancipation was so large, simulations suggest that even if Black households had the same savings rates and the same return on those savings as White households from 1870 onward, White households would still have three times the wealth as Black households in 2020.[162]

In the face of this sizable wealth gap, Black families accumulated land and property at a rapid pace. In 1875, Black families owned 3 million acres of land; by 1890 they had acquired 8 million acres; and by 1910, they owned over 16 million acres.[163] By 1920, the Black-White wealth gap had narrowed such that Black Americans owned about 10 cents to every dollar of White wealth.[164] Black land wealth, however, peaked in 1910, and over the course of the 20th century, Black agricultural land owners lost over 90% of their land, largely through violent, fraudulent, and discriminatory means. One study estimated the value of Black land lost from 1920 to 1997 as worth over $326 billion in 2020— or roughly 10% of total Black wealth.[165] Even if Black households were able to retain the land they accumulated in the early 20th century, a sizable Black-White wealth gap would still remain. The wealth gap that emerged post-Emancipation is

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[160] Derenoncourt, Kim, Kuhn, Schularick (2022). P. 24
[161] Derenoncourt, Kim, Kuhn, Schularick (2022). p. 10.
[162] Derenoncourt, Kim, Kuhn, Schularick (2022). P. 24
[163] Francis, Dania V., Darrick Hamilton, Thomas L. Mitchell, Nathan A. Rosenberg, and Bryce Wilson Stucki. “Black Land Loss: 1920 - 1997” AEA Papers & Proceedings, 112, (2022) 38-42.
[164] Derenoncourt, Kim, Kuhn, Schularick (2022). p. 10.
[165] Francis et al. (2022)

formidable and has been passed down intergenerationally through inheritances, gifts, and access to opportunities. Black households are significantly less likely to receive inheritances and gifts from family members. One study estimates that these intergenerational transfers may account for about 12% of the Black-White wealth gap.[166]

Quite the opposite of receiving inheritances or gifts, Black households are more likely to provide informal financial support to family members in need.[167] Because they have less wealth to fall back on, in times of financial hardship Black households are more likely to seek financial assistance from friends and family. Those friends and family members, in turn, often provide the support, even when they do not necessarily have resources to spare.[168] In fact, Black workers who lend informal financial support to friends or family are more likely than White workers to draw down on their retirement savings in order to provide that support. Further, there is evidence that they then save at even higher rates to try to get back to their initial retirement wealth position before they had to pay early withdrawal penalties.[169]

Finally, there is ample evidence, contemporary and historical, that Black households face additional hurdles to wealth accumulation in the form of discrimination in mortgage lending markets[170] and real estate markets,[171] and as agricultural land owners[172] and small business owners.[173] Moreover, many of the middle-class wealth-building policies of the 20th century,

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166 McKernan, Signe-Mary, et al. (2014). "Do racial disparities in private transfers help explain the racial wealth gap? New evidence from longitudinal data." Demography 51.3: 949-974.

167 Chiteji, S., N., and Darrick Hamilton. (2002). Family Connections and the Black-White Wealth Gap among Middle-Class Families. The Review of Black Political Economy, 30(1), 9–28.

168 Toney, J., and D. Hamilton. 2021. “Economic Insecurity in the Family Tree and the Racial Wealth Gap.” Available at SSRN: https://ssrn.com/abstract= or http://dx.doi.org/10.2139/ssrn.3397222.

169 Francis, Dania V., and Christian E. Weller. "Interfamily Financial Dependence and Retirement Savings." The Journal of Retirement 9, no. 4 (2022): 73-90.

170 Charles, Kerwin and Erik Hurst. (2002). “The Transition to Home Ownership and the Black-White Wealth Gap.” The Review of Economics and Statistics

171 https://projects.newsday.com/long-island/real-estate-agents-investigation/

172 Francis, Dania V., Darrick Hamilton, Thomas L. Mitchell, Nathan A. Rosenberg, and Bryce Wilson Stucki.
“How the Government Helped White Americans Steal Black Farmland.” The New Republic, May 5, 2022. https://newrepublic.com/article/166276/black-farm-land-lost-20th-century-billions

173 Howell, Sabrina T and Kuchler, Theresa and Snitkof, David and Stroebel, Johannes and Wong, Jun, Automation in Small Business Lending Can Reduce Racial Disparities: Evidence from the Paycheck Protection Program (July 19, 2022). Available at SSRN: https://ssrn.com/abstract=3939384 or http://dx.doi.org/10.2139/ssrn.3939384

such as the GI Bill, homeownership support, and subsidization of suburbanization, excluded African-Americans.[174,175] In summary, both individual and structural causes contribute to Black-White wealth gaps, and the types of causes are often intertwined. Any policy solutions aimed at closing the racial wealth gap will have to take both the individual and the structural causes into account.

The COVID-19 Pandemic

There is reason to believe that the economic conditions brought on by the COVID-19 pandemic could potentially widen the Black-White wealth gap. As previously noted, the pandemic created a more volatile labor market situation for Black workers. In addition, Black households suffered disproportionately high death rates and long-term disability. Morbidity, enduring illness and disability had a financial impact due to reductions in household income and increased liabilities brought on by healthcare costs.[176] On the other hand, there is also evidence that Black workers have had a relatively strong labor market recovery. And the social safety net response during the pandemic has been more generous than in past economic downturns.

The net effects of these developments on the racial wealth gap are hard to predict, and our most comprehensive measures of wealth are not frequent enough to track these changes in real time. Nonetheless, there are some data sources that provide a glimpse into the evolution of wealth across racial groups during the coronavirus pandemic. Evidence suggests that White households had more liquid wealth with which to offset pandemic-related economic shocks, while Black households had less liquid wealth and had to rely on other means to weather the economic downturn—such as informal financial support from families, drawing down their retirement savings, and government social safety net programs.[177]

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[174] Katznelson, Ira. *When affirmative action was white: An untold history of racial inequality in twentieth-century America*. WW Norton & Company, 2005.
[175] Rothstein, Richard. *The color of law: A forgotten history of how our government segregated America*. Liveright Publishing, 2017.
[176] Hardy, Bradley L., and Trevon D. Logan. "Racial economic inequality amid the COVID-19 crisis." The Hamilton Project (2020).
Khanal, Kalpana, Sophia Prouty, and Thomas Stedman. "Will COVID-19 worsen the racial wealth gap in the United States?" Journal of Economic Issues 55, no. 2 (2021): 499-508.
[177] Francis, Dania V., and Christian E. Weller. “Interfamily Financial Dependence and Retirement Savings.” Journal of Retirement, 9, no. 4 (2022) 73-90. https://doi.org/10.3905/jor.2022.1.109.

The gap in liquid assets is also apparent in an analysis by the JPMorgan Chase Institute, a think tank that tracks financial outcomes for customers and can look separately by the race of the customer in three states -- Florida, Georgia, and Louisiana. This allows a view into the household balance sheets of different households at a high frequency. In general, they found that all households experienced an increase in cash balances in their bank accounts during the first year of the pandemic. This was due to increased income flows from more generous unemployment insurance, the Paycheck Protection Program (PPP), and stimulus payments, and also lower spending by households during periods where economic activity became depressed. Black households began the pandemic with lower average checking account balances, and experienced smaller increases, in absolute terms, as compared to White households. However, in relative terms, Black households saw a greater proportional increase in checking account balances during this period. In January 2020, the median Black checking account balance was 45% of the median White account balance. By April 2020, this had risen to 59%, and by December 2020, this ratio had trended back down to 51%.[178]

An alternative approach to tracking financial outcomes during this period would be to look at the level and types of assets and liabilities held by different households in 2019. Then, one could use aggregate information on the values and returns on these different asset and liability classes over time to project an estimate of net worth for different groups in subsequent time periods. In one such study, researchers found that higher returns on stocks and equities, relative to housing wealth, mean that White households, who hold more of the latter, likely experienced higher returns to their wealth during the first year of the pandemic.[179]

A similar analysis is carried out as a part of the Distributional Finance Accounts (DFA), created by researchers of the Federal Reserve Bank System. According to DFA projections, there was a slight closing of the racial wealth gap during the first two years of the COVID-19 pandemic. In

[178] Greig, Fiona, and Erica Deadman. "Financial Outcomes by Race During COVID-19." JPMorgan Chase & Co Policy Brief June (2021).
[179] Kartashova, Katya and Zhou, Xiaoqing, Wealth Inequality and Return Heterogeneity During the COVID-19 Pandemic (November 1, 2021). FRB of Dallas Working Paper No. 2114, Available at SSRN: https://ssrn.com/abstract=3967802 or http://dx.doi.org/10.24149/wp2114

the first quarter of 2020, White households were estimated to hold 83.7% of total net worth in the U.S., while Black households were estimated to hold only 4.3%. By the second quarter of 2022, the White share had decreased slightly to 82.9%, while the Black share had increased to 4.6%. Although the racial wealth gap does not appear to have increased during this period, significant gaps that pre-dated the coronavirus pandemic remain. More accurate data for the Federal Reserve Bank's Survey of Consumer Finance are being collected during 2022 and will not be released until 2023.[180]

Policy Discussion

Explanations for racial wealth gaps often point to individual characteristics or typically inspire individually focused policy solutions. If differences in savings behavior, portfolio allocation, and debt load are seen as causes of racial wealth gaps, policymakers may seek solutions that encourage more savings, more financial literacy, and less reliance on credit and debt for Black households. However, given the evidence presented above that individual-focused explanations alone do not fully explain the racial wealth gap, individual-focused solutions alone will not be enough to close the racial wealth gap. Two major structural policy responses that have been proposed are baby bonds and reparations.

Baby Bonds

Baby bonds are a way to impart seed capital to every child at birth in the form of a publicly funded trust account that would mature when the child grows up. Once mature, the baby bond could be used to fund education, business ownership, home ownership, and other wealth-generating activities. In this way, the baby bond would be functioning the way wealth functions for children fortunate enough to be born into high-wealth families. With an eye toward equity, most baby bonds proposals involve a graduated endowment with those children who come from lower-wealth homes receiving a larger value in their trust accounts.[181]

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https://www.federalreserve.gov/releases/z1/dataviz/dfa/distribute/table/#quarter:131;series:Net%20worth;demographic:race;population:1,3;units:shares;range:2007.2,2022.2

181 Hamilton, Darrick, and William Darity Jr. "Can 'baby bonds' eliminate the racial wealth gap in putative post-racial America?" The Review of Black Political Economy 37, no. 3-4 (2010): 207-216.

As a universal program, baby bonds may be more politically feasible than other policy proposals that specifically target race, such as reparations. Eight states and the District of Columbia have passed baby bonds legislation to date.[182] While these policies are not directly targeted at Black children, current racial wealth gaps ensure that many children born into Black households would receive larger wealth endowments through the program than the average child. In a simulation study of a graduated baby bond of up to $50,000 based on household wealth from the Panel Study of Income Dynamics, one researcher estimated that the household wealth of a White child in the median family would go from 16 times greater that of a Black child in the median family ($46,000 compared to $2,900) to only 1.4 times greater ($79,143 compared to $57,845).[183]

Reparations

A more targeted program of wealth redistribution would entail reparations for Black Americans. In addition to redistribution, an important policy feature of a reparations program is an official, governmental acknowledgement of an event or series of events that imparted long-lasting harm onto members of a particular group or community, and their descendants. In the context of Black Americans, a reparations program would acknowledge that U.S. public policies had, and continue to have, deleterious impacts on Black people and communities. This impact requires a commitment to policy reforms aimed at redressing the harm. In their book, *From Here to Equality*, Darity and Mullen argue that the current racial wealth gap is the embodiment of centuries of racial harm inflicted upon Black Americans through slavery, Black Codes, Jim Crow laws, and other forms of state-sanctioned discrimination.[184] They argue that the size of the mean racial wealth gap—about $14 trillion—should be the basis of a program of reparations for Black Americans and that these payments would be the only policy measure capable of closing the racial wealth gap.

The team of economists who constructed the historic series of Black-White wealth data used to construct Figure 4a also ran policy simulations to see which policy solutions had the capacity to close the racial wealth gap. They find that a payment of $267,000 to every Black American

[182] https://www.urban.org/urban-wire/baby-bonds-gain-momentum-states-must-grapple-these-four-implementation-questions
[183] Zewde, Naomi. "Universal baby bonds reduce black-white wealth inequality, progressively raise net worth of all young adults." *The Review of Black Political Economy* 47, no. 1 (2020): 3-19.
[184] Darity Jr, William A., and A. Kirsten Mullen. From here to equality: Reparations for Black Americans in the twenty-first century. UNC Press Books, 2022.

descendant of an enslaved person would reduce the White to Black wealth ratio to 1.4. This was the only policy among the ones they investigated that had the capacity to meaningfully close the wealth gap in a reasonable time frame. Other changes, such as equalizing savings rates, changing portfolio allocations, and reaching parity in income growth would take over 200 years to close the wealth gap. They further find that a reparations program enacted without attention to those other individual-level factors would lead to a closing of the gap, but would also be followed by an eventual re-emergence of the gap.[185] This speaks to the importance of coupling a structural policy solution like reparations with individual-focused policy solutions and vice versa.

Summary

Racial wealth gaps have persisted over time through periods of slight convergence immediately after Emancipation and during the Civil Rights Era, and more recently, through a period of divergence from the 1980s to today. The effects of the COVID-19 pandemic on the Black-White wealth gap are yet to be determined. Larger wealth-reducing health and income effects for Black families may have been tempered by a favorable labor market recovery and government safety net programs. Wealth gaps are present at all income and education levels. There is some evidence that individual factors such as propensity to save and investment portfolio allocation may play a role in sustaining racial wealth gaps, but these factors alone are not sufficient to explain the size and persistence of racial wealth gaps. Structural factors like discrimination and the intergenerational transmission of wealth play a significant role. Any policy solutions aimed at decreasing racial wealth gap should take both factors into account.

Intergenerational Mobility

From One Generation to the Next

Our analysis so far has generally followed two groups, Black and White, using repeated snapshots of economic outcomes at different points in time. Disparities have waned during select periods, but in general have been persistent. This is partly due to a continuity in underlying conditions that contribute to inequality, but also because of the effect of past inequality on

[185] Derenoncourt, Kim, Kuhn, Schularick (2022). P. 24

present conditions. When a child's adult outcomes closely mirror the economic standing of their parents, this indicates intergenerational persistence in outcomes. Conversely, when adult social and economic status are largely independent from their parents' status, it indicates intergenerational economic mobility. A number of studies have tried to measure the extent of economic mobility in the U.S, for given cohorts, and its evolution over time—and in more recent cases—have compared economic mobility between Black and White households, by gender, and at the intersection of the two.

Box: Measuring Intergenerational Mobility

After a period of 70 years, Census data become public record, including the first and last names of respondents. Researchers can use these data to link names over time to learn about the economic status of parents and their children. A natural measure of intergenerational mobility is to compare the income or income rank of parents to their children, when their children become adults. An initial set of studies attempts to do just this, tracing as far back as the 19th century in the U.S. However, for very old Census surveys, income is not measured. In that case, researchers use the occupational status of parents and children, which are indicative of income rankings. Data limitations with this historical data can partially explain researchers' focus on White men in many intergenerational mobility studies; however, some researchers have overcome many of these data challenges in the Census and are able to measure mobility as far back as 1880. Others have sought alternative data where adults are asked about their own income and their parents' occupation, which allows for more representative measurement beginning in the 1910s. Finally, for more recent birth cohorts, after 1960, survey data that measure income and follow families over time, as well as administrative data from the IRS, have allowed for much more precise measurement of mobility. The survey data in this last case also allows researchers to see how wealth correlates between parents and their children.

Changes in Economic Mobility Over Time

Studies of intergenerational mobility that focus on White men have tended to find that mobility has been decreasing over time. That is, they find that one's parents' economic status matters more for one's adult outcomes today than they did, say, prior to World War II, with the greatest mobility observed prior to 1900.[186] However, a very different picture emerges when the data are expanded to include Black men, and Black and White women. One study comparing Black men to White men found large differences in a son's economic mobility: Black boys from households

[186] Song, Xi, et al. "Long-term decline in intergenerational mobility in the United States since the 1850s." Proceedings of the National Academy of Sciences 117.1 (2020): 251-258.

where the father has a low-income rank are much less likely to climb the income ladder as adults, compared to White children from similarly ranked households. In fact, in early periods, between 1880 and 1930, children from the worst-off White households could expect to have higher economic status than the Black children from the best-off Black households. During this period, between 68% and 85% of White sons grew up to exceed the occupational rank of their fathers, while for Black sons, those rates fell between 41% and 59%. These gaps continued through the 1970s, where the difference had changed little since 1900.

By the 1990s, the gaps in economic mobility between Black and White men began to shrink, but not completely. One implication of this differential mobility is that just closing the income gaps between parents at one point in time is not sufficient to lead to economic convergence. The dynamics of the U.S. economy results in Black children falling behind their White peers from similarly situated households.[187] A second result is that when Black men are included, given their very low levels of economic mobility in the early 20th century, researchers actually find that economic mobility today is higher than it was many decades ago, reversing findings that previously only studied White men.[188]

The narrative changes even more decisively in studies that also measure economic mobility for women, in particular, Black women. Historically, White women have been less likely to work outside the household. Black women have had much higher historic labor force participation rates than White women but have worked in agricultural and domestic industries that are less likely to be formally, statistically documented. Because of this, studies that include the economic mobility for women look at the family income of an adult and compare that to an estimate of the family income in the household when they were children. Even more so than Black men, Black women have particularly low-economic mobility historically: They are most likely to be in lower income households as children and as adults, which decreases overall measures of economic mobility. However, over time, economic mobility for Black women has improved. Thus, when researchers include Black men and women, along with White men and women, economic

[187] Collins, William J., and Marianne H. Wanamaker. 2022. "African American Intergenerational Economic Mobility since 1880." American Economic Journal: Applied Economics, 14 (3): 84-117.
[188] Ward, Zachary. Intergenerational mobility in American history: Accounting for race and measurement error. No. w29256. National Bureau of Economic Research, 2021.

mobility in the overall population goes from decreasing during the early 20th century to increasing.[189]

Income Mobility

More granular statistics on economic mobility by race have been produced for children born in the early 1980s. For this group, administrative IRS tax data are available, measuring the distribution of parent's income during these children's adolescence, and subsequently, the distribution of income for these children in adulthood. Because IRS data capture nearly the entire population, researchers are able to measure parents' and children's income rank down to the percentile. For this more recent group, researchers again find that Black children are less likely than their White counterparts to experience upward income mobility when growing up in lower-income households and are more likely to experience downward income mobility when growing up in relatively rich households. Figure 16 illustrates these patterns. The horizontal axis orders parents by their income percentile, and the vertical axis measures the average individual income ranking of children from these families when they become an adult.

Researchers have further separated this analysis by gender and have interpreted these data as showing that there is something unique about Black men: They lag behind White men in income mobility, while the same is not true for Black women when compared to White women. Note, however, that a different way to frame the same patterns is to note that there is a gender gap in mobility for White children, but not for Black children. And yet a third way to frame these results is to note that for a given parental income rank, White men are predicted to have higher adult income ranks than Black men, White women, and Black women, who have similar patterns of mobility. This last framing, a more intersectional one, allows for the most flexible approach to thinking about both racial and gender equity. Simply achieving parity between Black and White men, for example, would have the byproduct of increasing the gender gap in mobility.

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[189] Jácome, Elisa, Ilyana Kuziemko, and Suresh Naidu. Mobility for all: Representative intergenerational mobility estimates over the 20th century. No. w29289. National Bureau of Economic Research, 2021.

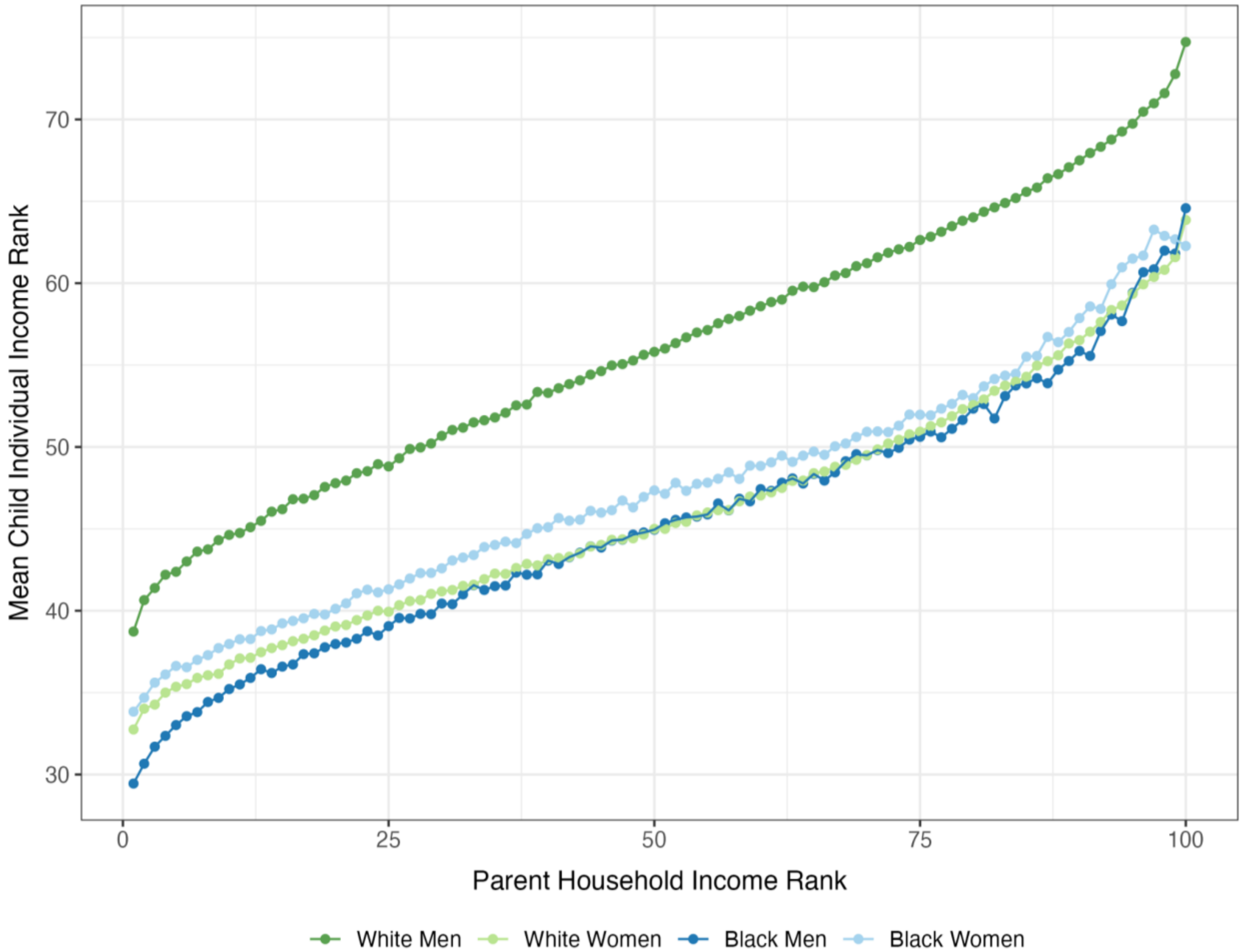

Figure 16: Mean Individual Income Rank by Parental Income Percentile, by Race and Gender

Note: Data come from Chetty et al. (2018)

It is also important to recognize that many of these children go on to form households of their own, and the children in this sample tend to marry partners of the same race. Thus, when we instead plot the household income rank for these children when they become adults, we see a Black-White income gap emerges for both men and women, as in Figure 17. The gap in economic mobility, that is the Black-White gap in adult incomes for children from similar parental backgrounds, is compounded by the fact that White children come from disproportionately richer households. The combination of the two suggest that Black-White incomes are not on any trajectory to converge given current intergenerational patterns.[190]

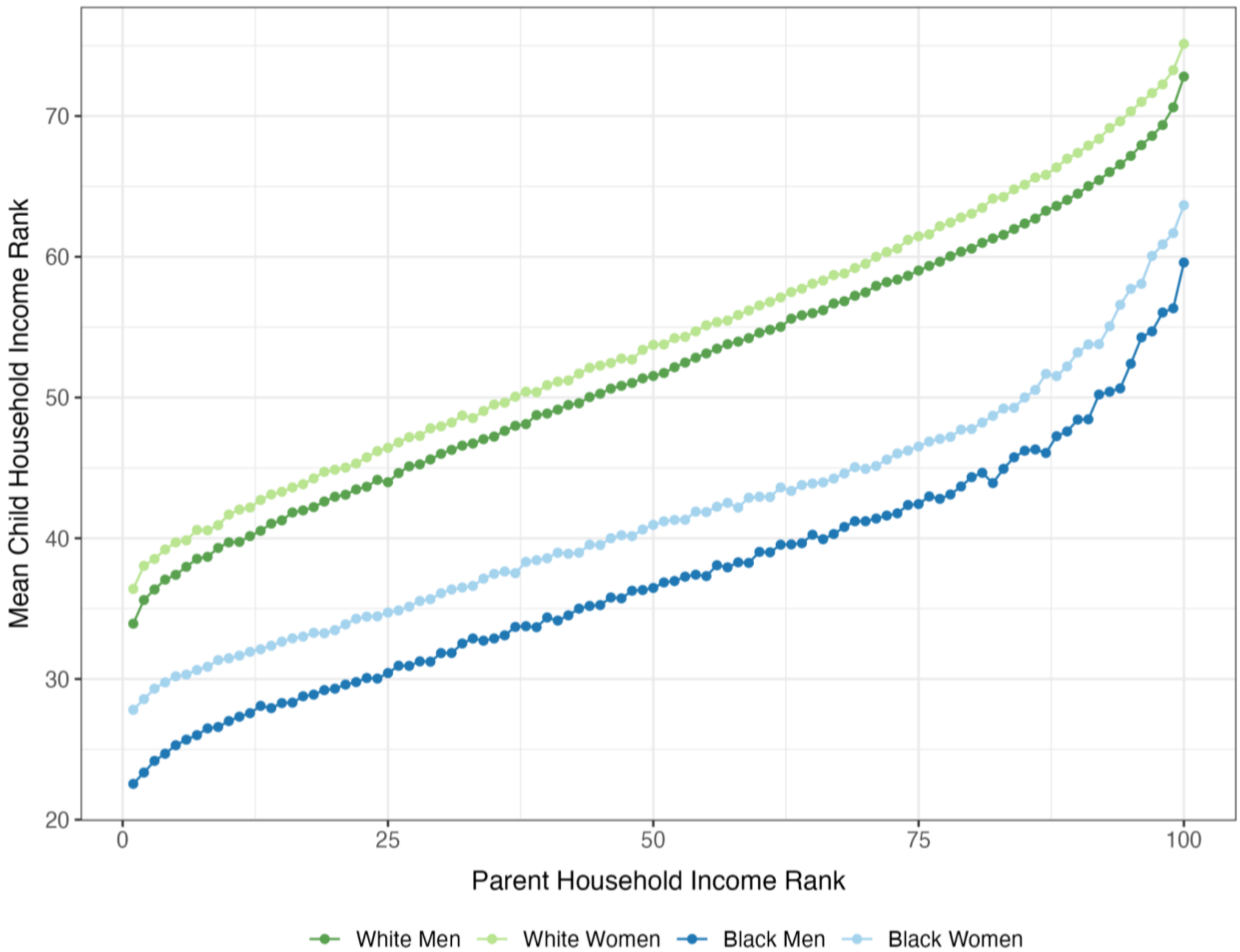

Figure 17: Mean Household Income Rank by Parental Income Percentile, by Race and Gender
Note: Data come from Chetty et al. (2018)

Multigenerational Poverty

As an extended measure of intergenerational economic mobility, researchers have tracked the poverty status for families from one generation to the next and continuing on to a third generation. What they have found is that the racial gaps in intergenerational income mobility

[190] Raj Chetty, Nathaniel Hendren, Maggie R Jones, Sonya R Porter, Race and Economic Opportunity in the United States: An Intergenerational Perspective, The Quarterly Journal of Economics, Volume 135, Issue 2, May 2020, Pages 711–783, https://doi.org/10.1093/qje/qjz042

described above persist across multiple generations. First, among a set of representative adults in 2019, 9% of White adults had a poor grandparent, defined as having income in the bottom 20%, while 59% of Black adults had poor grandparents. Between each generation, going from grandparent to grandchild, Black children were more likely to begin in the bottom 20%, were less likely to rise out of the bottom 20%, and were more likely to fall into the bottom 20% by adulthood. After two generations, the result is that only 3% of White adults had both a poor parent and grandparent, compared to 37% of Black adults. And, finally, only 1% of White adults had experienced three generations of low income in a row, compared to 21% of Black adults. What this means is that while there are poor White adults at any given point in time, their families will have moved in and out of poverty over the years, while a significant share of Black families are effectively trapped.[191]

Wealth Mobility

It has been possible, in more recent decades, to also track intergenerational mobility in wealth, and these patterns also demonstrate significant racial inequality across various measures of wealth. Researchers have compared the wealth of parents in 1984 to that of their children between 1999 and 2003. Wealth is a persistent state, both at the bottom and the top of the wealth distribution. Less than 10% of children with parents in the bottom 25% of wealth grow up to reach the top 25% of wealth in adulthood, while 55% of children born to parents in the top 25% of wealth remain at the top as adults. When comparing across racial groups, 12% of White children born with parents in the bottom 25% wealth group rise to the top 25% as adults, compared to only 7% for Black children. And 55% of White children born to parents in the top 25% wealth group remain in that group as adults, compared to only 37% of Black children raised in similarly wealthy households.[192]

A similar analysis looks at the relationship between grandparents and grandchildren, using homeownership as a key measure of wealth that can be reliably measured across long periods of time. Notably, for White grandparents who did not own a home in 1984, 56% of their

[191] Winship, Scott, et al. "Long shadows: The Black-white gap in multigenerational poverty." The Brookings Institution. Available at: Accessed July 20 (2021).
[192] Conley, Dalton, and Rebecca Glauber. "Wealth mobility and volatility in black and white." Center for American Progress (2008).

grandchildren owned homes between 2013 and 2015. Meanwhile, for Black grandparents who did own a home in 1984, nearly 60% of their grandchildren did not own a home between 2013 and 2015.[193]

Policy Discussion

One direct way of addressing the wealth that is passed on from one generation to next is to reform the tax treatment of estates, gifts, and inheritances. For those leaving behind wealth, these funds are taxed at much lower rates than other types of assets, and actually create a loophole that allows the wealthy to avoid a considerable amount of capital gains taxes. For recipients of the inheritance, there are no additional taxes paid. The result is that someone who works and earns their living faces higher tax rates than someone who lives off of inherited wealth, as much as a seven-fold increase in taxes. One proposal to increase parity in taxation and better level the playing field at birth is to instead institute an inheritance tax, which would tax wealth that is passed on in the same way that other forms of income are taxed.[194]

An inheritance tax may, in general, increase economic mobility by closing the gap in initial resources between children from more or less affluent households, and this could in turn improve racial differences in mobility, given that Black households are more likely to be born into lower-income or lower-wealth families. However, the evidence presented above also shows that for a given level of parental resources, Black children are less likely than White children to rise in the income or wealth ranks and are more likely to fall in the income or wealth ranks as adults. An inheritance tax may not necessarily alter these dynamics. This could be because differences in economic mobility are not solely driven by the direct wealth that is passed on from one generation to the next. Part of the persistence in outcomes between Black parents and their children is due to the persistence in the racist structures they face. Therefore, disrupting the passing on of resources from parents to children may not be a substitute for also uprooting systemic sources of racial hierarchy.

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[193] Fabian T Pfeffer, Alexandra Killewald, Generations of Advantage. Multigenerational Correlations in Family Wealth, Social Forces, Volume 96, Issue 4, June 2018, Pages 1411–1442, https://doi.org/10.1093/sf/sox086

[194] Batchelder, Lily L. "Leveling the playing field between inherited income and income from work through an inheritance tax." Tackling the Tax Code: Efficient and Equitable Ways to Raise Revenue (2020): 48-88.

In addition to policies that make it easier for Black families to relocate to places with more opportunity or resources, there is also utility in improving these families' ability to have more equitable distribution of resources in the places where they currently reside. As discussed above, there are states where Black residents make up a significant share of the population, particularly in the South, that are also more likely to have the least generous set of social safety net policies. In this case, efforts to disenfranchise Black residents, through gerrymandering, barriers to voting, restricted voting rights for the current and formerly incarcerated, and the like, allow for this apparent misalignment between the interests of Black constituents and the decisions of their elected officials. Efforts to expand the franchise, protect civil rights, and reinstate features of the Voting Rights Act that have historically allowed for greater oversight of disenfranchisement are paramount to disrupting the correlation between the Black share of a state's residents and the austerity of their social policies.

Summary

Early studies tracing economic mobility over time have been biased by the exclusion of Black men and Black and White women. Studies that rely only on data from White men typically find that economic mobility in the U.S. is decreasing over time. However, more recent data, incorporating Black men, Black women, and White women show increasing economic mobility over time, since mobility for those demographics was historically low. In addition, more recent studies point to an economic mobility advantage for White men relative to Black men, Black women, and White women. Compared to children born into White households, those born into Black households start off in lower-income households, exhibit lower levels of upward mobility, and greater levels of downward mobility over their lifetimes. These data also reveal different patterns by gender for Black children, which, as an aside, contradicts more simplistic theories that presume racial and gender differences can be studied in isolation, or dubious claims that a link between race and genetics drive these outcomes.

Similar patterns exist with respect to wealth mobility. Children born into low-wealth households are likely to have low levels of wealth as adults; children born into high-wealth households are likely to have high levels of wealth as adults; and Black children are less likely to exhibit wealth mobility than White children. Given these disparate patterns of generational mobility, the likelihood that Black-White income or wealth convergence will occur of its own accord is low. Bringing Black-White income or wealth to parity in any one group would not be sufficient to maintain income or wealth parity long term without addressing underlying causes of differential mobility patterns.

Race, Place, and Economic Outcomes

From City to City, From State to State

So far, we have examined racial disparities through a temporal lens, looking at how they have evolved linearly through time. However, there is also an important spatial dimension to racial economic inequality. Spatial differences in economic outcomes are driven in part by racial differences in the composition of the U.S. population, as well as historical differences in the industrial and occupation mix of opportunities available to workers.[195] The intersection of space, race, and inequality also influence local political attitudes and policy choices that, in turn, affect economic outcomes.[196] There is an additional historical dimension to understanding racial economic inequality, driven by regional inequality, and movements between regions over time. These differences are visible between states and regions, and between neighborhoods within a given city. Upon comparing these differences, race very often looms as a powerful factor predicting gaps in economic outcomes.

Race-based differences in economic outcomes can be traced to overtly racist policies. Some of these were themselves tied to location, such as redlining policies that governed where home mortgage loans to Black families would be prohibited. Moreover, the places today that are home to the greatest levels of segregation and poverty concentration were also sites of racialized violence against Black politicians during Reconstruction, and historical lynchings that targeted Black families and businesses. In the case of violence against Black politicians, past violence has

[195] Logan, Trevon, Bradley Hardy, and John Parman. "Long-run Analysis of Regional Inequalities in the US." Oxford Review of Economic Policy 37.1 (2021): 49-69.
[196] Williams, Jhacova A., Trevon D. Logan, and Bradley L. Hardy. "The persistence of historical racial violence and political suppression: Implications for contemporary regional inequality." The ANNALS of the American Academy of Political and Social Science 694.1 (2021): 92-107.

been tied to lowered social and educational investments. Today, at the state level, key policies that drive geographic inequality across racial groups include fewer labor market, economic, and social protections in states with a higher proportion of Black residents. This has stark implications for social and economic mobility for children, as location and geography drive much of the environment in which children live and develop.[197]

An important historical North-South difference in outcomes is tied to the adoption of slavery, which has been linked to higher levels of overall income and wealth inequality. Differences in economic outcomes across regions of the United States thereafter are driven by initial regional conditions with respect to policy choices, natural resources, demographics, and human migratory patterns. Income gaps emerge quickly between the South and North, due to a range of factors, including different levels of specialization across regions and differences in agricultural productivity. Other scholars trace the relative stagnation of the southern economy to losses from armed conflicts—the Revolutionary War and the Civil War—along with a relative disinvestment in public education and public goods. This disinvestment disproportionately affects Black Americans across generations, who are still today more likely to reside in southern states, as demonstrated in Figure 18 below, and these southern states are, in turn, home to some of the

[197] Williams, Jhacova A., Trevon D. Logan, and Bradley L. Hardy. "The persistence of historical racial violence and political suppression: Implications for contemporary regional inequality." The ANNALS of the American Academy of Political and Social Science 694.1 (2021): 92-107.

poorest counties in the country[198, 199]

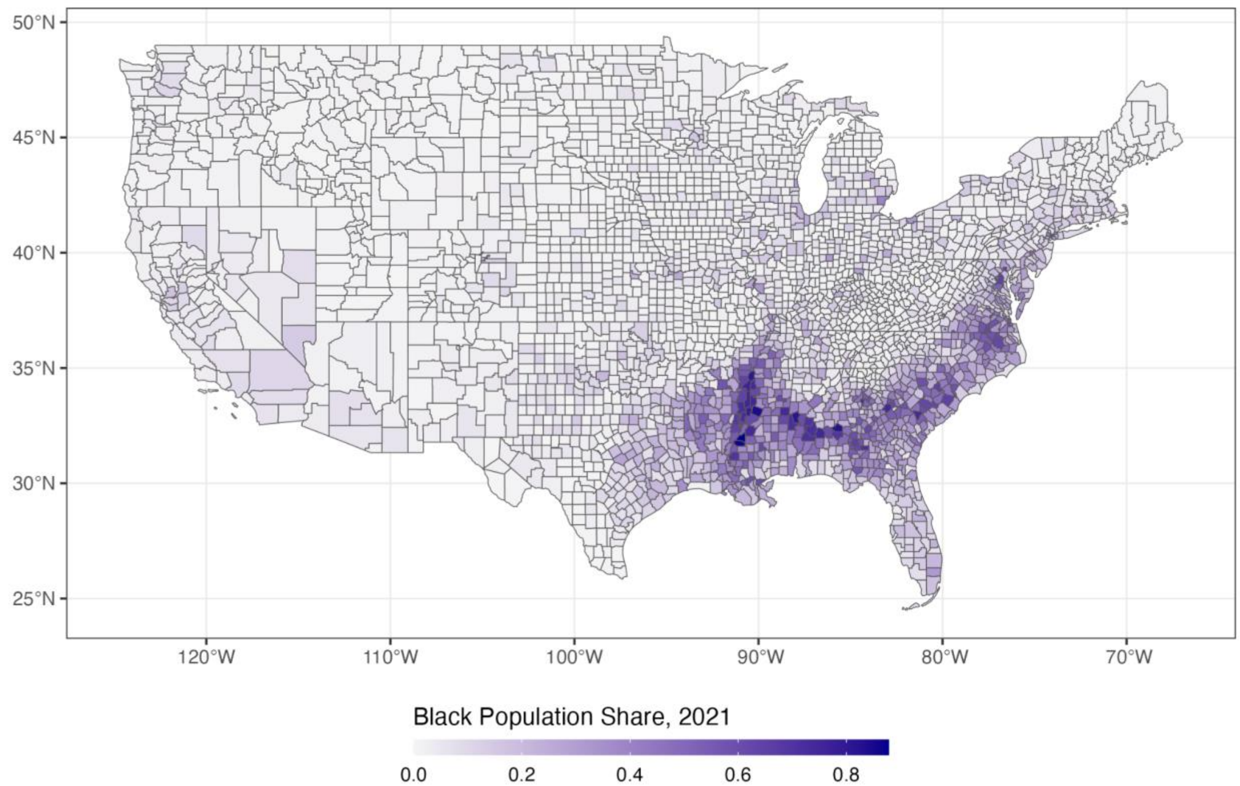

Figure 18: Black Population Share by County, 2021
Note: Figure based on Hardy et al. (2018), and data from U.S. Census Bureau

While southern states maintained their relative reliance on agricultural production throughout the 19th and 20th centuries, many Black workers and families migrated North as a part of the Great Migration. This massive exodus helped to reduce Black-White income inequality, but the overall

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[198] Lindert, P. H., & Williamson, J. G. (2013). American Incomes before and after the Revolution. The Journal of Economic History, 73(3), 725-765; Lindert, P. H., & Williamson, J. G. (2016). American colonial incomes, 1650–1774. The Economic History Review, 69(1), 54-77; Lindert, P. H., & Williamson, J. G. (2016). Unequal Gains: American Incomes since the 1600s. Princeton University Press.
[199] Islam, T. M. Tonmoy, et al. "On Persistent Poverty in a Rich Country." Southern Economic Journal, vol. 81, no. 3, 2015, pp. 653–78. JSTOR, http://www.jstor.org/stable/26160554. Accessed 18 Nov. 2022.

progress was partially offset by backlash in receiving communities. Even as Black households moved to more prosperous regions, they generally maintained their relatively lower position within the income distribution relative to their White counterparts; they also lived in communities with high levels of income and racial segregation. Thus, the progress from moving to these cities was offset by White flight disinvestment over time in the new urban centers that became home to many Black families.[200, 201]

Among those who moved into Rust Belt and Northeastern manufacturing cities, the arrival of Black migrants led to a reorganization of these cities. Specifically, Black families were concentrated within city centers, while White families responded by moving to suburban communities outside of cities.[202] Still, most Black families remained in the southern states. We are, today, in the midst of a reorganization of this basic stylized fact. Black families with low-to-moderate incomes are moving, or otherwise being displaced, into suburbs, concurrent with relatively affluent White families moving to the urban core. Looking back historically, Black Americans were affected by both the relatively higher poverty rates of the southern states, along with the isolation of residing in higher-poverty neighborhoods within midwestern and northern cities. As documented by the presidentially appointed Kerner Commission report that investigated civil disorders, this migration had mixed results for Black Americans' economic outcomes.[203]

Today Black families that have remained in or migrated back to the South are less likely to reside in states that provide labor market support, such as a state-level refundable Earned Income Tax Credit (EITC), minimum wages higher than the national level, or robust union protections. Moreover, these states have higher poverty and unemployment rates and also provide relatively less in cash assistance. The dynamics are directly related to the racial composition of these states

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[200] Logan, Trevon, Bradley Hardy, and John Parman. "Long-run Analysis of Regional Inequalities in the US." Oxford Review of Economic Policy 37.1 (2021): 49-69

[201] Derenoncourt, Ellora. 2022. "Can You Move to Opportunity? Evidence from the Great Migration." American Economic Review, 112 (2): 369-408.

[202] Marcus D. Casey, and Bradley L. Hardy. "The Evolution of Black Neighborhoods Since Kerner." RSF: The Russell Sage Foundation Journal of the Social Sciences, vol. 4, no. 6, 2018, pp. 185–205. JSTOR, https://doi.org/10.7758/rsf.2018.4.6.09. Accessed 18 Nov. 2022.

[203] US, President. "National Advisory Commission on Civil Disorders." Report of the National Advisory Commission on Civil Disorders (1968).

and of the welfare caseloads therein. Similar patterns emerge with respect to Unemployment Insurance (UI) policies. Post emancipation, state and local level policies were designed to restrict the social, political, and economic opportunities of Black households, especially in the South. This is facilitated by the tradition of fiscal federalism in the U.S., which decentralizes many core services that governments provide to their citizens. Thus, present-day policy choices and outcomes can be connected to these historical factors that are determined at a local level. Recent studies have drawn a connection among historical factors, including the intensity of racial segregation and slavery at the local level in the past, with local differences in contemporary social and economic outcomes, policies, and racial animus.[204]

Drawing upon contemporary data on welfare cash assistance (TANF), unemployment benefits, and state-level demographic characteristics, Figures F and U below depict a clear link between race and weaker state-level safety nets. Specifically, Figure 19 demonstrates a strong relationship between lower cash assistance payments and higher Black state population rates. Likewise, states with a higher proportion of Black residents typically have less generous unemployment insurance programs, as depicted in Figure 20.[205]

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[204] Acharya, Avidit, Matthew Blackwell, and Maya Sen. "The political legacy of American slavery." The Journal of Politics 78.3 (2016): 621-641; Andrews, Rodney, Marcus Casey, Bradley L. Hardy, and Trevon D. Logan. "Location matters: Historical racial segregation and intergenerational mobility." Economics Letters 158 (2017): 67-72; Logan, Trevon, Bradley Hardy, and John Parman. "Long-run Analysis of Regional Inequalities in the US." Oxford Review of Economic Policy 37.1 (2021): 49-69.

[205] Alexandra Cawthorne Gaines, Bradley Hardy, and Justin Schweitzer, “How Weak Safety Net Policies Exacerbate Regional and Racial Inequality,” CAP, September 22, 2021

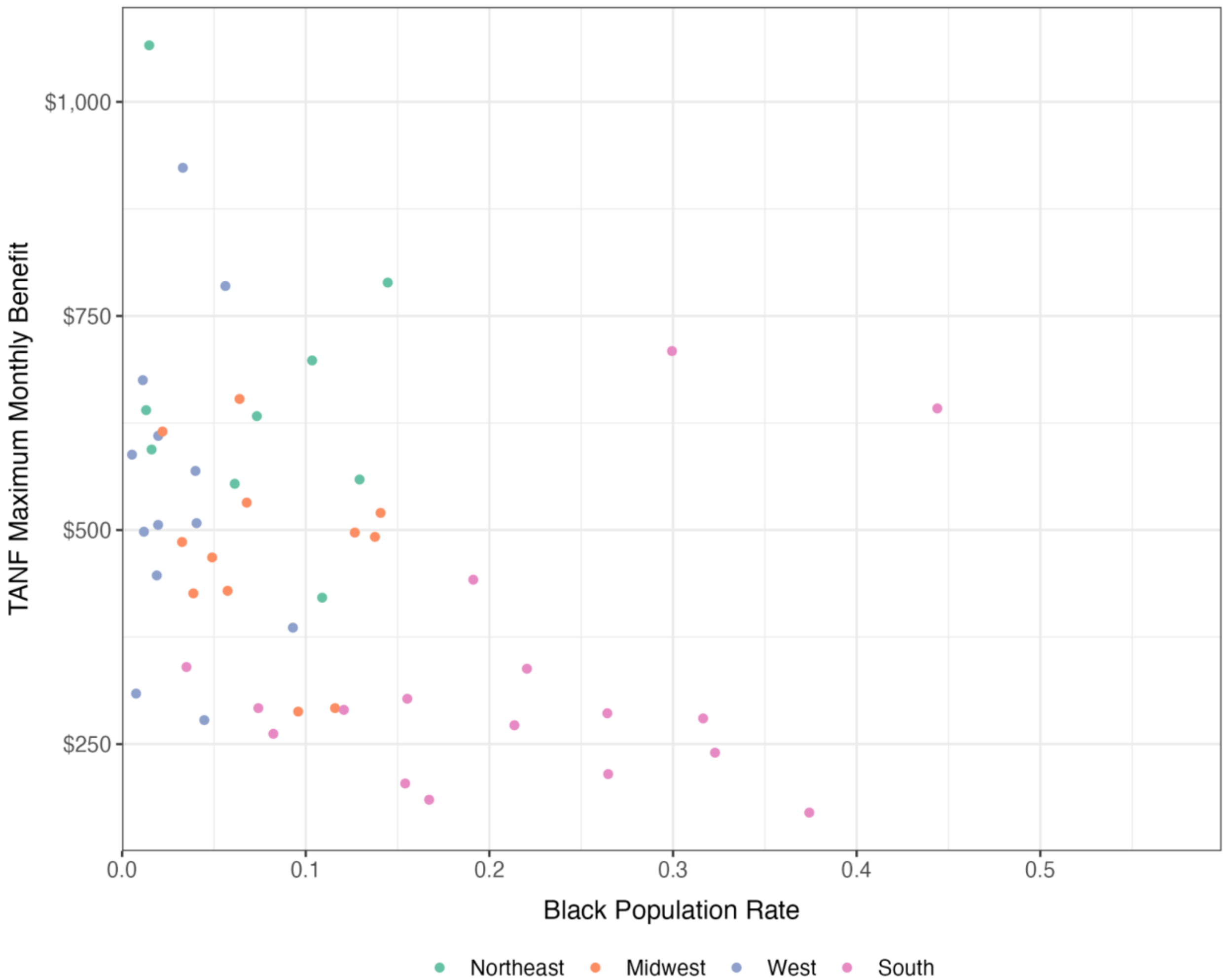

Figure 19: State-by-state TANF maximum monthly benefit for three-person families, by Black Population Share, 2019

Note: Figure from Cawthorne Gaines, Hardy, and Schweitzer (2021)

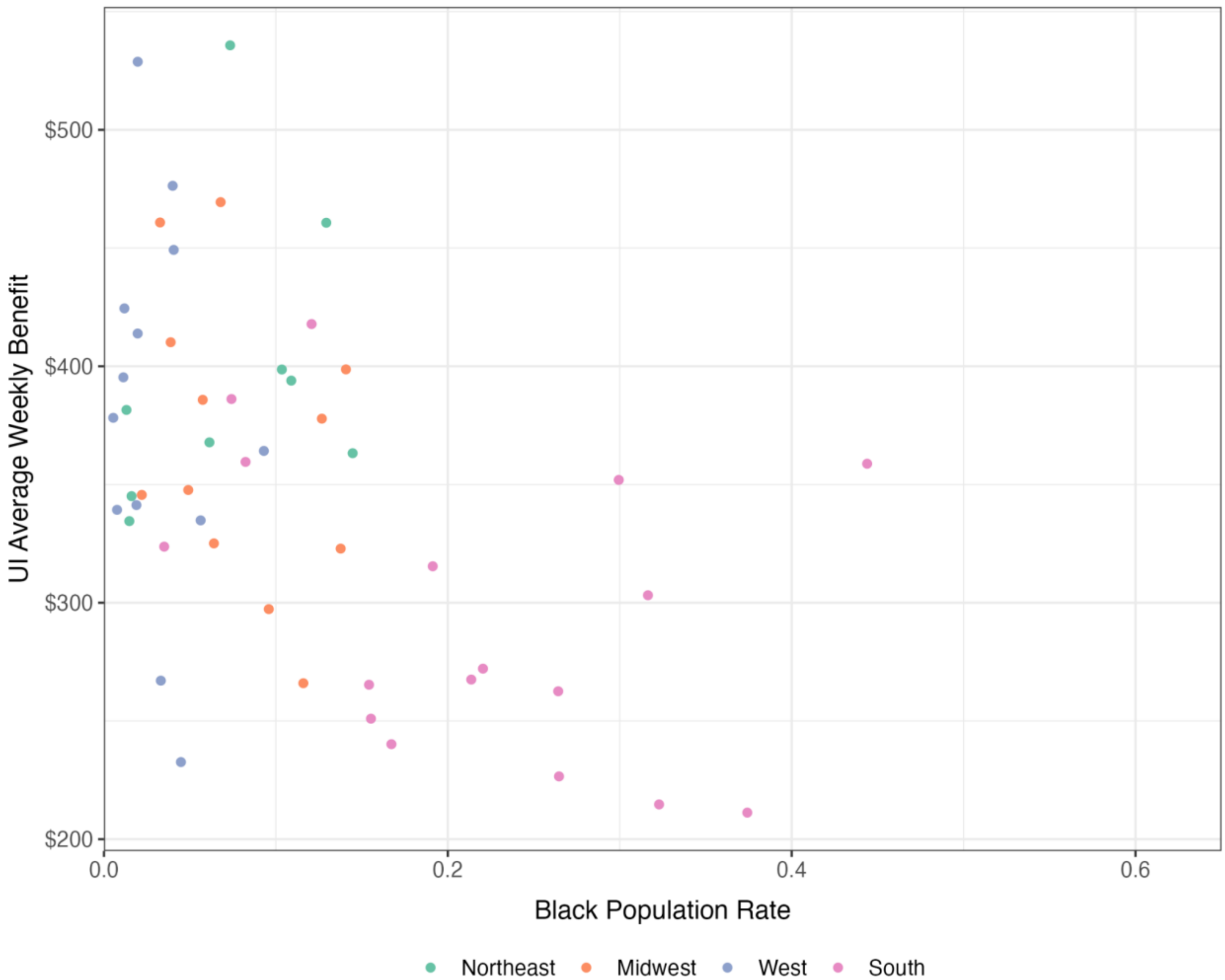

Figure 20: State-by-state unemployment insurance (UI) average weekly benefit for, by Black Population Share, 2019

Note: Figure from Cawthorne Gaines, Hardy, and Schweitzer (2021)

The variation in outcomes across racial groups in different states is only part of the story. It is also well-documented that within states and cities, families are segregated by race, income, and education level.[206] Where children reside within a city or region can shape their long-run social and economic outcomes. This is due in large part to important differences in the environmental context that these children experience which, in turn, shapes their subsequent development over

[206] Patrick Bayer, Kerwin Kofi Charles, Divergent Paths: A New Perspective on Earnings Differences Between Black and White Men Since 1940, The Quarterly Journal of Economics, Volume 133, Issue 3, August 2018, Pages 1459–1501, https://doi.org/10.1093/qje/qjy003

time. This "place effect" is documented in work evaluating experimental evaluations,[207] though others have formalized the ways in which varying forms of financial, human, and social capital differences at the neighborhood level could contribute to diminished child development and increased exposure to risk.[208]

This is a problem that eludes simple solutions. Some families actively choose their neighborhood, while others do not live where they would like to, instead locating where their budget allows, or where they will avoid racial animus. As a result, there is important within-region economic and racial sorting that occurs. In other words, even *within* metropolitan areas that are relatively better or worse-off, lower-income families are more likely to live together, and residents in these areas are more likely to be Black.

There are many ways that the concentration of lower-income families, who are disproportionately Black, may be consequential. First, space affects both the opportunities and threats to which people are exposed; chance interactions for an employment opportunity, or a stimulating activity for children that is proximate to home; schooling environments that draw in more resources, due in part to financing models tied to property taxation; and diminished access to high-quality health providers, exacerbating health inequality. Such spatial isolation among many Black Americans interacts with other forms of inequality and exclusion. These factors combine and contribute to fairly stark outcome differences across generations, as depicted in the map in Figure 21 below, which shows the average household income at age 35 by place of birth, for children born in 1979 or 1980. These measures track the adults, regardless of where they live as adults. The areas where the adults with the lowest household level of income overlap with regions that have higher Black population shares, especially in southern states.

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[207] Chetty, R., N. Hendren, & L. F. Katz. "The effects of exposure to better neighborhoods on children: New evidence from the Moving to Opportunity experiment." American Economic Review 106.4 (2016): 855-902.

[208] Durlauf, S. N. (2004). "Neighborhood Effects." In Handbook of Regional and Urban Economics, edited by J. Vernon Henderson and Jacques-François Thisse, 2173–242. Amsterdam and San Diego: Elsevier-North-Holland; Halpern-Meekin, S. Social Poverty: Low-Income Parents and the Struggle for Family and Community Ties. NYU Press, 2019.

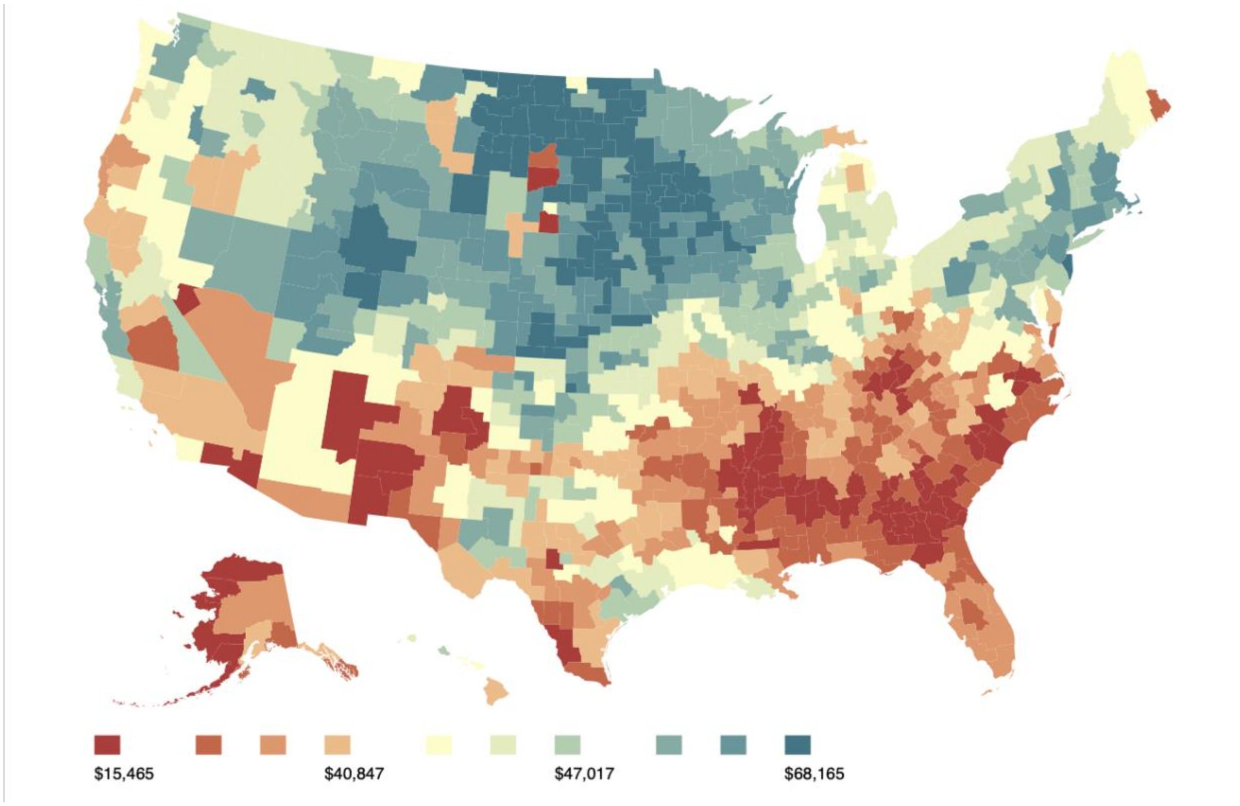

Figure 21: Household Income at Age 35, by Place of Birth, among Children Born in the 1979 and 1980

Note: From Chetty et al. (2018). Opportunity Atlas. Geographic areas represent commuting zones. Blue regions denote greater income mobility, while red regions denote lower levels of mobility.

Policy Discussion

One consistent result from the studies above is that the place, and particularly the neighborhood in which a family lives, can have a significant impact on their economic outcomes and the later life outcomes of the children from these families. A common policy response has been to try to make it easier for families to relocate to places known to have more favorable outcomes. Interventions such as the Moving to Opportunity housing experiment, sponsored by the U.S. Department of Housing and Urban Development (HUD) in the 1990s across multiple cities, or, more recently, the Housing Voucher Choice (HVC) program in Seattle, aimed to facilitate relocation for public housing support recipients.[209] Researchers have found that such support makes it much easier for families to move to different neighborhoods, and that moving to a lower-poverty neighborhood leads to improvements in future economic outcomes for younger children, with similar impacts on Black and White children.[210] One shortcoming of this approach is that the policy has limited scalability. The interventions leverage existing differences in poverty levels among different neighborhoods and move a small subset of families to places with lower poverty. Such an approach can not necessarily be applied en masse to all residents of an area.

A related method of reducing barriers to geographic mobility is to reduce the prevalence of exclusionary zoning practices. These policies include minimum lot requirements for housing, restrictions on building affordable housing, height restrictions, and constraints on multi-family housing. These policies can create barriers to entry for lower-income households, who are less likely to live in single-family housing, and, by restricting local housing supply, can make the community less affordable. They have the effect of preserving a relatively affluent makeup for local residents and can also be used to preserve racial segregation. Relaxing these exclusionary restrictions might also allow more families to access neighborhoods with greater opportunity, including Black families. A limitation of these policies is that in the long run, families who prefer exclusion may move to other communities where it is more easily achievable or engage in "white flight." Therefore, these reforms are more effective if applied at a broader level, for example, at the state level rather than at the local municipal level.

Summary

There are persistent regional patterns in both economic outcomes and opportunity that are highly correlated with the racial makeup of the local population. Many of these outcomes reflect the lasting vestiges of very far historical instances of racial oppression. In addition, whether and how

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[209] Ludwig, Jens, et al. "Long-term neighborhood effects on low-income families: Evidence from Moving to Opportunity." American economic review 103.3 (2013): 226-31.; Bergman, Peter, et al. Creating moves to opportunity: Experimental evidence on barriers to neighborhood choice. No. w26164. National Bureau of Economic Research, 2019.

[210] Chetty, Raj, Nathaniel Hendren, and Lawrence F. Katz. "The effects of exposure to better neighborhoods on children: New evidence from the moving to opportunity experiment." American Economic Review 106.4 (2016): 855-902.

local and state governments intervene to alleviate the conditions depends on the political economic conditions, which in some cases renders the local Black electorate underrepresented and underserved. While efforts to facilitate relocation and greater mobility can lead to improved conditions for those families that can move, the improved conditions in these destination communities may become fragile if White residents have even stronger preferences for segregation. Thus, remedies that can transform the places and local politics where the majority of Black people remain are an important part of any solution.

Conclusion

In 1903, W.E.B. Du Bois proclaimed the color line to be *the* problem of the 20th century, and in the 21st century, it stubbornly remains. When we compare economic outcomes across racial groups, it is important to think critically about what is, and what is not, likely being captured. A useful framing put forth by many scholars, and one we restate here, holds that race is best understood as a social relational concept, not solely connected to subjective characteristics such as skin color. The formation of racial groupings and divisions, and the subsequent struggle for resources between said groups reproduces racial inequality across multiple domains. For this reason, it is difficult to envision aspects of American life that are not affected by race. Race conceptually goes beyond shared cultural traditions and characteristics to operate as a mechanism to limit access to opportunity.[211]

When we do compare outcomes by race, we find that Black Americans experience lower levels of wages, income, wealth, economic mobility, and geographic access to economic activity compared to White Americans. Over time there have been periods of convergence, stagnation, and divergence in these indicators of economic well-being. A common trend observed across multiple indicators is convergence from 1940 to 1980, stagnation or reversal from 1980 to the early 2000s, and more recent convergence during the tightening labor markets of the post-Great Recession period, with some exceptions. There are exceptions, both positive—the Black-White poverty gap has exhibited more of a steady decline over the entire period—and negative— recent

[211] Zuberi, Tukufu, Evelyn J. Patterson, and Quincy Thomas Stewart. "Race, methodology, and social construction in the genomic era." The ANNALS of the American Academy of Political and Social Science 661.1 (2015): 109-127; Darity Jr, William A. "Position and Possessions: Stratification Economics and Intergroup Inequality." Journal of Economic Literature 60.2 (2022): 400-426.

signs of convergence don't hold at the very top of the income distribution and the Black-White wealth gap has not exhibited convergence in recent years.

The patterns we observe also differ across gender groups. For Black men, increasing rates of incarceration have played a significant role in a continued decrease in labor force participation. And though incarceration rates have finally begun to decline in more recent years, economic and social and political barriers remain for those who are formerly incarcerated, extending punishment beyond their statutory sentences and their physical imprisonment. Black women have historically faced a unique set of conditions as compared to White women, with a higher expectation of participating in the labor market, coupled with significantly lower wages and limited occupational opportunity. Over time, labor force participation patterns have converged for Black and White women, while their wages have not.

We have also generally seen that when the overall economy tends toward widening inequality, there also tends to be a widening gap between Black and White economic outcomes. This is apparent during most recessions, when the Black-White gap in unemployment rates increases, or in the case surge in incomes concentrated among the very richest households beginning in the 1980s. Conversely, during periods of relatively equitable growth, as in the case of the Great Compression, or amid nominally race-neutral policies that reduce inequality, like minimum wage expansions, we find that Black-White economic disparities also retreat.

During the coronavirus pandemic, there are a number of ways in which Black communities were particularly hard hit, including disparate health and mortality effects related to COVID infection and a period of heightened racial tension and racial violence that coincided with the early months of the pandemic. In addition, Black workers experienced steeper declines in employment at the onset of the pandemic. These dynamics notwithstanding, the economic experience for Black households during the pandemic recovery have played out in a more equitable manner than in previous recessions. Black workers' wages have grown faster than those of their White counterparts, and there is not yet any clear sign that the racial wealth gap has widened during the period.

The inequality documented above is not independent across time and space. There are links at the family level, between parents, their children, and even their grandchildren. This is both due to resources that are directly passed on, but also because of society's persistent racial hierarchy that spans and impacts multiple generations. Likewise, the patterns of inequality we observe are spatially correlated. This is both due to sorting and segregation on the basis of race and economic status, but also because of a breakdown in democratic institutions that allows political officials in states with high shares of Black residents to strip the social safety net bare and let poverty compound. Finally, historical conditions matter for present ones. For example, our review of the literature on racial wealth gaps revealed that the initial gap in wealth between newly freed Black people and White Americans in the mid-19th century was so vast that equal financial behavior and returns on savings for the next 150 years would not be enough to erase the disparities.

The field of economics is often focused on individualistic explanations and solutions to the concerns raised above. To improve outcomes, a number of proposals focus on educational attainment, or access to education, narrowly defined forms of discrimination, and household-by-household geographic relocation. However, broader frameworks, such as that of the subfield "Stratification Economics," allow us to also make sense of the origins, persistence, and structural nature of racial differences in educational pursuit, relative economic standing, and spatial access to economic opportunity.

Many of the policy solutions we have discussed are not race-specific, but rather leverage the disproportionate likelihood that Black households benefit from inequality-reducing measures. Such policies may also have positive spillovers for other groups who may be similarly positioned. However, even when Black and White children have roughly the same economic status at birth, a Black child is predicted to have more unfavorable outcomes in adulthood, relative to their White counterparts. As such, deeper forms of addressing racism, which may include political organizing, are likely needed to address specific anti-Black features of the economy more completely. As an example, reparations would be needed to have any chance of significantly closing the racial wealth gap, although such a policy would have to be coupled with other solutions in order to ensure that, moving forward, any equity achieved would remain intact.