

# THE IMPACT OF EDUCATIONAL AND LABOR MARKET DISCRIMINATION ON WEALTH AND INCOME DISPARITIES

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## INTRODUCTION

The subject of our essay is the impact of educational and labor market discrimination on differences in income and wealth across races and ethnicities. The disparities across the racial and ethnic divides in income are striking (see table 1). Even more remarkable are the disparities in the wealth-to-income ratios (see table 2), and therefore in the disparities of wealth. According to the Federal Reserve’s “Survey of Consumer Finances 2019” (Board of Governors of the Federal Reserve System 2019b), the top decile of households by income accounts for 46 percent of total income, but that same top decile by net worth holds 76 percent of the country’s total net worth.

Studies of the impact of racial discrimination on households normally focus on its impact on income, probably because the effects of discrimination in education and in labor market opportunities affect income before they affect wealth. In our essay, however, we first address the issue of the greater disparities that coexist with wealth. We find that these disparities are, at least in part, the result of influences that are not necessarily the direct result of racial discrimination. In part 2 of the essay, we address the impact of educational and labor market discrimination on income.

**TABLE 1:** *Wealth and Income by Race/Ethnicity, 2019*

	White	Black	Hispanic	Other
Income*	\$69.2	\$40.7	\$40.7	\$56.0
Assets*	\$584.0	\$44.0	\$78.8	\$250.5
Net worth*	\$189.1	\$24.1	\$36.0	\$74.5
Sample size (number)	3,317	566	409	523
Value of home*	\$230.0	\$150.0	\$200.0	\$308.0
Share that own home (%)	73.7%	45%	47.6%	54.2%

Source: Board of Governors of the Federal Reserve System 2019a.

Note: \* Averages in thousands of dollars.

**TABLE 2:** Ratio of Median Values of Ratios of Assets and Liabilities to Income, 2019, by Race/Ethnicity

	White	Black	Hispanic	Other
<b>Assets</b>				
Total financial assets	0.73	0.14	0.08	0.38
Equities	0.24	0.12	0.05	0.16
Bonds	0.77	0.00	0.00	0.02
Quasi-liquid retirement accounts	0.80	0.54	0.39	0.49
Other financial assets	0.20	0.07	0.23	0.07
Vehicles	0.26	0.24	0.31	0.23
Principal residence	2.62	2.46	3.27	2.91
Other residential property	1.16	0.92	1.69	1.09
Net equity in non-residential real estate	0.69	0.60	0.45	0.49
Businesses	0.85	0.60	1.14	0.87
<b>Liabilities</b>				
Debt secured by primary residence	1.23	1.58	1.96	1.64
Debt secured by other residential property	0.62	0.72	1.11	0.78
Other lines of credit	0.04	0.02	0.02	0.04
Credit card balance	0.04	0.03	0.04	0.04
Installment loans	0.23	0.36	0.28	0.26
Other debt (loans against pensions, life insurance, etc.)	0.08	0.03	0.07	0.06
Student debt	0.32	0.50	0.27	0.32
Car loans	0.15	0.18	0.21	0.16
Other installment loans	0.08	0.06	0.07	0.09

Source: Board of Governors of the Federal Reserve System 2019b.

## **PART 1: A SIMPLE CONCEPTUAL FRAMEWORK AND BENCHMARK TO EXPLAIN DISPARITIES IN WEALTH RELATIVE TO INCOME**

We begin by setting out a simple framework to illustrate what the ratio of wealth to income would look like in the absence of racial disparities, in a highly idealized world where differences in wage and salary levels merely reflected differences in what economists rather dispassionately refer to as “differences in skill sets” and “differences in the willingness to undertake disagreeable or dangerous work.”

In our benchmark model, we assume initially that all income derives from work, and that there are two periods to a person’s life, which we name “working life” and “retirement.” We assume also that all households want to equalize personal expenditure or consumption in the two periods but we assume that the first period is twice the length of the second. The purpose of wealth accumulation is simply to finance consumption in a period with no earned income.

Wealth is not accumulated for its own sake. No one works in the second period, so consumption in that period,  $C_2$ , must be financed from saving in the first period. Consequently, symbolizing first-period wages as  $w$  and the rate of return on saving as  $r$ ,

$$(w - C_1)(1 + r) = C_2 \quad [1]$$

Because first-period consumption is double second-period consumption, we can solve for  $C_1$ :

$$C_1 (1 + r) + C_1 * (0.5) = w(1 + r)$$

$$\text{or } C_1 = w(1 + r) / (1 + r + (0.5)) \quad [2]$$

Wealth ( $W$ ) at the start of retirement is saving in the first period plus its return, and equals  $(w - C_1)(1 + r)$ , which can be expressed as

$$W = (1 + r)w (0.5) / (1 + r + 0.5) \quad [3]$$

Consequently, wealth at the start of retirement is always a constant ratio of the wage or salary for a given rate of return  $r$ :

$$W/w = (1 + r) (0.5) / (1 + r + 0.5) \quad [4]$$

If we introduce progressive taxation in our simple framework but assume that progressive taxation has no effect on before-tax or gross salaries, discrepancies in salary and wealth will diminish, but the ratio of wealth to income will be the same at all income levels.<sup>1</sup> Consequently, in our idealized world there would be no difference in disparities in wealth and income.

Our framework does not allow for any uncertainty, such as uncertain rates of return to saving and uncertain longevity. Another issue would be how forward-looking we can reasonably expect a household to be, and whether the ability to plan might vary with income level. In addition to some degree of financial sophistication and self-control, farsightedness is probably less difficult for households that are not struggling to keep their heads above water.<sup>2</sup> Another issue, one that is more practical, arises with the measure of income (typically, income is measured to exclude nonmonetary income, such as the imputed income from owning a home) or in-kind income, such as certain employee benefits or government assistance. Yet another issue is the need to save and build up financial wealth to make a down payment on a home or on an expensive consumer durable. Typically, such saving is accomplished over a comparatively small number of years and would tend to be less than the saving needed to finance retirement. Incorporating this feature in the benchmark model would complicate it and would not obviously alter its basic conclusion.

To allow our framework to capture some of these features of the real world that its mathematical formulation leaves out, we relax its more restrictive assumptions, at least informally, in the subsequent discussion, and we also consider the consequences of inherited wealth and inter vivos transfers. We also show how Social Security can play a role in influencing saving for retirement, to the extent that it substitutes for personal saving. The discussion that follows shows that the greater

1. We can complicate the basic framework’s story by increasing the number of periods of work to 40, where a period roughly corresponds to a year, and the number of periods of retirement to 20, but the basic story would remain the same. One additional feature we would gain by adding years is that we would see how wealth could be expected to increase over time. A further complication would be allowing for an increase in wages over a worker’s career, up to some point, but it is not obvious that this would change the basic story either.

2. Schilbach, Schofield, and Mullainathan (2016) suggest that poverty could lead to lower bandwidth for optimal and farsighted decision-making.

disparity of wealth compared to income could result from effects the basic framework does not capture. These effects, however, are not necessarily the direct result of racial discrimination. Put another way, even without racial discrimination wealth might be more unequally distributed than income. At the same time and given the assumptions of the basic framework, if racial discrimination makes the distribution of income more unequal, it should also make the distribution of wealth more unequal.

## A MEASUREMENT ISSUE: THE ROLE OF HOME EQUITY

In what follows, we relax the assumptions of the simple model. To begin with, two households in apparently identical economic circumstances with the same income and financial wealth (as well as any real wealth other than housing wealth) and living in identically priced homes nonetheless differ in their wealth and true income if one household is an owning household and the other is a renting household. The owning household has wealth from its principal residence that the renting household does not have. A house generates nonmonetary income, but this income is not normally included in measured income. Strictly speaking, it should be included in income. If it were, the ratio of wealth to income would be the same, or at least would be closer for both households (i.e., it would be lowered for the owning household). Because it is not included, though, the wealth-to-income ratio of the owning household will be higher than that of the renting household. Because the rate of home-ownership of African American households is less than that of other households, the treatment of income in kind described here might lower their relative measured wealth-to-income ratio.

## ALLOWING FOR UNCERTAIN RATES OF RETURN

Rates of return (and risk) vary across asset classes, and they also vary in the same class over time. Equation

[3] implies that the higher the rate of return, the less saving is needed to achieve a given level of wealth in retirement and to equalize personal expenditure in working life and retirement. Non-White households tend to invest in safer assets with lower rates of return than White households (Choudhury 2002); in order to maintain consumption in retirement at its working-period level, non-White households would have to save more (Choudhury 2002). If being poor makes it more difficult to save, then poorer households might tend to invest more cautiously than less-poor households. They would thus confront a vicious cycle: poverty makes it more difficult to save and also reduces the rate of return on what saving they can manage. If this process reduces consumption in retirement sufficiently, it reduces the ratio of wealth to income, as equation [4] illustrates.

Rates of return of a given asset class or classes also vary over time. It is well known, for example, that baby boomers have enjoyed strong returns in the real estate market compared to those in Generation X. This difference in returns would have increased the wealth of older households relative to younger ones, but the impact on the ratio of wealth to income of the average household is less certain.

## UNEQUAL LONGEVITY

The life expectancy of African American and Hispanic households at birth, at age 65, and at any age in between is less than that of White households.<sup>3</sup> If households of different racial backgrounds are conscious of this gap, it could affect the amount they save. Of course, few people can predict the date of their death, but a differing sense of mortality across households of different racial backgrounds might affect their saving rates. For example, if we lower the amount of consumption in period 2 from 0.5 to 0.4 times period 1 consumption for a given rate of return, equation [4] shows that the wealth-to-income ratio declines.<sup>4</sup>

3. Case and Deaton (2020) have chronicled the recent decline in life expectancy of poor White males. This phenomenon, which they call “deaths of despair,” has not, however, greatly affected the racial differential.

4. A cautious and farsighted household aware of the relationship between race and life expectancy could assume that its members might live a certain number of years, such as five to seven years beyond the life expectancy of its racial or ethnic class. This assumption would still result in differing savings rates. Whether households plan for their mortality in this way is less certain.

## INTER VIVOS TRANSFERS AND BEQUESTS

Wealthy households have more wealth to transfer to their children or their grandchildren as bequests or while household members are still alive—as inter vivos transfers—than poor households. These transfers reduce the wealth of the older generation while increasing that of younger generations; their impact on the wealth of the average household is unclear. A transfer from a household without children to a household with a child as a member will reduce the measured wealth of both if the transfer is used to finance personal expenditure; this is true even if it finances education, because even if the educational finance increases the child's future income, it does not affect measured wealth, or at least not immediately. However, these transfers probably cause a buildup in the assets of the beneficiary over time. Non-White students are less likely to have part of their education financed by either their parents or their grandparents.

Inter vivos transfers are presumably intended. However, bequests, or at least their amount, are not always intended. Typically, a bequest is a residual: children are not told in advance exactly what they will inherit, if anything. If the surviving parent dies relatively young, the bequest his or her children receive is higher than it would otherwise be; we call this an “accidental bequest.” That said, wealthy families tend to leave more-generous legacies than poor families.

Bequests might have no effect whatsoever on wealth if they simply finance additional personal expenditure. Consequently, a basic question is whether a bequest influences the personal expenditure of beneficiaries, in respect of either its amount or its timing. Do the children of a household that is likely to leave a bequest of some size start spending before they get it, not knowing how large it will be? If, however, bequests are not spent on personal consumption, and instead are held as financial assets or used to finance investment in real assets, then the beneficiaries of bequests will have higher wealth-to-income ratios. Although bequests are typically not large, there appears to be some relationship between the income of the donor and the size of the bequest, and there is probably some relationship between the income of a household and that of its children. If bequests are indeed largely saved in this way, they would increase

the wealth-to-income ratio of beneficiaries. This effect would be more pronounced with wealthier households if the relationship in income across generations just described holds true, and it would be more pronounced for White households than for others.

## SOCIAL SECURITY

The Social Security retirement benefit declines as a ratio of income as income increases. It is financed by a tax that, over an income range that ends at about \$142,800 in 2021, is a constant percentage of labor income as the Social Security Administration measures it. We can add a highly simplified version of Social Security to our framework by making the benefit-to-income ratio,  $b$ , a declining ratio of income. The tax rate,  $t$ , is a constant.

$$\langle \text{EQ} \rangle (w - C1 - t * w)(1 + r) + b * w = C2 \quad [5] \langle / \rangle$$

Substituting again for  $C2$ :

$$\langle \text{EQ} \rangle (w - C1 - t * w)(1 + r) + b * w = 0.5C1$$

$$C1(1 + r + 0.5) = w(1 + r) - t * w(1 + r) + b * w = (1 - t)w(1 + r) + b * w \langle / \rangle$$

or

$$\langle \text{EQ} \rangle C1 = \{(1 - t)w(1 + r) + b * w\} / (1 + r + 0.5) \quad [6] \langle / \rangle$$

Wealth at the start of retirement is given by

$$\langle \text{EQ} \rangle W = (1 + r)(w - C1 - t * w) \quad [7] \langle / \rangle$$

So, the higher is  $b$  (and the lower  $w$ ), the lower are both wealth and saving. Consistent with our model, the “Survey of Consumer Finances 2019” (Board of Governors of the Federal Reserve System 2019b) shows that African Americans tend to have a higher ratio of Social Security benefits to income.

## OTHER INFLUENCES ON THE WEALTH-TO-INCOME RATIO

Our simple framework ruled out the accumulation of wealth for its own sake. But such accumulation clearly does happen and is presumably easier to do the higher a household's income level. In addition, the more a

household is concerned about running out of money in old age or confronting unexpected health-care or long-term-care expenditures, the more it will want to save. This kind of precautionary saving will be easier for more-affluent households and explains to some degree the accidental bequests previously discussed.

Our discussion suggests several possible causes for the positive relationship between measured wealth-to-income ratios and income: the failure to record income in kind from homeownership, which is positively related to income; a positive relationship between asset returns and income; the functioning of the Social Security system; bequests; the desire to accumulate wealth for its own sake; and a relationship between precautionary saving and income. These influences on the ratio of wealth to income are more likely to come in to play for Black households than they are for White households because of the disparities in income between them. It should be noted, however, that discrimination in housing might affect the ratio of housing wealth to income. In addition, if the inadequacies in the education of Black households affect their investor savvy, they might lower rates of return to saving. We should also note that, even if the effects of racial discrimination in education and labor markets on current income, which are the subject of part 2 of this essay, were to be completely eliminated, disparities in past wealth inheritances would go on having some effect on income disparities for some time.

## PART 2: SOURCES OF RACIAL DISPARITY IN INCOME: THE LABOR MARKET AND EDUCATION

The second part of this essay discusses two of the major sources of racial disparities in income: (1) discrimination and inequity in education and (2) discrimination and inequity in the labor market. Racial disparity in the workplace has two main causes: first, unequal educational opportunities, which could reflect an inability by the parents of students to pay for the direct or indirect costs of education and possibly racial discrimination by educational institutions; and second, overt or covert discrimination on the job. The impact of these inequalities is obvious: they lower income, which in turn lowers wealth.

## DISCRIMINATION AND INEQUITY IN EDUCATION

Discrimination in education starts early; critics of the residence-based public school system have pointed out that schools in America remain nearly as separate and unequal as they were prior to the Supreme Court's *Brown v. Board of Education* decision. Students from relatively affluent and generally White communities or areas go to schools in their neighborhoods, while students from poor non-White communities or areas go to poorly funded schools in their communities. Segregation in schools peaked at the end of the 1960s but declined due to government intervention up until the 1980s; since then, segregation has barely changed (Startz 2020). Currently, most schools have a student population that is either about 75 percent White or 75 percent non-White (EdBuild 2019). Non-White school districts are severely underfunded as compared to White school districts: on average, these districts receive more than \$2,000 less per student than the average White school district (EdBuild 2019).

Racial gaps in test scores have declined since the 1960s even after desegregation stalled, but the gaps remain significant (Reardon et al. 2019). Inequality in funding and in the quality of education leaves minority students at a disadvantage in the college application process and poorly prepared for college. The ACT's College Readiness Benchmark, a measure of students' probability of succeeding in college, shows persistent racial gaps: in 2019 75 percent of Asian students and 57 percent of White students met the benchmark, compared with only 20 percent each of African Americans and Hispanic students (ACT 2019). Blacks and Hispanics attempting to enter college are severely underprepared for success and face a steep learning curve to keep up with their White classmates.

Overt discrimination in higher education used to be quite common, although it did not exclusively affect applicants of color. One of the arguments made for the introduction of the scholastic aptitude tests, ironically, was that they would reduce discrimination against Jewish applicants to Ivy League colleagues. Now many students of discrimination view them as a tool of discrimination, at least in the case of the verbal aptitude test, on the grounds that these tests discriminate against college applicants from backgrounds that have not exposed them to certain words found in the texts of the

**TABLE 3: Educational Attainment and Student Loans, by Race/Ethnicity**

Highest degree	White	Black	Hispanic	Other
No high school diploma	2%	4%	15%	3%
High school diploma	43%	58%	58%	40%
Undergraduate degree	28%	20%	19%	25%
Some graduate study	27%	19%	8%	32%
Education loans	25%	56%	28%	29%
Median education loan*	\$23,000	\$30,000	\$17,600	\$19,000

Note: \* Conditioned on having debt..

tests—the word “yacht” is a commonly offered example. Partly for this reason, many colleges and universities have recently dropped or downplayed standardized tests.

These circumstances lead to unequal educational attainment. Table 3 shows that African Americans and Hispanics have significantly lower education attainment than other racial/ethnic groups. The first four columns show the percentage of the population by level of educational attainment. Most striking is the high percentage of Hispanics that never finish high school. Also striking is the much higher educational levels attained by non-Hispanic Whites than by either Hispanics of any race or African Americans. Part of this discrepancy can be explained by the unequal access and cost of education; the fifth line of table 3 shows the percentage of those students with at least a bachelor’s degree who have education loans. African Americans are more than twice as likely to have loans as are non-Hispanic Whites and Hispanics of any race. Furthermore, the final line of table 3 shows that, on average, African Americans have much higher student debt than non-Hispanic Whites, despite having less education.

Student loans are supposed to enable students who could otherwise not afford it to attend college, thereby leveling the playing field. Due to lower levels of family wealth, African Americans and Hispanics should stand

to benefit the most from loan financing; in practice, however, African Americans who attempt to attend college often are left with high loans and a lower standard of living. College dropouts with student loans are at a severe disadvantage and African Americans are more likely to drop out of college and to hold more debt than Whites and Hispanics; 14 percent of Whites and 12 percent of Hispanics over age 25 without a bachelor’s degree have education loans, compared with 20 percent of African Americans; Whites and Hispanics over age 25 without a degree have around \$3,600 and \$3,400 in student loans, respectively, whereas Blacks have more than \$5,700 (Board of Governors of the Federal Reserve System 2019b).

Historically Black colleges and universities (HBCUs), originally designed to give Blacks access to higher education, have exacerbated the student debt disparities: students at HBCUs are 19 percent more likely to graduate with debt of more than \$40,000 and are 26 percent less likely to pay back their debt in seven years (Saunders, Williams, and Smith 2016). Furthermore, for-profit colleges have been accused of reverse redlining, a practice where they target minorities in order to attract them to high-cost and shockingly low-quality educational programs.<sup>5</sup> For example, Florida Career College, which received millions of dollars in aid for coronavirus relief, advertised in primarily Black high schools and promised students vocational training

5. For-profit colleges/universities are funded and directed by investors with profit as the primary goal. In contrast, private nonprofit colleges/universities are run by a board of trustees with education as the primary goal.

**TABLE 4:** *Income by Race/Ethnicity and Degree*

Income by education	White	Black	Hispanic	Other
No high school diploma	\$31,562	\$18,326	\$30,544	\$27,489
High school diploma	\$53,960	\$35,634	\$44,797	\$44,797
Undergraduate degree	\$92,649	\$60,069	\$66,178	\$80,431
Some graduate study	\$123,192	\$67,196	\$136,428	\$154,754
Education loans	25%	56%	28%	29%
Median education loan*	\$23,000	\$30,000	\$17,600	\$19,000

Source: Board of Governors of the Federal Reserve System 2019b.

and jobs after graduation but did not provide training courses, equipment, or a degree program (Turner 2020). Most students at that school ended up heavily in debt without improving their job prospects. Despite providing minorities with otherwise inaccessible opportunities, student loans have left many African Americans disadvantaged in building wealth; they receive less education, drop out at a higher rate, and have more debt, which prevents them from saving for homeownership and retirement.

Some commentators have argued that the racial wage and wealth gaps are driven largely by differences in educational attainment, and that if education levels were equal then wage gaps would close. However, the racial wage gap is present even at the same educational level. Table 4 shows the median income in dollars by race/ethnicity for each degree; African American income lags White income at every level of education. The disparities in income within education groups suggests that something happens in the labor market that reduces the wages of minorities.

A Blinder-Oaxaca decomposition offers a thought experiment on the impact of differences in education payoff by race/ethnicity. This decomposition technique, explained more fully below, entails regressing the log of wages on education for each race/ethnicity subset

and then comparing the difference in income from education and the unexplained portion. We use the total personal income from the 2020 census and restrict the sample to working adults over age 30 (Ruggles 2021). The Blinder-Oaxaca approach breaks the wage gap in to two scenarios: the enrichment experiment, which shows how much minorities would earn if they had the same education as Whites; and the civil rights experiment, which holds education constant and shows how much minorities would earn if the labor market treated them like Whites.

When we compare non-Hispanic Whites to African Americans, we find a 27 percent gap in earnings after controlling for education (see table 5). In the enrichment experiment, if Blacks received more education, Black wages would increase by 12 percent, which amounts to only 44 percent of the income gap. The unexplained portion of the gap shows that Black wages would increase by 15 percent if they were not discriminated against in the labor market. When we look at the difference between Hispanics and Whites, we find a wage gap of 34 percent. In contrast to the White/Black earnings gap, the majority of the White/Hispanic gap can be explained by differences in education attainment. Unlike African Americans, Hispanic income improves the most in the enrichment experiments, implying that Hispanics would benefit substantially from more education.



**TABLE 5:** *Blinder-Oaxaca Gaps (In percentage differences)*

	White/Black	White/Hispanic
Gap after education	27%	34%
Explained by differences in educational attainment	12%	20%
Unexplained residual	15%	14%

Note: The percentage difference is the difference in log points.

## DISCRIMINATION AND INEQUITY IN THE LABOR MARKET

Labor market or job discrimination starts with the hiring decision. It is, for perhaps obvious reasons, notoriously difficult to gather hard evidence of discrimination in the labor market: employers will normally take care to cover their tracks at all stages of labor market participation, and discrimination is often unconscious and unintended. Nonetheless, there is evidence for it: One study sent résumés to a group of employers consisting of pairs of identical educational backgrounds and qualifications; they differed only in giving one of each pair of identical vitas a typical Black name (e.g., Malachi or Nekeisha) and the other a typical White name (e.g., Charles or Louisa). Applicants with White-sounding names received 50 percent more interview requests than applicants with Black-sounding names, even when the applicants had the same level of skill and experience (Bertrand and Mullainathan 2004).<sup>6</sup>

Modern companies often claim they value diversity and have programs to attract minorities and prevent discrimination in their hiring process (Dong 2021). One of the downsides of diversity and affirmative action programs, however, is that they can create a belief that minorities received their job based on their disadvantaged background rather than on their hard work and merit. Thus, these workers are sometimes viewed as being less qualified than unsuccessful majority grace applicants; this opinion can reduce incentives for minorities to invest in education (Coate-

Loury model in Coate and Loury 1993). An experiment by economists at the University of Pennsylvania found that employers assumed that a prestigious internship from Goldman Sachs or McKinsey was the result of a diversity program and not merit, and they thus overlooked qualified minority holders of these internships (Kessler, Low, and Sullivan 2019).

In the case of persons already employed, discrimination can take the form of higher-than-average dismissal rates, slower-than-average promotion rates, and so on. A recent paper by the consulting firm Mercer found that African American employees were half as likely as their non-Hispanic White colleagues to receive high performance ratings, which prevented them from being promoted; however, in fields such as sales, which provide harder and less-biased measures of performance, there was no racial performance gap. It is unsurprising that African American employees across job categories in the study were 18 percent less likely to be promoted and 16 percent more likely to quit (Berg, Guzzo, and Nalbantian 2021).

On a related note, the unemployment rate for minorities has been steadily above the rate for non-Hispanic Whites. The unemployment rate for African Americans was 6.1 percent in January 2020 right before the pandemic struck, compared to the overall unemployment rate of 3.5 percent. Even short periods of unemployment can decimate a family's savings and/or cost them their home. Additionally, the criminal justice system continues in practice to discriminate against African Americans. Police are more likely to stop African American than

6. Brown (2021) cites another study that describes a subtle form of discrimination by employers on Wall Street and other high-end employers: they ask job applicants about their extracurricular activities, and employers expressed a preference for activities that require money to pursue.

White or Hispanic drivers (Stanford University 2021). Many of the African Americans killed by police were committing minor offenses that would probably not have caught police attention if the offenders had been White. Eric Garner, for example, was killed in New York City in 2014 for selling loose cigarettes. More generally, African Americans are likely to receive sentences that are 1.75 times higher than Whites (Rehavi and Starr 2014). Upon completing their sentences and attempting to reintegrate into society, individuals of any race or ethnicity find it more difficult to find jobs due to legal barriers and employer hesitancy, which can lead to long spells of unemployment and lower lifetime wages.

There is one bright spot: although Hispanic Americans still lag Whites in education, income, and wealth, they have made significant gains over the years. Hispanics had the fastest growth in wealth since the Great Recession, gaining 42.5 percent from 2013 to 2016 and 64.9 percent from 2016 to 2019 compared with 16.7 percent and 3.5 percent for Whites, respectively (Board of Governors of the Federal Reserve System 2019a). Additionally, Hispanics have seen high income and wealth growth across generations: 45 percent of Hispanic children raised in poverty achieved middle-class status compared with only 14 percent of African American children (Chetty et al. 2018). In fact, the experience of Hispanic Americans resembles waves of immigrants in the mid- to late 19th century, such as Irish and Italian immigrants. These facts do not imply that Hispanics do not face discrimination; rather, they suggest that the path to the middle class and acceptance into society is attainable.

African Americans, however, do not appear to be making progress. In the decades following the 1960s civil rights movement, the Black and White wealth and income gaps did not narrow, and the average Black family today is poorer than 80 percent of White families (Kuhn, Schularick, and Steins (2020). African Americans are caught in a vicious cycle: they face drastically higher costs to obtain a higher education, have a steeper learning curve due to de facto segregation and inferior education, and see a lower payoff in their career. As a result, it might be perfectly rational for many not to invest in higher education. This could lead to a stereotype that African Americans are lazy and uninterested in advancing this life status, which leads to more bias and discrimination.

## CONCLUSION

The current racial inequities in America result from the interplay of the institutions that determine where a student goes to school in the early and middle grades, as well as an unequal starting point and the accumulated impact of past inequalities. Minorities are often born to families who have less wealth, receive a poor early childhood education, have less access to college, and face higher costs when they do attend college. They confront discrimination in the workforce and receive less pay than White Americans who have the same education. These inequities have tended to compound and then be passed on to the next generation.

It is well beyond the scope of this essay to propose a general solution to the wealth gap and the inequities that perpetuate it. Nonetheless, some concrete steps can be taken. A greater emphasis—which means more public funding—on early childhood education would benefit all poor families regardless of race/ethnicity and would moreover be a profitable social investment. Reforms of the way education is financed at the local level that allocated more money to disadvantaged neighborhoods, difficult though it would be to gain political support for them, would also help. A shift in the financing of higher education from loans to grants for students from poor families would reduce dropout rates among Black students in particular. Assistance with child care such as universal preschool and after-school care, and subsidized summer programs, would enable poor families to work and increase wealth, leading to a better life. Reforming racial bias in the criminal justice system would go a long way to addressing income and wealth inequality. Finally, an increase in minimum wages would benefit many low-income families regardless of race/ethnicity. This essay suggests that further work on the more subtle ways in which discrimination can take place at the workplace would be welcome. Another possible solution might be additional research into the extent of unrecognized racial bias by White workers and employees, and programs that address such bias if it is found.

A final point that might be of particular interest to Retirement Income Institute readers: better general education for minorities would probably increase basic financial literacy, which could be expected to increase awareness of the importance of saving for retirement, and the role of lifetime income products.

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