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## Working Paper

# Seven economic facts about the U.S. racial wealth gap

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Federal Reserve Bank of Chicago

## **Seven Economic Facts About the U.S. Racial Wealth Gap**

*Kristen Broady, Darlene Booth-Bell, and Taylor Griffin*

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**Seven Economic Facts About the U.S. Racial Wealth Gap**  
**By Kristen Broady, Darlene Booth-Bell, and Taylor Griffin\***

July 2022

Abstract

Using data from the 2019 Survey of Consumer Finances and the U.S. Census Bureau, along with data and research from other sources, this paper presents seven economic facts about the racial wealth gap in the U.S. We present data on racial disparities in income, employment, homeownership, education, access to credit, and retirement savings – all factors that contribute to a significant and persistent gap in net worth between households of different races and ethnicities, particularly between Black households and White households. While none of the economic factors listed fully explains the racial wealth gap, each factor, along with a history of racism and discrimination has contributed to the extreme wealth inequality in America today.

**Keywords: Wealth Inequality, Income, Education, Credit**

**JEL classification: D31, D63, E24, I24**

\*We thank Dan Sullivan and Helen Koshy for their helpful comments and suggestions. Broady: Federal Reserve Bank of Chicago, 230 S. LaSalle Street, Chicago, IL 60604 (email: [kristen.broady@chi.frb.org](mailto:kristen.broady@chi.frb.org)). Booth-Bell: D. Wyatt Henderson Department of Accounting, Coastal Carolina University, 100 Chanticleer Dr E, Conway, SC 29528 (email: [dboothbe@coastal.edu](mailto:dboothbe@coastal.edu)). Griffin: 230 S. LaSalle Street, Chicago, IL 60604 (email: [taylor.Griffin@chi.frb.org](mailto:taylor.Griffin@chi.frb.org)). Disclaimer: Any views expressed do not necessarily reflect those of the Federal Reserve Bank of Chicago or the Federal Reserve System. Declaration of conflicts of interest: none. Any errors are ours.

## Introduction

The Covid-19 pandemic created a global health and financial crisis. On January 21, 2020, the Centers for Disease Control and Prevention announced the first U.S. case of Covid-19 in the U.S. (CDC, [2020](#)). Now, well into the third year of the pandemic, there have been more than 87 million confirmed cases and more than 1 million deaths as a result of Covid-19 in the U.S. (CDC, [2022](#)). The health impact of the pandemic has had a greater effect on people of color, with racial and ethnic minorities in the U.S. having had higher rates of infection and death caused by Covid-19 than White people (Mayo Clinic, [2022](#)).

The pandemic impacted the American economy, with demand and supply shocks, geographic shifts in employment, accelerated automation, and more Americans working remotely at least part-time. Early in the pandemic, in April 2020, total nonfarm employment fell by 20.5 million jobs and Covid-19-related job losses eliminated 113 straight months of job growth (Bauer et al., [2020](#)). According to the latest Bureau of Labor Statistics Employment Situation Summary, in May 2022, total nonfarm payroll employment increased by 390,000 and the unemployment rate was 3.6 percent, nearly equal to the unemployment rate in February 2020, before the start of the pandemic, 3.5 percent, and down from 3.8 percent a year earlier in February 2019 (BLS, [2022](#)). The report also showed a continued racial/ethnic disparity in unemployment rates. The unemployment rate for Black Americans was 6.2 percent compared to 3.2 percent for White Americans, 2.4 percent for Asian Americans, and 4.3 percent for Hispanic Americans.

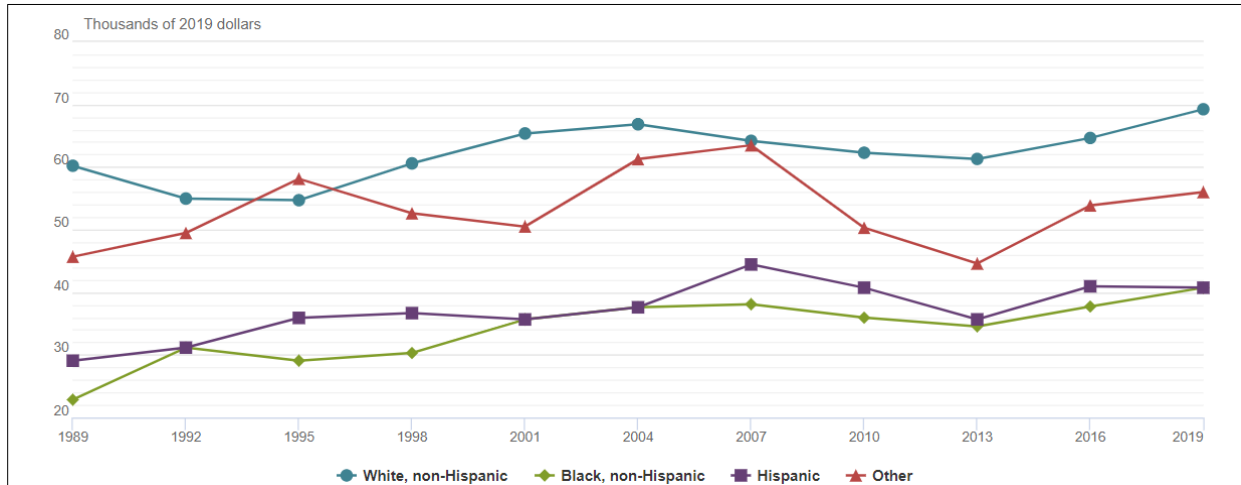
Flexible working arrangements resulting from the need to socially distance because of the pandemic have become a sort of new norm. According to McKinsey's American Opportunity Survey, 58 percent of Americans now have the opportunity to work from home at least one day a week (McKinsey, [2022](#)). During the pandemic opportunities for telework have helped reduce the spread of Covid-19, but not all workers have been able to work remotely. Black and Hispanic workers, who are more likely to work in the service sector, have been less likely than White and Asian workers to telework. Between May 2020 and July 2020, 19 percent of Black workers and 14 percent of Hispanic workers teleworked compared to 24 percent of White workers and 38 of Asian workers (Asfaw, [2022](#)).

Both the health and economic impacts of the pandemic have varied based on race and ethnicity. But for many years prior to the pandemic, there were large racial disparities in various economic indicators, including income and household wealth. Black people in America have on average lower earnings, lower rates of homeownership and home equity, less access to banking services, pay more for credit, and have higher loan denial rates than their White counterparts – all factors that contribute to vast disparities in wealth between their households and White households ([Broady and Hester, 2021](#); [Ards and Myers, 2001](#)). This report presents data on the racial wealth gap and economic factors that impact the racial disparity in net worth between households by race and ethnicity.

## 1. Racial disparities in income are significant and persistent.

Data from the [Survey of Consumer Finances](#) reveal large and persistent disparities in income by race and ethnicity between 1989 and 2019 as shown in Figure 1. During that time before-tax family income for White households averaged 28 percentage points higher than before-tax family income for Black households and 25 percentage points higher than before-tax family income for Hispanic households.

**Figure 1.** Median before-tax family income by race and ethnicity: 1989 to 2019



Source: Survey of Consumer Finances ([2019](#)).

The 2019 Survey of Consumer Finances is the most recent survey conducted. However, more updated data is available from other sources including the U.S. Census. U.S. Census data show that between 2019 and 2020, amid the economic impact of the Covid-19 pandemic, U.S. median household income decreased by 2.9 percent from \$69,560 to \$67,521, the first statistically significant decline since the Great Recession in 2011 ([U.S. Census Bureau](#)).

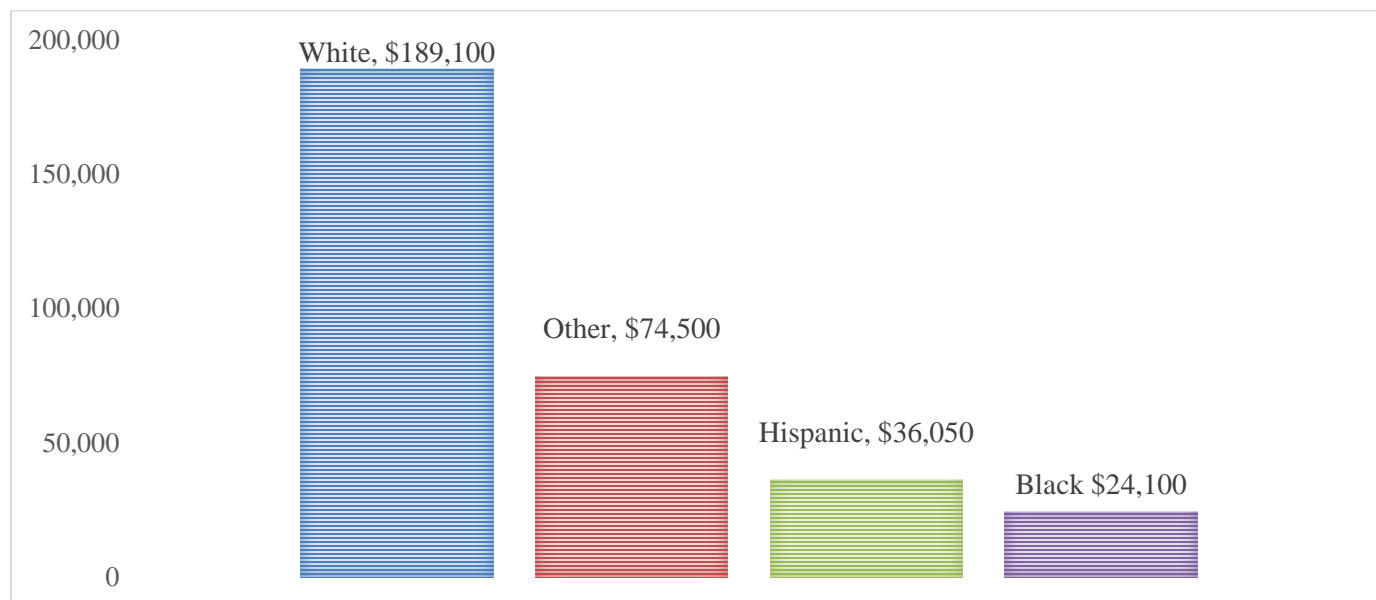
In 2020 median household income was highest for Asian Americans who earned \$94,903, followed by White households who earned \$71,231, Hispanic households who earned \$55,321, and Black households who earned \$45,870 ([U.S. Census Bureau](#)). According to the [U.S. Department of Health and Human Services](#), the poverty level in 2020 for a family of four was \$26,200. Approximately 19.5 percent of Black people had earnings less than the poverty level, compared to 17 percent of Hispanic people, 10.1 percent of White people, and 8.1 percent for Asian people ([U.S. Census Bureau](#)).

## 2. In 2019, the average White household had 5.2 times greater wealth than the average Hispanic household and 7.8 times greater wealth than the average Black household.

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

can be transmitted intergenerationally (Hamilton and Darity, [2017](#)). Data from the 2019 [Survey of Consumer Finances](#) show a significant wealth disparity between households by race and ethnicity, with the average White household having a median net worth of \$189,100, 5.2 times greater the median net worth of the average Hispanic household (\$36,050) and 7.8 times greater than the median net worth of the average Black household (\$24,100). Figure 2 shows median net worth by race and ethnicity for 2019.

**Figure 2.** Median net worth by race or ethnicity: 2019



Source: [Board of Governors of the Federal Reserve System](#).

The racial disparity in household wealth is even more pronounced when average net worth is considered ([Board of Governors of the Federal Reserve System](#)). In 2019 the mean net worth for the average White household was \$980,550, compared to \$165,540 for the average Hispanic household and \$142,330 for the average Black household. In their 2018 [paper](#), Darity et al. noted that the average White household living near the poverty line typically had about \$18,000 in wealth, while similarly situated Black households typically had a median wealth near zero, meaning that many Black households had a negative net worth. Conley ([2007](#)) assessed two theses that seek to explain racial differences in asset holdings. The first one is the Historical Legacy Thesis, which suggests that racial differences in net wealth in the current generation are largely the result of discrimination in past generations. The second is the Contemporary Dynamics thesis, according to which institutional racism in housing and credit markets are responsible for the racial wealth gap. In addition to having less wealth, Herring and Henderson ([2016](#)) found that Black Americans receive significantly lower wealth returns to education, age, income, stock ownership, and business ownership than their White counterparts.

### 3. Higher unemployment rates and lower household incomes for Black Americans reflect a history of structural barriers to economic mobility.

Data from the Bureau of Labor Statistics June 2022 Employment Situation [Summary](#) released on July 8 showed an increase of 372,000 jobs in June, and the unemployment rate remained at 3.6 percent. Table 1 shows the unemployment rate by race and ethnicity from April 2022 to June 2022 and reveals higher unemployment rates for Black and Latino or Hispanic workers compared to White and Asian workers. This is a continuation of a historical trend – the unemployment rate for Black workers has been consistently higher than the unemployment rate for White workers in every year since 1994 (Moss, et al., [2020](#))

**Table 1.** Unemployment rate by race and ethnicity: April 2022 to June 2022

Race	April 2022	May 2022	June 2022
U.S.	3.6	3.6	3.6
White	3.2	3.2	3.3
Black	5.9	6.2	5.8
Latino or Hispanic	4.1	4.3	4.3
Asian	3.1	2.4	3.0

Source: [U.S. Bureau of Labor Statistics](#).

The Bureau of Labor Statistics Employment Situation Summary further disaggregates employment data for White, Black, and Latino or Hispanic workers by gender and age. Table 2 reveals significantly higher rates of unemployment for teens ages 16 to 19 in each demographic category compared to adults ages 20 and over. It also shows a continuation of the economic impact of the pandemic on Black workers with higher unemployment rates for Black men and women workers compared to White men and women workers.

**Table 2.** U.S. unemployment rate by race, gender and age, April to June 2022

Month	U.S. Total	White			Black			Latino or Hispanic		
		Men	Women	All	Men	Women	All	Men	Women	All
		Ages 20+	Ages 20+	Ages 16-19	Ages 20+	Ages 20+	Ages 16-19	Ages 20+	Ages 20+	Ages 16-19
April	3.6	3.1	2.8	9.8	6.1	5.0	15.2	3.7	3.8	11.5
May	3.6	3.1	2.9	9.0	5.7	5.5	18.3	3.4	4.7	12.2
June	3.6	3.1	2.9	10.4	5.3	6.1	16.1	3.4	4.5	12.0

Source: [U.S. Bureau of Labor Statistics](#).

Higher unemployment rates and lower household incomes for Black Americans reflect a history of structural barriers to economic mobility. Title VII of the [Civil Rights Act of 1964](#) prohibits employment discrimination on the basis of race, color, religion, sex or national origin. Prior to passage of Title VII, a person who made a claim of employment discrimination could initiate an enforcement process by filing a complaint, but once the process began, the complainant usually had no way to participate meaningfully and in some jurisdictions, the complainant could not seek administrative or judicial review if the enforcement agency dismissed the claim (Belton, [1978](#)). Though the Civil Rights Act of 1964 prohibits racial employment discrimination, workplace discrimination with respect to recruiting, hiring, and promotions continues to limit employment opportunities and career mobility for many minorities, particularly Black people.

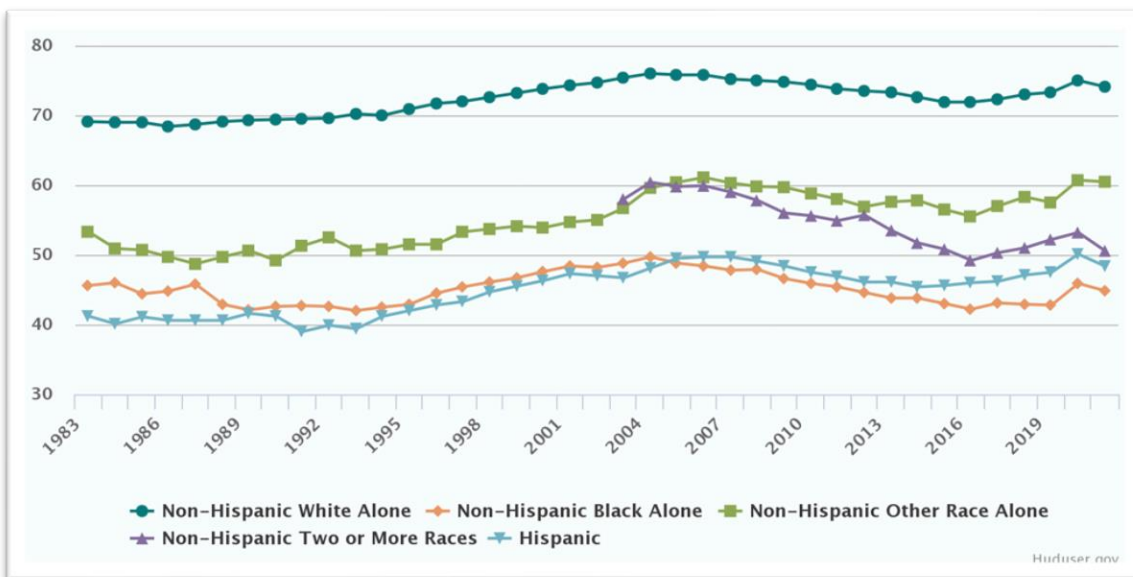
In 1990, 26 years after passage of Title VII, in a field experiment in the low-wage labor market of New York, Pager et al. (1990) found that Black job applicants were 50 percent as likely as equally qualified White job applicants to receive a callback or job offer and that Black and Latino applicants with clean backgrounds were no more likely than white applicants just released from prison to receive a callback or job offer. Forty years after passage of the Civil Rights Act of 1964, Bertrand and Mullainathan (2004) found that resumes with White-sounding names received 50 percent more callbacks for interviews than resumes with African American sounding names.

#### 4. White Americans have higher rates of homeownership than Black and Hispanic Americans.

In 2019 median total asset holdings were about \$228,000, with 98.7 percent of American families owning at least one financial asset (Bhutta et al., 2020). As is the case with wealth and income, there are significant differences in asset holdings by race and ethnicity. For many American families a home is their largest asset. Homeownership is a part of the American dream and for many families housing is the largest component of wealth (Bhutta, et al., 2020). In the first quarter of 2022, the homeownership rate was 65.4 percent (U.S. Census Bureau, 2022). At 74 percent, the homeownership rate was highest for White Americans, followed by 59.4 percent for Asian Americans, 56 percent for Americans of two or more races, 49.1 percent for Hispanic Americans and 44.7 percent for Black Americans.

Figure 3 shows the annual homeownership rate by race and ethnicity between 1983 and 2021, clearly illustrating a significant gap in homeownership between White, Black and Hispanic households. Since 2018 the homeownership rate for White Americans has averaged 73.9 percent, 30.4 percentage points higher than the rate for Black Americans, and 25.6 percentage points higher than the rate for Hispanic Americans.

**Figure 3.** Annual homeownership rate by race or ethnicity: 1983 to 2021



Source: [U.S. Department of Housing and Urban Development](#).

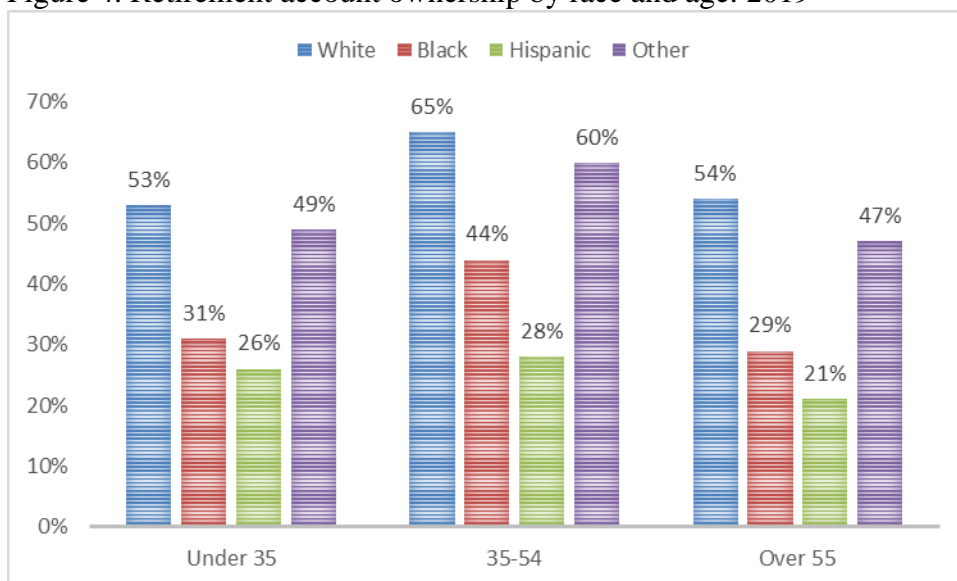


## 5. Black and Hispanic Americans have significantly less saved for retirement than their White and Asian American counterparts.

The racial retirement savings gap is another economic indicator of the racial wealth gap. As shown in previous sections of this report, Black and Hispanic Americans have lower earnings, wealth, homeownership rates, and home equity compared to White Americans – all factors that contribute to the racial retirement savings gap.

According to a 2019 [report](#) from the Center for Retirement Research at Boston College, the average household nearing retirement with a 401(k) had about \$135,000 in 401(k)/IRA assets, while almost a third of all households approaching retirement had no retirement savings. Black and Hispanic Americans are less likely to own retirement accounts than their White counterparts. Figure 4 shows the retirement ownership rate by race and age in 2019. Across races, retirement account ownership is highest for the 35 to 54 age group. In each age group White people had the highest rate of retirement account ownership, followed by people of two or more races, Black people, and Hispanic Americans.

Figure 4. Retirement account ownership by race and age: 2019



Source: [2019 Survey of Consumer Finances](#).

A recent [study](#) by T. Rowe Price illustrated the racial and ethnic gap in retirement plan participation rates among 21-to 64-year-old wage or salaried workers in the private sector. The rates by race were: White: 57.7 percent; Asian: 54.9 percent; Mixed and Other Races: 42.5 percent; Black: 40.5%; and Hispanic: 31.9 percent. According to the study, lower earnings of racial/ethnic minority workers, particularly Black and Hispanic workers, is one of the main drivers of the disparity in retirement plan participation rates. In addition to lower rates of retirement account ownership and retirement plan participation, Black and Hispanic Americans had a lower amount of retirement savings than White Americans. Table 3 shows median retirement account savings by race or ethnicity.

**Table 3.** Median retirement account savings by race or ethnicity: 2019

Race or Ethnicity	Retirement Accounts Median (\$)
White, non-Hispanic	\$ 80,000
Black, non-Hispanic	\$ 35,000
Hispanic	\$ 31,000
Other	\$ 47,000

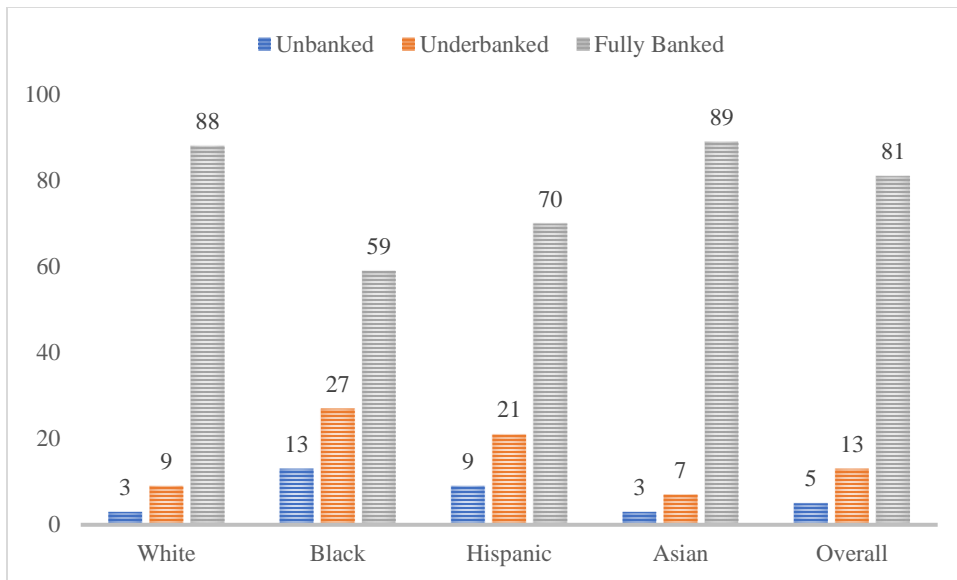
Source: [2019 Survey of Consumer Finances](#).

### **6. Black and Hispanic Americans are less likely to be fully banked and more likely to pay higher banking fees than White Americans.**

Today, with access to the internet on laptops, cellular phones, and tablets, consumers can access their financial information and accounts from just about anywhere. According to the biennial [FDIC Survey of Household Use of Banking and Financial Services Survey](#), in 2019 the percentage of banked households that used a bank teller as their primary method to access their bank account decreased to 21 percent from 24.3 percent in 2017 and 28.2 percent in 2015, while the percentage for those who used mobile banking as their primary means of accessing their bank account increased from 9.5 percent in 2015 to 15.6 percent in 2017 and 34 percent in 2019. The survey also showed that households with less income and education and elderly adults were twice as likely to use bank branches, illustrating the continued need for brick-and-mortar bank branches.

In the United States, access to credit and banking services is uneven based on race and ethnicity. A recent study from the Brookings Institution documented stark contrasts in access to credit for Black Americans at a local level and found that majority Black and Hispanic neighborhoods had fewer options for financial services than majority White neighborhoods. According to the [2020 Federal Reserve Survey of Household Economics and Decisionmaking](#), the majority of adults in the United States, 81 percent, were “fully banked,” meaning that they had a bank account and in the previous 12 months, had not used any of the alternative financial services referenced in the survey. Unbanked rates are higher for Americans who earn a lower income, are less educated, are Black, Hispanic, American Indian or Alaska Native, working-age disabled, and experience income volatility (FDIC, [2019](#)). Figure 5 shows the banking status percentage for White, Black, Hispanic, and Asian Americans in 2020.

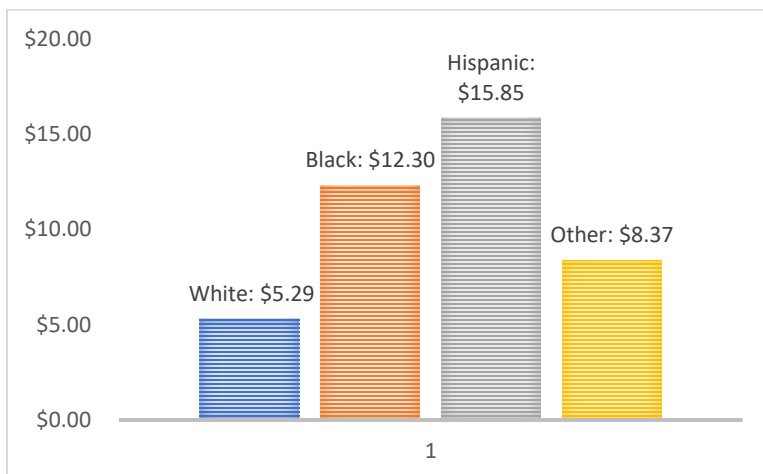
**Figure 5.** Banking status percentage by race or ethnicity: 2020



Source: [Board of Governors of the Federal Reserve System.](#)

According to a 2019 Bankrate survey, the average monthly fee, including routine services charges, ATM fees and overdraft fees, for a checking account holder at a bank or credit union was \$7.69, but there were disparities in banking fees based on race and ethnicity (Wisniewski, 2020). On average Hispanic bank account holders paid the highest monthly fees, \$15.85 followed by Black bank account holders who paid \$12.30 and White bank account holders who paid \$5.29. Faber and Friedline (2020) analyzed survey data from a stratified random sample of banks across the United States and found evidence that “banks charge more to open and maintain checking accounts in neighborhoods and cities with larger Black and Hispanic populations even after controlling for demographic and socioeconomic characteristics as well as market competition.” Banking fees by race and ethnicity for 2019 are presented in Figure 6.

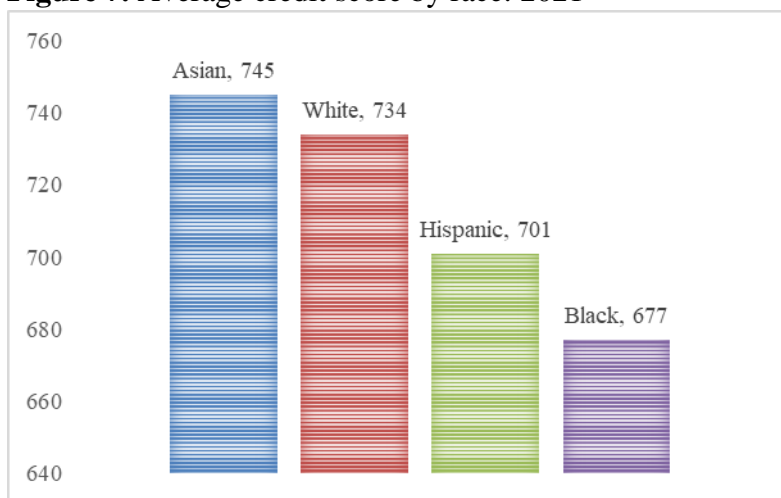
**Figure 6.** Average monthly bank account ree by race or ethnicity: 2019



Source: Bankrate Best Banks Survey, December 4-6, [2019](#).

The FICO score is the most widely used credit score, used by lenders to help understand people's credit risk when making lending decisions, with 10 billion scores purchased every year, and 27 million scores purchased every day ([FICO](#)). In 2021, Black and Hispanic Americans had lower average credit scores than White and Asian Americans. Average credit scores by race are presented in Figure 7.

**Figure 7.** Average credit score by race: 2021



Source: Shift ([2021](#)).

## **7. While White students are more likely to earn a baccalaureate degree, Black and Hispanic graduates shoulder a higher financial burden.**

Educational factors, including higher educational attainment and more equal distribution of education play a significant role in decreasing income inequality as there is a positive correlation between education and income (De Gregorio and Lee, [2002](#)). However, differences in college and post-graduate attainment alone explain less than 50 percent of the racial and ethnic disparity in net worth between Black, White, and Hispanic Americans, as significantly different wealth outcomes are observed between Black, White, and Hispanic people with the same level of educational attainment (Emmons and Ricketts, [2017](#)). While educational attainment does not fully explain differences in net worth between people of different races and ethnicities, it is still important to understand the inequality in educational attainment and student debt by race/ethnicity.

Data from the [U.S. Census](#) show that from 2011 to 2021, the percentage of adults ages 25 and older with a bachelor's degree or higher increased for all racial and ethnic groups. During this period, bachelor's degree completion increased from 34.0 percent to 41.9 percent for the non-Hispanic White population; from 19.9 percent to 28.1 percent for the Black population; from 50.3 percent to 61.0 percent for the Asian population; and from 14.1 percent to 20.6 percent for the Hispanic population. However, despite overall increases in educational attainment, disparities between people of different races and ethnicities have persisted over time. This finding suggests increases in educational attainment alone are insufficient to close the racial wealth gap. Key

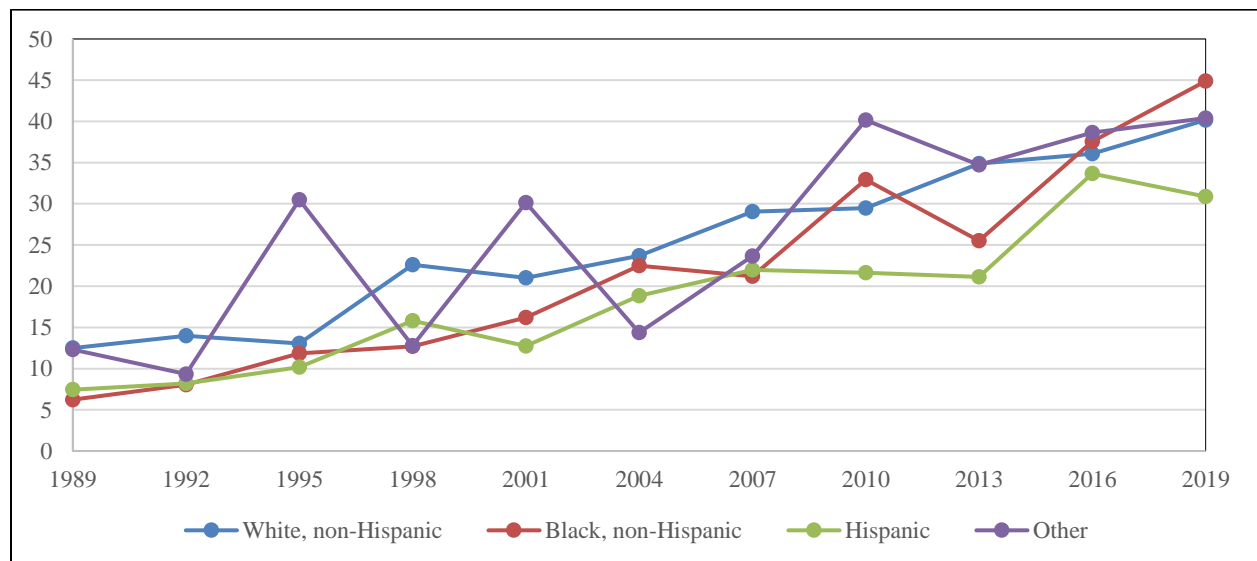
structural determinants like labor market participation and accumulation of assets and debt impact the differential returns to education by race or ethnicity (Hamilton et al [2020](#)).

In a 2017 [report](#), Meschede et al. examined the role of family financial transfers in household net wealth and found that college-educated White households were significantly more likely to receive financial transfers from their parents, while Black college-educated households were significantly more likely to provide financial support to their parents. Racial/ethnic differences in intergenerational financial transfers, among other structural determinants, have long-lasting impacts, both for the givers and the receivers in accumulating wealth.

In 2019 White Americans were more likely to earn a baccalaureate degree, but Black Americans bore a higher financial burden for higher education. Figure 8 presents data from the [2019 Survey of Consumer Finances](#) that shows mean education installment loans by race or ethnicity from 1989 to 2019. In 2019 the mean education installment loan amount for Black Americans was \$44,880, compared to \$40,170 for White Americans, and \$30,890 for Hispanic Americans. Not only did Black students have a higher average amount of loans, but also a higher percentage of Black students utilized loans to finance their higher education. Table 4 and Figure 9 show the percentage of students by race who had education installment loans between 1989 and 2019.

**Figure 8.** Mean education installment loans by race or ethnicity

Thousands of 2019 dollars



Source: Survey of Consumer Finances, [1989 – 2019](#), Board of Governors of the Federal Reserve System.

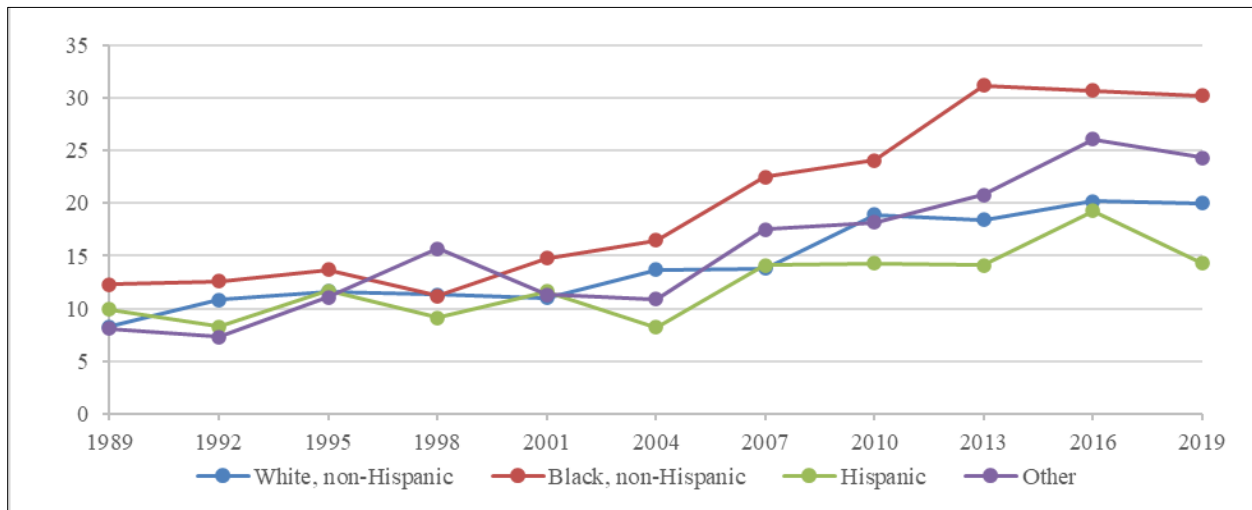
**Table 4.** Education installment loans by race or ethnicity %: 1989-2019

Year	White, non-Hispanic (%)	Black, non-Hispanic (%)	Hispanic (%)	Other (%)
1989	8.3	12.3	9.9	8.1
1992	10.8	12.6	8.3	7.3
1995	11.6	13.7	11.7	11.1
1998	11.3	11.2	9.1	15.7
2001	11	14.8	11.6	11.3
2004	13.7	16.5	8.2	10.9
2007	13.8	22.5	14.1	17.5
2010	18.9	24.1	14.3	18.2
2013	18.4	31.2	14.1	20.8
2016	20.2	30.7	19.3	26.1
2019	20	30.2	14.3	24.3

Source: Survey of Consumer Finances, [1989 – 2019](#), Board of Governors of the Federal Reserve System.

**Figure 9.** Education installment loans by race or ethnicity

Percent



Source: Survey of Consumer Finances, [1989 – 2019](#), Board of Governors of the Federal Reserve System.

Scott-Clayton and Li (2016) analyzed data from the Department of Education’s Baccalaureate and Beyond surveys, which followed graduates from the 1993 and 2008 cohorts through 1997 and 2012, respectively, and found that four years after graduation, Black graduates had almost \$25,000 more student loan debt than White graduates: \$52,726 on average compared to \$28,006 for the typical White graduate. When parents are able to pay college tuition, students are more

likely to be able to avoid borrowing to cover tuition. Without the burden of a student loan, individuals can begin to build wealth and purchase a home sooner.

## Conclusion

While this report presents data on the racial wealth gap and economic factors that influence it, the data show that no single factor fully explains the disparity in net worth between households of various races. However, by analyzing economic factors that impact the racial disparity in net worth between households, and historical structural factors that have blocked opportunities for economic mobility for Black and Latino or Hispanic Americans policy makers can make recommendations aimed toward reducing the racial wealth gaps.

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