

The Black-White Wealth Gap

Financial professionals are uniquely positioned to help bridge the economic divide between Black and white families.

IN THE WAKE OF THE RECENT BLACK LIVES MATTER PROTESTS AND THE COVID-19 PANDEMIC'S DISPROPORTIONATE IMPACT ON AFRICAN AMERICANS, it's no surprise the nation has been prodded into what many would consider a long-overdue conversation about the fair distribution of wealth.

In one recent story, a Wall Street Journal analysis explained to readers how the net worth of white families in 2016 was "almost 10 times greater than that of the typical Black household."¹ On the same day, a Washington Post headline announced that "The Black-White Economic Divide is as Wide as it Was in 1968."²

Then, there was an especially brutal assessment of the racial wealth gap from an under-the-radar study by a Northwestern University research team. The June 2020 study, titled "Penny on the Dollar," bluntly declared that "Black child households had just one cent for every dollar held by non-Hispanic white child households"³ (FIGURE 1).



FIGURE 1
Economic Inequality Among Families With Children, 2016



Sources: Christine Percheski and Christina Gibson-Davis of Northwestern University, June 2020, accessed on wttw.com.

Key Points

- For financial professionals, it's worth remembering that today's impoverished Black child could become tomorrow's high-net-worth client if efforts to close the wealth gap gain momentum.
- The role of education and personal responsibility is an important factor in creating greater African American wealth. But structural racism remains a key impediment.
- How you can help: Consider talking to school children about investing or reducing your asset minimums for some clients.

¹ The Wall Street Journal, "The Long Reach of Racism in the U.S.," 6/5/20. | ² The Washington Post, "The Black-White Economic Divide is as Wide as it Was in 1968," 6/4/20. | ³ Socius, the American Sociological Association, "Penny on the Dollar: Racial Inequalities in Wealth Among Households with Children," Christine Percheski and Christina Gibson-Davis, 6/1/20.

Why You Should Care

As a financial professional, you already care about helping people improve their financial situation. To the extent that the wealth gap continues to hold back the full participation of African Americans in the nation's prosperity, our individual and collective wealth potential is diminished as opportunity costs continue to mount.

In fact, a major wealth-gap study by the McKinsey & Company consulting group recently noted that the persistence of unequal wealth—wealth being broadly defined as total assets minus liabilities—“constrains the US economy as a whole.” The study found that a serious and sustained effort to close the gap by 2028 could increase the US gross domestic product (GDP) by up to \$1 trillion.⁴

But actual efforts to close the wealth gap are, well, complicated.

Structural or Personal?

Although civil rights legislation in the '60s has helped level the playing field somewhat, there's still much work to do. African Americans often find it more difficult to get a mortgage, often receive lower wages, and have less access to business loans and retirement plans than white families. Yet, even while there's broad agreement that these problems remain deeply embedded, solution seekers tend to divide themselves into two camps: supporters of the “personal responsibility” narrative versus the “structural racism” narrative.

Those who believe the “personal responsibility” narrative tend to stress the need for African Americans to stay in school, get good grades, and avail themselves of a multitude of scholarships and education grants. They emphasize teaching children about the value of hard work, education, entrepreneurship, and disciplined savings habits.

In this familiar narrative, with its emphasis on merit and performance, it's mostly lack of knowledge and counterproductive personal habits—not necessarily racism—holding African Americans back. While anyone could benefit from more education and investing acumen, some find the way this narrative is often verbalized to be condescending.

Then there's the “structural racism” narrative—generally championed by those working with underserved communities—that focuses more on the institutional structures of discrimination and the systemic economic and political mechanisms of disenfranchisement. As the progressive Center for American Progress recently articulated in one of its wealth-gap studies:

“Racial disparities in wealth are not a result of individual or family choices, but rather the result of structural racism in American public policy. ... The Black-white wealth gap was created and will only be eliminated by systematic and intentional public policy choices.”⁵

Could both narratives be right?

A McKinsey study found that a sustained effort to close the Black-white wealth gap by 2028 could increase the US gross domestic product by up to \$1 trillion.

⁴ McKinsey & Company, “The Economic Impact of Closing the Racial Wealth Gap,” 8/13/19.

⁵ Center for American Progress, “Simulating How Progressive Proposals Affect the Racial Wealth Gap,” 8/7/19.

Two Sides of the Equation

Rendel Solomon is a man who is, in his way, sympathetic to both arguments. He's a rising young Black investment executive and a managing director at Muller & Monroe Asset Management, a Chicago-based private equity firm. Solomon, whose grandmother moved to Chicago from Mississippi as part of the Great Migration, is the first of his generation to attend college and, from his asset management perch, has developed and nurtured his own audacious plan to address the wealth gap, starting with young African American children.

Solomon's plan is to ensure that as many as one million African American children become stockholders. He is the founder of the One Stock One Future nonprofit group, which he established to increase the financial literacy of disadvantaged youth through stock ownership. Its goal is to expose disadvantaged children to basic concepts of ownership, money management, and investing.

In a TED Talk, Solomon delighted his audience with tales of how he decided to purchase shares in Nike, Apple, and Disney for his 8-year-old niece, Cadence. He recalled bringing Cadence to the retail storefronts of those businesses at a local shopping mall. "Cadence," he told her, "you own this store now. Everything in here is yours! ... This cashier here works for you!"

Weeks later, when Cadence was asked how her stocks were doing, she eagerly said: "I want some more!" Now, she wanted to buy shares in Starbucks, which was all Solomon needed to hear to validate the notion that stock ownership could change a Black child's mindset forever.

But even Solomon, in a recent media interview, acknowledged that the individual responsibility narrative isn't enough. The burdens of systemic racism also must be given their due.

"Those two things are in constant battle, so when we talk about creating solutions, both of those paths have to be addressed," he said. "There is a mindset shift that has to happen on both sides of the equation, and there are structural impediments that need to be addressed. And we have to continue to reinforce the importance and significance of education to our community."

The Role of Public Policy

In fact, one particular variation of Solomon's core idea of exposing children to shareholder equity has already been embraced by a range of think tanks, business leaders, and political leaders. These advocates have endorsed the concept of "baby bonds"—whereby every newborn in the country would receive a savings account of \$1,000 at birth. As much as \$2,000 would be added in each successive year (with poorer families receiving the maximum), until the child turned 18, after which she or he could use the money for college or a home purchase, among other things.

Policy wonks love the idea. In their 2020 presidential campaigns, former Vice President Joe Biden⁶ and Senator Cory Booker⁷ both made baby bonds a featured campaign plank. Because the idea is

Support is growing for the concept of "baby bonds" as a tool for helping children start life with a \$1,000 savings account.



race-neutral—meaning all kids would qualify regardless of race, though, in practice, it would help African Americans even more—baby bonds could attract broad political support.

And yet, nearly every serious wealth-gap study one could name tends to peg the success of any effort on the adoption of a handful of specific policies aimed at reducing college debt, tax reforms to break down impediments to home ownership, and creation of retirement savings accounts for low-wage workers.

How You Can Help

Ultimately, policy changes are a long-term improvement plan. But as a financial professional, you're in a unique position to make immediate changes to help close the wealth gap.

While our industry likes to focus on high-net-worth clients, there's something to be said for dedicating a portion of your book to people who don't meet your typical asset minimum. For example, if you typically deal with people who have \$250,000 to invest, you may consider lowering that threshold to \$50,000 for non-white families.

Some financial professionals find helping these clients achieve their financial goals so personally rewarding that they make it a focus of their practice. Other financial professionals do pro-bono work through organizations such as the Financial Planning Association (financialplanningassociation.org/lead/pro-bono) to help those living in underserved communities. While financial professionals may think of their assistance as having a modest outcome, many of those underserved clients may wind up being very financially successful—and a rich source of referrals.

Like Rendel Solomon, you can help get younger generations of African Americans excited about investing. It's no secret that our industry is severely lacking in diversity. This is partly because minority children rarely have contact with people from our industry, so they may not consider it as a career path. Reach out to schools in a major city near you to see if you can speak at career day or give a talk about the stock market in a math class.

You can help increase financial literacy among minority communities by sharing some of the excellent investor education that our industry publishes. Hartford Funds' Client Conversations program has timely and relevant content on everything from organizing your financial life to investing through volatile markets. And our Beyond Investment Illusions and Media Replay brochures and seminars are a great starting point for financial education.

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For help doing a virtual financial-education seminar, please contact your Hartford Funds representative.

⁶ The New York Times, "In 'Buy American' Speech, Biden Challenges Trump on the Economy," 7/9/20

⁷ The New York Times, "Booker Campaigns on Baby Bonds Program to Combat Inequality," 4/6/20

Understanding the Black Experience

Here's a select list of films and books from award-winning filmmakers, authors, and thought leaders that can help you better understand the Black experience.

Films and TV Series

The films and documentaries cited below are all available on the major streaming services (Netflix, Amazon, Hulu). They include:

- **13th — Netflix**
 - A 2016 documentary film that explores the intersection of race, justice, and mass incarceration in the US. Its title is derived from the Thirteenth Amendment to the US Constitution, adopted in 1865 to abolish slavery throughout the US.
- **I Am Not Your Negro, James Baldwin Documentary — Hulu**
 - A 2016 documentary film based on James Baldwin's unfinished manuscript *Remember This House* and explores the history of racism in the US. Narrated by Samuel L. Jackson
- **When They See Us — Netflix**
 - A 2019 TV miniseries based on the events of the 1989 Central Park jogger case in which five male suspects were falsely accused of rape.
- **Just Mercy — Amazon**
 - A 2019 biographical legal drama that tells the story of Walter McMillian, who, with help from a young defense attorney, appeals his murder conviction. Based on Bryan Stevenson's bestseller.
- **Selma — Amazon**
 - A 2014 historical drama based on the 1965 Selma-to-Montgomery voting rights marches led by Dr. Martin Luther King Jr., Hosea Williams, and US Rep. John Lewis.
- **The Hate U Give — Hulu**
 - A 2018 American drama, based on a 2017 young-adult novel, that follows the fallout after a high-school student witnesses a police shooting of a close friend following a traffic stop.
- **Fruitvale Station — Amazon**
 - A 2013 feature film based on the events leading to the death of Oscar Grant, a young man who was killed in 2009 by police officers working for the Oakland, Calif.-area transit system.

Books

Each of the nonfiction books below offers a wide-ranging sample of views on the origins and impacts of systemic racism.

- **How To Be An Antiracist by Dr. Ibram X. Kendi**
 - A 2019 book that discusses concepts of racism and the author's proposals for anti-racist individual actions and systemic changes.
- **White Fragility: Why It's So Hard for White People to Talk About Racism by Robin DiAngelo, PhD**
 - A bestselling 2018 book about race relations in the US from the perspective of a white sociologist and leader in the field of diversity training.
- **Between the World and Me by Ta-Nehisi Coates**
 - A 2015 nonfiction book written as a letter to the author's teenage son about the feelings, symbolism, and realities associated with being Black in the US.
- **Democracy in Black: How Race Still Enslaves the American Soul by Eddie Glaude Jr.**
 - A 2016 nonfiction work in which the author describes living in a country founded on a "value gap"—with white lives valued more than others—that still distorts politics today.

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