**The Effect of the Great Recession on Black-White Wealth and Inequality**

Liana E. Fox
Columbia University
lef2118@columbia.edu

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**Abstract**

Between 2007 and 2009 a combination of the housing market collapse and the Great Recession caused the median net worth of black families to drop 49%, compared with a 29% decline for white families. As a result, the median white-black wealth ratio increased from 13-1 to 20-1. While black families experienced a greater hit in percentage terms, white families lost much more in absolute levels. These changes have profound implications for inequality and mobility in the United States. Utilizing longitudinal wealth data from the PSID, this paper examines the differential impact of the recent recession on the wealth holdings of black and white families and the implications for overall inequality. I find that the recession has increased inequality by disproportionately negatively impacting assets held by the bottom half of the population.

**Extended Abstract:**

In this paper, I explore the extent to which the Great Recession has affected family wealth in the United States and detail the potential implications for future economic mobility. I focus this analysis on the differential effects of the recession on black versus white families. Utilizing longitudinal data on family wealth and income from the Panel Study of Income Dynamics (PSID), I employ a two-step method of analysis. First, I examine how the current recession has affected family wealth levels and composition by race. I then use the complete PSID to explore the role of parental wealth on children's upward and downward income mobility by race. I then estimate the implications of the recession's effect on wealth for the mobility prospects of the next generation. This paper fills an important gap in the intergenerational mobility literature detailing how wealth disparities may explain the black-white income mobility gap. It also provides evidence highly relevant to policy audiences by examining the effect of the recession on future generation's mobility prospects.

*Primary Research Questions*

- How has the recession affected family wealth and debt? What has been the differential effect of this recession on families by race? How have the effects of this recession differed from previous ones?
- What does the reduction in wealth mean for current inequality and future mobility prospects of the next generation? How will the consequences from this recession be distributed to the next generation? What are the implications for inequality? Will the recession perpetuate current inequalities or will it make us more or less unequal?

*Background*

This paper will focus on one of most potentially important, yet understudied, underlying causes of intergenerational economic mobility disparities between black and white families in the United States: wealth. Wealth is a crucial component of a family's economic well-being, hindering downward mobility and assisting upward mobility. While a small literature exists linking wealth to intergenerational income mobility this research does not disentangle race from the analysis.

While there are substantial differences in the levels and compositions of wealth holdings by race (Oliver and Shapiro, 2006), the literature has failed to treat wealth as a potential mechanism through which the black-white income mobility gap can be explained. The effect of wealth on mobility becomes even more timely in the context of the recent recession, which has had an effect on homeownership and mortgage foreclosures rates and may have had a substantial effect on families' overall wealth and debt levels. Evidence suggests that black families disproportionately faced housing foreclosures in the recession. Understanding the underlying relationship between family wealth and intergenerational income mobility will help to contextualize the implications of the recession for inequality in the next generation. Will this recession reduce black-white inequality, exacerbate inequality or have no effect on the likelihood of upward or downward mobility for subsequent generations?

*Data*

For this analysis I will utilize the Panel Study of Income Dynamics (PSID) and PSID Wealth Supplements. As the 2009 data has just recently been released, researchers have not yet been able to examine the effect of the recession using this dataset. The PSID has the advantage of following a nationally representative sample over time, while also having information about the income and wealth of two subsequent generations. However, while the PSID is nationally representative, it was not initially designed to be a wealth survey and therefore does not over-sample the wealthiest households, which is necessary to obtain precise estimates for this group. For this analysis I will only examine broad wealth categories (and will not focus on the top $10^{th}$ percentile of the wealth distribution), so this limitation should not have a large effect on my results.

*Methodology*

This paper will be composed of two separate sets of analyses. Answering the first set of questions regarding the effect of the recent recession on families' wealth holdings, I will use contemporary (2007-2009) PSID wealth supplements to provide a descriptive analysis of the changes in wealth/debt for various types of families. I will examine changes in wealth holdings at various points in the income distribution, as well as separate breakdowns by race, education, age and family structure. In addition to examining changes in net worth over time, I will examine changes in the composition of wealth and debt, specifically focusing on changes in home ownership, savings and consumer debt. I will also compare the changes in wealth from 2007 to 2009 to changes from previous recessionary time periods in the PSID to estimate the comparative magnitude of this recession on wealth holdings.

The second half of this analysis will utilize the complete PSID data to examine how wealth affects intergenerational income mobility. Using new methodology developed by Bhattacharya and Mazumder (2010) to calculate rates of upward and downward intergenerational income mobility by race, I will estimate directional probabilities conditional on parental wealth while the child was living at home age 12-18. Measuring parental wealth and income at this age will provide the best model for an estimation of the effect of capital constraints on intergenerational income mobility.

In the final paper, I will apply the descriptive findings on the impact of the recession on wealth holdings by race to the estimates generated from the conditional rank mobility analysis to estimate the impact of the recession on intergenerational mobility for the next generation. Combining these two sets of analyses will help inform policymakers about the potential long-term effects of the recession on inequality in the United States.

*Reference List*


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*Preliminary Results*

**Table 1. Median Net Worth by Race, 1984-2009 (2009$)**

| | 1984 | 1989 | 1994 | 1999 | 2001 | 2003 | 2005 | 2007 | 2009 | Change 2007-09 | Percent Change 2007-09 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Overall | 64,010 | 64,015 | 70,933 | 74,927 | 79,346 | 78,586 | 86,232 | 88,984 | 63,500 | -25,484 | -28.6% |
| White, non-Hispanic | 82,086 | 83,047 | 93,371 | 109,458 | 115,688 | 116,596 | 123,581 | 123,129 | 100,000 | -23,129 | -18.8% |
| Black, non-Hispanic | 4,749 | 8,132 | 10,423 | 10,302 | 14,537 | 11,660 | 10,985 | 9,830 | 5,000 | -4,830 | -49.1% |
| Wealth Ratios | 17 | 10 | 9 | 11 | 8 | 10 | 11 | 13 | 20 | | |

Source: Author's calculation of cross-sectional PSID Supplemental Wealth Files

**Table 2. Wealth Holdings by Asset Type and Race, 2007-2009**

| | White, non-Hispanic Families | | | | | | Black, non-Hispanic Families | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2007 | | | 2009 | | | 2007 | | | 2009 | | |
| | Percent holding asset type | Mean | Mean conditional on holding | Percent holding asset type | Mean | Mean conditional on holding | Percent holding asset type | Mean | Mean conditional on holding | Percent holding asset type | Mean | Mean conditional on holding |
| Real Estate | 17.6% | 64,723 | 368,537 | 17.7% | 126,286 | 714,284 | 6.8% | 9,977 | 147,449 | 6.0% | 10,391 | 174,144 |
| Vehicles | 85.9% | 15,902 | 18,511 | 86.8% | 15,217 | 17,541 | 67.7% | 8,506 | 12,564 | 67.2% | 7,842 | 11,673 |
| Farm/Business | 13.0% | 85,584 | 657,444 | 14.0% | 70,490 | 503,751 | 3.9% | 11,719 | 302,065 | 3.5% | 17,822 | 507,138 |
| Stocks | 28.8% | 68,390 | 237,275 | 27.1% | 49,929 | 184,033 | 5.6% | 3,093 | 55,503 | 3.8% | 8,221 | 214,918 |
| Savings | 88.6% | 33,864 | 38,234 | 88.1% | 37,210 | 42,214 | 58.1% | 7,485 | 12,874 | 54.9% | 7,264 | 13,227 |
| Main Home | 69.1% | 131,407 | 190,103 | 67.1% | 107,883 | 160,860 | 39.4% | 33,825 | 85,780 | 37.4% | 25,182 | 67,415 |
| Other Assets | 19.7% | 11,881 | 60,444 | 19.5% | 18,097 | 92,970 | 9.9% | 5,649 | 57,088 | 10.0% | 8,639 | 86,623 |
| IRA | 38.5% | 55,440 | 144,004 | 37.1% | 43,875 | 118,417 | 8.8% | 8,552 | 97,120 | 7.0% | 7,622 | 109,414 |
| Debt | 51.5% | 12,308 | 23,914 | 51.6% | 11,949 | 23,168 | 49.0% | 7,426 | 15,149 | 50.1% | 9,145 | 18,238 |

*Source: Author's calculations using PSID supplemental wealth data for families with same head in 2007 and 2009.*