



Public Sector Practice

The economic impact of closing the racial wealth gap



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The persistent racial wealth gap in the United States is a burden on black Americans as well as the overall economy. New research quantifies the impact of closing the gap and identifies key sources of this socioeconomic inequity.

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Preface

This year, McKinsey will bring together public-, private-, and social-sector leaders in the second annual Black Economic Forum in partnership with the Executive Leadership Council and Sigma Pi Phi Fraternity (Beta Iota Boulé). The focus will be on creating initiatives that can be piloted and scaled nationwide to narrow the racial wealth gap.

To support this conversation, we measured the impact of closing the racial wealth gap and identified its major causes. Additionally, to help bring a more strategic approach to this space, McKinsey has collaborated with 15 leading scholars and practitioners across the public, private, and social sectors and tapped into existing comprehensive scholarship to develop a new family-wealth-generation framework. If adopted, this approach could help different partners work together more seamlessly, increasing the impact of current efforts as well as identifying areas where additional help may be needed.

In leading this research, we received valuable contributions and insights from McKinsey colleagues, including Nick Noel and Duwain Pinder. This report was developed in collaboration with McKinsey Global Institute Economics Research. We wish to thank Vivien Singer and Krzysztof Kwiatkowski for their contributions.

While this report is the first in a series of publications on the racial wealth gap and the most promising ways to close it, preliminary areas of interest include preparing black workers for the economic effects of automation and addressing black families' needs relating to financial services and products. We hope that this report and its successors will inspire discussions and responses that will positively affect black families—and the entire economy.

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The United States has spent the past century expanding its economic power, and it shows in American families' wealth. Despite income stagnation outside the circle of high earners, median family wealth grew from \$83,000 in 1992 to \$97,000 in 2016 (in 2016 dollars).¹

Beyond the overall growth in top-line numbers, however, the growth in household wealth (defined as net worth—the net value of each family's liquid and illiquid assets and debts) has not been inclusive. In wealth, black individuals, families, and communities tend to lag behind their white counterparts. Indeed, the median white family had more than ten times the wealth of the median black family in 2016 (Exhibit 1). In fact, the racial wealth gap between black and white families grew from about \$100,000

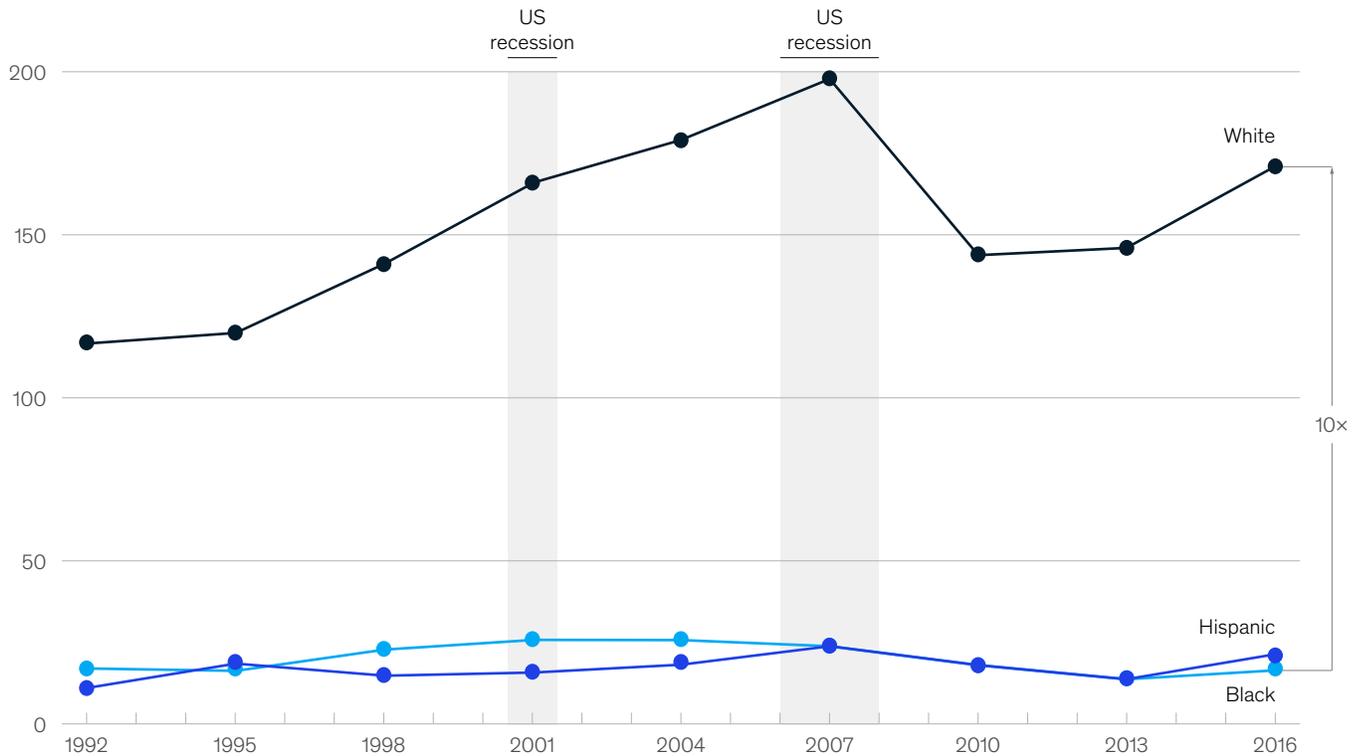
in 1992 to \$154,000 in 2016, in part because white families gained significantly more wealth (with the median increasing by \$54,000), while median wealth for black families did not grow at all in real terms over that period.

The widening racial wealth gap disadvantages black families, individuals, and communities and limits black citizens' economic power and prospects, and the effects are cyclical. Such a gap contributes to intergenerational economic precariousness: almost 70 percent of middle-class black children are likely to fall out of the middle class as adults.² Other than its obvious negative impact on human development for black individuals and communities, the racial wealth gap also constrains the US economy as a whole. It is estimated that its dampening effect

Exhibit 1

There is a wide and persistent gap in wealth between white and black families.

Median family wealth in 1992–2016 by ethnicity/race, \$ thousand¹



¹2016 dollars.

Source: "2016 survey of consumer finances," Federal Reserve Board, September 2017, federalreserve.gov

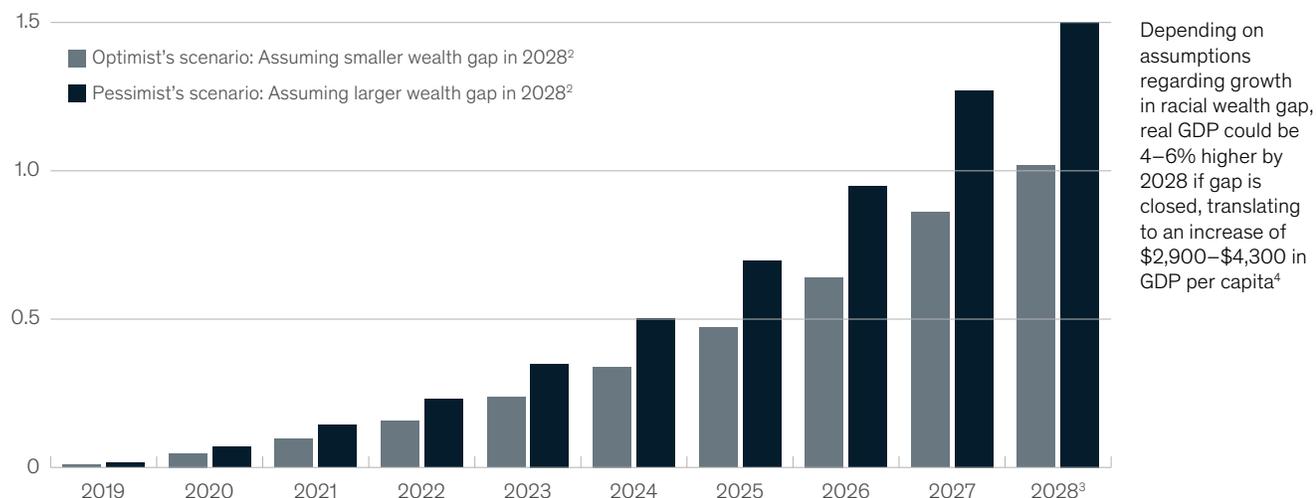
¹ "2016 survey of consumer finances," Federal Reserve Board, September 2017, federalreserve.gov.

² *Social mobility memos*, "Five bleak facts on black opportunity," blog entry by Edward Rodrigue and Richard V. Reeves, January 15, 2015, brookings.edu.

Exhibit 2

By closing the racial wealth gap, the US GDP could be 4 to 6 percent higher by 2028.

Real GDP increase from closing racial wealth gap, \$ trillion¹



¹2018 dollars.

²Assumes that, over time, wealth gap will close in linear fashion, reaching scenario's assumed targets by 2028.

³\$2,631 billion–\$3,990 billion in nominal dollars.

⁴\$7,500–\$11,400 in nominal dollars.

Source: "2016 survey of consumer finances," Federal Reserve Board, September 2017, federalreserve.gov; Oxford Economics; McKinsey Global Institute analysis

on consumption and investment will cost the US economy between \$1 trillion and \$1.5 trillion between 2019 and 2028—4 to 6 percent of the projected GDP in 2028 (Exhibit 2; see also sidebar "Quantifying the economic impact of closing the racial wealth gap").

Despite the progress black families have made in civic and economic life since the passage of the Civil Rights Act of 1964, they face systemic and cumulative barriers on the road to wealth building due to discrimination, poverty, and a shortage of social connections (including role models and mentors in their communities) as both mechanisms and results of racial economic inequity.³ These adverse elements have helped maintain a persistent—and widening—wealth gap.

Because understanding the scope of a problem is vital to solving it, we use this report to quantify the economic impact of closing the racial wealth gap,

identify the underlying issues that help perpetuate the gap, and set the stage for discussions about ways to close the gap. Unsurprisingly, the barriers to wealth building for black families are numerous enough to merit in-depth exploration, so we have dedicated this report to understanding the pieces of black Americans' financial lives that add up to significantly less than those of their white peers.

To help break down and articulate the problems that contribute to the wealth gap, we have developed a new framework to capture the factors that perpetuate it. Our research found that economic barriers affect black families across the following dimensions (see sidebar "Components of wealth generation for a family"):

- **Community context.** The collection of public and private assets in a given community
- **Family wealth.** The net value of a family's pool of financial and nonfinancial assets

³ Raj Chetty et al., *Race and economic opportunity in the United States: An intergenerational perspective*, Opportunity Insights, March 2018, revised June 2019, opportunityinsights.org.

Quantifying the economic impact of closing the racial wealth gap

Estimating the economic impact of closing the racial wealth gap is a daunting task because the gap is the product of complex interactions among social, historical, political, and institutional forces. To account for a sufficiently comprehensive range of factors while offering an accessible concept, we turned to the Oxford model, an econometrics model widely used for forecasting. We modeled economic outcomes for the United States under two distinct scenarios to measure the impact on GDP that would result from closing the wealth gap over the 2019–28 time frame and used income, tangible investments, and stock-market investments as components of wealth in our model.

In the first scenario (the optimist’s scenario), we estimate the effect of narrowing the wealth gap between black and white Americans from its 2016 level. We calculate the economic effects by assuming that each group’s wealth continues to grow at their 1989–2016 rates (0.8 percent

per year on average for white people and 3 percent for black people). Given this optimistic assumption that black wealth grows faster than white wealth, the wealth gap would narrow but still be substantially large (7.7 times). Closing that gap in this scenario would add \$1 trillion to the 2028 economy.

In the second scenario (the pessimist’s scenario), we assume the wealth gap will widen from now to 2028, with white wealth growing at 3.4 percent per year, its average growth rate from 1992 to 2007, the period in the past 20 years in which it grew the most quickly. Conversely, we assume that black wealth will decline by 3.4 percent per year, the rate at which it declined from 2004 and 2016, the period in the past 20 years in which it declined the most quickly. Given this pessimistic assumption that black wealth declines dramatically as white wealth rises dramatically, the wealth gap would grow significantly (22.7 times). Closing the racial wealth gap in this second

scenario would add \$1.5 trillion to the economy in 2028.

To understand how closing the wealth gap would affect the economy, we use the three components of GDP for which the gaps between white and black Americans are the largest: housing (as a proxy for tangible investments),¹ consumption,² and stock-market investments.³

To create the two scenarios, we calculated the total value of the relevant gaps in wealth-building activities and calculated the share of each in the total gap. Tangible investments were 50 percent of the gap, private consumption made up 23 percent, and stock-market investments made up the remaining 27 percent. Finally, we proportionally weighted each of the components, applied each to the value of the entire wealth gap, and “shocked” the model by increasing the value of each component of the wealth gap to assess the potential impact on GDP.

¹ “2013–2017 ACS 5-year estimates,” US Census Bureau, November 28, 2018, census.gov. We used current data on homeownership and calculated the number of black families that would need to become homeowners to attain homeownership parity with white families. We then multiplied that figure by median home prices (around \$300,000) to calculate the housing gap.

² “Consumer expenditure surveys,” US Bureau of Labor Statistics, 2017, bls.gov. We calculated the difference in average annual consumption expenditures between black and white families. We then multiplied that difference by the total number of black families, which resulted in the consumption gap.

³ “2016 survey of consumer finances,” Federal Reserve Board, September 2017, federalreserve.gov. We calculated the average difference in the total value of stocks held by black and white families. We then multiplied that difference by the number of black families to calculate the investment gap.

- **Family income.** The cash flow a family receives from entrepreneurship or its members’ participation in the labor market
- **Family savings.** The tools and benefits a family can access to turn income into savings and wealth for families and the community

This same framework will help us identify solutions in subsequent reports. Indeed, the public, private, and social sectors will need to contribute to rectify structural inequities that contribute to the racial wealth gap. A number of simultaneous and mutually

reinforcing initiatives will likely be necessary. This work will be neither simple nor easy, but targeted, productive efforts will likely strengthen the economy, increase economic and social equity, and improve the quality of life for families.

Unmet needs in family-wealth building

The ideal wealth-building scenario requires favorable circumstances across the dimensions of community context, family wealth, family income, and family savings. Our analysis found

Components of wealth generation for a family

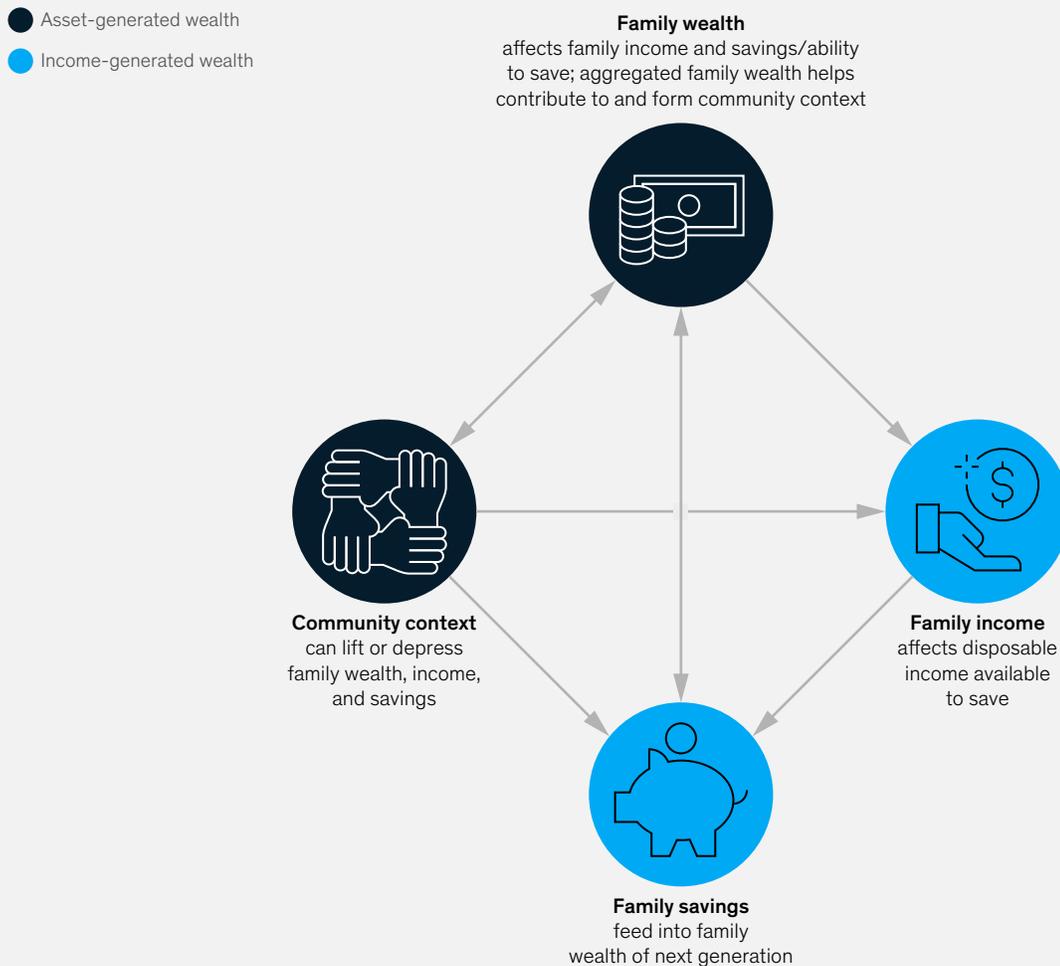
Four elements account for the majority of a family's ability to build wealth across a generation: community context, family wealth, family income, and family savings. Within each stage, families begin with differing initial endowments and go through different processes and decision points

while facing varying levels of constraints on their options. We identified these inputs after performing a literature review of more than 100 studies and articles that explore the state of and contributors to the racial wealth gap and then conducted proprietary research to understand the

way in which the obstacles we identified fit together. We used our findings to construct a wealth-generation framework for families. In collaboration with 15 scholars and practitioners from the public, private, and social sectors, we then tested and refined the validity of our framework over the course of 2018.¹

Exhibit

Interactions among the elements of family-wealth generation can promote economic stability, help propel families toward prosperity, or impede progress.



¹ In earlier iterations, the wealth-generation framework was sometimes referred to as a "middle-class black-family journey." See *New at McKinsey Blog*, "New research highlights gap between race and earning power in the US: Meet the authors," blog entry, October 22, 2018, McKinsey.com.

Components of wealth generation for a family (continued)

Community context

Community context refers to where families begin the wealth-building process. Each community is composed of the collection of public and private assets in a given community. These assets overlap with the economic, social, cultural, and political networks and institutions that tend to reinforce existing socioeconomic patterns. For instance, communities with high levels of economic activity and rich social networks tend to produce more affluent families and contain assets (such as homes and businesses) that are valued more highly. Conversely, communities that lack economic activity and connections to opportunities tend to perform poorly.

Family wealth

Family wealth refers to how families develop the stock of wealth available to

them. This wealth reflects the net value of a family's pool of financial and nonfinancial assets. For example, the value of a family's home, small business, and retirement accounts plus a family's liquid assets less the value of its credit-card debt, business loans, and student loans would make up that family's wealth.

Family income

Family income represents how families come to earn the cash flows they receive from either entrepreneurship or their participation in the labor market. For instance, a family member's salary as a business owner and the hourly wages of a second family member both count toward family income.

Family savings

Family savings represent how families interact with the rules that govern savings

and wealth creation as well as the tools and benefits that families can access to manage household expenses, smooth consumption, and add to family wealth and community context. For example, pretax commuting benefits, state and local tax deductions, and checking accounts are benefits and tools that help families save.

Interactions among the elements of family-wealth generation can promote economic stability, help propel families toward prosperity, or impede progress (exhibit). Of course, the components and their interactions can also tether individuals to their families' socioeconomic status. For instance, a family that lives in an impoverished community is likely to struggle to accumulate family wealth and save.

that black families' wealth building is constrained by unmet needs and obstacles across these dimensions compared with white families: a factor that contributes to a widening gap between white families and black families.

Community context

The 16 states that are home to 65 percent of the black residents in the United States perform below the national average on all categories of performance. This can compound the disadvantages black citizens face based on the communities that they live and work in (Exhibit 3).⁴

In particular, the states in which black residents are concentrated are well below the national averages in economic opportunity, employment, healthcare access, healthcare quality, public health, and access to broadband. At the neighborhood level, black families are up to 4.6 times more likely than white and Hispanic families to live in areas of concentrated poverty.⁵ Not even high-income black families are exempt: the average black family with a household income of \$100,000 lives in a neighborhood where the average income is \$54,000.⁶

This kind of racialized disadvantage has historical roots. Institutional forces, such as the National

⁴ André Dua, Navjot Singh, Aly Spencer, and Tim Ward, "High-performing US states: Is there a secret to success?," February 2018, McKinsey.com.

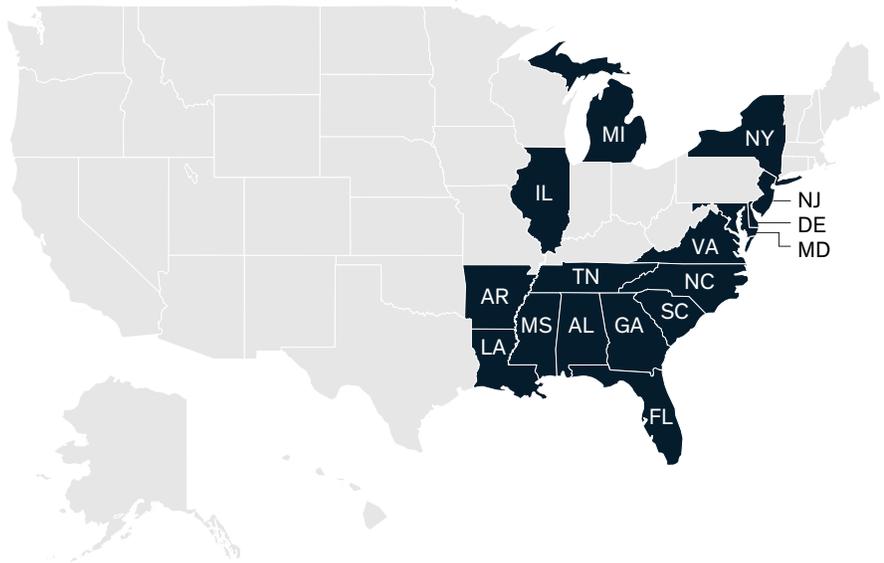
⁵ Marc Parry, "The neighborhood effect," *Chronicle of Higher Education*, November 5, 2012, chronicle.com. Areas of concentrated poverty are defined by census tracts in which 40 percent or more of the population lives below the federal poverty line.

⁶ David Leonhardt, "Middle-class black families, in low-income neighborhoods," *New York Times*, June 24, 2015, nytimes.com.

Exhibit 3

Black families are concentrated in a few states that have unfavorable economic and social conditions.

There are 16 states in which black population exceeds national average¹

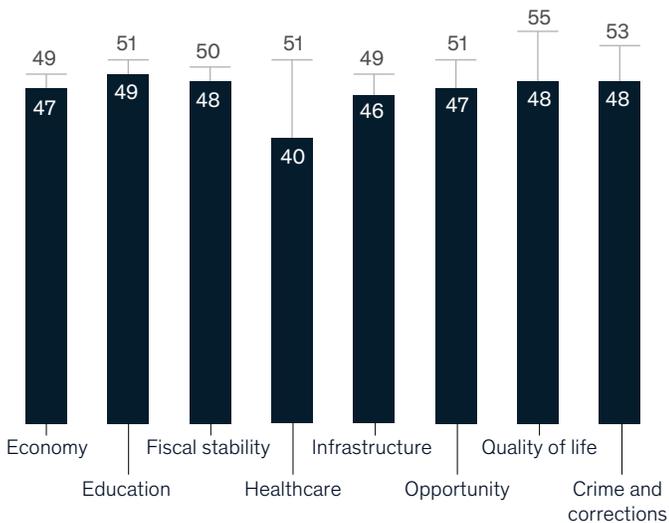


65%
of the black population is concentrated in these 16 states

On average, these states score below national average in every Leading States Index² category that includes 77 metrics of state performance

Leading States Index scores

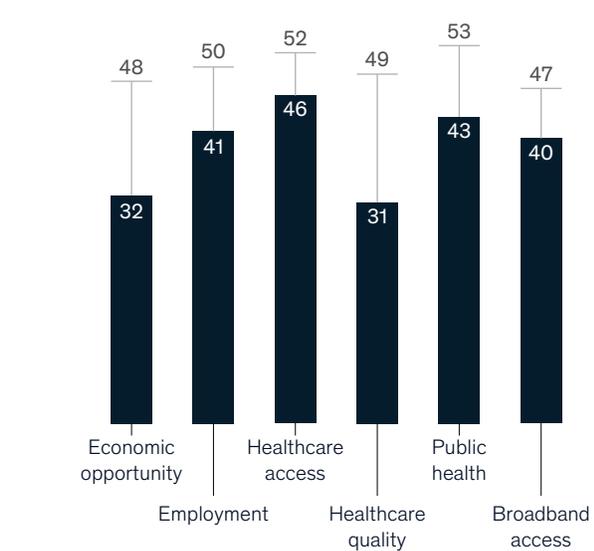
■ Average for states with higher-than-average black population
┆ National average



These states score well below national average in Leading States Index² subcategories that can accelerate wealth generation

Leading States Index scores

■ Average for states with higher-than-average black population
┆ National average



¹Defined as states in which proportion of black residents is greater than national average (13.4%).

²Scores on Leading States Index can range from -150 to 150.

Source: 2017 US census; Leading States Index by McKinsey, 2018

Housing Act of 1934, contributed to structural racial and socioeconomic segregation, limiting many black families' housing options to those in D-rated neighborhoods, which are characterized by distressed housing stock, lower-income residents, and overall decline.⁷ The majority of black families have remained in these neighborhoods. Such circumstances often make it more difficult for families to build wealth within a single generation, let alone across generations.

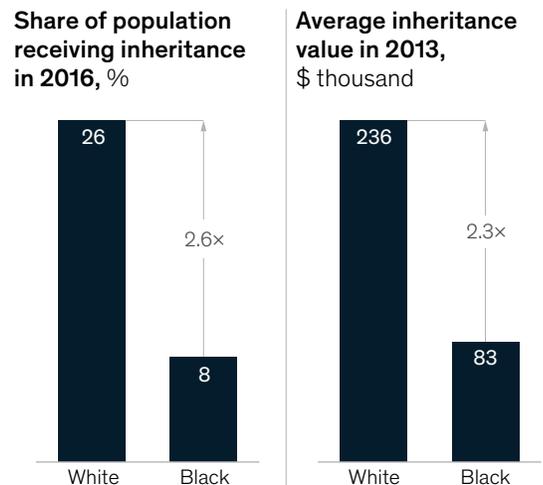
Family wealth

Equity capital, liquid savings, credit, and access to investable assets are key to a stable base of family wealth. Black families have uneven access to each of these components, which constrains their ability to develop material and diversified asset portfolios. Black families begin with lower levels of wealth: only 8 percent of black families receive an inheritance, compared with 26 percent of white families (Exhibit 4).⁸ When an inheritance does come, it is 35 percent of the value of that of a white family.⁹ This difference in “starter” wealth also affects other components of the wealth-generation process: recent research shows that black college graduates' wealth actually declines after graduation because they are more likely than white college graduates to support their parents financially instead of the other way around.¹⁰

In addition to supporting family members financially, black families are 1.3 times more likely than white families to have student debt, and they have balances that are 1.7 times higher than those of white families.¹¹ Because education is an intangible asset that cannot serve as collateral, black families that face temporary financial difficulties are often unable to service their student loans. At scale, this dynamic means that black borrowers are 2.3 times more likely than white borrowers to default on

Exhibit 4

Black families begin with lower endowments of equity capital because of differences in rates of inheritance.



Source: “2016 survey of consumer finances,” Federal Reserve Board, September 2017, federalreserve.gov; Jeffrey P. Thompson and Gustavo A. Suarez, “Exploring the racial wealth gap using the survey of consumer finances,” Federal Reserve Board, August 2015, federalreserve.gov

student loans—this translates to roughly one out of every two undergraduate black students.¹²

Black consumers are 73 percent more likely than white consumers to lack a credit score.¹³ Black consumers also face discrimination in credit access based on where they live via a phenomenon called “credit redlining.” A Federal Reserve Board study (using data from a major credit bureau) of more than 285,000 people found that consumers living in neighborhoods where white residents are predominant were more likely to get credit cards than consumers living in neighborhoods where black

⁷ Terry Gross, “A ‘forgotten history’ of how the U.S. government segregated America,” NPR, May 3, 2017, npr.org.
⁸ Lisa J. Dettling et al., “Recent trends in wealth-holding by race and ethnicity: Evidence from the survey of consumer finances,” Federal Reserve Board, September 27, 2017, federalreserve.gov.
⁹ Dave Buchholz, Jeff Larrimore, and Jeff Thompson, “Federal Reserve surveys of the economic well-being of US households: SCF and SHED,” Urban Institute, January 21, 2016, urban.org.
¹⁰ Tatjana Meschede et al., “Family achievements?: How a college degree accumulates wealth for whites and not for blacks,” Federal Reserve Bank of St. Louis Review, First quarter 2017, Volume 99, Number 1, pp. 121–37, research.stlouisfed.org.
¹¹ Breno Braga, “Racial and ethnic differences in family student loan debt,” Urban Institute, July 25, 2016, urban.org.
¹² Jennie H. Woo et al., *Repayment of student loans as of 2015 among 1995–96 and 2003–04 first-time beginning students: First look*, National Center for Education Statistics, October 2017, nces.ed.gov.
¹³ *Who are the credit invisibles? How to help people with limited credit histories*, Consumer Financial Protection Bureau, December 2016, consumerfinance.gov.

residents are predominant.¹⁴ These factors result in a credit-denial rate on loans (such as mortgages) that is twice the rate of those for white consumers.¹⁵

The difficulty of accessing credit for hard assets and an outsize student-loan debt leaves black families with less-diversified asset portfolios. Only 7 percent of black Americans' assets are in business equity (often a product of entrepreneurship), compared with 16 percent for white families.¹⁶ But even when it comes to the most common way for Americans to hold wealth, only about 40 percent of black families own a home, compared with 73 percent of white families.¹⁷ When black families do own homes, their homes are less likely to appreciate in value—and they appreciate more slowly when they do. Neighborhood differences and the quality of homes can explain only part of this low rate of appreciation. Researchers posit that racial animus can account for the remaining difference in appreciation between black-owned and white-owned homes.¹⁸

An additional pathway to building wealth is through investments in securities, but black families are less likely to own stocks than white families are, partly because black families have fewer funds with which to invest, and partly because black communities have historically struggled to trust the stock market. As of 2016, middle-class black families are making progress toward closing the investment gap: 67 percent of black Americans with incomes of at least \$50,000 were invested in the stock market or mutual funds, compared with 86 percent of white Americans.¹⁹ In 2010, the split was 60 percent and 79 percent, respectively. But holding securities is not enough. Black Americans must match white Americans' level of investment in securities before they can derive comparable benefits from these investments.

Family income

Black Americans can expect to earn up to \$1 million less than white Americans over their lifetimes.²⁰ This discrepancy is the product of a lifetime of diverging circumstances. For instance, without a resource-rich community or family of origin, individual families may improve their economic positions with their earnings. A family can increase its earning potential by attaining more education to develop its store of human capital. However, black families face serious obstacles on the journey through the education system and converting education to stable employment that provides rising incomes. Obstacles that reduce lifetime earning potential come in the form of poor school quality, differential treatment in the criminal-justice system, workplace discrimination, career selection, and a lack of role models who can guide professionals' career advancement (see sidebar "Damaging interactions with the criminal-justice system").

Early in life, black children are exposed to factors that can constrain lifetime earnings. Significantly, 45 percent of black children attend high-poverty schools (in which at least 75 percent of students are eligible for free or reduced-price lunch), nearly six times the rate of white children.²¹ Growing up in such schools lowers children's probabilities of graduating from high school and attending college—crucial ways to increase earning potential.²² As a result, only 24 percent of the black population over the age of 25 holds a bachelor's degree or higher as of 2017—ten percentage points lower than the comparable white population.²³

Once in the workforce, black workers experience higher churn and more vulnerable workforce positioning compared with their white peers.

¹⁴ Connie Prater, "Who gets credit cards may be a matter of black and white," CreditCards.com, June 4, 2008, creditcards.com.

¹⁵ Kristen Bialik and Drew DeSilver, "Blacks and Hispanics face extra challenges in getting home loans," Pew Research Center, January 10, 2017, pewresearch.org.

¹⁶ "2016 survey of consumer finances," Federal Reserve Board, September 2017, federalreserve.gov.

¹⁷ Troy McMullen, "The 'heartbreaking' decrease in black homeownership," *Washington Post*, February 28, 2019, washingtonpost.com.

¹⁸ David Harshbarger, Andre M. Perry, and Jonathan Rothwell, *The devaluation of assets in black neighborhoods: The case of residential property*, Brookings Institution, November 27, 2018, brookings.edu.

¹⁹ Gail Marksjarvis, "Blacks participating more in stock investing, study shows," *Chicago Tribune*, February 2, 2016, chicagotribune.com.

²⁰ "Nine charts about wealth inequality in America (updated)," Urban Institute, October 5, 2017, urban.org.

²¹ *Urban Wire*, "High-poverty schools undermine education for children of color," blog entry by Reed Jordan, May 19, 2015, urban.org.

²² *Clearinghouse Today Blog*, "Nearly 1 in 5 graduates from high-poverty high schools graduate from college within six years," blog entry, October 27, 2017, studentclearinghouse.org.

²³ "Educational attainment in the United States: 2017," US Census Bureau, December 14, 2017, census.gov.

Damaging interactions with the criminal-justice system

Because of a combination of racial animus and early exposure to environments unfavorable for accumulating human capital, a disproportionate number of black Americans interact with the criminal-justice system in ways that degrade their human capital and depress lifetime earnings.¹ The outcomes of these interactions, measured by incarceration rates, point to unequal treatment between black and white citizens: 33 percent of the incarcerated population is black, almost triple the black citizens' share of the US population. Meanwhile, the white citizens' share of inmates is half of their share of the general population.²

It is obvious that incarceration reduces earning power, but the numbers put a sharp point on its financial and human costs. Incarceration is estimated to reduce annual wages by 40 percent—not including the lost wages during the time served—for the formerly incarcerated, reduces their economic mobility, and even increases the risk of school expulsion six times for their children.³ In addition, the specters of crime and incarceration weigh more heavily on black Americans: black men without criminal records are actually less likely to receive job interviews than are white men who have criminal records.⁴

In addition to the costs of incarceration, interactions with the criminal-justice system are expensive. Financial penalties and expenses related to the criminal-justice process, such as fines and cash bail, impose additional burdens on black families. In fact, cities with higher concentrations of black residents levy disproportionately high levels of monetary sanctions: \$28.60 per capita for cities in the top quintile of the share of the black population and \$9.10 per capita for cities in the bottom quintile.⁵

¹ Robert Manduca and Robert J. Sampson, "Punishing and toxic neighborhood environments independently predict the intergenerational social mobility of black and white children," *Proceedings of the National Academy of Sciences of the United States of America*, April 2019, Volume 116, Number 16, pp. 7772–7, pnas.org.

² John Gramlich, "The gap between the number of blacks and whites in prison is shrinking," Pew Research Center, April 30, 2019, pewresearch.org.

³ Collateral costs: Incarceration's effect on economic mobility, Pew Charitable Trusts, 2010, pewtrusts.org.

⁴ *Sociological images*, "Race, criminal background, and employment," blog entry by Gwen Sharp, April 3, 2015, thesocietypages.org.

⁵ Patrick Liu, Ryan Nunn, and Jay Shambaugh, *Nine facts about monetary sanctions in the criminal justice system*, Brookings Institution, March 15, 2019, brookings.edu.

Black workers also experience lower rates of professional advancement, as seen by the attrition of black professionals at each successive level of responsibility—and compensation—on the path from entry-level worker to executive (Exhibit 5).²⁴

In addition, black workers are unemployed at twice the rate of white workers, a pattern that holds even when controlling for education, duration of unemployment, and reason for unemployment.²⁵ The effect is large enough that black workers who hold bachelor's degrees experience a rate of unemployment similar to that of white workers with no college education.²⁶

Like other minorities and disadvantaged groups, black workers also face discrimination in the workplace. A 2015 study found that black workers are "subject to more scrutiny" or held to a "higher standard" than white workers.²⁷ Black workers make up 13 percent of the US workforce, but racial discrimination against this group accounts for 26 percent of all claims filed with the Equal Employment Opportunity Commission and its partner agencies (see sidebar "Intersecting minority identities and earning power").²⁸ In aggregate, these factors constrain black families' ability to build human capital and earning power.

²⁴ Alexis Krivkovich, Marie-Claude Nadeau, Kelsey Robinson, Nicole Robinson, Irina Starikova, and Lareina Yee, "Women in the workplace 2018," October 2018, McKinsey.com.

²⁵ *CEPR Blog*, "The different experiences of black unemployment and white unemployment," blog entry by Nick Buffie and Sarah Rawlins, March 30, 2017, cepr.net.

²⁶ "Labor force statistics from the current population survey," US Bureau of Labor Statistics, January 18, 2019, bls.gov.

²⁷ Costas Cavounidis and Kevin Lang, "Discrimination and worker evaluation," National Bureau of Economic Research working paper, Labor Studies Series, number 21612, October 2015, nber.org.

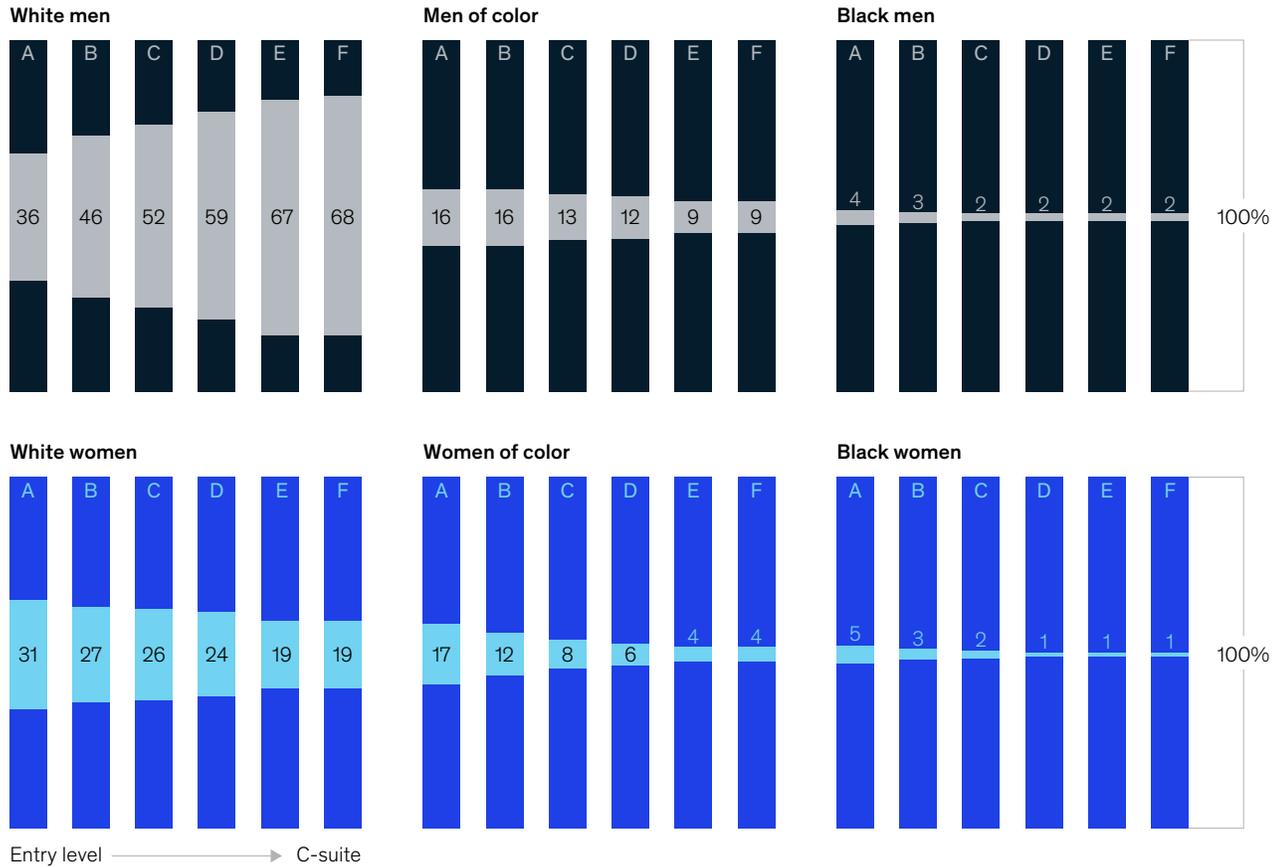
²⁸ Maryam Jameel and Joe Yerardi, "Workplace discrimination is illegal. But our data shows it's still a huge problem," a joint article from Center for Public Integrity and Vox Media, February 28, 2019, vox.com.

Exhibit 5

The pipeline to highly compensated executive roles sheds professionals of color, especially black professionals, at every level.

Share of professionals by role category, %¹

A Entry-level professional, B manager, C senior manager/director, D vice president, E senior vice president, F C-suite professional



¹From study of 279 North America-focused companies. Figures may not sum to 100%, because of rounding.
Source: *Women in the Workplace 2018*, joint report by LeanIn.Org and McKinsey, October 2018, womenintheworkplace.com

Because they are likely to be excluded from information networks about high-potential professions, fields, and opportunities, black professionals tend to take supportive roles in established industries instead of roles in high-growth industries. Indeed, black employees are underrepresented in seven of the eight highest-paying industries and five of the eight fastest-growing industries.

Significantly, black workers are underrepresented in self-directed, creative roles (such as software developer), which have lower-than-average

automation potential, and overrepresented in supportive roles (such as truck driver), which have higher-than-average automation potential. This distribution of black employment makes even employed black workers vulnerable, especially as automation spreads throughout the economy. Supportive roles are predicted to grow at 1.5 percent over the next decade, significantly lower than the 8.8 percent growth predicted for self-directed roles over the same period (Exhibit 6). These roles offer lower pay, with an average wage of around \$32,000, compared with nearly \$68,000 for

Intersecting minority identities and earning power

Black families' earning power is constrained by socioeconomic factors as well as discrimination that affects black people in the United States. At the same time, black Americans who have additional minority identities, such as ones around gender, sexual orientation, health status, and disability, must contend with additional obstacles to wealth building. Black women are an instructive example of the ways in which intersecting disadvantages depress families' wealth: the median wealth of a single black woman is \$200, compared with the median wealth of a single white man, which is \$28,900, because of factors such as higher levels of debt and lower incomes.¹

Just as black Americans are more likely to carry debt than white Americans are, women are more likely to carry debt than men are—educational debt as well as cumulative debt from interactions with payday lenders.² The dual effects of race and gender mean that black women are doubly affected. And while black women could use their income to pay down their debt, they have lower earning power than both white peers and male peers. Black women already see lower lifetime earnings than their white peers do because of their race. At the median, black men earn 74 percent as much as white men. For black women, their gender further constrains their earning power: they earn

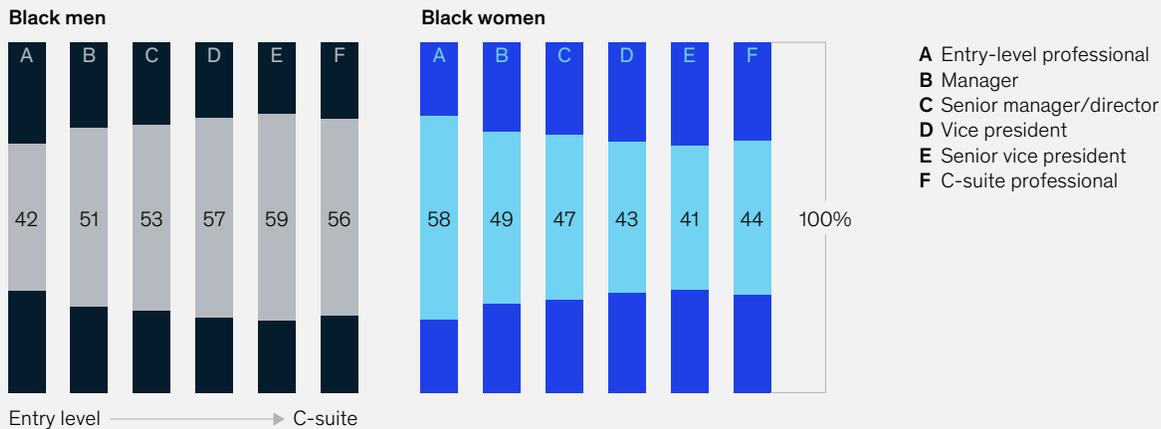
89 percent as much as black men. This dual “wage penalty” means that the median black woman earns 65 percent as much as the median white man.³

At the root of black women's lower earning power is their “job segregation” into roles and fields that are lower paying than alternative paths. This pattern is also seen in the executive-advancement pipeline. Black employees are already underrepresented in the workforce and in higher-paying positions of authority and responsibility. Black women are especially underrepresented in senior-executive roles, despite making up a larger share of the entry-level

Exhibit

The path to executive roles tends to shed black women, especially in the transition to management roles.

Share of black professionals by role category, %¹



¹From study of 279 North America–focused companies.

Source: *Women in the Workplace 2018*, joint report by LeanIn.Org and McKinsey, October 2018, womenintheworkplace.com

¹ Heather McCulloch, *Closing the women's wealth gap: What it is, why it matters, and what can be done about it*, Closing the Women's Wealth Gap, January 2017, womenswealthgap.org.

² Ibid.

³ Heidi Hartmann and Ariane Hegewisch, *The gender wage gap: 2018 earnings differences by race and ethnicity*, Institute for Women's Policy Research, March 7, 2019, iwpr.org.

Intersecting minority identities and earning power (continued)

population than black men do (exhibit). In fact, black women are more likely than any other demographic group to experience microaggressions in the workplace, including having their experiences and expertise questioned, which has the effect of holding black women to higher levels of demonstrated competence.⁴

Notably, due to more overt discrimination in the private sector, black women have become overrepresented in the public sector. These women forego private-sector roles with higher earning potential

for the relative stability of public-sector roles. However, even this state of affairs is changing as public-sector employment has contracted and funding has become more volatile, leaving many black women with fewer economic options.⁵

In addition to facing conventional economic pressures, black women are more likely to function as physical and emotional caretakers, overseeing the well-being of their families and communities—all while living as sole income earners of their families. The heads of single-income households

are often black single mothers: 66 percent of black children live in single-parent households, and 46 percent of households with a single mother at their heads live at or below the poverty line.⁶

Black American women's economic experiences demonstrate that intersecting minority identities can intensify disadvantages. Any holistic solution to the racial wealth gap should consider addressing the effects of multiple interactive factors to serve a larger number of black Americans.

⁴ Alexis Krivkovich, Marie-Claude Nadeau, Kelsey Robinson, Nicole Robinson, Irina Starikova, and Lareina Yee, "Women in the workplace 2018," October 2018, McKinsey.com.

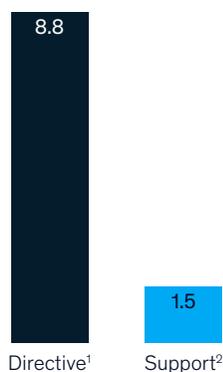
⁵ Mike Maciag, "Black and out of work: How the Recession changed government employment," *Governing*, December 2015, governing.com; Ari Shapiro, "Barely treading water: Why the shutdown disproportionately affects black Americans," NPR, January 14, 2019, npr.org.

⁶ Andrea Flynn et al., *Rewrite the racial rules: Building an inclusive American economy*, Roosevelt Institute, June 2016, rooseveltinstitute.org.

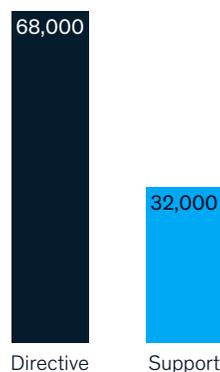
Exhibit 6

Black workers are more likely than white workers to be in support roles, which are slower growing and lower paying than directive roles.

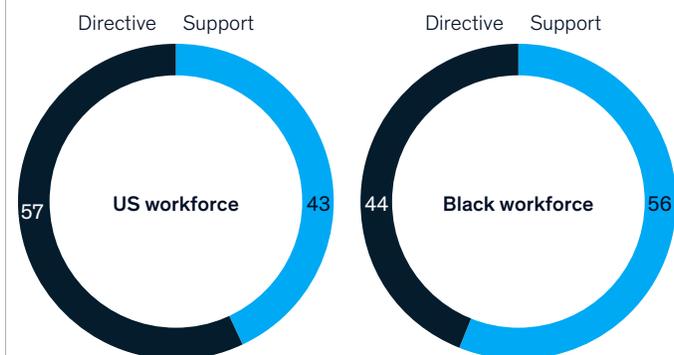
2016–26 estimated average job growth, %



Estimated annual median income, \$



Share of workforce by type of role, %



¹Such as executive/senior-level officers and managers, first/middle-level officers and managers, professionals, craft workers, salespeople, and technicians.

²Such as administrative-support workers, laborers and helpers, operatives, and service workers.

Source: US Bureau of Labor Statistics; US Equal Employment Opportunity Commission; McKinsey Global Institute analysis

workers in self-directed roles.²⁹ Furthermore, these roles have higher proportion of time that can be automated with currently available technology (Exhibit 7).³⁰ As the work shifts due to automation, black Americans are likely to be disproportionately affected. Broadly, we calculate that black Americans are at risk of losing 459,000 more jobs than white Americans are because of these jobs' higher automation risk.³¹

Family savings

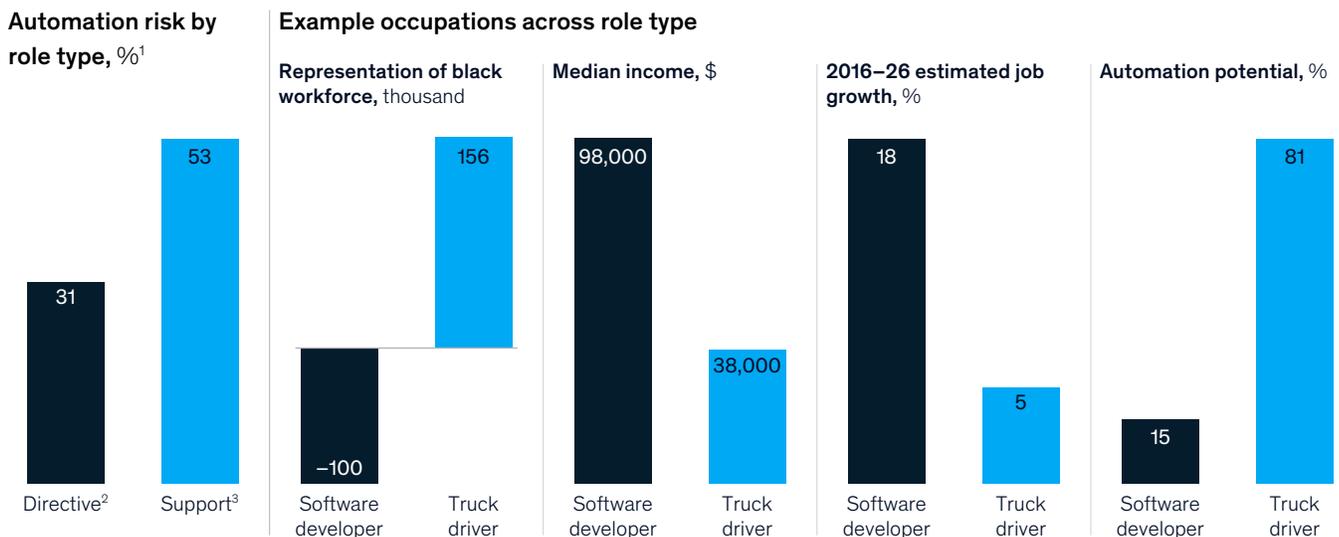
While savings can be a source of financial stability, black families are less able to accumulate savings than white families are (because of their high expenses relative to incomes), have less access to affordable financial tools, and are entitled to lower

employment-linked benefits. As a result, a typical black family has only one-sixth the liquid savings of a white family. Even a black family's support network is literally poorer: in an emergency, most black families would not know someone who could lend them \$3,000.³²

To begin with, it is more expensive to be a black family, which eats away at families' ability to save. For example, a study found that Chicago car dealers offered higher prices to black prospective car buyers than to white, male prospective buyers, even though participants used identical bargaining strategies.³³ In addition, 30 percent of black families spend more than 50 percent of their income on housing.³⁴ Black families are also twice as likely as white families to lack enough liquid savings to

Exhibit 7

Support roles have a much higher risk of automation, which increases black workers' relative risk of automation.



¹Share of employee time automatable by adapting currently available technology, as calculated by multiplying automation potential of each role by number of employees in each role.

²Such as executive/senior-level officers and managers, first/middle-level officers and managers, professionals, craft workers, salespeople, and technicians.

³Such as administrative-support workers, laborers and helpers, operatives, and service workers.

Source: US Bureau of Labor Statistics; McKinsey Global Institute analysis

²⁹ "Employment by detailed occupation," US Bureau of Labor Statistics, January 30, 2018, bls.gov.

³⁰ David Baboolall, Duwain Pinder, Shelley Stewart III, and Jason Wright, "Automation and the future of the African American workforce," November 2018, McKinsey.com.

³¹ Ibid.

³² *What resources do families have for financial emergencies? The role of emergency savings in family financial security*, Pew Charitable Trusts, November 2015, pewtrusts.org; Lisa J. Dettling et al., "Recent trends in wealth-holding by race and ethnicity: Evidence from the survey of consumer finances," Federal Reserve Board, September 27, 2017, federalreserve.gov.

³³ Ian Ayres and Peter Siegelman, "Race and gender discrimination in bargaining for a new car," *American Economic Review*, June 1995, Volume 85, Number 3, pp. 304–21.

³⁴ "Renter cost burdens by race and ethnicity (1B)," Harvard Joint Center for Housing Studies, November 30, 2017, jchs.harvard.edu.

pay each month's expenses.³⁵ These cost burdens have cascading effects on the lower levels of the economic ladder: prolonged difficulty affording monthly expenses makes evictions more likely. As a result, while black Americans make up 13 percent of the US population, they make up 40 percent of the homeless population.³⁶

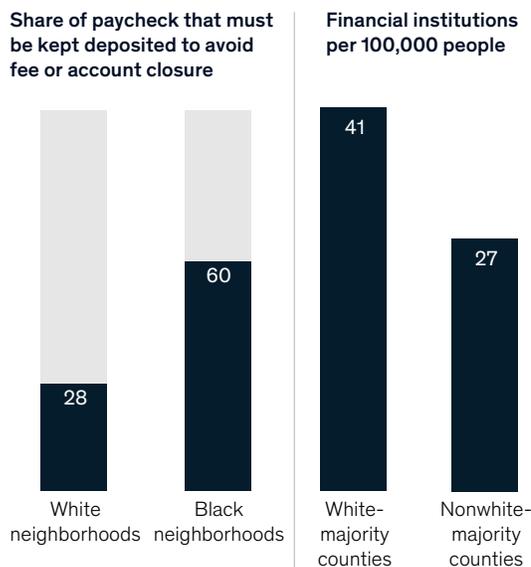
When black families can consider saving, they have less access to private savings tools through institutions like the mainstream banking system.³⁷ The relative lack of access to mainstream banking, high availability of high-cost financial services (such as payday lending in neighborhoods where black families disproportionately live),³⁸ and lower levels of social benefits lead to higher expenses and contribute to the racial gap in family savings (Exhibit 8).

Black families are underserved and overcharged by institutions that can provide the best channels for saving. For instance, banks in predominantly black neighborhoods require higher minimum balances (\$871) than banks in white neighborhoods do (\$626).³⁹ Unsurprisingly, 30 percent of black families are underserved by their banks, and 17 percent are completely disconnected from the mainstream banking system because of a lack of assets and a lack of trust in financial institutions (Exhibit 9).⁴⁰

As discussed in the family-income section of this report, black families are more likely than white families to be unemployed or employed part time. This locks them out of the employment-linked benefits (such as healthcare and retirement-savings accounts) that can protect families from things like economic shocks resulting from poor health and that can help families build savings. In addition, other tax-linked benefits, such as mortgage deductions, are less accessible to black families because of racial gaps in homeownership.

Exhibit 8

Banking with traditional institutions can be expensive—as well as harder to access in communities of color.



Source: Parker Cohen, Stephanie Landry, and Santiago Sueiro, "Analyzing the landscape of saving solutions for low-income families part 1: The savings crisis and the need for holistic solutions," Prosperity Now, April 2019, prosperitynow.org; Jacob Faber and Terri Friedline, "The racialized costs of banking," New America, June 21, 2018, newamerica.org

Mainstream financial institutions can help families accumulate wealth, and health insurance can help families avoid losing wealth by protecting them against unforeseen medical expenses. But 10.6 percent of black Americans are uninsured, compared with just 6.3 percent of white Americans.⁴¹ A lack of insurance contributes to worse health outcomes and makes black citizens less able to participate in the full-time workforce, which exposes families to financial hardship. Taken together, these factors make it difficult for black families to save over the long term.

³⁵ *Report on the economic well-being of U.S. households in 2017*, Federal Reserve Board, May 2018, federalreserve.gov.

³⁶ "Racial disparities in homelessness in the United States," National Alliance to End Homelessness, June 6, 2018, endhomelessness.org.

³⁷ Nick Clements, "Research on bank branch penetration," MagnifyMoney, February 17, 2016, magnifymoney.com.

³⁸ Graciela Aponte-Díaz, "State research shows that payday lending stores are heavily concentrated in African American and Latino communities across California," Center for Responsible Lending, December 9, 2016, responsiblelending.org.

³⁹ Tracy Jan, "It can cost more for a checking account if you're black or Latino, study says," *Washington Post*, June 21, 2018, washingtonpost.com.

⁴⁰ Gerald Apaam et al., "2017 FDIC national survey of unbanked and underbanked households," US Federal Deposit Insurance Corporation, October 2018, fdic.gov.

⁴¹ Jessica C. Barnett, Edward R. Berchick, and Emily Hood, *Health insurance coverage in the United States: 2017*, US Census Bureau, September 2018, census.gov.

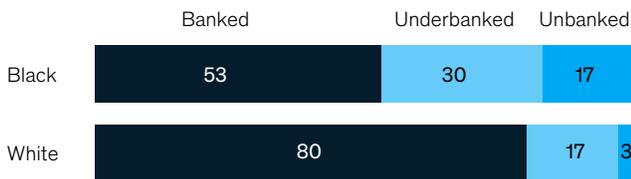
Exhibit 9

Increasing basic banking access could save many black individuals up to \$40,000 over the course of their lives.

47% of black households are either unbanked or underbanked¹ ...

... meaning they rely on alternative financial services like check cashing and prepaid cards, which pose significant costs

Banked rates among black and white households in 2017, %



\$40,000

amount a full-time worker who cashes checks could save over course of full career by using a lower-cost checking account

¹“Unbanked” defined as not served by bank or similar financial institution; “underbanked” defined as not having sufficient access to mainstream financial services and products typically offered by retail banks.
 Source: “2017 FDIC national survey of unbanked and underbanked households,” US Federal Deposit Insurance Corporation, October 2018, fdic.gov; Matt Fellowes and Mia Mabanta, *Banking on wealth: America’s new retail banking infrastructure and its wealth-building potential*, Brookings Institution, January 22, 2008, brookings.edu

Black families face systemic, intersecting barriers that limit their wealth building. Left unchecked, these gaps could continue to grow and constrain the US economy, not just black families. The first step toward a cure is an accurate diagnosis, and the

culprits behind the racial wealth gap are numerous. With the right targets in sight and a framework from which to address the challenge comprehensively, we can begin to identify the initiatives and policies that are most likely to give black families a boost. The country has over a trillion dollars to gain from the effort.

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