The Ultimate Economic Multiplier: Closing Racial Wealth Gaps

JANUARY 21, 2020
Tawanna Black
Founder & CEO
Fueling the Pathway to Economic Inclusion & Shared Prosperity
Nation’s first organization dedicated exclusively to advancing **cross-sector solutions** to create a regional economy that works for everyone by **disrupting systems** and influencing market forces to **catalyze shared prosperity.**
Data-Informed, Market-Responsive Solutions That Center People of Color

HOW WE WORK

Data-Informed, Market-Responsive Solutions That Center People of Color

ECONOMIC DEVELOPMENT

Entrepreneurship & Business Growth
Regional Investment

HUMAN CAPITAL

Talent Development
Wages & Employment

TRANSIT & ACCESS

Transit & Transportation
Housing
Strategic Objectives

1. Create broad, **measurable shared accountability** for creating an inclusive economy among decision & policy makers

2. Disrupt stagnant, exclusive systems with **productive private and public sector solutions at scale** to move our region forward

3. Partner to enable the regional and **place-based infrastructure of racial and economic opportunity**

Foster **operational excellence** and a high-performance culture
Indicators for an Inclusive Regional Economy

14 indicators in 4 key dimensions of economic inclusion inform actions

Online Platform allows leaders to explore intersectional and population level data, solutions, and partners...
...and to connect indicators to actions that will increase economic inclusion and grow the regional economy.
Thank You, Generous Sponsors:

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Best Buy

The Minneapolis Foundation

Shared Prosperity Partnership

Saint Paul & Minnesota Foundation

Powering Inclusion

Center for Economic Inclusion
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The Economic Impact of Closing the Racial Wealth Gap

Duwain Pinder
The economic impact of closing the racial wealth gap

Center for Economic Inclusion: Powering Inclusion

January 21, 2020
Global firm...

90
years of experience, first office opened 1927

116
Offices in 61 countries, consultants from 130+ nationalities

30,000
Employees worldwide

...with sector shaping insights on Diversity and Inclusion

366 companies studied in North America, Latin America, and the United Kingdom

$28T global GDP growth opportunity found in research on closing the global gender gap

1000+ companies studied across 12 countries and 7 industries

250+ companies benchmarked in study conducted with LeanIn.org and WSJ

11 years of Women Matter research building case for change and benchmarking global performance
### Black Economic Forum: 200+ Black leaders across all three sectors discussing solutions to close the racial wealth gap

### The Alliance: 100+ Global LGBTQ+ leaders discussing recruitment, inclusion and advancement of LGBTQ+ leaders

### Hispanic and Latino Economic Forum: 50+ leaders representing 10+ nationalities discussing increasing economic opportunities for the Hispanic and Latino community

### Philanthropy and Social Impact: Accelerating the impact of black philanthropic dollars

### Expanding Black Businesses: Addressing the obstacles that prevent black business expansion

### Wealth Generation: Identifying the underlying factors of the racial wealth gap

### Financial Inclusion: Increasing the inclusiveness of the financial services industry

### Future of Work: Re-skilling the black workforce in the face of automation disruption
The focus for today's discussion is our recent paper "The economic impact of closing the racial wealth gap".
The US racial wealth gap puts downward pressure on socioeconomic mobility, disadvantaging black individuals, families, and communities.

The US racial wealth gap also constrains the US economy as a whole through several channels.

### Intergenerational income mobility for black & white middle class children,
Percent, income quintile as adult

<table>
<thead>
<tr>
<th></th>
<th>Black children</th>
<th>White children</th>
<th>Δ percent between race</th>
</tr>
</thead>
<tbody>
<tr>
<td>8</td>
<td>21</td>
<td>8</td>
<td>-13</td>
</tr>
<tr>
<td>16</td>
<td>23</td>
<td>16</td>
<td>-17</td>
</tr>
<tr>
<td>37</td>
<td>23</td>
<td>37</td>
<td>-7</td>
</tr>
<tr>
<td>32</td>
<td>20</td>
<td>32</td>
<td>+17</td>
</tr>
<tr>
<td></td>
<td>14</td>
<td></td>
<td>+18</td>
</tr>
</tbody>
</table>

Q = Quintile

Middle class Black children are likely to fall out of the middle class as adults (vs. 34% of White children)

70%

Source: Tabulations by Joanna Venator of Social Genome Model data, based on NLSY79 and 97 data, numbers may not add due to rounding

### How differences in wealth impact socioeconomic mobility

**Individuals:** Better access to job networks

**Families:** More resources and incentive to invest in children’s education

**Communities:** Upward mobility begets more upward mobility (and vice versa)
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

<table>
<thead>
<tr>
<th>Year</th>
<th>Optimist's Scenario: Assuming smaller wealth gap in 2028²</th>
<th>Pessimist's Scenario: Assuming wider wealth gap in 2028²</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2020</td>
<td>0.1</td>
<td>0.1</td>
</tr>
<tr>
<td>2021</td>
<td>0.2</td>
<td>0.2</td>
</tr>
<tr>
<td>2022</td>
<td>0.3</td>
<td>0.3</td>
</tr>
<tr>
<td>2023</td>
<td>0.4</td>
<td>0.4</td>
</tr>
<tr>
<td>2024</td>
<td>0.5</td>
<td>0.5</td>
</tr>
<tr>
<td>2025</td>
<td>0.6</td>
<td>0.6</td>
</tr>
<tr>
<td>2026</td>
<td>0.7</td>
<td>0.7</td>
</tr>
<tr>
<td>2027</td>
<td>0.8</td>
<td>0.8</td>
</tr>
<tr>
<td>2028³</td>
<td>1.0</td>
<td>1.0</td>
</tr>
</tbody>
</table>

Total increase in GDP⁴ per capita between 2018-2028, greater than any expansion in the last 30 years

1 2018 dollars  
2 Assumes 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

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

Racial wealth gap framework

1. Understand what created the gap
2. ID the differences that drive the gap
3. Understand what keeps the gap in place
Interactions among the elements of family-wealth generation can promote economic stability, help propel families toward prosperity, or impede progress

Racial wealth gap framework

Community context are characteristics that influence family income & the returns to family wealth, where families are impacted heavily by certain neighborhood factors

Family & community wealth is used for investments in private business, entrepreneurship or human capital

Family income is determined by employability – where a poor mix of human capital, skill acquisition, and access to labor markets opportunities can drive higher income inequality

Family savings & support lowers economic volatility & increases self-empowerment
There are 16 states in which black population exceeds national average\(^1\)

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

<table>
<thead>
<tr>
<th>Category</th>
<th>Average for states with higher-than-average black population</th>
<th>National average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economy</td>
<td>49</td>
<td>47</td>
</tr>
<tr>
<td>Education</td>
<td>51</td>
<td>49</td>
</tr>
<tr>
<td>Fiscal stability</td>
<td>51</td>
<td>49</td>
</tr>
<tr>
<td>Healthcare</td>
<td>51</td>
<td>46</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>55</td>
<td>47</td>
</tr>
<tr>
<td>Opportunity</td>
<td>53</td>
<td>51</td>
</tr>
<tr>
<td>Quality of life</td>
<td></td>
<td>55</td>
</tr>
<tr>
<td>Crime and corrections</td>
<td></td>
<td>53</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Category</th>
<th>Average for states with higher-than-average black population</th>
<th>National average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic opportunity</td>
<td>48</td>
<td>32</td>
</tr>
<tr>
<td>Employment</td>
<td>50</td>
<td>41</td>
</tr>
<tr>
<td>Healthcare access</td>
<td>54</td>
<td>46</td>
</tr>
<tr>
<td>Healthcare quality</td>
<td>49</td>
<td>31</td>
</tr>
<tr>
<td>Public health</td>
<td>53</td>
<td>43</td>
</tr>
<tr>
<td>Broadband access</td>
<td>47</td>
<td>40</td>
</tr>
</tbody>
</table>

1 Defined as states in which proportion of black residents is greater than national average (13.4%)
2 Scores on Leading States Index can range from —150 to 150

Source: 2017 US census; Leading States Index by McKinsey, 2018
Black families are 4.6 times as likely to live in areas of concentrated poverty compared to White families.

All Black families, regardless of income, are more likely to live in poorer neighborhoods.
Interactions among the elements of family-wealth generation can promote economic stability, help propel families toward prosperity, or impede progress.

**Racial wealth gap framework**

- **Community context** are characteristics that influence family income & the returns to family wealth, where families are impacted heavily by certain neighborhood factors.

- **Family income** is determined by employability – where a poor mix of human capital, skill acquisition, and access to labor markets opportunities can drive higher income inequality.

- **Family savings & support** lowers economic volatility & increases self-empowerment.

- **Family & community wealth** is used for investments in **private business, entrepreneurship or human capital**.
Share of population receiving inheritance in 2016, %

<table>
<thead>
<tr>
<th></th>
<th>White</th>
<th>Black</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>26</td>
<td>8</td>
</tr>
</tbody>
</table>

Average inheritance value in 2013, $ thousand

<table>
<thead>
<tr>
<th></th>
<th>White</th>
<th>Black</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>236</td>
<td>83</td>
</tr>
</tbody>
</table>

Share of people ages 25-55 with student loan debt by race/ethnicity (2014)

<table>
<thead>
<tr>
<th>Race/Ethnicity</th>
<th>Percent</th>
<th>Average debt for adults age 25-55 by race/ethnicity and loan beneficiary (2014)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Black</td>
<td>39</td>
<td>-</td>
</tr>
<tr>
<td>White</td>
<td>31</td>
<td>-</td>
</tr>
<tr>
<td>Hispanic</td>
<td>30</td>
<td>-</td>
</tr>
<tr>
<td>Other</td>
<td>24</td>
<td>-</td>
</tr>
</tbody>
</table>

Black families are 1.3-1.6 times more likely to have student loan debt and have 1.4-1.6 times the student debt of other races.

Source: Urban Institute, Racial and Ethnic Differences in Family Student Debt (2016)
Interactions among the elements of family-wealth generation can promote economic stability, help propel families toward prosperity, or impede progress.

Racial wealth gap framework

**Community context**
are characteristics that influence family income & the returns to family wealth, where families are impacted heavily by certain neighborhood factors.

**Family & community wealth**
is used for investments in private business, entrepreneurship or human capital.

**Family income**
is determined by employability – where a poor mix of human capital, skill acquisition, and access to labor markets opportunities can drive higher income inequality.

**Family savings & support**
lowers economic volatility & increases self-empowerment.
Median family income by educational attainment (2013)

Dollars Thousands

<table>
<thead>
<tr>
<th>Educational Attainment</th>
<th>Black</th>
<th>Hispanic</th>
<th>White</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than high school</td>
<td>22</td>
<td>30</td>
<td>38</td>
</tr>
<tr>
<td>High school</td>
<td>38</td>
<td>40</td>
<td>40</td>
</tr>
<tr>
<td>Some college</td>
<td>48</td>
<td>62</td>
<td>50</td>
</tr>
<tr>
<td>Associate</td>
<td>58</td>
<td>58</td>
<td>75</td>
</tr>
<tr>
<td>Bachelor</td>
<td>68</td>
<td>79</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Melissa Favreault, Urban Institute's tabulations from the 2008 Survey of Income and Program Participation matched to Summary Earnings Records through 2012
2016-26 estimated average job growth, %

<table>
<thead>
<tr>
<th>Role</th>
<th>Directive</th>
<th>Support</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016-26</td>
<td>8.8</td>
<td>1.5</td>
</tr>
</tbody>
</table>

Estimated annual median income, %

<table>
<thead>
<tr>
<th>Role</th>
<th>Directive</th>
<th>Support</th>
</tr>
</thead>
<tbody>
<tr>
<td>Median</td>
<td>68,000</td>
<td>32,000</td>
</tr>
</tbody>
</table>

Share of workforce by type of role, %

<table>
<thead>
<tr>
<th>Role</th>
<th>Directive</th>
<th>Support</th>
</tr>
</thead>
<tbody>
<tr>
<td>US workforce</td>
<td>57</td>
<td>43</td>
</tr>
<tr>
<td>Black workforce</td>
<td>44</td>
<td>56</td>
</tr>
</tbody>
</table>

1. Such as executive/senior-level officers and managers, first/middle-level officers and managers, professionals, craft workers, salespeople, and technicians
2. Such as administrative-support workers, laborers and helpers, operatives, and service workers

Example occupations across role type

<table>
<thead>
<tr>
<th>Automation risk by role type, %&lt;sup&gt;1&lt;/sup&gt;</th>
<th>Representation of Median black workforce, thousand</th>
<th>Median income, $</th>
<th>2016-26 estimated job growth, %</th>
<th>Automation potential, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Directive&lt;sup&gt;2&lt;/sup&gt;</td>
<td>Support&lt;sup&gt;3&lt;/sup&gt;</td>
<td>Software developer</td>
<td>Truck driver</td>
<td>Software developer</td>
</tr>
<tr>
<td>31</td>
<td>53</td>
<td>156</td>
<td>98,000</td>
<td>38,000</td>
</tr>
<tr>
<td>-100</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>15</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1. Share 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.
2. Such as executive/senior-level officers and managers, first/middle-level officers and managers, professionals, craft workers, salespeople, and technicians.
3. Such as administrative-support workers, laborers and helpers, operatives, and service workers.

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

### White Man

- **A** Entry-level professional: 36%
- **B** Manager: 46%
- **C** Senior manager/director: 52%
- **D** Vice president: 59%
- **E** Senior vice president: 67%
- **F** C-suite professional: 68%

### Men of color

- **A** Entry-level professional: 16%
- **B** Manager: 16%
- **C** Senior manager/director: 13%
- **D** Vice president: 12%
- **E** Senior vice president: 9%
- **F** C-suite professional: 9%

### Black Men

- **A** Entry-level professional: 7%
- **B** Manager: 2%
- **C** Senior manager/director: 2%
- **D** Vice president: 2%
- **E** Senior vice president: 2%
- **F** C-suite professional: 100%

### White Woman

- **A** Entry-level professional: 31%
- **B** Manager: 27%
- **C** Senior manager/director: 26%
- **D** Vice president: 24%
- **E** Senior vice president: 19%
- **F** C-suite professional: 19%

### Women of color

- **A** Entry-level professional: 17%
- **B** Manager: 12%
- **C** Senior manager/director: 8%
- **D** Vice president: 6%
- **E** Senior vice president: 4%
- **F** C-suite professional: 1%

### Black Women

- **A** Entry-level professional: 5%
- **B** Manager: 3%
- **C** Senior manager/director: 2%
- **D** Vice president: 2%
- **E** Senior vice president: 1%
- **F** C-suite professional: 1%

---

1. From study of 279 North America-focused companies. Figures may not sum to 100% because of rounding

### Share of black professionals by role category, %

<table>
<thead>
<tr>
<th>Role Category</th>
<th>Black Men</th>
<th>Black Women</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entry level</td>
<td>42%</td>
<td>58%</td>
</tr>
<tr>
<td>Manager</td>
<td>51%</td>
<td>49%</td>
</tr>
<tr>
<td>Senior manager/director</td>
<td>53%</td>
<td>47%</td>
</tr>
<tr>
<td>Vice president</td>
<td>57%</td>
<td>43%</td>
</tr>
<tr>
<td>Senior vice president</td>
<td>59%</td>
<td>41%</td>
</tr>
<tr>
<td>C-suite professional</td>
<td>56%</td>
<td>44%</td>
</tr>
</tbody>
</table>

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

1. From study of 279 North America-focused companies.
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Racial wealth gap framework

Community context are characteristics that influence family income & the returns to family wealth, where families are impacted heavily by certain neighborhood factors

Family & community wealth is used for investments in private business, entrepreneurship or human capital

Family income is determined by employability – where a poor mix of human capital, skill acquisition, and access to labor markets opportunities can drive higher income inequality

Family savings & support lowers economic volatility & increases self-empowerment
Unfavorable financial events that can be counteracted with access to short-term savings will disproportionately affect Black families.

Addressing short term events constrains families from focusing on long-term saving and obtaining capital.

Black families have less than 1/6 the days of liquid savings to manage income volatility and service debt compared to white families.

Differences in days’ worth of income
Typical days of liquid savings

Black 5 days
White 31 days
Hispanic 12 days
Other race 21 days

Proportion of population with access to $3K through extended family support, Percent

White 73
Hispanic 52
Black 45

1.6x

Dollar Thousands

Median wealth of population with access to $3K

White 128
Hispanic 35
Black 22

-83%

47% of black households are either unbanked or underbanked¹…

Banked rates among black and white households in 2017, %

<table>
<thead>
<tr>
<th></th>
<th>Black</th>
<th>White</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unbanked</td>
<td>53</td>
<td>80</td>
</tr>
<tr>
<td>Underbanked</td>
<td>30</td>
<td>17</td>
</tr>
<tr>
<td>Banked</td>
<td>17</td>
<td>3</td>
</tr>
</tbody>
</table>

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

$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.

There are four levers of sustained action that need to be activated and/or scaled to complement existing efforts:

- **Equity capital** creates accessible investment vehicles, develops channels for value capture and risk-taking for individuals, families & communities.

- **Intellectual/Innovation capital** drives the creation / dissemination of knowledge to jumpstart innovation, investment, and further research around unmet needs.

- **Social/cultural capital** increases the reach, power & influence of the Black community and reinforces positive internal / external narratives.

- **Institutional capital** transforms ecosystems by increasing the capacity, capabilities & inclusivity of institutions while driving increased collaboration & accountability.
The four stages of family wealth generation help us choose which actions to prioritize to close the racial wealth gap.

### Priorities

1. **Community context**
   - Improve long-term neighborhood conditions for Black families

2. **Family wealth**
   - Expand the reach & impact of job-creating investments into Black communities

3. **Family income**
   - Increase the current & future employability of the Black labor force

4. **Family savings & support**
   - Lower economic volatility & increase financial resources & tools for Black families

### Levers for action

- Equity capital, Intellectual/Innovation capital, Social / cultural capital, Institutional capital

### Potential impact

- Increase GDP by $1-1.5 trillion
REACTON PANEL

MODERATOR: Tawanna Black

• René E. Isuk Founder & President, ProsperLink, LLC
• Audrey Lucas Senior Partner, McKinsey & Company
• David McGee Founder & Executive Director, Build Wealth, MN, Inc.
• Neeraj Mehta Director of Learning, McKnight Foundation
• Duwain Pinder Engagement Manager, McKinsey & Company
• Samuel Yamoah Associate Partner, McKinsey & Company

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Upcoming CEI Activities & Events

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#poweringinclusion
REGIONAL GOAL SETTING

Indicators of Racial Inclusion, Belonging, and Economic Opportunity

5 Indicators of Regional Economic Inclusion

1. Working Poverty
2. Wage Change for Participants
3. 6 Year Graduation Rates (Public & Private)
4. Home Ownership: Middle-Income
5. Cost Burden: Low-Income Renters
POWERING INCLUSION

Annual Summit
April 30, 2020
7:30 a.m.-4:30 p.m.
Hilton Minneapolis
Register Today!

KEYNOTE:
Nikole Hannah-Jones
The New York Times
Investigative Journalist &
Creator of The 1619 Project
Thank You for Joining Us

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