Introduction

- Over the past ten years, the unemployment rate has fallen by 6.4 percentage points, real GDP has grown by 25%, and the stock market has increased 2.5-fold.

- And yet, the already-large disparities in wealth and income between racial and ethnic groups has widened.

- Our goal is to explore the role households’ asset allocation has played in exacerbating wealth stratification.
What We Do

Our innovations:

- First, we define a new metric of wealth *stratification* based on racial/ethnic representation and wealth decile.
- Second, we conduct a regression analysis of household financial asset allocation.
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Our main findings:

- Wealth stratification has increased, paralleling trends in income and wealth disparities.
- A contributing factor is the tendency for Blacks and Hispanics to hold less of their assets in equities, so they have missed out on the stock market boom.
Many studies compare wealth/income distributions (e.g. median wealth of Black versus White households), or the “rank gap”: Wolff (2014, 2017), Thompson & Suarez (2015), Kuhn et al. (2019). These studies ask: conditional on race/ethnicity, what does the wealth distribution look like?


Relative to the literature, our contributions are: (1) the use of a new stratification metric, and (2) an analysis of portfolio allocation, controlling for a number of other factors.
The Survey of Consumer Finances (SCF)

- Collected by the Federal Reserve.
- Tri-annual cross-section survey of households, the most recent wave is 2016.
- Over-samples affluent households to better measure top end of the distribution.
- Includes a rich set of demographic variables.
- Generally considered the most accurate measure of income and wealth distribution.
The Wealth Distribution in 2016

<table>
<thead>
<tr>
<th>Asset Decile</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
<th>Avg</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets, $1000s</strong></td>
<td>0</td>
<td>2</td>
<td>14</td>
<td>64</td>
<td>129</td>
<td>206</td>
<td>303</td>
<td>469</td>
<td>902</td>
<td>5546</td>
<td>763</td>
</tr>
<tr>
<td><strong>Net worth, $1000s</strong></td>
<td>-9</td>
<td>-12</td>
<td>-8</td>
<td>33</td>
<td>69</td>
<td>109</td>
<td>191</td>
<td>337</td>
<td>728</td>
<td>5243</td>
<td>668</td>
</tr>
<tr>
<td><strong>Wages, $1000s</strong></td>
<td>14</td>
<td>22</td>
<td>35</td>
<td>34</td>
<td>38</td>
<td>49</td>
<td>55</td>
<td>61</td>
<td>90</td>
<td>218</td>
<td>62</td>
</tr>
<tr>
<td><strong>Education level</strong></td>
<td>8</td>
<td>9</td>
<td>9</td>
<td>9</td>
<td>9</td>
<td>9</td>
<td>10</td>
<td>10</td>
<td>12</td>
<td>12</td>
<td>9</td>
</tr>
<tr>
<td><strong>White share, %</strong></td>
<td>43</td>
<td>47</td>
<td>58</td>
<td>60</td>
<td>69</td>
<td>73</td>
<td>80</td>
<td>78</td>
<td>84</td>
<td>87</td>
<td>68</td>
</tr>
<tr>
<td><strong>Black share, %</strong></td>
<td>29</td>
<td>29</td>
<td>21</td>
<td>22</td>
<td>18</td>
<td>13</td>
<td>11</td>
<td>9</td>
<td>5</td>
<td>2</td>
<td>16</td>
</tr>
<tr>
<td><strong>Hispanic share, %</strong></td>
<td>24</td>
<td>18</td>
<td>15</td>
<td>12</td>
<td>12</td>
<td>10</td>
<td>7</td>
<td>8</td>
<td>4</td>
<td>2</td>
<td>11</td>
</tr>
</tbody>
</table>

Note: net worth excludes vehicles.

- Distribution is extremely skewed (Gini ≈ 0.8).
- Education is positive correlated with wealth.
- Racial/ethnic representation in the deciles is highly uneven.
Dots represent the group’s share in wealth decile, relative to the population average.

Steeper $\Rightarrow$ greater stratification.
A Metric of Wealth Stratification

\[ S_i = \frac{1}{k} \sum_{j=1}^{k} |s_{i,j} - \bar{s}_i| \]  

- Measures the representation of a racial/ethnic group in a given wealth stratum.
- Sum of gaps between the group \( i \)'s share in the \( j \)th wealth decile, relative to overall population share.
- Larger \( S_i \) ⇒ more stratification.
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2. Sum of gaps between the group i’s share in the jth wealth decile, relative to overall population share.
3. Larger \( S_i \) ⇒ more stratification.
4. Increased from 2007 to 2016, especially for Blacks.

<table>
<thead>
<tr>
<th></th>
<th>Black</th>
<th>Hispanic</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>5.7</td>
<td>4.2</td>
</tr>
<tr>
<td>2016</td>
<td>7.9</td>
<td>4.9</td>
</tr>
</tbody>
</table>
Blacks’ Portfolio Allocation as of 2007

Relative to White households (blue line): Blacks (red line) hold a larger share of assets in real estate, a smaller share in equity.
Like Black households, Hispanics (red line) hold a *larger* share of assets in real estate, a *smaller* share in equity.
We regressed portfolio shares on log assets and its square, race/ethnicity dummies, and dummies interacted with log assets; plus controls for age, education, and family size.

The regression results confirm that Blacks and Hispanics hold more wealth in real estate, less in equities, controlling for other covariates.

The gap depends on wealth level: at 90th percentile, for equities the gap is −6.7 percentage points for Blacks, −9.0 for Hispanics.
Conclusion and Policy Implications

- Wealth stratification for Blacks and Hispanics is large and increasing.

- Portfolio choice could be one contributor (among many).

- If so, the question is *why*?
  - Peer effects (Bursztyn *et al.*, 2014).
  - Initial conditions (Bogan & Darrity, 2008).

- Macro policies that increase overall prosperity don’t ameliorate inequality; micro policies, such as financial education and child development investment accounts, are needed.