Divided We Stand: Racial Wealth Inequality over the Past Half Century

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Racial disparity in income and wealth is one of the most important socio-economic phenomena of our time. For the NBER Macro Annual, we propose a paper that documents and analyzes trends in economic inequality between Black and White households. We will analyze cross-sectional inequality in outcomes such as wealth, income, wages, and consumption, and how they have evolved over the past half century.

Section 1 will be the introduction.

Section 2 will document empirical regularities on racial gaps in wealth, income, wages, and consumption in the United States. We hope to begin our analysis around 1960. We will use information on wealth from the Survey of Consumer Finances (SCF), consumption data from the Consumer Expenditure Survey (CEX) or/and the Panel Study of Income Dynamics (PSID), and income and wage data from these surveys and potentially from the Current Population Survey (CPS) and the American Community Survey (ACS).

The objective of this exercise is to document statistics that allows us to measure by race entries of the household budget constraint. The various entries in the budget constraint inform theories of labor supply, household income pooling, and consumption and saving, and allow us to measure the role of the government in redistributing income. We hope that the statistics we document become inputs to quantitative research aimed at understanding how racial wealth gaps have evolved over time.

Section 3 will present a stylized model with asset return and wage heterogeneity, informed by the measurement exercise. The stylized model will follow recent work in the wealth inequality literature by Benhabib, Bisin and Zhu (2011), Benhabib, Bisin and Luo (2019), and Gabaix, Lasry, Lyons, and Moll (2016). This is a dynamic economic model with intergenerational transfers, and heterogeneity in income and wealth. We will use the model framework for

decomposition exercises of the factors that either exacerbate or ameliorate the racial wealth gap over time.

Section 4 will lay out implication of our findings for economics research and, potentially, for policy making.