Confronting a Tragic Reality

Our nation has recently increased its focus on a tragic reality: Life outcomes vary widely by race. In July, the unemployment rate for black Americans was 14.6 percent, more than 5 percentage points higher than the rate for white Americans. Even before the current crisis, when unemployment was at historic lows, there was a gap of around 3 percentage points. Median income for white households in 2018 was $71,000, compared with $41,000 for black households. The wealth gap is even larger: White households’ median net worth is nearly 10 times higher than that of black households.

And if you're white, you're even likely to live longer. Here in Richmond, life expectancy can vary by as much as 20 years between some of the poorest, mostly black neighborhoods and the most affluent, mostly white neighborhoods. We also see disparities in the disproportionate toll the pandemic is taking on communities of color.

My office is in the former capital of the Confederacy. When I look out my window, I can see the island where Union prisoners of war were held and the ruins of a bridge burned by retreating Confederate troops. The legacy of this era still affects outcomes today, in ways both obvious and subtle.

Our small towns in the Fifth District have a larger black population than in the nation as a whole; nearly 20 percent of our small-town residents are black compared with about 9 percent nationwide. This is particularly true in the Carolinas, where many plantations were located. Nearly 37 percent of South Carolina’s small-town population is black. And we know smaller towns in this country have struggled economically.

There are of course also significant black populations in our district’s major cities, and these cities are thriving along many dimensions. But they generally also display some of the worst economic mobility in the country. According to research by economists Raj Chetty, Nathaniel Hendren, Patrick Kline, and Emmanuel Saez, Charlotte, N.C., has the worst economic mobility of the nation’s 50 largest metro areas. Raleigh was number 48 on the list, and Baltimore was number 37.

Education is critical to growing incomes and wealth. But the black residents of our region were explicitly denied equal access to education for nearly a century after the Civil War. We know that kind of disadvantage can be hard to overcome even generations later.

Even after schools became integrated, “white flight” to private schools and the suburbs largely resegregated Southern school systems once again. And limitations on cities’ ability to grow left their educational funding disadvantaged as well. For example, Baltimore’s current boundaries were effectively fixed by a 1948 change in the law that allows county residents to reject any future annexation attempts by the city.

The Jim Crow era limited black individuals’ ability to access credit, build businesses, and thereby create wealth. Many instead chose to emigrate from the South to seemingly more attractive parts of the country. Those who remained have struggled with credit for generations, starting with the sharecropping model that left so many in peonage.

The regional Fed banks are charged with understanding the dynamics within our districts. In pursuit of that goal, we have been investing in research that addresses these issues and the racial inequities that result. We are analyzing how to support smaller towns, where residents suffer from educational disparities, isolation, and low workforce participation. We have work underway on economic mobility, a particular issue in our larger cities. Motivated by research finding that well over half of income and wealth inequality is determined by a person’s circumstances at age 23, we have been studying the critical role of early childhood education and the preparation students need to succeed in college. In the area of financial markets, we’re working to understand differences in white and black people’s opportunities to borrow, and our community development team has launched a program to connect banks with community reinvestment projects.

The racial disparities in our district are the result of hundreds of years of unequal access and unequal treatment. In the context of a country with great challenges, we recognize ours are even greater. We’re committed to playing a positive role in finding the solutions.

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This column is adapted from a longer essay published on the Richmond Fed’s website.