

PRESS RELEASE

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US Wealth Gap Rises: Black Americans Shy Away From Stock Market

- **Higher risk of losing the job prevents stock investment**
- **Capital gains widen racial income disparities (+15%, 1980-2020)**

Bonn, Mannheim, 01.03.2024 – **Black Americans face a higher risk of losing their job than white Americans, especially during economic recession. That is why Black Americans invest less in the stock market, worsening the racial wealth gap in the US. Had the risk of unemployment been the same for Black and white Americans in the period 1980-2020, the wealth gap would have risen by 3 percent, whereas it actually grew by 15 percent. These are findings of the discussion paper “Unemployment risk, portfolio choice, and the racial wealth gap” published by the EPOS Economic Research Center at the Universities of Bonn and Mannheim.**

“In our analysis, we show how labor market conditions and investment choices depend on each other,” says Chi Hyun Kim from the EPOS Economic Research Center. “Black Americans face a higher unemployment risk and therefore stay away from risky equity markets although investments may offer a high return. This is an important reason why the racial wealth gap is still growing.”

Racial wealth gap: stock market participation of Blacks 20 percentage points lower

The accumulation of wealth has been accelerated since the 1980s by the equity market boom. This has led to a large wealth gap between those who own equity and those who do not, in general. Black Americans hold on average far less equity than white Americans. According to the Survey of Consumer Finances (SCF), the white-to-Black stock market participation gap amounts to around 20 percentage points. The researchers find that these differences have contributed significantly to the recent growth in the white-to-Black wealth gap.

Labor market conditions and investment decisions

“Households shy away from risky investments when they are exposed to labor market shocks,” says Kim. Co-author Moritz Kuhn adds: “The job-finding rates of Black Americans are lower during recessions compared to their white counterparts, and the risk of becoming long-term unemployed is higher. This vulnerability was emphasized during the COVID-19 pandemic, which led to severe job losses for Black Americans in 2020.” To mitigate the economic consequences of labor market downturns many Black Americans prefer to save in safer, more liquid assets.

Stemming widening racial wealth disparities

“The current policy debate on wealth inequalities focuses on enhancing financial inclusion,” says Kuhn. “Our results provide a new perspective: unless labor market conditions improve for Black Americans, entering the stock market will lead to higher risk exposure and many Black Americans will keep on staying away from investing in equity.”

The presented discussion paper is a publication without peer review of the Collaborative Research Center Transregio 224 EPOS. Access the full discussion paper here: <https://www.crctr224.de/research/discussion-papers/archive/dp508>

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The Collaborative Research Center (CRC) Transregio 224 EPoS

Established in 2018, the [Collaborative Research Center Transregio 224 EPoS](#), a cooperation of the universities Bonn and Mannheim, is a long-term research institution funded by the German Research Foundation (Deutsche Forschungsgemeinschaft, DFG). EPoS addresses three key societal challenges: how to promote equality of opportunity; how to regulate markets in light of the internationalization and digitalization of economic activity; and how to safeguard the stability of the financial system.

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