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### **“The Black-White Wealth Gap is Greater than You Think”**

The Black-White wealth gap is greater than that estimated by many economists. These economists mainly use data from the US Federal Reserve Board’s “Survey of Consumer Finances” (SCF) to estimate the gap focusing exclusively on household wealth.<sup>1</sup> What they fail to account for is nonprofit institutions serving households (NPISHs).<sup>2,3</sup> The SCF does not reflect NPISHs’ wealth.

NPISHs are institutional units whose positive returns from operations cannot inure to those who manage or control them. In other words, members of NPISHs’ boards of directors cannot receive compensatory payments from NPISHs—only payments for certain expenses that are incurred. Rather, these NPISHs’ managers typically serve voluntarily. However, as we will see momentarily, NPISHs possess a significant amount of wealth and generate considerable revenue, which can be, and is, directed toward households.

What we want to impute here is that the wealth and revenue of Black-controlled NPISHs must be considerable smaller than the wealth and revenue generated by White-controlled NPISHs. Therefore, in the spirit of America’s racial discrimination and segregation, it stands to reason that payments and transfers from White-controlled NPISHs to White households exceed similar flows from Black-controlled NPISHs to Black households. Consequently, White households are better off because of White NPISHs operations than are Black households due to Black NPISHs operations.

Importantly, the national accounts of many nations attribute or combine NPISHs’ operational outcomes (including the latter’s wealth) with that of households. Accordingly, and in the US, we

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<sup>1</sup> For example, the following very recent works by noted scholars on the wealth gap in the US feature analysis of household wealth alone: Janelle Jones (2017), “The Racial wealth Gap: How African-Americans Have Been Short Changed Out of the Materials to Building Wealth,” Economic Policy Institute; Melvin Oliver and Thomas Shapiro (Editors) (2006), *Black Wealth/White Wealth: A New Perspective on Racial Inequality*, Routledge-Taylor & Francis Group, New York; Edward Wolf (2014), “Household Wealth Trends in the United States, 1962-2013: What Happened Over the Great Recession?” National Bureau of Economic Research (20733); Dedrick Asante-Muhammad, Chuck Collins, Josh Hoxie, and Emanuel Nieves (2016), “The Ever-Growing Gap: Without Change, African-American and Latino Families Won’t Match White Wealth for Centuries,” CFED and the Institute for Policy Studies; and Melany De La Cruz-Viesca, Zhenxiang Chen, Paul M. Ong, Darrick Hamilton, and William A. Darity, Jr. (2016), “The Color of Wealth in Los Angeles,” The Federal Reserve Bank of San Francisco.

<sup>2</sup> It is worth noting that in measuring the Black-White wealth gap, household wealth generally includes households’ ownership of proprietorships and partnerships (i.e., non-corporate enterprises); the equity and investment shares and other securities of corporate enterprises; and ownership of securities issued by federal, state, and local governments. However, usually, the wealth held by NPISHs is not reflected in measures of the Black-White household wealth gap.

<sup>3</sup> For clarity, it is important to clarify that all other major sectors of the economy other than the household sector (the public, nonfinancial corporate, and financial corporate sectors) may also own/control nonprofit institutions.

can largely conclude that the wealth of White-controlled NPISHs is associated with White households, thereby increasing the Black-White wealth-gap that is derived by only considering Black and White household wealth.

Unfortunately, US data on NPISHs are not available by race. Nevertheless, here is what the data show for 2013, which represents information returns from near 258,000 nonprofit institutional units (501(c) 3-9):<sup>4</sup>

- Total NPISHs' Net worth: \$2.5 trillion
- Total NPISHs assets: \$ 4.1 trillion
- Total NPISH liabilities: \$ 1.6 trillion
- Total NPISHs revenue: \$ 2.1 trillion
- Total NPISHs expense: \$ 2.0 trillion

Considering that US gross domestic product (GDP) was \$16.7 trillion in 2013, we can see that NPISHs' net worth, assets, liabilities, revenue, and expense constitute a significant fraction of US GDP.

These values represent overall NPISHs economic operations. How can we conclude that White households are better off than Black households from the foregoing results? By assessing the types of institutional units that are typically NPISHs, and then showing that the difference in the number of White versus Black institutional units of these types is quite large.

For example, a selected list of NPISHs might include religious, educational, political, grant-making foundations, museums, and or recreational-related organizations. Now think about the gap that separates the volumes of these organizations that are owned/controlled by Whites versus Blacks.

For example, based on data from the National Council of Churches, we conclude that there are over 250,000 White churches, while there are less than 75,000 Black Churches. Similarly, the National Center for Education Statistics reports that there are 1,600 private nonprofit primarily White post-secondary educational institutions, while there are only about 50 private nonprofit Black post-secondary educational institutions. It is common knowledge that the two major political organizations are mainly membered and controlled by Whites (the Democratic and Republican Parties). A check of any major guide to college grants and scholarships will reveal the massive number of White grant-making and scholarship offering organizations, compared to very few such Black organizations. Finally, it is also well known that the number of White museums far exceeds the number of Black museums (there are more than 35,000 museums in the US, while less than 1,000 cover Black American history and culture).

The point being that White controlled NPISHs are far wealthier than Black NPISHs. Therefore, when one accounts for all White NPISHs' wealth, perform related wealth per household calculations, then the resulting values would add substantially to White household wealth.

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<sup>4</sup> The data are from the U.S. Internal Revenue Service's Statistics of Income (the latest available data); <https://www.irs.gov/uac/soi-tax-stats-charities-and-other-tax-exempt-organizations-statistics>. (Retrieved from the Internet on March 12, 2017.)

Similar computations for Black controlled NPISHs and households does not nearly account for such a substantial rise in Black household wealth.

Simply put, it makes sense to account for NPISHs when considering household wealth. When one makes such a consideration, one finds that the Black-White wealth gap is even greater than it is typically understood to be when the wealth analysis is restricted to just households.

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04/15/17