

The economic state of Black America: What is and what could be

A collaboration between the
McKinsey Institute for Black Economic Mobility
and the McKinsey Global Institute



About the McKinsey Institute for Black Economic Mobility

The McKinsey Institute for Black Economic Mobility (BEM) is a research institute and think tank dedicated to advancing racial equity and inclusive growth in the United States—and globally. It collaborates with stakeholders and leaders across the private, public, and social sectors to advance economic opportunity for Black individuals and communities and create a more inclusive economy and society.

Founded in 2020, BEM develops high-quality research and insights across a range of topics related to racial equity and inclusive economic growth, deploying McKinsey's unique assets and capabilities. It also works with partner organizations to bring together influential leaders and cross-sector stakeholders to catalyze dialogue and action. Research and insights are translated into tools and capabilities that support clients and impact the real world. BEM is anchored in an economic perspective, dedicated to rigorous and objective research, and focused on moving stakeholders toward long-term action that can lead to the economic development of Black communities across the globe. Please visit mckinsey.com/BEM/overview.

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MGI is led by three McKinsey & Company senior partners: co-chairs James Manyika and Sven Smit and director Jonathan Woetzel. Michael Chui, Mekala Krishnan, Susan Lund, Anu Madgavkar, Jan Mischke, Jaana Remes, Jeongmin Seong, and Tilman Tacke are MGI partners. Project teams are led by the MGI partners and include consultants from McKinsey offices around the world. These teams draw on McKinsey's global network of partners and industry and management experts. In addition, leading economists, including Nobel laureates, advise MGI research.

This report contributes to MGI's mission to help business and policy leaders understand the forces transforming the global economy and prepare for the next wave of growth. As with all MGI research and reports, this work is independent and reflects our own views. This report was not commissioned or paid for by any business, government, or other institution, and it is not intended to promote the interests of McKinsey's clients. Please visit mckinsey.com/mgi.

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Preface

Race has shaped the fortunes of individuals and communities since America's inception. Despite the ingenuity and striving of generations, Black Americans have found their opportunities unduly and systematically limited by racial inequities permeating virtually every aspect of society and the economy.

The McKinsey Institute for Black Economic Mobility was founded in December 2020 to take on these issues, deploying McKinsey's economic and data analysis capabilities, its business insights, and its ability to convene stakeholders across sectors. This report, produced in collaboration with the McKinsey Global Institute, puts the resources of both entities behind one goal. We aim to shed light on Black economic participation in the US economy: what it is today, where and how it occurs (or fails to occur), what disparities cost in both economic and human terms, and what could be realized in scenarios of economic parity. This work is anchored on five economic roles that individuals play in the economy, as workers, as business owners and entrepreneurs, as consumers, as savers and investors, and as residents whose baseline context for economic participation is shaped by the public sector. This framework allows us to explore multiple economic realities for Black Americans—although we acknowledge that these roles are not lived in isolation and do not represent the totality of the way individuals move through society.

Our work is driven by a sense of urgency. The COVID-19 pandemic has created disproportionate challenges for Black Americans. Long-standing structural disadvantages—from low-wage jobs to limited access to affordable housing and quality public education to piecemeal public health infrastructure—have been brought to the fore. Moreover, the loss of too many Black lives to police violence has renewed calls for racial justice. The intersection of these events has created a unique moment to make strides toward a racially inclusive economy, perhaps for the first time in the nation's history.

The journey in front of us requires a comprehensive understanding of our starting point. This report aims to provide that fact base by synthesizing existing research and complementing it with our own analysis of major economic gaps facing Black Americans. It stands on the shoulders of many researchers and policy experts who have examined specific aspects of America's racial inequities in depth over the years. We approach this work with humility, knowing that we do not have all of the answers. We also approach it with eagerness to make positive use of our position at the intersection of the private, public, and social sectors. This report lays a foundation, touching on many issues that the McKinsey Institute for Black Economic Mobility will continue to probe in its future research agenda.

This research was led by Shelley Stewart III, Michael Chui, James Manyika, JP Julien, Vivian Hunt, Bob Sternfels, and Jonathan Woetzel. Katy George, Lucy Perez, Steve Van Kuiken, and Lareina Yee provided guidance and insight. The project teams, led by Haiyang Zhang and Tati Brezina, included Ameya Bhattacharya, Ari Brathwaite, Josh Hawkins, Rhazi Kone, Aaron McGee, Allie Medack, Matt Parodi, and Ben Thomas. Nick Noel and Duwain Pinder also provided leadership, insight, and support. We also thank our Economics Research team, including Tim Bacon, Arthur Bianchi, David Carmona, Krzysztof Kwiatkowski, Shagun Narula, Stephanie Savir, Vivien Singer, and Zooley Wilkinson.

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This work is independent, reflects our own views, and has not been commissioned by any business, government, or other institution. We welcome your comments on the research at McKinsey_Institute_for_Black_Economic_Mobility@mckinsey.com and MGI@mckinsey.com.

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The economic state of Black America: What is and what could be

Dismantling the barriers that have kept Black Americans from fully participating in the US economy could unleash a tremendous wave of growth, dynamism, and productivity. This research identifies critical gaps Black Americans face in their roles as workers, business owners, savers and investors, consumers, and residents served by public programs. Addressing wage gaps alone presents an opportunity to propel two million Black Americans into the middle class for the first time, while transforming—and even extending—the lives of millions more.

Workers: Racial gaps exist across the US labor market, especially in occupational representation, ultimately manifesting as a \$220 billion annual wage disparity.

Gaps exist across industries and geographies and on the pathways to advancement within individual firms. Looking through the lens of occupations, Black workers are concentrated in low-wage jobs and underrepresented in higher-paying occupations relative to their share of the labor force. They are also paid less than white workers on average within the same occupational categories, especially in managerial and leadership roles. Addressing representational imbalances and racial pay gaps could boost Black incomes by 30 percent and employ one million additional Black workers. Progress in just 20 occupational categories could eliminate more than half of the disparity. Forty-three percent of Black workers earn less than \$30,000 a year—and upgrading the low-wage jobs they disproportionately hold today is just as important as creating pathways into higher-paying roles.

Business owners: Across all sectors, Black-owned businesses are few in number and small in size due to lower rates of realized entrepreneurship and lack of access to capital. Most Black-owned businesses are sole

proprietorships. Only 2 percent of private US firms with more than one employee are Black owned; those that do exist are smaller than non-Black-owned peers on average in nearly all sectors. One-third of them are small-scale care providers, pointing to a lack of representation in other sectors. Black-owned businesses would generate an additional \$1.6 trillion in revenue in a scenario with similar rates of realized entrepreneurship and similar firm sizes as non-Black-owned businesses. Improving access to capital, mentorship, networks, and professional opportunities could help more Black enterprises launch and grow—and achieving parity would create 615,000 new Black-led workplaces.

Consumers: Consumption by Black Americans remains below its potential due to lower incomes, poor access, and unsatisfied demand.

Many Black communities are consumer “deserts” that need greater access to fresh food, affordable housing, broadband, and healthcare providers. Some 8.3 million Black Americans live in food deserts, for example, while 54 percent of Black renter households are cost burdened. Our analysis indicates that businesses can profitably expand into underserved neighborhoods. In addition, our own survey finds large numbers of Black consumers who are dissatisfied with products and services, especially in personal care, food and restaurants, financial services, and healthcare. We estimate that some \$260 billion in spending could shift—and respondents were willing to pay more for offerings that better meet their needs.

Savers/Investors: The racial wealth gap is the result of intergenerational transfers, lower incomes, and lack of financial inclusion. The median Black household has just one-eighth the wealth of the median white household, with inheritances driving 60 percent of the disparity in annual flows. Additionally, smaller paychecks

mean that Black households save \$75 billion less than white households annually. Black households are one-third less likely to own their homes and to have retirement accounts; the median value of those assets is also significantly lower. Progress in the labor market and building business equity can change this picture over time. Providing banking services can help the 14 percent of Black adults who are unbanked avoid predatory debt traps.

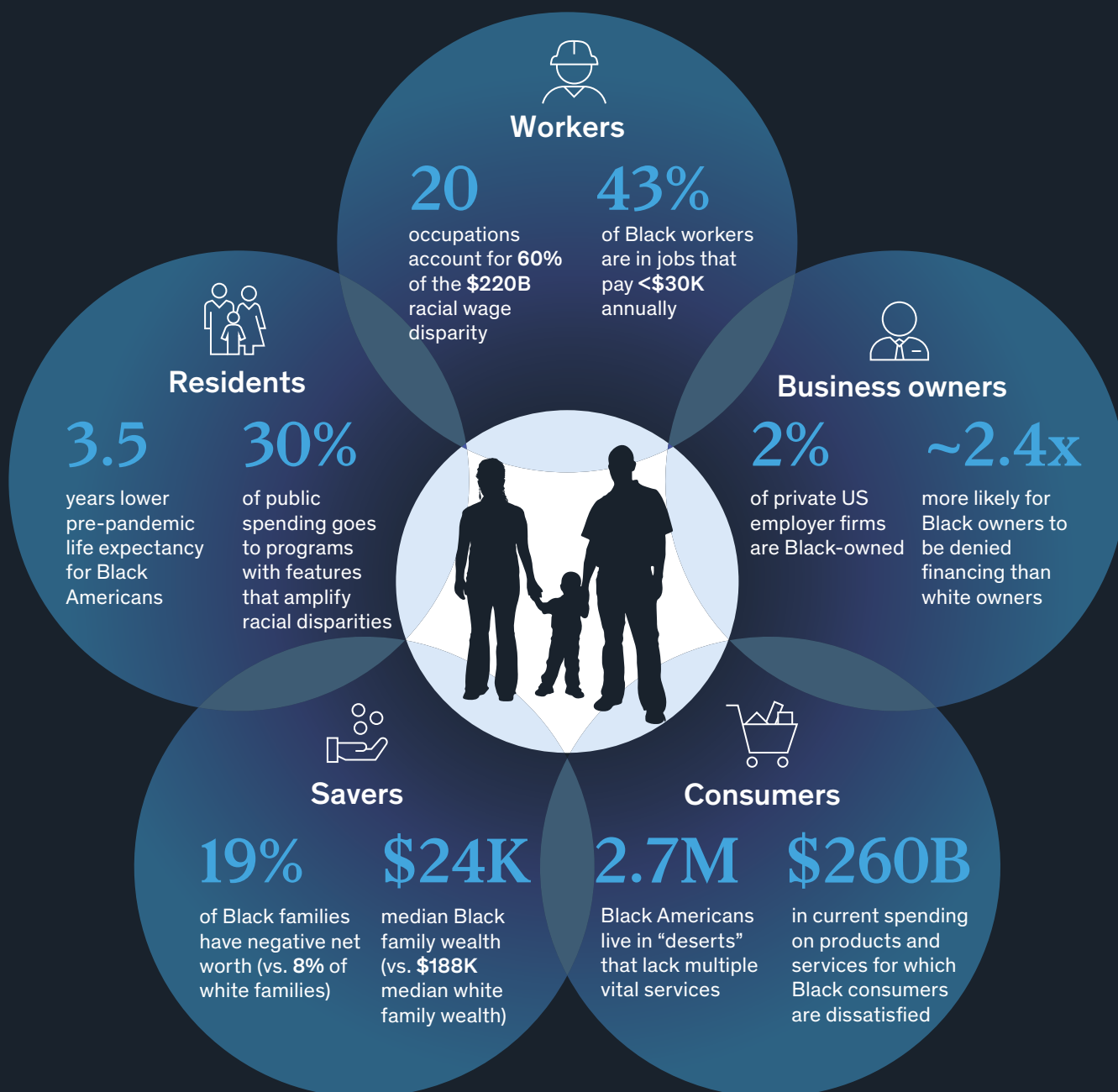
Residents: Many fundamental services delivered by the public sector fall short for Black Americans, limiting their economic participation.

Some public programs have eligibility and implementation rules that create barriers to participation or disparities in spending. Others are underfunded relative to the scale of the need, such as housing affordability programs that leave out millions of cost-burdened renters. At least 30 percent of public spending goes to programs with some features that reinforce racial disparities. This includes locally funded education, where school districts with concentrated Black student populations receive \$1,800 less per pupil nationally, and Social Security, where disparities reduce benefits for Black retirees by \$31 billion every year. The pre-pandemic racial gap in life expectancy, driven by limited access to healthcare and other factors, stood at 3.5 years—and some 2.1 million more Black Americans could be alive today if it were erased.

While public investment is crucial, the private sector can drive rapid and dramatic progress. Companies can confront and fix wage gaps, root out bias in the workplace, ensure access to capital on fair terms, and invest in neglected communities. These initiatives are not only about righting historic wrongs. They are about choosing a more dynamic future and realizing the full potential of a massively underutilized source of talent, to the benefit of all Americans.

The economic state of Black America: What is and what could be

Disparities exist in every dimension of
Black economic life in the United States



A more equitable economy for Black Americans = A more dynamic and resilient economy for all Americans

In a parity scenario

30%

higher incomes for
Black Americans

2M

more Black Americans
in the middle class

615K

more Black-owned
enterprises



Crystal, Mental health counselor
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Executive summary

The disparities on display during the COVID-19 pandemic were a jolt to America's conscience. Job losses were greater for people of color, many of whom lacked savings to cushion the financial blow. The long-standing issues of underperforming public schools and gaps in digital infrastructure exacerbated learning losses among children of color. With Black workers concentrated in low-wage frontline jobs that could not be done remotely, exposure to the virus and inadequate access to healthcare cost lives, widening an already sharp racial gap in life expectancy.

This report provides a fact base to document the gaps that exist today and offer a vision of what could be gained if those gaps were closed. To achieve this, we look through the lens of the economic roles individuals play as workers, business owners, consumers, savers/investors, and residents (see Table 1 for an overview of the gaps identified across all of these areas).¹ In the latter role, we examine a number of major public programs that set a fundamental baseline for the ability to participate and thrive in the economy. These roles are obviously not neat silos. But collectively, they offer a multidimensional view of economic life, examining how individuals make a living, spend their incomes, and build wealth or manage debt.

2M

Black Americans could move into the middle class in a scenario of wage parity

The sobering picture that emerges is meant not to discourage but to galvanize. Addressing the wage disparities described in our research alone could propel an estimated two million Black Americans into the middle class for the first time. This could reverse current trends, with compounding effects lifting the prospects of the next generation even further.² The United States has immense stores of talent and dynamism in its own backyard—and it cannot afford to neglect or encumber that potential any longer, particularly at a time of growing demographic headwinds.³

Workers: Black Americans face gaps in representation, participation, and pay

This part of our research focuses on occupational gaps, which drive economic disparities and cascade into representational imbalances across industries and geographies. A previous McKinsey report, *Race in the workplace*, provided different vantage points. Among its findings were geographic mismatches between Black workers and opportunity; underrepresentation in fast-growing, higher-wage industries; lower odds for advancement and higher attrition for Black workers in frontline and entry-level jobs; low representation in executive roles; and a lack of sponsorship and allyship for Black employees.

The occupational lens taken in this work is an important complement to those perspectives—and it is inextricably linked to the wage gap, which holds the key to greater economic mobility if addressed. Today the median annual wage for Black workers is approximately 30 percent, or \$10,000, lower than that of white workers—a figure with enormous implications for

¹ This work builds on previous McKinsey research offering views into some of these roles, including *Race in the workplace: The Black experience in the US private sector* (February 2021) and *The economic impact of closing the racial wealth gap* (August 2019).

² For more on the topic of intergenerational mobility, see Raj Chetty et al., "Race and economic opportunity in the United States: An intergenerational perspective," *Quarterly Journal of Economics*, May 2020, Volume 135, Issue 2.

³ Chang-Tai Hsieh et al., "The allocation of talent and US economic growth," *Econometrica*, September 2019, Volume 87, Number 5; and Heather McGhee, *The sum of us: What racism costs everyone and how we can prosper together*, One World, 2021.

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occupational categories account for >60% of the aggregate wage disparity

household economic security, consumption, and the ability to build wealth. Black workers make up 12.9 percent of the US labor force today but earn only 9.6 percent of total US wages.

We estimate a \$220 billion annual disparity between Black wages today and what they would be in a scenario of full parity, with Black representation matching the Black share of the population across occupations and the elimination of racial pay gaps within occupational categories. Achieving this scenario would boost total Black wages by 30 percent and draw approximately one million additional Black workers into employment.

The racial wage disparity is the product of both representational imbalances and pay gaps within occupational categories—and it is a surprisingly concentrated phenomenon. Less than 4 percent of all occupational categories account for more than 60 percent of the aggregate disparity (Exhibit E1). They fall into five broad groups: managers of frontline workers, other managers and executives, professions requiring postgraduate training (such as lawyers and physicians), professions requiring undergraduate degrees and accreditation (such as teachers and accountants), and technology specialists (such as software developers and computer and information systems managers).

Furthermore, just five sectors (professional services, manufacturing, construction, trade/transportation/utilities, and financial services) account for almost 85 percent of the aggregate wage disparity.

Box E1

Defining the scope of our research

The intent of this report is to lay out a broad factual foundation examining how race affects economic participation in the United States. While this can be approached through any number of vantage points, we have explored these questions through the framework of five roles individuals play within the economy.

In each of these roles, we identify significant gaps, measure their cost in both economic and human terms, and consider scenarios of parity. We look at the data from multiple angles, incorporating observations regarding occupations, industries, gender, and geography where they are relevant. The combination of all five roles provides a holistic picture, although we acknowledge that it is not fully comprehensive.

We focus on identifying and assessing key economic gaps today but did not comprehensively assess all causes and determinants. While analyzing these complex dynamics is beyond the scope of this report, we do highlight history and social context along the way, while referencing deeper research by many other

organizations and scholars. While this report touches on the persistence of cycles and what it would take to break them, it is not a study of intergenerational mobility.

Similarly, this report contains many examples of actions that have been taken or solutions that have been proposed to address the gaps, although we fully acknowledge the difficulty of addressing entrenched issues. These examples, drawn from publicly available source material, are illustrative rather than comprehensive and do not imply endorsement or client relationships. This research effort has not analyzed the costs or effectiveness of every program and approach.

We acknowledge that racial equity has many dimensions beyond the purely economic, from policing and political participation to environmental justice and many more. However, this research is anchored in the economic and business issues to which we can apply analytical capabilities and contribute perspective. Note that we do not recommend or advocate for specific

policies or pieces of legislation; that is beyond our scope, expertise, or remit.

This report builds on a wide body of previous McKinsey research on labor markets, consumers, financial inclusion, housing, entrepreneurship, and more. We also draw on McKinsey's work in supporting diversity and inclusion programs across organizations as well as its role in coalitions that are taking action to expand access to individual and business capital and to leadership development, training, and career pathways. This report incorporates seminal findings from many other organizations and scholars that have explored racial equity issues over the years. We acknowledge their pioneering work and seek to contribute analysis that can contribute to illuminating the gaps and inspiring change.

This research is by no means comprehensive. The McKinsey Institute for Black Economic Mobility will continue to tackle many of the issues raised here in its future research endeavors—and in its efforts to spur real-world progress.

Less than 4 percent of occupational categories account for more than 60 percent of the aggregate wage gap.

■ Representation gap¹ ■ Within-occupation wage gap²

Aggregate value of closing representation and within-occupation wage gaps			
Occupational categories	% of total value		\$ billion
Other managers (eg, health service, natural science, property)	<div><div>61</div><div>39</div></div>		18
Public and private executives (including small business owners) ³	<div><div>60</div><div>40</div></div>		14
Physicians	<div><div>72</div><div>28</div></div>		12
Software developers	<div><div>79</div><div>21</div></div>		10
Sales representatives, wholesale and manufacturing	<div><div>52</div><div>48</div></div>		8
Lawyers, judges, magistrates, and other judicial workers	<div><div>75</div><div>25</div></div>		8
Elementary and middle school teachers	<div><div>84</div><div>16</div></div>		7
Financial managers	<div><div>48</div><div>52</div></div>		6
First-line supervisors of nonretail sales workers	<div><div>52</div><div>48</div></div>		6
Accountants and auditors	<div><div>74</div><div>26</div></div>		5
First-line supervisors of retail sales workers	<div><div>59</div><div>41</div></div>		5
General and operations managers	<div><div>67</div><div>33</div></div>		5
Computer and information systems managers	<div><div>76</div><div>24</div></div>		4
Construction managers	<div><div>73</div><div>27</div></div>		4
First-line supervisors of construction trades and extraction workers	<div><div>69</div><div>31</div></div>		4
Postsecondary teachers	<div><div>74</div><div>26</div></div>		4
Other engineers	<div><div>82</div><div>18</div></div>		4
Management analysts	<div><div>69</div><div>31</div></div>		3
Sales managers	<div><div>63</div><div>37</div></div>		3
Marketing managers	<div><div>67</div><div>33</div></div>		3
Subtotal			134
510 other occupational categories			86
Total			220

1. Potential wages if Black representation in this occupation equaled the Black share of the labor force (12.9%).

2. Potential wages if Black and white workers within each occupational category received similar pay.

3. Category includes corporate executives, small business owners, legislators, and executives of public entities.

Note: The Black share of the workforce varies considerably at the state level. Figures may not sum to 100% because of rounding.

Source: IPUMS USA, five-year dataset (2014–18) from US Census Bureau's American Community Survey; McKinsey Global Institute and McKinsey Institute for Black Economic Mobility analysis

Black workers are disproportionately represented in low-wage occupations and underrepresented in higher-wage occupations

Clear racial patterns continue to exist across the US labor force (Exhibit E2). Nearly half of Black workers are concentrated in healthcare, retail, and accommodation and food service. The vast majority of Black workers within those industries are in lower-paying service roles rather than professional or managerial roles.⁴ The type of pattern produces the wage gap. The median wage for all US workers is around \$42,000 per year, but 43 percent of Black workers earn less than \$30,000 per year.

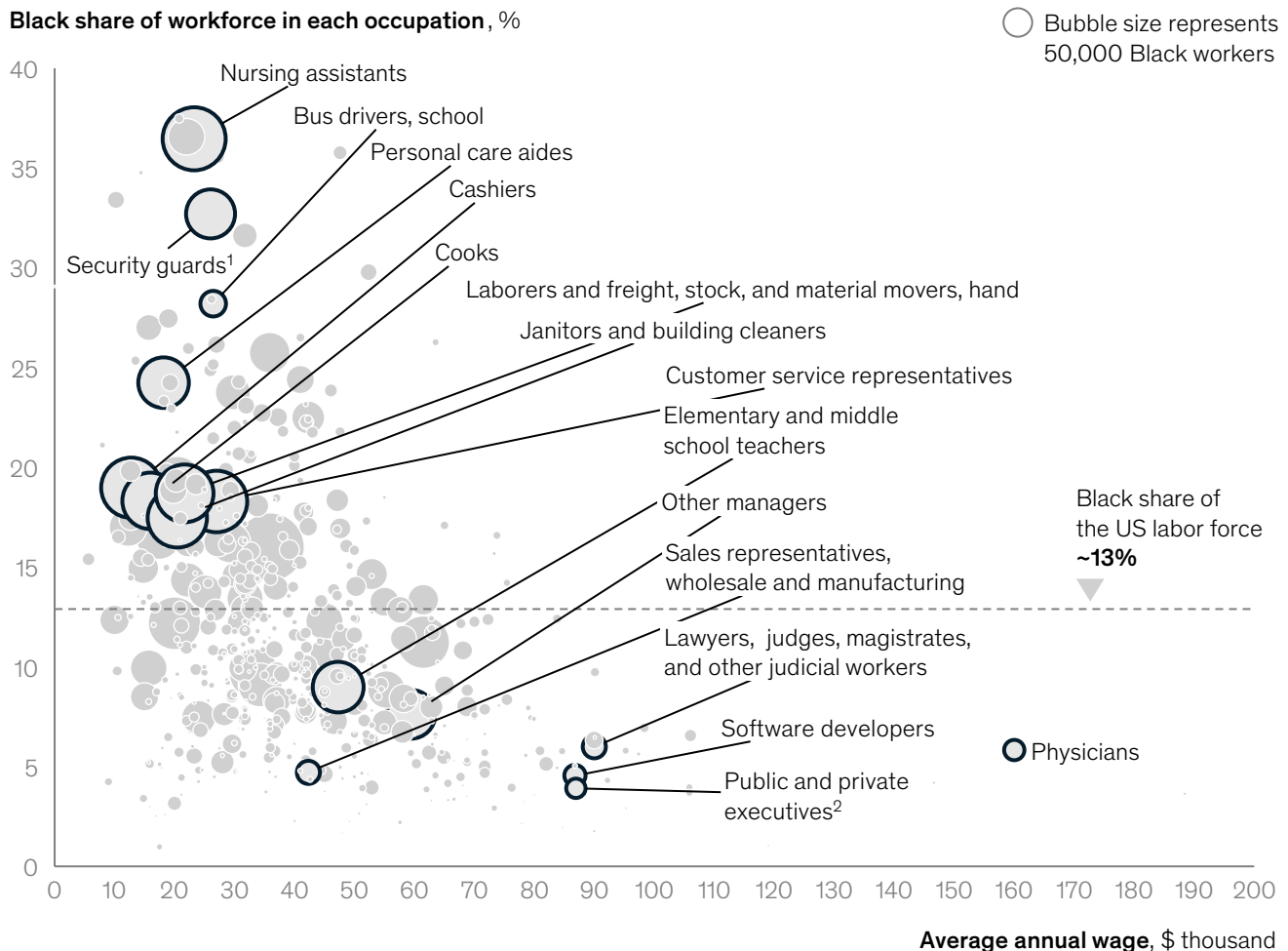
More than 35 percent of all US nursing assistants are Black, with a median wage of \$23,000 (Exhibit E3). Many are hired as independent contractors, without employer benefits and protections. Roughly one-third of all security guards and school bus drivers are Black. They earn median wages of \$26,000 and \$26,500, respectively, with few structured pathways for professional advancement.

Exhibit E2

Black workers are concentrated in lower-paying occupations and underrepresented in higher-paying ones.

Black representation and wages by occupation

Black share of workforce in each occupation, %



1. The ACS occupational category is titled security guards and gaming surveillance.

2. The ACS occupational category is titled chief executives and legislators. Category includes corporate executives, small business owners, legislators, and executives of public entities.

Source: IPUMS USA, five-year dataset (2014–18) from US Census Bureau's American Community Survey; McKinsey Global Institute and McKinsey Institute for Black Economic Mobility analysis

⁴ *Race in the workplace: The Black experience in the US private sector*, McKinsey & Company, February 2021.

Black workers are disproportionately represented in low-wage occupations today.

Select occupations with high representation of Black workers	Median wage for a Black worker	Number of Black workers in occupation	Black worker representation in each occupation
Nursing assistants	\$23K	441K	36.5%
Customer service representatives	\$27K	422K	18.3%
Cashiers	\$13K	401K	19.0%
Janitors and building cleaners	\$20K	391K	17.5%
Laborers and movers ¹	\$22K	368K	18.7%
Cooks	\$16K	353K	18.3%
Personal care aides	\$18K	283K	24.2%
Security guards ²	\$26K	266K	32.7%
Stockers and order fillers	\$20K	262K	19.3%
Maids and housekeeping cleaners	\$17K	238K	16.5%
Licensed practical and licensed vocational nurses	\$36K	183K	25.7%
Other assemblers and fabricators	\$28K	182K	18.7%
Childcare workers	\$12K	161K	17.0%
Home health aides	\$22K	147K	36.6%
Industrial truck and tractor operators	\$30K	136K	23.8%
Bus drivers, school	\$26K	73K	28.2%
Bus drivers, transit and intercity	\$32K	68K	31.6%

1. The ACS occupational category is titled laborers and freight, stock, and material hand movers.

2. The ACS occupational category is titled security guards and gaming surveillance officers.

Note: The Black share of the US labor force overall is 12.9 percent. The median wage for all US workers is \$41,803.

Source: IPUMS USA, five -year dataset (2014–18) from US Census Bureau's American Community Survey; McKinsey Global Institute and McKinsey Institute for Black Economic Mobility analysis

By contrast, Black workers are underrepresented in higher-paying professions relative to their 13 percent share of the labor force. Only 5 percent of US physicians are Black, for example, which has implications for the quality of care.⁵ Software developers are highly compensated, but only 4.5 percent are Black.

The advancement of Black women into higher-paying positions is critical in light of the role they play in providing economic stability for their families. Women of all races are less represented in leadership roles, but women of color face double hurdles of sexism and racism. A study of 590 US corporations found that only 58 Black women are promoted into manager roles for every 100 men; 64 Black women are hired directly into these roles for every 100 men.⁶

⁵ Haider J. Warraich, "Racial disparities seen in how doctors treat pain, even among children," *Washington Post*, July 11, 2020; Kelly M. Hoffman et al., "Racial bias in pain assessment and treatment recommendations, and false beliefs about biological differences between Blacks and whites," *Proceedings of the National Academy of Sciences of the United States of America*, Volume 113, number 16, April 19, 2016; and Kaiser Family Foundation and The Undeclared survey on race and health, October 2020.

⁶ *The state of Black women in corporate America*, Lean In and McKinsey & Company, August 2020.

We analyzed the pipelines into several higher-paying professions that have traditionally been important cornerstones of upward mobility and found multiple obstacles along the way. Looking specifically at the pipeline for lawyers, we see a falloff at every stage that is larger for Black students and practitioners than for their white peers. The drop is particularly steep between applying to law school and enrolling. If the attrition rates for Black students and candidates at each stage could be lowered to match those of their white peers, thousands more Black lawyers would enter the profession each year. This could produce wider benefits for equality before the law over time, although it would take decades for these annual flows to alter the current makeup of the profession due to the number of lawyers already working in the field today.

Similarly, only 5 percent of US physicians are Black. We see the biggest falloff coming in the choice of college majors, with relatively few Black students choosing courses of study that would most naturally set them on the path to becoming doctors.⁷ Representation is also lagging among public school teachers—and the gap is continuously fed when thousands of candidates do not continue all the way through the professional development pipeline and join the workforce in proportional numbers each year. Falloffs occur at the point of undertaking dedicated education training and certification. US Department of Education data indicate that just 4 percent of recent graduates certified to teach are Black.⁸ Studies have shown that representation in the teaching profession improves long-term educational achievement for Black students.⁹

Some managerial occupations offer multiple ways to enter. But Black workers have more limited access to established business networks and formal internship programs to get in the door. Once there, it is also harder for Black employees to advance organically from entry-level to managerial jobs; their attrition rates are higher, and many report a trust deficit and a lack of sponsorship and allyship.¹⁰ One recent report found only five Black professionals among the 279 top executives listed in proxy statements of the 50 largest US firms in the S&P 100.¹¹

Significant wage gaps also exist within occupational categories

On top of skewed representation, pay gaps exist between Black and white workers within occupational categories. This issue accounts for \$96 billion, or 44 percent, of the overall disparity. It is especially noteworthy that Black workers who do advance into managerial and leadership ranks are often paid less than their white counterparts.

A number of variables could explain these wage gaps within occupational categories, including differences in representation at a more granular level (such as those within specific healthcare specialties), tenure, hours worked, industry, firm size, and regional differences. It is difficult to assess exactly how much of the wage gap is driven by racial animus or unconscious bias. But some studies have found a significant percentage of the wage gap is left “unexplained” after controlling for other variables;¹² other research shows employers respond more favorably to resumes with “white” names and otherwise similar experience.¹³ Gender pay disparities are also at play. Black women are concentrated in roles such as teachers, accountants, financial managers, and retail supervisors—all occupations with substantial racial wage gaps.

\$96B

in racial pay gaps within occupational categories

⁷ Douglas Belkin, “Why we need more Black doctors—and how to get there,” *Wall Street Journal*, September 8, 2020.

⁸ John B. King, Amy McIntosh, Jennifer Bell-Ellwanger, *The state of racial diversity in the educator workforce*, US Department of Education, July 2016; and Linda Tyler et al, *Toward increasing teacher diversity: Targeting support and intervention for teacher licensure candidates*, Educational Testing Service, 2011.

⁹ See, for example, Thomas S. Dee, “Teachers, race, and student achievement in a randomized experiment,” *The Review of Economics and Statistics*, Volume 86, Issue 1, February 2004; and Seth Gershenson et al., *The long-run impacts of same-race teachers*, IZA Institute of Labor Economics, discussion paper number 10630, March 2017.

¹⁰ *Race in the workplace: The Black experience in the US private sector*, McKinsey & Company, February 2021.

¹¹ Jessica Guynn and Brent Schrottenboer, “Why are there still so few Black executives in America?,” *USA Today*, August 20, 2020.

¹² Mary C. Daly, Bart Hobijn, and Joseph H. Pedtke, “Disappointing facts about the Black-white wage gap,” *FRBSF Economic Letter 2017-06*, Federal Reserve Bank of San Francisco, September 2017.

¹³ See, for example, Sonia Kang et al., “Whitened resumes: Race and self-presentation in the labor market,” *Administrative Science Quarterly*, March 2016.

Multiple interventions can contribute to improving labor market outcomes

There are no easy fixes to achieve parity; instead, it will require difficult and complex work to dismantle long-standing systemic barriers. It may also take new antidiscrimination measures and enforcement. Policy and educational institutions have a role here, yet much of the onus—and the opportunity—rests with employers. While most of our research efforts focused on sizing the gaps, our findings suggest several starting points for action. They should be read as illustrative rather than comprehensive.

- **Diversify hiring and promotions, and improve the workplace experience.** Employers can expand where and how they recruit while eliminating biases in hiring. One way to do this is to de-emphasize traditional credentials and hire based on aptitude and skills; another is to offer more paid apprenticeships and internships to Black applicants. Beyond hiring, organizations can examine the workplace experience and attrition for different groups of employees. Many Black workers face day-to-day discrimination and scrutiny that make promotions more difficult to achieve.¹⁴ A McKinsey survey found a 27-percentage-point gap between Black and white employees who report feeling accepted at work.¹⁵ But these dynamics can be changed. A number of companies have established formal mentoring and sponsorship programs; others are incorporating diversity goals into managerial performance reviews.¹⁶
- **Strengthen educational pathways.** Pre-K and K-12 education lays a foundation for better labor market outcomes, so strengthening schools is vital. College degrees, from associates to bachelor's, may not guarantee upward mobility, but they remain an important passport to the middle class. However, there is a significant gap in educational attainment between Black Americans and other racial groups. Supporting historically Black colleges and universities (HBCUs) is key, since they educate almost 20 percent of Black college graduates. But other institutions can do more to enroll and support Black students. Since many are the first in their families to attend college, dozens of institutions have added social, advisory, and financial programs to increase their completion rates. STEM degrees are required for many of the fast-growing jobs of the future, but currently only 6 percent of computer science and engineering students are Black. Organizations such as the National Society of Black Engineers and Black Girls Code aim to change these numbers by engaging young people. Nontraditional training programs, such as multiweek coding bootcamps, teach specific skills and could offer a model for a more direct and accountable training ecosystem.
- **Improve the quality of jobs disproportionately held by Black workers today.** All work deserves fairness, dignity, and basic protections. The US economy has been generating millions of poor-quality jobs, even though much of this work is vital. Black workers are the backbone of the nation's caregivers and essential frontline workers, and their value was made clear during the pandemic. Looking forward, an aging population is expected to increase demand for the types of care-economy roles that many Black workers occupy today. Upgrading the quality and stability of these jobs is an issue of growing importance. The public and private sectors can address issues such as the wages paid for truly essential work, predictability of hours, workplace safety, and sick leave and other benefits.
- **Prepare for the future of work.** Approximately 6.7 million Black workers (42 percent of the Black labor force) currently hold jobs that could be subject to disruption by 2030. MGI's scenarios for post-pandemic changes, including increasing automation and business model disruptions, show demand falling for four of the top ten occupations with the greatest absolute numbers of Black workers today (cashiers, janitors, cooks, and retail salespeople).¹⁷ Many people who hold these jobs will need education or on-the-job training to develop new skills. Others may be able to move into higher-paying roles where

>40%

of Black workers hold jobs that are vulnerable to automation or disruption

¹⁴ See, for example, Costas Cavounidis and Kevin Lang, *Discrimination and worker evaluation*, NBER working paper 21612, October 2015; and *The economic impact of closing the racial wealth gap*, McKinsey & Company, August 2019.

¹⁵ *Race in the workplace: The Black experience in the US private sector*, McKinsey & Company, February 2021.

¹⁶ *Diversity Best Practices Inclusion Index Snapshot*, Diversity Best Practices, 2019.

¹⁷ *The future of work after COVID-19*, McKinsey Global Institute, February 2021.

their experience and existing skills could be extended. Someone who works as a customer service representative could become an administrative supervisor and eventually an operations manager, for example, while additional training and certification could enable a nursing assistant advance to become a registered nurse.

- **Help the excluded enter the labor market.** Mass incarceration has a lifetime of consequences as people struggle to find work after their release. One study has estimated that among the formerly incarcerated, 43.6 percent of Black women and 35.2 percent of Black men are unemployed, compared with 23.2 percent of white women and 18.4 percent of white men.¹⁸ Employing the approximately two million formerly incarcerated Black Americans at the same rate as formerly incarcerated whites could potentially add some 210,000 new workers to the economy. One organization focused on making re-entry possible is Homeboy Industries, which offers work experience in social enterprises that in turn fund mental health programs for thousands of clients annually. The Homeboy model has expanded into a global network of 400 community-based initiatives.¹⁹
- **Consider how to expand opportunity across industries and geographies.** Large employers, industry groups, unions, professional societies, and educational institutions can focus on diversifying talent pipelines into higher-paying fields. Companies can also consider expanding their footprint and corporate operations into underserved communities and more diverse parts of the country.

Business owners: Black entrepreneurs face challenges in launching and growing their companies

\$1.6T

annual revenue gap between
Black- and non-Black-
owned businesses

Black-owned businesses are fewer in number and smaller in size than their peers. They are also concentrated in sectors with challenging prospects for growth and profitability, while limited access to capital makes investing and withstanding shocks tougher.

The vast majority (96 percent) of all Black-owned businesses are sole proprietorships; that figure is only 80 percent for non-Black-owned businesses. However, our analysis focuses on the representation and growth of Black-owned employer businesses—and even for them, scaling up remains a challenge.²⁰

In a parity scenario, Black-owned businesses would generate \$1.6 trillion more than they do today. This has two components. First, if the Black share of business ownership matched the Black share of the population, 615,000 more enterprises would exist, potentially generating \$1 trillion in revenue, assuming current relative levels. Second, if Black-owned firms matched the average scale of their industry peers, they would add another \$600 billion in revenue.

Similar to the pattern in the labor force, the aggregate revenue gap is highly concentrated. Seventy percent of it exists within just five industries: wholesale trade, retail trade, construction, manufacturing, and professional services (Exhibit E4).

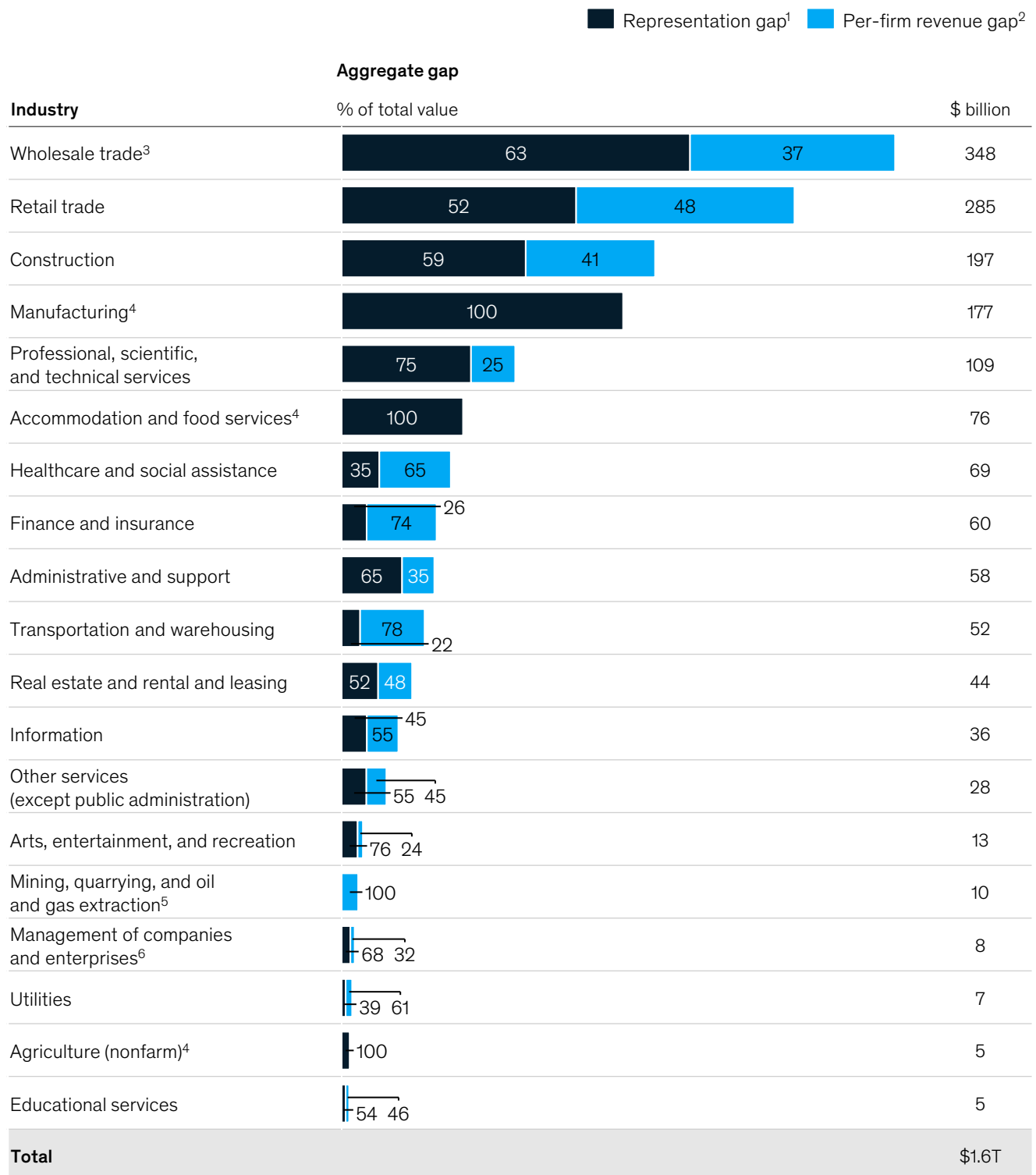
Black entrepreneurs often hit structural and market barriers, starting with the difficulty of securing startup capital and loans.

¹⁸ Lucius Couloute and Daniel Kopf, *Unemployment among formerly incarcerated people*, Prison Policy Institute, July 2018.

¹⁹ See homeboyindustries.org.

²⁰ Our analysis covers only racially classifiable privately held employer firms, which have at least one worker in addition to the owner. Sole proprietorships and publicly traded companies are excluded.

Seventy percent of the revenue gap between Black- and non-Black-owned businesses is concentrated in just five industries.



1. Based on the difference in the share of Black-owned employer firms in each industry and the Black share of the US population, which is 13 percent. In every industry, current representation is well below this definition of parity.

2. Based on the difference in average revenue between Black- and non-Black-owned employer firms. In every industry (with the exception of manufacturing, accommodation and food services, and agriculture), the revenues of Black-owned firms are lower.

3. Including distributors of various products and services.

4. Data suggest there is no per-firm revenue gap between Black- and non-Black-owned firms in manufacturing, accommodation and food services, and agriculture.

5. According to the dataset, there are no Black-owned firms in the mining, quarrying, and oil, gas industry (likely due to sampling and low number of existing firms in the industry).

6. Includes holding companies and corporate managing offices.

Source: US Census Bureau Annual Business Survey (2018); McKinsey Global Institute and McKinsey Institute for Black Economic Mobility analysis

There are far fewer Black-owned employer businesses than the Black share of the population would indicate

The US Census Bureau's Annual Business Survey identified some 124,000 Black-owned businesses with more than one worker—which means that they constitute only 2 percent of the nation's total, far below the 13 percent Black share of the US population.²¹

A lack of Black representation in certain corners of the labor market, especially in managerial and highly paid professional roles, suggests that the pipeline of people who could make the leap into business ownership is thinner. The absence of Black-owned businesses is particularly notable in industries such as mining, oil, and gas (with near zero Black-owned versus 17,500 non-Black-owned firms appearing in the data), utilities (11 versus 2,600), agriculture (100 versus 27,340), and manufacturing (1,600 versus 237,000). Additionally, there are only 1,242 Black-owned information technology businesses (versus 68,569 non-Black-owned businesses). As the industry continues to grow rapidly and transform other parts of the economy, the presence of Black tech entrepreneurs will be critical to ensuring that the information ecosystems and digital tools of the future are inclusive.

2%

of all US private employer businesses are Black owned, far below the ~13% Black share of the population

Black entrepreneurs often hit structural and market barriers, starting with the difficulty of securing startup capital and loans. White entrepreneurs start their businesses with \$107,000 of capital on average, but the corresponding figure for Black founders is \$35,000.²² Starting from behind in this way can create a heavier debt burden; in a McKinsey survey, almost 30 percent of Black-owned businesses reported directing more than half their revenues to debt service in 2019.²³ Without the funding to launch and sustain their operations, many Black-owned businesses do not survive the startup stage.²⁴

These challenges may be one reason that Black entrepreneurship is stronger in less capital-intensive industries. Roughly one-third of Black-owned employer businesses are in healthcare and social assistance. Many are home healthcare providers, daycare providers, and physician's offices. The "low cost of failure" emerged as a theme in interviews we conducted with business owners in the home healthcare field. Access to patients and other providers can come from existing connections, and no capital-intensive equipment is needed. Scaling up such enterprises can be a difficult task, but starting can be relatively simple.

Black-owned businesses face barriers to scaling up

The Black-owned businesses that do exist tend to be small, both by number of employees and per-firm revenue. Black-owned companies employ about 15 percent fewer workers on average than their non-Black-owned counterparts; only 2 percent have more than 50 employees. Black-owned employer firms generate only 60 percent of the revenue produced by their non-Black-owned counterparts (\$1 million annually on average, versus \$2.4 million). The Black business owners we interviewed cited exclusion from professional networks and a lack of flexible capital to invest in technology and R&D innovations as common challenges to scaling up.

In home healthcare, for example, the average Black business generates only about half of the revenue of non-Black-owned firms—and one of the biggest hurdles seems to be branching out beyond the inaugural group of patients. Larger home healthcare services have established themselves as trusted partners with hospitals and primary care physicians who can provide a stream of ongoing referrals. But this path can be narrow, and if Black business owners are not part of these networks, it can be hard to scale in the same way.

Manufacturing stands out as an arena in which Black-owned businesses are larger. Although only 1 percent of US manufacturing firms are under Black ownership, those companies generate slightly more revenue than non-Black-owned manufacturing businesses, at nearly \$6 million in annual revenue on average. Formal private- and public-sector supplier diversity

²¹ This number would be much higher if sole proprietorships were included.

²² Robert Fairlie, Alicia Robb, and David T. Robinson, "Black and white: Access to capital among minority-owned startups," Stanford Institute for Economic Policy Research, working paper number 17-03, February 2017.

²³ McKinsey & Company COVID-19 US SMB Financial Pulse Survey, n = 1,004; responses collected May 8–13, 2020, from small and medium-size businesses with less than \$500 million in annual revenue.

²⁴ Global Entrepreneurship Monitor, 2017, gemconsortium.org; Dow Jones VentureSource, 2018.

initiatives have helped owners get a foot in the door, obtain larger orders, and build track records that give their businesses greater credibility. Gaining accreditation as a recognized diverse supplier can open doors to additional opportunities.²⁵

A number of initiatives could further unleash Black entrepreneurship

Supporting Black-owned businesses can have broader ripple effects; these enterprises are often employers for Black workers and forces for community development in their neighborhoods.²⁶ There is urgency to act, since many Black-owned businesses had precarious finances before the pandemic struck, and an estimated 41 percent of them closed in the early days between February and April 2020.²⁷ While our research efforts focused on the gap, we do see some illustrative examples of promising solutions and initiatives for addressing it, although we have not analyzed their impact.

Large organizations can drive change through the reach of their supply chains. A number of major US corporations have recently committed to increasing spending with diverse suppliers. Target, for instance, announced intentions to spend more than \$2 billion with Black-owned suppliers by 2025.²⁸ Coca-Cola, too, plans to more than double its spending with Black-owned suppliers in the next five years.²⁹ These types of commitments can give a range of Black enterprises an opening to expand.

Beyond the actions of individual companies are issues that permeate entire ecosystems, starting with more transparency and fairness in the way capital is allocated. Large banks, small banks, and online lenders turn down Black loan applicants at a higher rate than non-Black applicants, citing creditworthiness as the primary reason for denials.³⁰ Black entrepreneurs often face a higher cost of capital but more stringent application processes than white loan applicants.³¹ Only 1 percent of venture capital funding goes to Black founders—a situation that mirrors the lack of representation within the nation's largest VC firms themselves.³² Aiming to change this, Martin Muoto, CEO of the urban real estate fund SoLa Impact, recently announced a \$1 billion Black Impact Fund that will expand access to capital in urban communities of color.

Alternative sources of capital can step into some of the funding gaps. Community development financial institutions are designed to promote economic empowerment in distressed communities. No-strings-attached lending and patient capital from social investors can help Black business owners flexibly grow and sustain their firms without the pressures of generating outsized returns immediately. Large banks, small banks, and online lenders can utilize alternative credit assessment methods (such as payment histories of monthly utility, rent, and cellular bills) to help determine the likelihood of repayment, offsetting often thinner credit histories for Black Americans.³³

A number of other public- and private-sector interventions can open doors for more Black entrepreneurs and put more resources at their disposal. The Black Founder List was created to link Black-owned, venture-backed companies into networks that can collaborate. Free web-based courses can be easily shared with multiple businesses. Many Black-owned businesses lack the resources to fully digitize their businesses, but private-sector and social-sector organizations can provide high-quality tech services and support.³⁴

²⁵ Alexis Bateman, Ashley Barrington, and Katie Dale, "Why you need a supplier-diversity program," *Harvard Business Review*, August 2020.

²⁶ T. D. Boston, "The role of Black-owned businesses in Black community development," in *Jobs and economic development in minority communities*, Paul Ong and Anastasia Loukaitou-Sideris, eds., Temple University Press, 2006.

²⁷ Robert W. Fairlie, *The impact of COVID-19 on small business owners: Evidence of early-stage losses from the April 2020 Current Population Survey*, NBER working paper number 27309, June 2020.

²⁸ Michael Browne, "Target to spend more than \$2 billion with Black-owned businesses by 2025," *Supermarket News*, April 7, 2021.

²⁹ "Coca-Cola commits \$500 million in additional spending with Black-owned suppliers," company press release, October 20, 2020.

³⁰ *Small business credit survey, 2021 report on employer firms*, Federal Reserve Banks of Atlanta, Boston, Chicago, Cleveland, Dallas, Kansas City, Minneapolis, New York, Philadelphia, Richmond, St. Louis, and San Francisco, 2021.

³¹ "Building supportive ecosystems for Black-owned US businesses," October 2020, McKinsey.com.

³² Gené Teare, "Highlighting notable funding to Black founders in 2020," Crunchbase, February 12, 2021.

³³ *The state of alternative data*, Experian, 2018; and *CFPB data point: Becoming credit visible*, US Consumer Financial Protection Bureau, June 2017.

³⁴ "Building supportive ecosystems for Black-owned US businesses," October 2020, McKinsey.com.

Programs could also be targeted in industries with large numbers of Black workers. Entrepreneurs often start businesses in the industries where they have experience, which is another factor behind the concentration of Black-owned businesses in healthcare. Four industries (accommodation and food service, healthcare and social assistance, transportation and warehousing, and administrative support) have high Black representation, which could signal an opportunity to help more people in those fields make the leap to starting their own businesses.

Consumers: There is substantial opportunity to better serve neglected markets

In 2019, Black household spending totaled approximately \$835 billion.³⁵ This was just under 10 percent of the nation's total, and lower than the Black share of the US population (13.4 percent). This gap is primarily the result of lower average incomes and wealth; achieving parity in the labor market, as described above, could boost Black consumer spending by some 40 percent.

But lower incomes do not fully explain the gap. Some latent demand exists today but is going unmet. Years of underinvestment by the private sector have left some majority-Black communities with a dearth of retail options and key services. In addition, many existing products, brands, and services are not meeting the needs of Black consumers or resonating with them, as our own consumer survey shows.

There is a dual opportunity to add revenue for companies and growth for the economy while addressing important gaps in neglected communities and creating value for consumers. In some cases, this would involve capturing dollars already being spent elsewhere today; in others, it would involve unlocking entirely new pockets of consumption. In total, we estimate that some \$700 billion in value at stake could be shared by companies and Black households.

Many Black neighborhoods are consumer “deserts” that need greater access to goods and services

Across all the categories of spending we examined, a higher percentage of the Black population lives in neighborhoods with insufficient access to goods and services (Exhibit E5).

- **Food.** The absence of major grocery stores in many Black communities means that food is more expensive, choice is limited, and fresh produce is harder to come by. One out of every five Black households is situated in a food desert, defined by the USDA as a low-income neighborhood with inadequate access to food. This applies to roughly 8.3 million Black residents, 40 percent of whom live in five states: Georgia, Texas, Mississippi, Florida, and Louisiana. Counties with above-average Black populations have fewer grocery stores, restaurants, and farmers markets but more small convenience stores.
- **Housing.** The US Department of Housing and Urban Development defines households as “cost burdened” when more than 30 percent of their gross income goes toward housing—and in 2019, this applied to 53.7 percent of Black renter households.³⁶ These gaps are the result of a shortage of affordable housing in majority-Black neighborhoods combined with a long history of discriminatory practices preventing Black Americans from moving into white neighborhoods (including blocking new multifamily projects).

~54%

of Black renter households
are cost burdened

³⁵ While some marketing reports put their estimates of “Black buying power” as high as \$1.3 trillion, this usually involves looking at pretax income. This research examines actual household spending from the BLS Consumer Expenditures survey data; it captures both current spending and spending financed by debt. We follow the BLS definition of household spending, which covers the following categories: food, housing, apparel and services, transportation, healthcare, entertainment, and other.

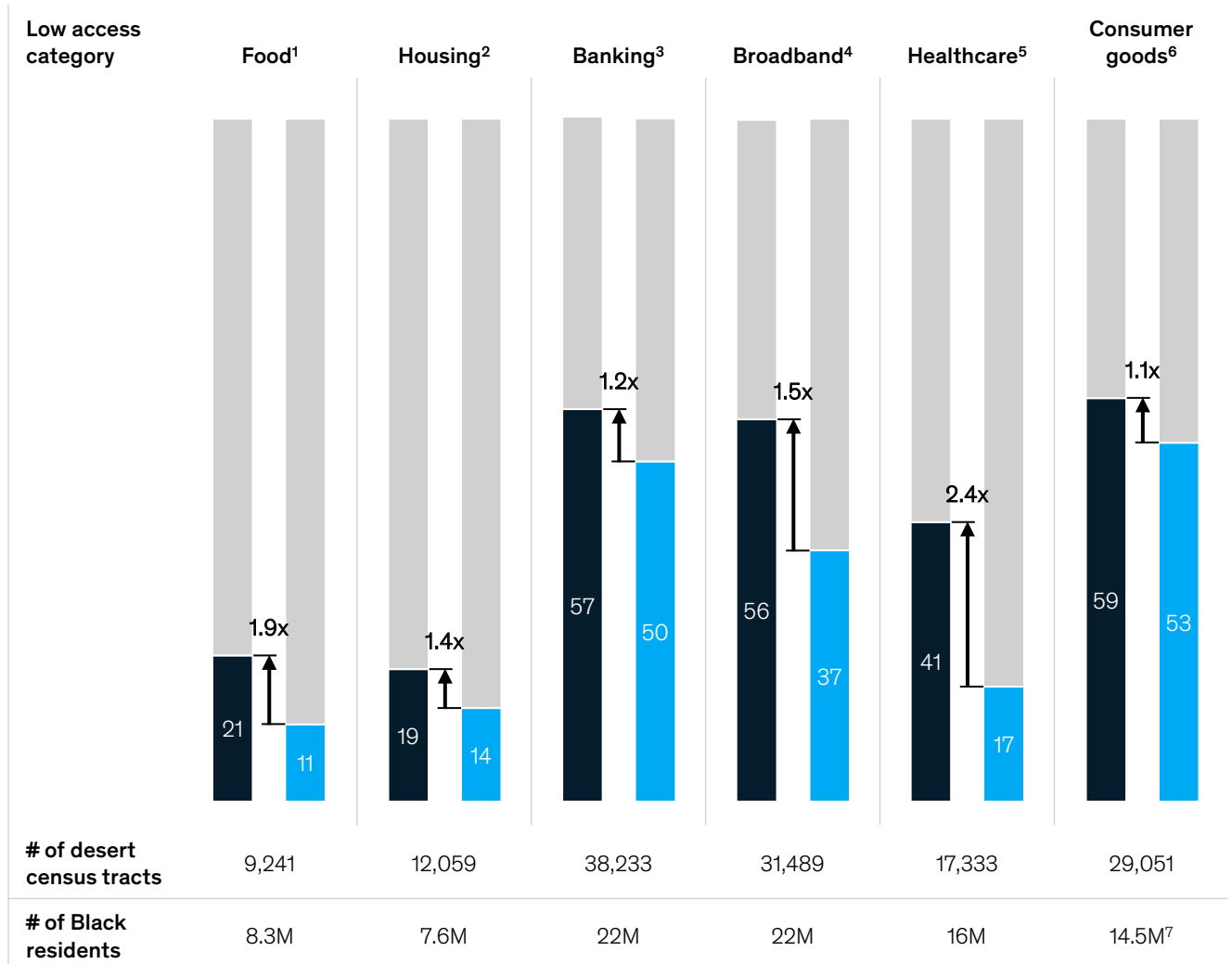
³⁶ *The state of the nation's housing 2020*, Joint Center for Housing Studies of Harvard University, November 2020; and *Out of reach: The high cost of housing*, National Low Income Housing Coalition, 2020.

Black Americans are more likely than white Americans to live in consumer “deserts.”

Share of population that lives in a census tract designated a “desert”

%

Black White



72% of average Black household consumption represented in these categories

1. USDA designation. The USDA defines a food desert as a census tract that is both low-income and low-access. The criteria for identifying a low-income census tract match the definitions used for the New Markets Tax Credit program. A census tract is considered low access if at least 500 people, or 33 percent of the population, are far away from a supermarket or grocery store. There are four different distance measures; the measure utilized here is one mile away in urban areas and 10 miles away in rural areas.
2. Census tracts that are low-income (as defined above) and in a state that has less than the national level of affordable and available units per 100 extremely low-income households, as defined by the National Low Income Housing Coalition.
3. Census tracts in states that have an above-average proportion of unbanked individuals (not served by a bank or financial institution), as measured by the FDIC.
4. Census tracts with fewer than 800 high-speed connections per 1,000 households, as measured by the FCC (Form 477 Census Tract Data on Internet Access Services).
5. Census tracts designated as medically underserved areas or healthcare provider shortage areas by the Health Resources & Services Administration. HRSA uses a scoring index that includes provider-population ratios, poverty rates, travel time, and other metrics.
6. Census tracts in counties with a below-average number of “supercenters” as identified by USDA. This includes warehouses, clubs, and supercenters (NAICS code 452910), retailers that sell a general line of groceries in addition to other goods.
7. Data not available for all census tracts. 14.5M is 59 percent of the Black population in census tracts for which data on consumer goods were available.

Source: USDA Food Access Research Atlas; Health Resources & Services Administration; National Low Income Housing Coalition; FDIC, *How America banks*; FCC; McKinsey Global Institute and McKinsey Institute for Black Economic Mobility analysis

- **Banking.** Bank branches have been closing rapidly in recent years, and Black Americans are disproportionately likely to live in banking deserts, whether urban or rural. According to FDIC data, nearly half of all Black households were unbanked or underbanked in 2017, compared to just 20 percent of white households. In the absence of banks, consumers sometimes turn to payday lending.
- **Broadband.** Black households are 50 percent more likely to live in areas with limited broadband service, with spillover effects on job hunting, remote work, and remote learning.³⁷ In some urban neighborhoods, networks are in place, but many internet service providers impose credit checks or require cash deposits from new customers, and they disproportionately turn away Black households.³⁸ Yet Black consumers are actually more likely to participate in e-commerce; they have compensated for broadband gaps by becoming “mobile first.”³⁹
- **Healthcare.** Black Americans are nearly 2.4 times more likely than white Americans to live in a neighborhood with limited healthcare services, defined as areas that are either medically underserved or have too few providers relative to the population.⁴⁰ One in four Black respondents to a Kaiser Family Foundation survey in 2020 reported difficulties in finding conveniently located healthcare.⁴¹

These gaps tend to intersect. Black households are 2.4 times more likely than white households to live in urban census tracts that are simultaneously food deserts, medically underserved or facing a provider shortage, and characterized by high housing and transportation costs (exceeding 50 percent of the local median income). Some 2.7 million Black residents live in these types of urban environments. This pattern also exists in rural areas, although it affects fewer people.

Investing in underserved communities can be a win-win

Site selection for major retailers is often guided by risk aversion or even by bias. Yet our analysis indicates that moving into underserved retail landscapes can be profitable. We used McKinsey’s proprietary Omni site selection platform to analyze food deserts and the location of grocery stores in Washington, DC. Employing mobile phone data as a proxy for foot traffic, we created a model illustrating a hypothetical scenario in which new grocery stores were sited in underserved and majority-Black parts of Southeast DC. The results suggest that these new locations can be profitable—a strategy that worked for Whole Foods in Midtown Detroit.⁴²

There is a dual opportunity to add revenue for companies and growth for the economy while addressing important gaps in neglected communities and creating value for consumers.

³⁷ We define “limited” as less than 80 percent coverage, based on FCC census tract data showing the number of residential fixed high-speed connections over 200 kbps in at least one direction per 1,000 households, [fcc.gov/form-477-census-tract-data-internet-access-services](https://www.fcc.gov/form-477-census-tract-data-internet-access-services).

³⁸ S. Derek Turner, *Digital denied: The impact of systemic racial discrimination on home-internet adoption*, Free Press, December 2016.

³⁹ Andrew Perrin and Erica Turner, “Smartphones help Blacks, Hispanics bridge some—but not all—digital gaps with whites,” Pew Research Center, August 20, 2019.

⁴⁰ Definitions from the US Health Resources & Services Administration, US Department of Health and Human Services; bhwhrsa.gov/workforce-shortage-areas/shortage-designation.

⁴¹ Survey on race and health conducted in 2020 by the Kaiser Family Foundation and ESPN’s The Undeclared; n = 1,769 US adults with an oversample of 777 Black Americans.

⁴² Lolly Bowean, “As Whole Foods ventures to Englewood, many eyes on Detroit store,” *Chicago Tribune*, March 16, 2015.

We have observed multiple examples of initiatives to address access challenges, including some in which the public sector has seeded development with targeted funding or through public-private partnerships with economic development agencies. However, it is important for such programs to deliver benefits to residents as well as developers. Birmingham, Alabama, for instance, is emphasizing community engagement, support for small Black-owned businesses, and historic preservation in the economic development plan for the Fourth Avenue District.⁴³ Los Angeles has added thousands of new affordable apartments by allowing developers to build larger multifamily projects near transit if they set aside a greater share of units for low-income tenants.⁴⁴

Social investors are using their capital and their platforms to catalyze transformation in underserved neighborhoods. Magic Johnson helped to pioneer this approach; for decades, he has invested in retail franchises and mixed-use developments in underserved inner-city neighborhoods. Former Red Sox slugger Mo Vaughn's company has acquired and rehabbed dozens of deteriorating apartment buildings for low-income tenants.⁴⁵ The LeBron James Family Foundation has invested in schools, residential developments, and community amenities in his hometown of Akron, Ohio, and beyond.⁴⁶

Other innovative pilot programs include grassroots initiatives to get fresh produce into food deserts via mobile produce stands, local food co-ops, and pop-up farm stands at transit stations (like Atlanta's Fresh MARTA Market). The ability to order groceries online with SNAP benefits is rapidly expanding across retailers and geographies as a USDA pilot program scales up. During the COVID-19 pandemic, pop-up and mobile delivery approaches expanded access to testing and vaccinations in underserved communities.

Companies can better connect with Black consumers through more tailored products and improved experiences

Many companies have not hit the mark when it comes to providing Black consumers what they actually want. Data from the 2020 McKinsey Consumer Sentiment Survey shows that Black consumers are more open to switching what and how they buy than other demographic groups. On average, Black consumers are more than 25 percent likelier to change buying behavior, which indicates that their preferences are not being met. Yet Black consumers are also less likely to be satisfied with a new product when they do switch, a pattern that holds across more and less expensive brands.

Some recent examples of products and services geared to Black consumers have been immediately successful. Bevel, for example, is a brand of personal-care and grooming products created by a Black founder. Procter & Gamble acquired the brand and is expanding to nationwide distribution. Rihanna's Fenty Beauty line, geared to a wide range of skin tones, generated \$100 million in sales within a few weeks of its debut; the company was valued at \$3 billion after just 15 months.

To gauge unmet demand, we launched a proprietary consumer survey of 6,200 American consumers for this report. The responses yielded some reasons for dissatisfaction with products and services that are shared across racial groups, most notably value for money. But Black respondents were far more likely than white respondents to say that current offerings do not meet their needs, especially in personal care products and services, banking and financial services, healthcare, and food (Exhibit E6). Black respondents also noted not seeing themselves in advertising and marketing campaigns, a lack of same-race business ownership, and a lack of company commitment to social justice. Black consumers report being dissatisfied with products and services that currently account for 30 percent of their spending, or some \$260 billion. They are not only willing to switch; they are also willing to

⁴³ "Urban Impact kicks off historic revitalization in 4th Ave. Business District," *Birmingham Times*, July 4, 2019.

⁴⁴ *Affordable housing in Los Angeles: Delivering more—and doing it faster*, McKinsey Global Institute, November 2019.

⁴⁵ Cara Buckley, "Power player," *New York Times*, July 30, 2010; and Joe Anuta, "City taps developer to transform NYPD garage in Jamaica into large affordable housing project," *Crain's New York*, January 26, 2017.

⁴⁶ Keith Schneider, "How LeBron James uses his influence to improve community development," *New York Times*, March 16, 2021.

spend up to 20 percent more on average on offerings that are better suited to their needs and preferences. All told, we estimate up to \$300 billion in unsatisfied demand.

Black consumers are unfortunately too familiar with the experience of “shopping while Black.” Black patrons are too often denied good customer service or singled out for race-biased security protocols and practices. In a 2018 Gallup poll, 59 percent of Black respondents said they had been treated unfairly in stores. Some corporations have attempted to put a stop to the racial profiling of Black shoppers by establishing clear values and guidelines for store managers and frontline workers, and enforcing those expectations across locations.

Other companies have taken steps to avoid neglecting Black consumer preferences or making tone-deaf missteps, including efforts to increase Black representation on their own internal teams, especially in key decision-making roles affecting product design, R&D, site selection, and marketing. Advertising, too, has long been a largely white industry, but consumer-facing companies working to create inclusive campaigns can seek out agencies with diverse talent. There is also a growing movement calling on companies and brands to direct more of their ad dollars to Black-owned media.

Exhibit E6

Survey results show Black consumers are dissatisfied with products and services accounting for \$260 billion in spending—and they would be willing to pay more for the right offerings.

	Share of respondents expressing dissatisfaction with current offerings in category, %	Revenue at stake, \$ billion	Additional willingness to pay for better products/services, %
Housing	38.7	105.5	6.3–10.6
Banking and financial services	49.5	42.8	8.4–14.0
Healthcare	42.7	25.3	7.2–11.3
Food away from home	47.5	20.4	15.5–24.0
Vehicle purchases	30.4	16.6	9.8–15.5
Food at home	19.6	11.1	15.2–23.5
Hospitality and travel	36.8	6.3	11.3–17.0
Apparel	22.7	5.9	8.1–12.0
Household furnishings and appliances	24.1	5.7	11.2–17.0
Education	38.4	5.4	17.8–26.1
Consumer electronics	24.8	4.0	14.9–23.4
Entertainment	26.4	3.0	14.7–23.2
Personal care products and services	20.6	2.6	16.6–24.9
Footwear	21.1	2.3	17.3–25.9
Beverages at home	20.6	2.0	15.9–24.4
Total		~\$260 billion revenue at stake	

Source: McKinsey consumer survey 2021 (n = 6,200); McKinsey Global Institute and McKinsey Institute for Black Economic Mobility analysis

Black savers and investors face a large wealth gap

For much of the nation's history, biased and legally enforced impediments blocked avenues to building Black wealth. Some 19 percent of Black families (3.5 million families) have negative net worth due to debt, compared to 8 percent of white families. Conversely, only about 2 percent of Black families (340,000 families) have net worth above \$1 million, compared to 16 percent of white families (Exhibit E7).

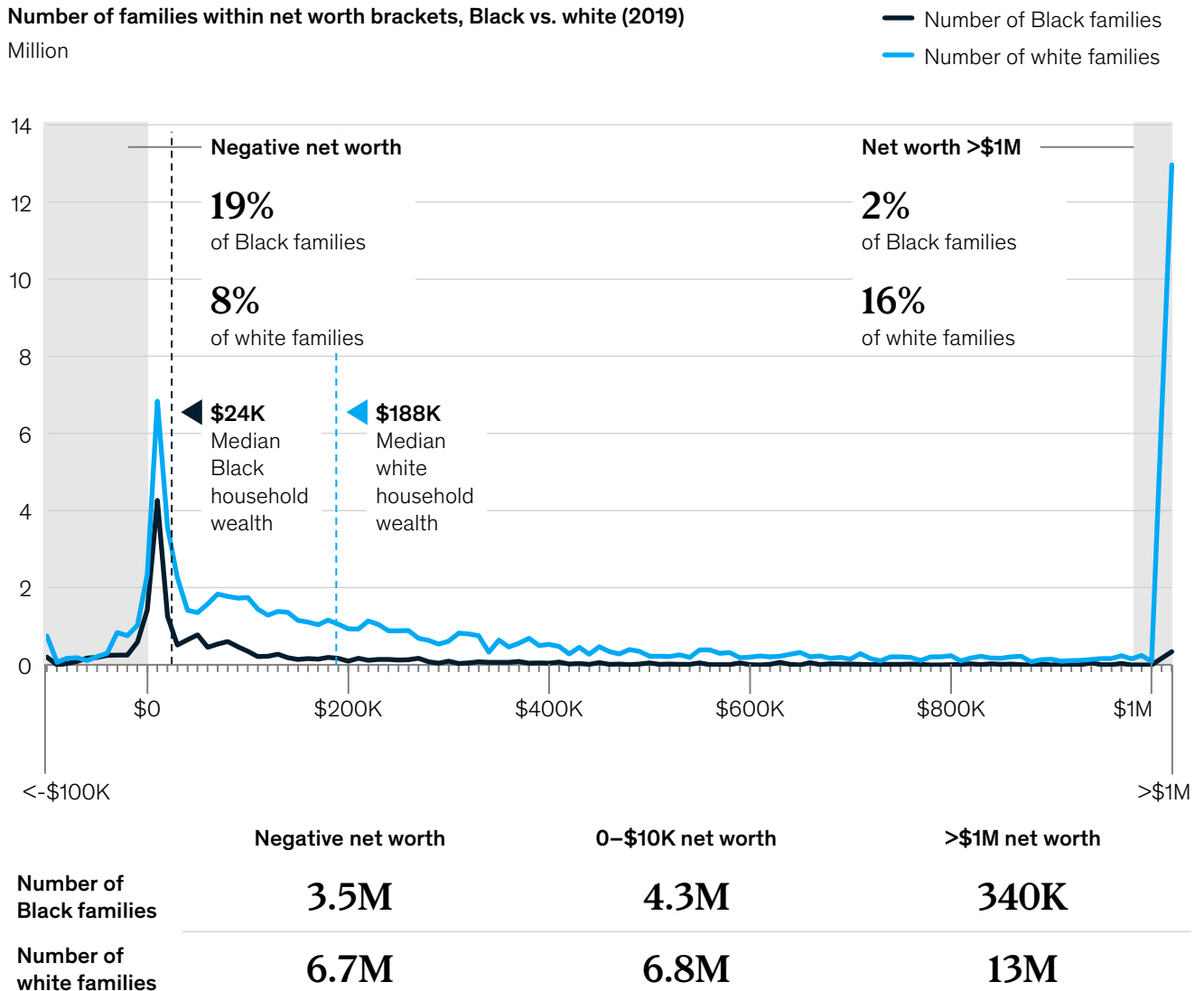
This is not simply about economics; it is about what wealth can do for people. Making it possible for Black families to build greater wealth would affect every aspect of their well-being. It would improve their prospects for owning the roof over their heads, sending their children to college without debt, starting their own businesses, and simply having greater peace of mind.

Exhibit E7

Black families are concentrated in low-net-worth brackets and underrepresented in higher net worth brackets.

Number of families within net worth brackets, Black vs. white (2019)

Million



Note: Mean Black household net worth is about \$143,000; mean white household network is about \$983,000.

Source: Federal Reserve Survey of Consumer Finance (2019); McKinsey Global Institute and McKinsey Institute for Black Economic Mobility analysis

The Black-white wealth gap exists at every tier of income

The median Black household has only about one-eighth of the wealth held by the median white household. The actual dollar amounts are striking: while the median white household has amassed \$188,000, the median Black family has about \$24,000.⁴⁷ This translates into diminished prospects for home ownership, funding college education for children, or simply having enough to fall back on when the unexpected occurs.

An analysis of Federal Reserve data shows striking gaps at every level. The \$24,000 held by the median (50th percentile) Black household corresponded to the wealth of the 25th percentile white family in 2019. In relative terms, the racial wealth gap is widest between the poorest households. White households below the 30th percentile may be struggling, but they have 40 times more wealth than similarly situated Black households. White households at the 10th percentile have only \$950 in wealth—but their Black counterparts are in debt, with negative net worth of almost \$13,000. It is one thing to be poor in America; it is another thing entirely to be poor and Black in America.

Black households start with less family wealth and are constrained in their ability to save

We estimate a \$330 billion disparity between Black and white families in the annual flow of new wealth, some 60 percent of which comes from inheritances. Every year there is a massive intergenerational transfer of family wealth, creating an effect that is both profound and self-perpetuating. Black families are less likely to receive inheritances, and when they do, the amounts are smaller. The gap in inheritances between Black and white recipients is some \$200 billion annually.⁴⁸

Households also build wealth incrementally by saving some portion of their income. But smaller paychecks and debt paydown make it harder for Black Americans to put money aside, contributing to a \$75 billion annual disparity in savings. They are also more likely to have extra demands on their income: some 45 percent of Black college-educated households gave financial support to family members, versus 16 percent of white college-educated households.⁴⁹

Black households are less likely to hold longer-term assets (Exhibit E8). The Black home ownership rate at the end of 2020 stood at 44 percent, which is 30 percentage points below the 74 percent home ownership rate of white Americans.⁵⁰ While 18.6 percent of white households own stocks, the rate for Black households is 6.7 percent. Consequently, Black households are not positioned for gains when homes appreciate in value or the stock market has an upswing.

The disparities facing Black households overall are magnified for Black women, who earn less but often shoulder responsibility for their family's well-being. Forty-seven percent of Black children live with their mothers only.⁵¹ The median wealth of single Black women is \$200, while the median wealth of single white men is \$28,900.⁵²

~30p.p.
gap in Black and white home
ownership rates

⁴⁷ Survey of Consumer Finances, 1989–2019 data, Federal Reserve, 2019.

⁴⁸ *Up front*, "Examining the Black-white wealth gap," blog entry by Kriston McIntosh et al., Brookings Institution, February 27, 2020.

⁴⁹ Tatjana Meschede et al., "Family achievements? How a college degree accumulates wealth for whites and not for Blacks," Federal Reserve Bank of St. Louis Review, first quarter 2017.

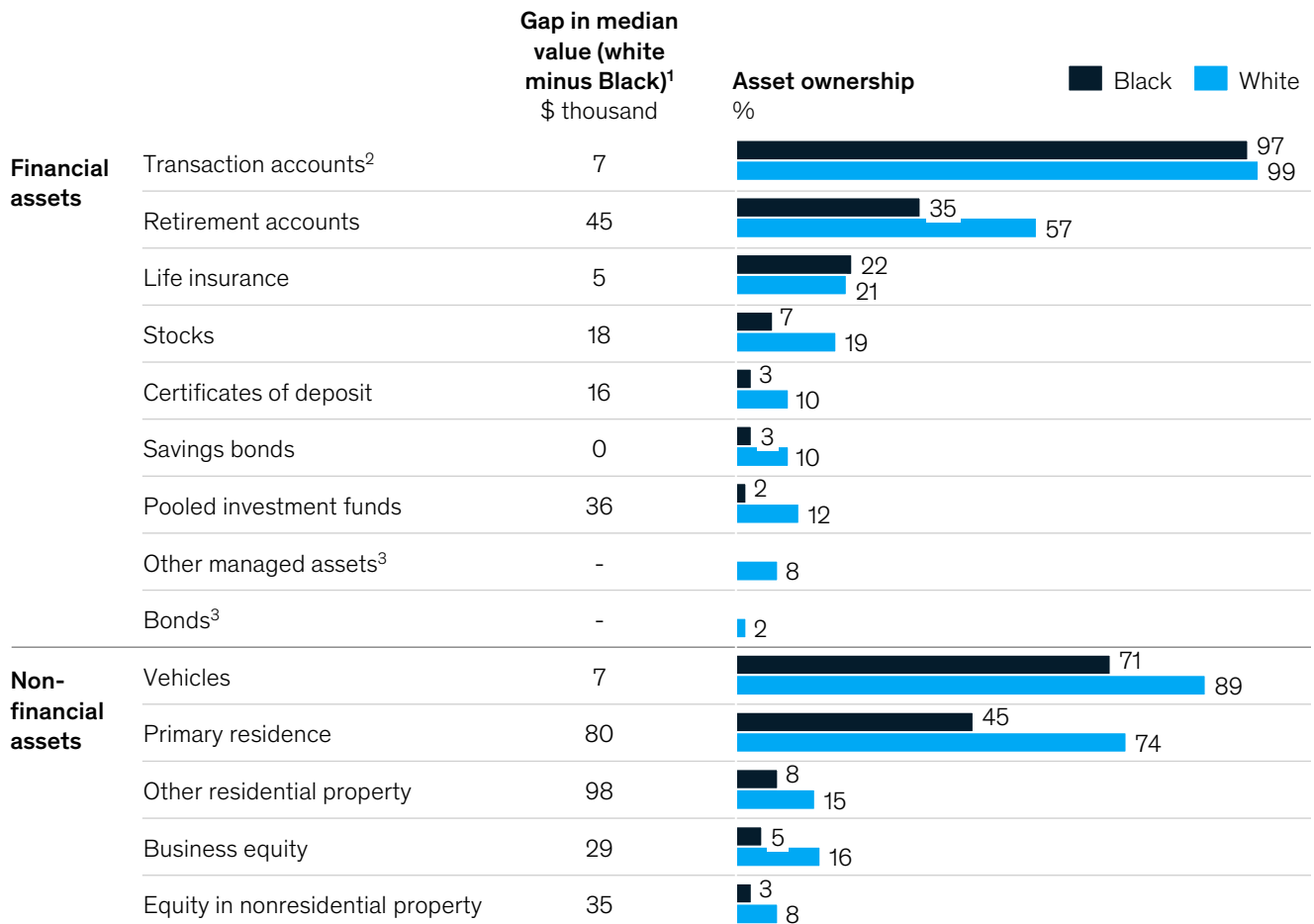
⁵⁰ "Quarterly residential vacancies and homeownership, fourth quarter 2020," US Census Bureau, April 2021.

⁵¹ Gretchen Livingston, "About one-third of US children are living with an unmarried parent," Pew Research Center, April 27, 2018. The corresponding figure for white children is 13 percent.

⁵² Heather McCulloch, *Closing the women's wealth gap: What it is, why it matters, and what can be done about it*, Closing the Women's Wealth Gap, January 2017, womenswealthgap.org. The corresponding median wealth figure for single Black men is \$300, and for white women, \$15,640.

Black families are less likely to hold assets than white households—and when they do, the median value of those assets is lower.

Black and white family holdings of financial and non-financial assets, 2019



1. Value of median white household holdings minus median Black household holdings.

2. FDIC estimates ~5.4 percent of U.S. households were unbanked in 2019.

3. Ten or fewer observations for Black families.

Source: Federal Reserve Survey of Consumer Finances 2019; McKinsey Global Institute and McKinsey Institute for Black Economic Mobility analysis

Black households manage more debt

The difficulty of saving has led more Black households to take on debt—and they are often charged higher interest rates for products such as auto loans.⁵³ We estimate the cost to Black borrowers from differences in observed interest rates at nearly \$2 billion annually for auto loans alone.

Black borrowers are disproportionately burdened by student loans. Four years after earning a college degree, Black graduates hold almost 80 percent higher student debt than their white peers (approximately \$23,000). This gap has grown more than 10 times larger since 1993, as more Black students have sought educational funding and education costs have soared. Some 48 percent of Black student loan borrowers owe more than they originally

⁵³ Alexander W. Butler, Erik J. Mayer, and James Weston, *Racial discrimination in the auto loan market*, SSRN, March 2021; and Michael Corkery and Jessica Silver-Greenberg, "Prosecutors scrutinize minority borrowers' auto loans," *New York Times*, March 30, 2015.

80%

greater student debt held by Black college graduates than white college graduates

borrowed after four years due to interest; this is true for less than 20 percent of white borrowers, who are able to pay down debt faster given higher incomes.⁵⁴

Some steps can improve financial participation

Disrupting these long-standing patterns will not be easy. The outcomes for Black Americans in their roles as workers and business owners have a direct bearing on their wealth, as does their community context. These factors can be changed, although the positive effects will take time to manifest.

But that does not mean nothing can be done. Enabling higher rates of home ownership could be enabled by carefully designed, supportive programs with safeguards against predatory lending. Another option would be to reconsider the ways in which tax policy favors property ownership.⁵⁵ Bringing the almost 14 percent of Black households (some two million in total) that were unbanked in 2019 into the financial system would reduce their likelihood of turning to high-fee alternative services.⁵⁶ Private employers can play a major role by adding retirement benefits for the one-third of US workers who do not have access to workplace plans; they can also do more to encourage participation. Black representation in financial advisory roles could be another key to overcoming mistrust in the financial system.

Perhaps the biggest takeaway regarding the size and persistence of the wealth gap, however, is that most Black households lack the resources to propel their own upward mobility—and it may take public investment or policy changes to change this picture.

Residents: Public policy and investment can deliver better outcomes for Black Americans and enable them to participate more fully in the economy

Through policy and investment, the public sector helps to set the baseline context for how residents participate in the economy. Many of the fundamental services that meet this definition, from education to healthcare access, fall short for Black Americans. Some public programs have eligibility and implementation rules that create barriers to participation or disparities in spending. Others are underfunded relative to the scale of the need. We illustrate these issues by analyzing a limited set of spending areas that provide citizens with the enablers needed for well-being and full participation in the economy.

Our analysis finds many government expenditures have features that amplify existing racial disparities in income and wealth. Some of this is due to program design, such as eligibility rules or funding mechanisms. At least 30 percent of all public spending goes to established programs with features that amplify existing racial disparities. This is based on three of the largest categories of public spending: select tax expenditure items, Social Security, and local spending on K-12 education.⁵⁷

Black Americans in the aggregate face greater barriers to participating in some public programs and receive less in per capita government spending. Even successful programs may be fragmented or underfunded relative to the scale of the need. The results show up in the physical and social infrastructure of Black neighborhoods, in lower-quality public schools and limited higher education opportunities, and in less secure retirements.

Most federal tax expenditures reinforce disparities rather than narrowing them

Tax policy is one of the most powerful tools governments use to encourage or discourage certain economic activities. Tax expenditures (such as reduced tax rates, credits, and exclusions) represent the government's choice to forgo revenue rather than investing it

⁵⁴ *Voter vitals*, "Who owes all that student debt? And who'd benefit if it were forgiven?," blog entry by Adam Looney, David Wessel, and Kadija Yilla, Brookings Institution, January 28, 2020. Also see educationdata.org/student-loan-debt-by-race.

⁵⁵ Dorothy A. Brown, *The whiteness of wealth: How the tax system impoverishes Black Americans—and how we can fix it*, Crown Publishing, 2021.

⁵⁶ *How America banks: Household use of banking and financial services*, 2019 FDIC survey.

⁵⁷ These items collectively account for \$2.1 trillion (roughly \$500 billion in tax expenditures, \$1 trillion in Social Security, and \$600 billion in local spending on K-12 education).

elsewhere. Federal tax expenditures totaled \$1.4 trillion in 2019, with 86 percent (some \$1.2 trillion) of this figure claimed by individuals.

Two major line items, the Earned Income Tax Credit and the Child Tax Credit, primarily benefit low- and moderate-income working people—and these are particularly important benefits for women of color.⁵⁸ Nevertheless, almost 60 percent of federal expenditures went to taxpayers in the highest income quintile, in which Black Americans are underrepresented (Exhibit E9).⁵⁹ Some of the largest line items benefit Americans with real estate holdings, employer benefit packages, investment portfolios, and family wealth. They are not relevant to the many Black Americans who do not own property, have retirement accounts, or receive inheritances. In a scenario of income parity, with proportional Black representation in the top quintiles, Black Americans would have received at least \$35 billion more in tax breaks (while also paying more in taxes).⁶⁰

Health

Good health is a fundamental precondition for productive participation in the economy. Yet medical bills constrain household spending in other critical areas—and they are a major factor behind bankruptcies in the United States. As of 2017, Census Bureau data indicated that 10.6 percent of Black Americans were uninsured (compared to 6.3 percent of non-Hispanic whites). Almost half of Black respondents to a Kaiser Family Foundation survey in 2020 reported difficulty finding healthcare they could afford.⁶¹ While Medicaid aims to bridge gaps in coverage for low-income households, eligibility rules in certain states disproportionately affect Black residents. Expanding Medicaid in eight states would cover an additional one million Black residents within 138 percent of the federal poverty line.

An important measure of health outcomes is life expectancy. In 2018, life expectancy at birth was 76.2 years for white men but 71.3 years for Black men; it was 81.1 years for white women but 78.0 years for Black women.⁶² The average gap across both genders was about 3.5 years. If we apply those lost years across the entire Black population, the painful result is that 2.1 million more Black Americans could be alive today with parity in life expectancy. The COVID-19 pandemic has widened the disparity to a five-year gap. If we again apply those lost years across the Black population, the result is now 3.4 million Black Americans who would otherwise be alive today.

Housing

Housing determines stability; it can inflict stress on a household budget or be a vehicle for building long-term wealth. Conscious policy decisions codified racial segregation in housing for many years. Federal agencies spent decades refusing to insure mortgages in and around neighborhoods with Black majorities, a practice known as redlining; racial covenants in residential deeds prevented owners in predominantly white neighborhoods from selling or renting to Black households.⁶³ Even after those policies changed, their original effects calcified over time. Today's 30-percentage-point racial gap in home ownership means that most Black households are renters—and the majority of them are rent burdened and exposed to the nation's affordable housing shortage.

Discriminatory government housing policies have been changed, but their effects calcified over time.

⁵⁸ Chuck Marr and Yixuan Huang, "Women of color especially benefit from working family tax credits," Center on Budget and Policy Priorities, September 2019. The American Rescue Plan enacted in 2021 temporarily expands both of these credits.

⁵⁹ "Policy basics: Federal tax expenditures," Center on Budget and Policy Priorities, updated December 2020; and "Estimates of federal tax expenditures for fiscal years 2019–2023," US Congress Joint Committee on Taxation, December 2019.

⁶⁰ This assumes that the population benefiting from tax breaks by income quintile mirrors the racial breakdown by income quintile.

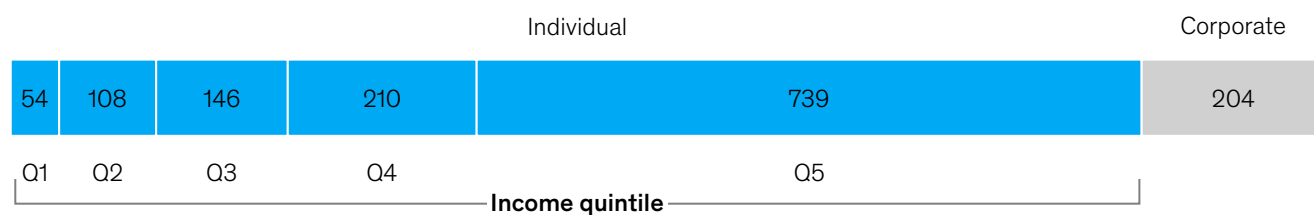
⁶¹ Survey on race and health conducted in 2020 by the Kaiser Family Foundation and ESPN's The Undeclared; included 1,769 US adults with an oversample of 777 Black Americans.

⁶² Elizabeth Arias and Jiaquan Xu, United States Life Tables, 2018, National Vital Statistics Reports, Centers for Disease Control and Prevention, Volume 69, Number 12, November 2020.

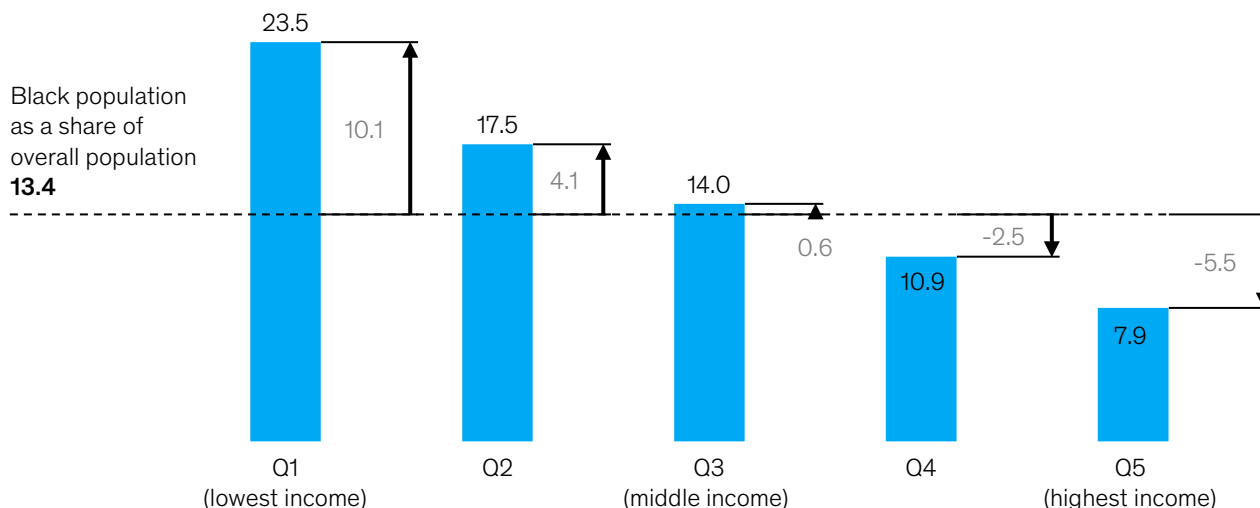
⁶³ See, for example, Richard Rothstein, *The color of law: A forgotten history of how our government segregated America*, Liveright, 2017; and Keeanga-Yamahtta Taylor, *Race for profit: How banks and the real estate industry undermined Black homeownership*, University of North Carolina Press, 2019.

Most federal tax expenditures benefit individuals in the top income quintile.

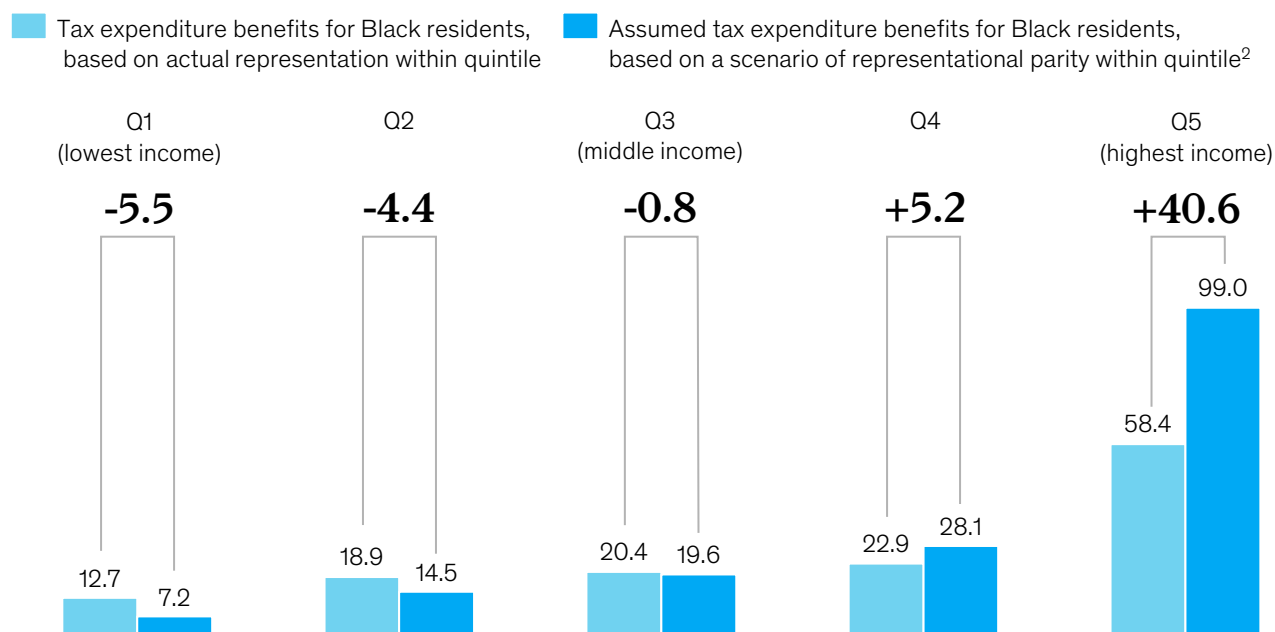
Federal tax expenditure by type, 2019,¹ \$ billion



Black population as a share of income quintile, 2019, %



Tax expenditure benefits, actual and in scenario of representational parity, by income quintile, \$ billion



1. Top 1% receives 24% of all tax expenditure benefits.

2. Based on a scenario in which the share of Black residents in each income quintile matches the Black share of the US population (13.4%).

Note: Expenditures include reduced tax rates, credits, exclusions, deductions, and other tax breaks.

Source: Joint Committee on Taxation, Federal Tax Expenditures FY 2019 –23; Table 2, “Distributional Effects of Individual Income Tax Expenditures After the 2017 Tax Cuts and Jobs Act,” June 2019, Tax Policy Center via Center on Budget and Policy Priorities; US Census Bureau’s American Community Survey, 2019, one-year estimates; McKinsey Global Institute and McKinsey Institute for Black Economic Mobility analysis

The public sector spends about \$125 billion annually on federal, state, and local housing assistance. Eighty percent of federal assistance goes to tenant-based rental assistance via vouchers administered by local public housing authorities (\$22 billion), project-based rental assistance via contracts with landlords who rent to low-income households (\$12 billion), and public housing owned and operated by public housing authorities (\$7 billion).⁶⁴ However, the need outstrips the scale of these investments. Only about a quarter of those eligible for Section 8 housing choice vouchers actually receive them, for example.⁶⁵ In cities across the nation, the supply of affordable housing has not kept up with population growth for a variety of reasons, including zoning restrictions, onerous permitting processes, high land and construction costs, and community resistance.⁶⁶

Precarious finances make many Black residents more vulnerable to losing their homes, which can affect their ability to hold a stable job or afford other basic necessities.⁶⁷ Some 40 percent of the half a million people experiencing homelessness across the country are Black.⁶⁸

Education

Education prepares individuals for employment and entrepreneurship—and the housing issues described above have a direct bearing on K-12 education for Black children. Local property taxes provide the majority of public school funding; nationwide, 81 percent of local revenues for public school districts were derived from local property taxes in 2017–18.⁶⁹ Affluent residents, through property taxes on higher-value homes, can fund schools with full staffing, well-maintained physical facilities, technology, and extracurricular programs. Residents of less wealthy districts may not generate enough property tax revenue to fund schools where children can flourish. One study finds that more than 20 percent of children in the nation's underfunded, low-performing school districts are Black.⁷⁰ State and federal funding supplements local property tax funding and is often allocated based on need, but it does not fully address the gaps.

\$1,800

lower instructional
spending per pupil in
Black-concentrated public
school districts

The national average for annual instructional spending in Black-concentrated public school districts (in which 75 percent or more of the student population is Black) is \$1,800 less per pupil than in white-concentrated school districts, a gap that affects 7.7 million Black students across the country.

Racial disparities in higher education, exacerbated by a wide range of socioeconomic factors, show up from enrollment to completion and job placement. Black high school students are less likely to attend colleges and universities. When they do, they take longer to obtain a degree on average for a variety of reasons.⁷¹ Black students are more likely to drop out without degrees and leave carrying a higher debt burden.⁷²

In 2017, total public investment in higher education came to \$172 billion.⁷³ At the federal level, Pell Grants offer direct assistance to low-income students. State and local governments operate public university systems that generally charge lower tuition to in-state residents

⁶⁴ "Budget functions," House Committee on the Budget; and Peter G. Peterson Foundation blog, "How does the federal government support housing for low-income households?," July 29, 2020.

⁶⁵ Dylan Matthews, "76 percent of people who qualify for housing aid don't get it," Vox, May 2014.

⁶⁶ See, for example, "Housing affordability: A supply-side tool kit for cities," McKinsey Global Institute, October 2017; and *Affordable housing in Los Angeles: Delivering more—and doing it faster*, McKinsey Global Institute, November 2019.

⁶⁷ *Stateline*, "A pileup of inequities: Why people of color are hit hardest by homelessness," blog entry by Teresa Wiltz, The Pew Charitable Trusts, March 29, 2019; and Whitney Airgood-Obrycki, Alexander Herman, and Sophia Wedeen, *The rent eats first: Rental housing unaffordability in the US*, Joint Center for Housing Studies of Harvard University, January 2021.

⁶⁸ *The 2019 annual homeless assessment report (AHAR) to Congress*, US Department of Housing and Urban Development, Office of Community Planning and Development, January 2020.

⁶⁹ *Public school revenue sources*, National Center for Education Statistics, May 2021.

⁷⁰ *Closing America's education funding gaps*, The Century Foundation, July 2020. Also see, C. Kirabo Jackson, Cora Wigger, and Heyu Xiong, "Do school spending cuts matter? Evidence from the Great Recession," *American Economic Journal: Economic Policy*, May 2021, Volume 13, Number 2.

⁷¹ Ariana De La Fuente and Marissa Alayna Navarro, "Black and Latinx students are getting less bang for their bachelor's degrees," Center for American Progress, January 2020.

⁷² *Digest of education statistics 2019*, National Center for Educational Statistics, February 2021.

⁷³ "Two decades of change in federal and state higher education funding: Recent trends across levels of government," The Pew Charitable Trusts, October 2019.

than private institutions. But Black students are often underrepresented at the most selective institutions within those systems.⁷⁴

A bright spot for Black students, historically Black colleges and universities (HBCUs) shepherd 20 percent of all Black students who complete bachelor's degrees through their educational journey. This is an outsize role for a small set of institutions—and they are important engines of upward mobility for Black Americans. However, HBCUs have historically been underfunded, and some are struggling financially.

Social Security

Social Security represents the lion's share of economic safety net spending in the United States; it accounted for 23 percent of all federal outlays in 2019. Benefits represent the culmination of an individual's working life, and they support consumption by seniors. Social Security is one of the most successful antipoverty programs in the nation's history, but its design extends income inequality through the retirement years, with particular disadvantages to Black Americans.

Benefits are determined based on lifetime earnings, and Black workers are concentrated in lower-wage jobs. Furthermore, due to shorter life expectancies, Black retirees draw benefits for almost four fewer years than white retirees.⁷⁵ Mean lifetime benefits are one-third lower for Black retirees than for white retirees (\$170,000 versus \$260,000), for an annual difference of \$2,500. If disparities in income and life expectancy did not exist, Black retirees would receive \$31 billion more in Social Security benefits every year.

1/3

lower mean lifetime Social Security benefits for Black retirees than white retirees

Expanding opportunity for Black Americans is central to the goal of making the entire US economy more dynamic, inclusive, and sustainable

The recent large-scale McKinsey American Opportunity Survey found that only about one-third of all respondents say most Americans are fairly compensated for their work, with pay that makes it possible to have a good quality of life. Black workers were also more likely to report that race negatively affects their job prospects. And yet, perhaps paradoxically, workers of color were meaningfully more optimistic about economic opportunity in the United States overall.⁷⁶ This points to a persistent belief that America *can* do better.

The gaps identified throughout this work do not lend themselves to quick fixes—and we do not profess to have all the answers. Hundreds of years of structural exclusion will not be simply erased, particularly when complex dynamics are at work. However, the status quo is not tenable for Black Americans or for the US economy as a whole.

In the months and years ahead, the McKinsey Institute for Black Economic Mobility will return to many of these topics with additional in-depth research—and with the goal of building coalitions that can accelerate meaningful change.

Fixing the broken rungs on the ladder of mobility for Black Americans is not only a matter of long-overdue social justice; it can also be the cornerstone of making the economy more robust for everyone. As a recent McKinsey report noted, long-term, sustainable, and inclusive growth does not happen unless equity becomes a conscious and active goal.⁷⁷ Some progress can be achieved quickly. In other cases, changes to entrenched systems and dynamics will take years to produce results. This report aims to identify multiple entry points for action—and underscore the urgency of getting started.

⁷⁴ Lauren Lumpin, Meredith Kolodner, and Nick Anderson, "Flagship universities say diversity is a priority. But Black enrollment in many states continues to lag," *Washington Post*, April 18, 2021.

⁷⁵ "Retirement statistics & trend analysis, Fiscal year 2014 to fiscal year 2018," US Office of Personnel Management, September 2020; Elizabeth Arias and Jiaquan Xu, "United States life tables, 2018," *National Vital Statistics Report*, Centers for Disease Control and Prevention, November 2020, Volume 69, Number 12.

⁷⁶ *Unequal America: Ten insights on the state of economic opportunity*, May 2021, McKinsey.com. The McKinsey American Opportunity Survey included more than 25,000 respondents and was conducted online in March and April 2021.

⁷⁷ *The case for inclusive growth*, McKinsey Institute for Black Economic Mobility, April 2021.

Table 1. The economic state of Black America: Major gaps by role

Economic role	Key gaps	Example findings
Worker	Occupational representation	Relative to their share of the labor force, Black workers are underrepresented in high-wage professional roles and concentrated in low-wage jobs. This creates an annual ~\$125B wage disparity. Less than 4% of all occupational categories account for 3/4 of it. 43% of Black workers are in jobs that pay less than \$30K per year (vs. 29% of the rest of the labor force).
	Industry concentration	Almost half (~7M) Black workers are in healthcare, retail, and accommodation/food service, mostly in frontline service jobs. Black workers are underrepresented in high-growth, high-wage industries (2% of Black workers are in tech, 4% are in finance).
	Geographic distribution	<1 in 10 Black workers are located in the fastest-growing US cities and counties.
	Progression	Black workers make up 13% of the US labor force but hold 7% of managerial roles and 4-5% of senior manager, VP, and SVP roles.
	Wage gaps	Racial wage gaps within occupational categories add another \$95B annually to the wage disparity.
Business owner/ Entrepreneur	Number of firms	Only 2% of private US firms with more than one employee are Black owned. This creates a \$1T annual revenue gap. 615,000 more Black-owned enterprises would exist if business representation matched the population share.
	Industry concentration	1/3 of Black-owned firms are in healthcare and social services, industries in which it is hard to scale up. <2% of new firms in fast-growing information, real estate, and wholesale/retail sectors are Black owned.
	Size / scale	Black-owned private employer firms generate ~44% of the revenue of white-owned firms. This adds \$600B to the annual revenue gap. Only 2% of Black-owned private employer firms have more than 50 employees.
	Capital	~1% of venture capital funding has gone to Black founders. 38% of Black-owned businesses are denied financing vs. 20% of white-owned business applicants.
Consumer	Spending	Income parity could potentially boost Black consumption by ~\$350B. Black consumers drive less than 10% of US consumer spending, below their 13.4% population share.
	Access	8.3M Black residents live in food deserts. Black Americans are 2.4x more likely than white Americans to live in areas with few healthcare providers.
	Quality	Our survey shows Black consumer dissatisfaction with products/services, putting ~\$260B of revenue in play. Black respondents would pay 20% more on average for products/services that met their needs.
Saver / Investor	Intergenerational transfers	Intergenerational transfers account for ~60% of the disparity in annual wealth flows to Black vs white households. Black families are half as likely to receive inheritances; when they do, the mean value is 2/3 lower.
	Financial inclusion	Improved financial inclusion could increase annual Black household savings by \$50B annually (return on investments, cost of debt), and closing wage gaps could increase savings by an additional \$75B. Black families are 1/3 less likely to have retirement accounts than white families. 7% of Black households own stocks, compared to 19% of white households. 14% of Black households (2.5M) are unbanked.
	Debt burden	19% of Black families have negative net worth vs. 8% of white families. Black college graduates have nearly \$25,000 more student loan debt than white college graduates.
Resident	Health	40% of Black residents live 12 states that have not expanded Medicaid under the Affordable Care Act. Black life expectancy was ~3.5 years lower than white life expectancy before COVID-19; the pandemic widened the gap to 5 years. Many disparities, including those in access to healthcare, contribute to this outcome.
	Education	Instructional spending is ~\$1,800 lower per pupil in Black-concentrated public school districts vs. others.
	Housing	The home ownership rate is 44% for Black Americans, 74% for white Americans. The median value of Black-owned homes is 1/3 lower. 54% of Black renter households are cost burdened (>30% of their income goes to rent).
	Infrastructure	A quarter of Black Americans do not have high-speed internet service in their homes. Black population centers typically have less public transit service. In Washington, DC, for example, 75% of residents in Black-majority census tracts live >0.5 miles from Metro stops, vs. 43% of other residents.
	Taxes and transfers	~60% of all tax expenditures (which include reduced tax rates, credits, and deductions) claimed by individuals benefited the highest income quintile, where Black residents are underrepresented. Disparities in lifetime earnings and life expectancy reduce Social Security benefits to Black retirees by \$31B annually.

Note: This is a partial summary of gaps documented in The economic state of Black America. The full report contains more extensive findings and discussion.
Sources: US Census Bureau (including the American Community Survey, Annual Business Survey, and Consumer Expenditure Survey), *Race in the workplace*, *The future of work in America*, Crunchbase, Federal Reserve (including the Survey of Consumer Finances), USDA, Joint Center for Housing Studies of Harvard University, US Department of Health and Human Services, Hamilton Project/Brookings Institution, FDIC, White House Initiative on Educational Excellence for African Americans, CDC, Social Security Administration, FCC, Open Data DC and McKinsey FinLab's CityX tool, McKinsey Global Institute and McKinsey Institute for Black Economic Mobility analysis



1. Introduction

The past is still present in America. It is uncomfortable to examine the stain left by the nation's original sin of slavery. But in 2020, Americans were forced to stop looking away. Many have become convinced that the time has come for decisive and dramatic steps toward racial and economic equity.

The COVID-19 pandemic put America's widening income and wealth divides on stark display. The affluent professionals who could work from home were not immune from fear, stress, and loss. But the toll was especially severe for low-income communities of color. Many Black workers who lost their jobs lacked savings to cushion the blow; some grappled with hunger and fear of eviction. Many other Black workers held low-wage jobs that could not be done remotely and were essential to their communities. These workers were forced to accept greater exposure to the virus to keep food on the table for themselves and for everyone else. Disparities in the labor market and in access to healthcare cost lives.

Against this backdrop, the murder of George Floyd was a searing wake-up call. It launched a national dialogue about the many ways in which Black Americans remain separate and unequal under the law and across the US economy.

The collision of these events could be a turning point that leads to real change—if America does not lose this moment. As Martin Luther King Jr. exhorted in his Riverside Church speech, “We are confronted with the fierce urgency of now . . . We must move past indecision to action.” In the summer of 2020, corporations and major institutions responded to the groundswell of protest with statements of resolve and solidarity. Now good intentions need bold and sustained follow-through. It is time to walk the walk.

**This could be a
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lose this moment.**

Reckoning with race is central to America's broader response to inequality

A fundamental change has occurred in the nature of economic growth in the United States. For Black Americans, who have been trying to climb the ladder of opportunity for generations, this recent structural shift has added a new layer of challenges.

People of color were hit harder in the Great Recession and then experienced a weaker recovery than their white peers.⁷⁸ In the decade since, the US economy has developed two starkly diverging tiers. The benefits of growth have disproportionately gone to investors and to a set of “superstar” cities, industries, companies, and professions—many of which have limited Black representation.⁷⁹ The rest of the population has been running in place or falling behind.⁸⁰ In kitchen-table terms, it has gotten harder to stretch a paycheck to cover the soaring costs of housing, education, healthcare, and childcare.⁸¹

Income from labor seeds long-term wealth in the form of home ownership, retirement savings, and other investments. But as workers, Black Americans remain concentrated in low-wage jobs and underrepresented in high-paying professions. This reality, compounded over generations, spills over into other aspects of Black economic life, limiting consumption, entrepreneurship, and investment. Black households have only one-eighth of the wealth held by white households—and since household wealth aggregates into community wealth, this undermines Black neighborhoods, often manifesting in underperforming schools that do not prepare the next generation to go further in the labor market.

There is now wider recognition that inequality is depressing consumption and holding back the economy, in addition to having myriad social and political implications.⁸² The United States has an opportunity to look ahead to building a post-pandemic economy—not simply to restore what existed before but to rectify what was not working. This is critical at a time when workplaces are digitizing and automation is disrupting jobs.⁸³ Across all of the roles examined in this report, Black Americans stand squarely at the center of these issues.

We estimate that addressing the wage disparities described in our research alone could propel some two million Black Americans into the middle class for the first time. This could reverse current trends, with cascading effects lifting the prospects of the next generation even further.⁸⁴

Disparities in all roles contribute to a major gap in life expectancy

The outcomes for Black Americans are not simply about livelihoods. They are also about lives. The disparities described in this report determine the quality of life for Black communities and households. Narrowing the gaps can be transformational today and for the next generation.

One metric in particular is the product of multiple disparities. Life expectancy has been proposed as a way to sum up the overall health of a nation in a single number.⁸⁵ Before

⁷⁸ Vincent Adejumo, “These numbers prove African-Americans still haven't recovered from the financial crisis,” MarketWatch, February 9, 2019.

⁷⁹ See, for example, Thomas Piketty, *Capital in the twenty-first century*, The Belknap Press of Harvard University Press, 2014; *Superstars: The dynamics of firms, sectors, and cities leading the global economy*, McKinsey Global Institute, October 2019; Jason Furman and Peter Orszag, *A firm-level perspective on the role of rents in the rise in inequality*, presented at Celebration of Joseph E. Stiglitz's 50 years of teaching in New York, NY, October 15–18, 2015; and David Autor et al., *The fall of the labor share and the rise of superstar firms*, NBER working paper number 23396, May 2017.

⁸⁰ *Poorer than their parents: Flat or falling incomes in advanced economies*, McKinsey Global Institute, July 2016.

⁸¹ See, for example, Annie Lowery, “The great affordability crisis breaking America,” *The Atlantic*, February 7, 2020; Richard Florida, “The urban housing crunch costs the US economy about \$1.6 trillion a year,” Bloomberg CityLab, May 18, 2015; and Rasheed Malik, *Working families are spending big money on child care*, Center for American Progress, June 20, 2019.

⁸² See, for example, Raj Chetty et al., “The fading American dream: Trends in absolute income mobility since 1940,” *Science*, April 2017, Volume 356, Issue 6336; Joseph Stiglitz, *The price of inequality: How today's divided society endangers our future*, W. W. Norton & Company, 2012; Federico Cingano, *Trends in income inequality and its impact on economic growth*, OECD Social, Employment and Migration working paper number 163, 2014; and Josh Bivens, *Income inequality is slowing economic growth*, Economic Policy Institute, December 2017.

⁸³ *The future of work after COVID-19*, McKinsey Global Institute, February 2021.

⁸⁴ William Lazonick, Philip Moss, and Joshua Weitz, *The unmaking of the Black blue-collar middle class*, Institute for New Economic Thinking working paper, May 2021. For more on the topic of intergenerational mobility, see Raj Chetty et al., “Race and economic opportunity in the United States: An intergenerational perspective,” *Quarterly Journal of Economics*, May 2020, Volume 135, Issue 2.

⁸⁵ Scott Weiner, “What's in a number? Looking at life expectancy in the US,” Harvard Health Publishing blog, February 7, 2020.

the pandemic, the gap in life expectancy between Black and white Americans stood at a staggering 3.5 years. This number contains millions of stories, reflecting the personal cost of disparities in a way that economic statistics alone cannot. If we apply those lost years across the entire Black population and translate them into average lifetimes, the painful result is that about 2.1 million Black Americans would be alive if their circumstances had led to the same outcomes that white Americans experience.

The disparity grew even wider as a result of the COVID-19 pandemic. The Black-white gap in life expectancy quickly ballooned from 3.5 to 5.0 years in the immediate wake of the crisis. If we again apply these lost years across the Black population and translate them into average lifetime, the result is now 3.4 million Black Americans who would otherwise be alive today.

These numbers are a stark reminder that economic systems have human consequences—and there is a chance to prevent future losses if America does not revert to looking away.



Kandice, Nurse
© Osato Dixon/McKinsey & Company

2. Black workers: Facing representation and pay gaps

The end of slavery did not end the devaluation of Black labor, which remains a structural feature of the US economy today.⁸⁶ Over the decades, it has been embedded in policy and reinforced in practice. The Jim Crow laws that limited Black workers to lower-paying, unskilled, and hazardous jobs created occupational segregation that has yet to be eradicated. New Deal-era labor laws that lifted up the white middle class consciously excluded Black workers; the Fair Labor Standards Act left out predominantly Black occupations, and the National Labor Relations Act permitted unions to discriminate. While the GI Bill enabled millions of returning veterans to attend college in the postwar years, Black veterans found their educational options limited.⁸⁷ Even today, federal and many state laws exempt smaller employers from antidiscrimination enforcement.

Racial gaps in the labor market are apparent from every angle, including industries and sectors, geography, professional training pipelines, and advancement within the workplace. For this research, we chose to primarily look through the lens of occupations. (For more on the sector and workplace view, see Box 1, “A brief recap of findings from *Race in the workplace*,” which describes complementary McKinsey research.)

All of these multilayered gaps ultimately manifest in the form of a substantial racial wage gap. Today the median annual wage for Black workers is approximately 30 percent, or \$10,000, lower than that of white workers—a figure with enormous implications for household economic security, consumption, and the ability to build wealth. Black workers make up 12.9 percent of the US labor force but earn only 9.6 percent of total US wages.

This chapter explores the wage gap by looking at two subcomponents driving it: representational imbalances across occupations as well as racial pay gaps within the same occupational categories. An important aspect of the representation issue is the disproportionately small number of Black Americans in certain high-paying roles that have always been important to upward mobility and societal impact; these include doctors, lawyers, and teachers. We therefore dive deeper into where Black representation falls off along the professional development pipelines that lead into these roles. These patterns mean that Black Americans enter these professions every year in numbers that do not reflect their share of the population—with compounding effects over time. While we do not offer a comprehensive analysis of the root causes behind labor market gaps, we do touch on some of the biggest determinants. This includes educational attainment, which is an important (although by no means the only) driver of outcomes. The chapter concludes with a high-level view of where change is needed and what types of action could interrupt these long-standing patterns.

Our analysis finds that representation and racial pay gaps within occupational categories combine to form a \$220 billion annual wage disparity. This is not the simple difference

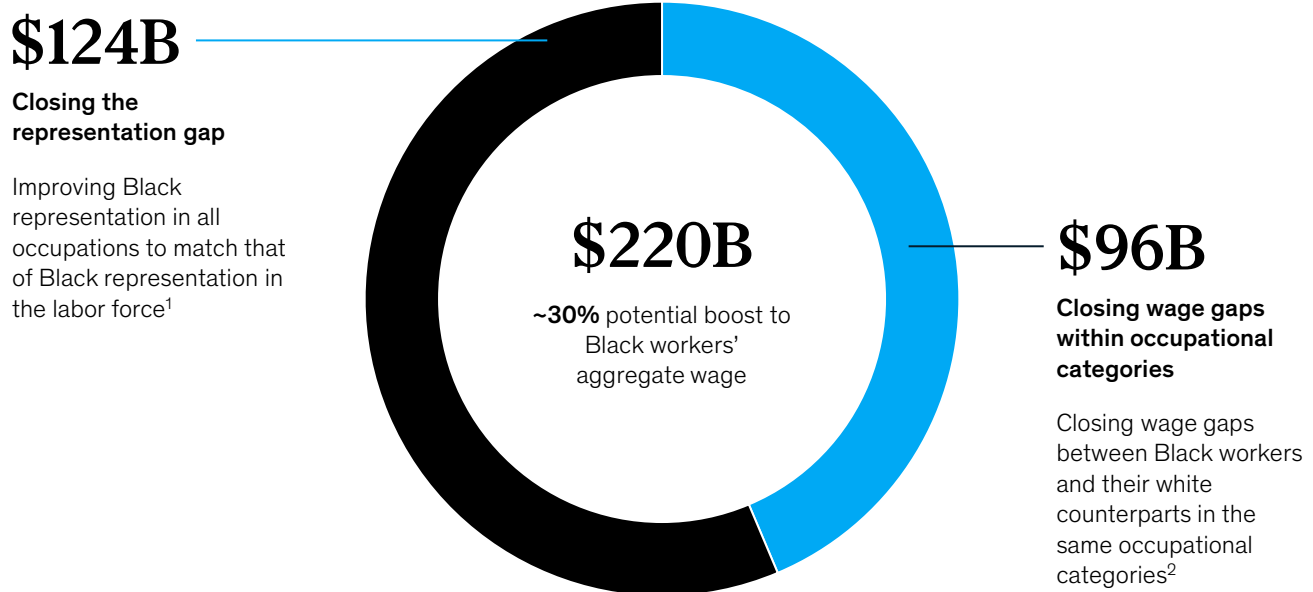
⁸⁶ See, for example, Joe William Trotter, Jr, *Workers on arrival: Black labor in the making of America*, University of California Press, 2019; *Four hundred souls: A community history of African America, 1619–2019*, Ibram X. Kendi and Keisha N. Blain, eds., One World, 2021; and Isabel Wilkerson, *Caste: The origins of our discontents*, Random House, 2020.

⁸⁷ Edward Humes, “How the GI Bill shunted Blacks into vocational training,” *The Journal of Blacks in Higher Education*, number 53, autumn 2006; and Sarah Turner and John Bound, *Closing the gap or widening the divide: The effects of the GI Bill and World War II on the educational outcomes of Black Americans*, NBER working paper number 9044, July 2002.

between what Black and white workers earn today. Instead, it measures the gap between what Black workers earn today and a scenario of parity—that is, one in which Black workers are represented in each occupation proportionally and are paid at the same levels as white workers. Realizing that scenario would boost Black wages by 30 percent (Exhibit 1).⁸⁸ It would also entail drawing an additional one million inactive or unemployed Black workers into employment. Furthermore, less than 4 percent of all occupational categories account for 60 percent of the overall wage disparity, which points to places where action could yield progress.

Exhibit 1

Parity in representation and wages within occupations would boost wages for Black workers by 30 percent, or about \$220 billion annually.



1. Based on adjusting the Black worker share within each occupation to match the Black share of the US labor force (~13%). Doing so involves adding almost one million additional Black workers to the labor force from the pool of the currently unemployed or inactive population.

2. Analysis based on 530 occupations.

Source: IPUMS USA, US Census Bureau's American Community Survey (ACS) 2014–18; McKinsey Global Institute and McKinsey Institute for Black Economic Mobility analysis

The wage disparity is a product of both representation and racial pay gaps—and it is a surprisingly concentrated phenomenon

Less than 4 percent of all occupational categories drive more than 60 percent of the aggregate wage disparity (considering both representational imbalances and racial pay gaps between Black and white workers performing similar roles; Exhibit 2). They largely fall into five broad categories: managers of frontline workers, other managers and executives, professions requiring postgraduate training (such as lawyers and physicians), professions requiring undergraduate degrees and accreditation (such as teachers and accountants), and technology specialists (such as software developers and information systems managers).

⁸⁸ The benchmark for representation is the Black share of the civilian non-institutional population.

Less than 4 percent of occupational categories account for more than 60 percent of the aggregate wage gap.

■ Representation gap¹ ■ Within-occupation wage gap²

Aggregate value of closing representation and within-occupation wage gaps			
Occupational categories	% of total value		\$ billion
Other managers (eg, health service, natural science, property)	<div><div>61</div><div>39</div></div>		18
Public and private executives (including small business owners) ³	<div><div>60</div><div>40</div></div>		14
Physicians	<div><div>72</div><div>28</div></div>		12
Software developers	<div><div>79</div><div>21</div></div>		10
Sales representatives, wholesale and manufacturing	<div><div>52</div><div>48</div></div>		8
Lawyers, judges, magistrates, and other judicial workers	<div><div>75</div><div>25</div></div>		8
Elementary and middle school teachers	<div><div>84</div><div>16</div></div>		7
Financial managers	<div><div>48</div><div>52</div></div>		6
First-line supervisors of nonretail sales workers	<div><div>52</div><div>48</div></div>		6
Accountants and auditors	<div><div>74</div><div>26</div></div>		5
First-line supervisors of retail sales workers	<div><div>59</div><div>41</div></div>		5
General and operations managers	<div><div>67</div><div>33</div></div>		5
Computer and information systems managers	<div><div>76</div><div>24</div></div>		4
Construction managers	<div><div>73</div><div>27</div></div>		4
First-line supervisors of construction trades and extraction workers	<div><div>69</div><div>31</div></div>		4
Postsecondary teachers	<div><div>74</div><div>26</div></div>		4
Other engineers	<div><div>82</div><div>18</div></div>		4
Management analysts	<div><div>69</div><div>31</div></div>		3
Sales managers	<div><div>63</div><div>37</div></div>		3
Marketing managers	<div><div>67</div><div>33</div></div>		3
Subtotal			134
510 other occupational categories			86
Total			220

1. Potential wages if Black representation in this occupation equaled the Black share of the labor force (12.9%).

2. Potential wages if Black and white workers within each occupational category received similar pay.

3. Category includes corporate executives, small business owners, legislators, and executives of public entities.

Note: The Black share of the workforce varies considerably at the state level. Figures may not sum to 100% because of rounding.

Source: IPUMS USA, five-year dataset (2014–18) from US Census Bureau's American Community Survey; McKinsey Global Institute and McKinsey Institute for Black Economic Mobility analysis

Just five sectors (professional services, manufacturing, construction, trade/transportation/ utilities, and financial services) account for almost 85 percent of the aggregate wage gap. Professional services and financial services are particularly important industries to address since they are not only high-paying but fast-growing fields. As previous McKinsey research has shown, just 6 percent of all Black workers are in professional services; another 4 percent work in financial services.

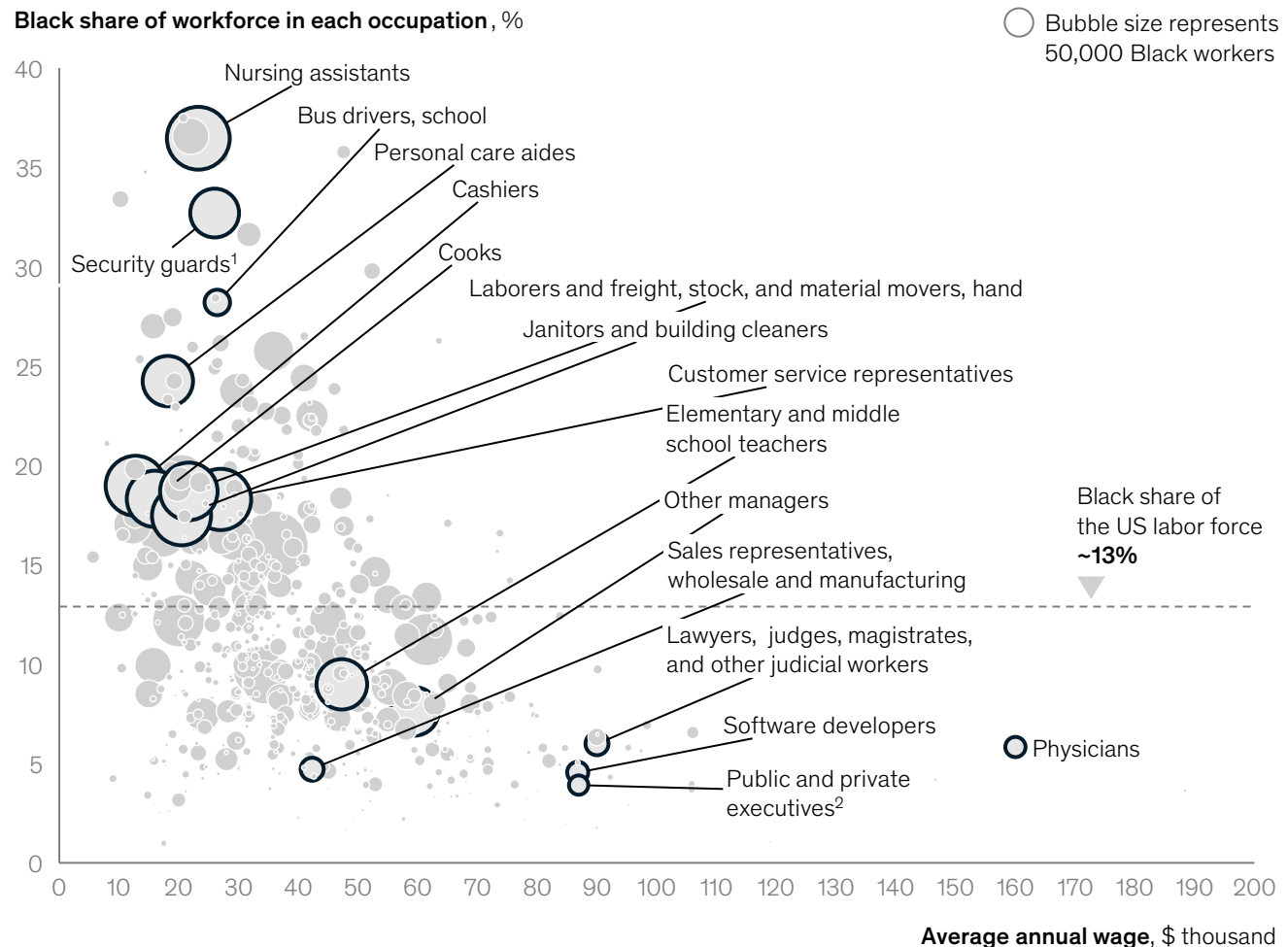
Skewed representation across occupations accounts for almost \$125 billion of the annual wage disparity

Jim Crow laws may have ended decades ago, but they created racial tiers in the workforce that remain visible today. Relative to their 12.9 percent of the US labor force, Black workers are heavily concentrated in many low-wage roles and strikingly underrepresented in many higher-wage professions (Exhibit 3).

Exhibit 3

Black workers are concentrated in lower-paying occupations and underrepresented in higher-paying ones.

Black representation and wages by occupation



1. The ACS occupational category is titled security guards and gaming surveillance.

2. The ACS occupational category is titled chief executives and legislators. Category includes corporate executives, small business owners, legislators, and executives of public entities.

Source: IPUMS USA, five-year dataset (2014–18) from US Census Bureau's American Community Survey; McKinsey Global Institute and McKinsey Institute for Black Economic Mobility analysis

Black workers are disproportionately concentrated in low-wage jobs

The US economy has a substantial low-wage workforce, largely composed of people of color. Thirty percent of all white workers and 43 percent of all Black workers earn less than \$30,000 per year.

Some 440,000 nursing assistants are Black, representing more than 35 percent of all nursing assistants nationwide—and far above the 12.9 percent Black share of the labor force (Exhibit 4). Nursing assistants earn a median wage of \$23,000, and many are hired as independent contractors, without benefits and protections.⁸⁹ Roughly one-third of all security guards and school bus drivers are Black. They earn median wages of \$26,000 and \$26,500, respectively, with little opportunity to advance. Security guards face physical risks that are inherent to the role, while school bus drivers have limited hours in split shifts that make it difficult to take on additional work.

Exhibit 4

Black workers are disproportionately represented in low-wage occupations today.

Select occupations with high representation of Black workers	Median wage for a Black worker	Number of Black workers in occupation	Black worker representation in each occupation
Nursing assistants	\$23K	441K	36.5%
Customer service representatives	\$27K	422K	18.3%
Cashiers	\$13K	401K	19.0%
Janitors and building cleaners	\$20K	391K	17.5%
Laborers and movers ¹	\$22K	368K	18.7%
Cooks	\$16K	353K	18.3%
Personal care aides	\$18K	283K	24.2%
Security guards ²	\$26K	266K	32.7%
Stockers and order fillers	\$20K	262K	19.3%
Maids and housekeeping cleaners	\$17K	238K	16.5%
Licensed practical and licensed vocational nurses	\$36K	183K	25.7%
Other assemblers and fabricators	\$28K	182K	18.7%
Childcare workers	\$12K	161K	17.0%
Home health aides	\$22K	147K	36.6%
Industrial truck and tractor operators	\$30K	136K	23.8%
Bus drivers, school	\$26K	73K	28.2%
Bus drivers, transit and intercity	\$32K	68K	31.6%

1. The ACS occupational category is titled laborers and freight, stock, and material hand movers.

2. The ACS occupational category is titled security guards and gaming surveillance officers.

Note: The Black share of the US labor force overall is 12.9 percent. The median wage for all US workers is \$41,803.

Source: IPUMS USA, five -year dataset (2014–18) from US Census Bureau's American Community Survey; McKinsey Global Institute and McKinsey Institute for Black Economic Mobility analysis

⁸⁹ *The avenue*, "The health care workforce needs higher wages and better opportunities," blog entry by Janie McDermott and Annelies Goger, Brookings Institution, December 2, 2020.

5%

of US doctors are Black

4.5%

of US software developers
are Black

By contrast, Black Americans are underrepresented in higher-paying professions

It is easy to point to individual stories of Black trailblazers in any profession, but the aggregate numbers make it clear that there is still a great deal of work ahead to diversify high-wage roles. One recent report found only five Black leaders among the 279 top executives listed in proxy statements of the 50 largest US firms.⁹⁰

Only 5 percent of US physicians are Black, for example, falling far short of the 13 percent Black share of the US population. This lack of representation may have particular implications for the quality of care delivered to Black patients.⁹¹ Multiple studies have documented racial bias in the assessment and treatment of pain, for example.⁹²

Software developers are much in demand and typically highly compensated as a result. The role is expected to grow much faster than the average occupation over the next decade. Yet only 4.5 percent of US software developers are Black. Computer and information systems manager positions are predominately located in more expensive geographies such as the San Francisco Bay Area, New York City, Chicago, Dallas, and Seattle, some of which have lower relative Black population shares. While there are tech occupations in all types of companies, the percentages of Black workers in technical occupations at the large Silicon Valley firms are low and have not risen much in the years since the companies began reporting these statistics.⁹³

Because Black women play such a central role in providing economic stability for their families, their advancement into higher-paying roles is critical. Black mothers are almost twice as likely as white mothers to be their family's main source of income.⁹⁴ Women of all races are less represented in leadership roles, but women of color face hurdles of sexism and racism. A recent research study of 590 US corporations found that only 58 Black women are promoted into manager roles for every 100 men; 64 Black women are hired directly into these roles for every 100 men.⁹⁵ One study found that only 1.8 percent of those employed by the 177 largest Silicon Valley firms are Black women.⁹⁶

Black workers can encounter barriers in education and professional training, in hiring, and in the workplace itself. As a group, they have more limited access to established business networks and formal internship programs to get in the door. Once there, it is also harder for Black employees to advance organically from entry-level to managerial jobs. Many report a lack of sponsorship and allyship.⁹⁷ Once hired, they may face day-to-day discrimination and scrutiny that make promotions more difficult to achieve.⁹⁸ Generations have internalized the message that Black employees have to be “twice as good” to get ahead in the workplace.

Roadblocks obstruct the pathways into some professions that matter for upward mobility and social impact

Looking at the broad categories of occupations that account for most of the aggregate wage gap reveals that career pathways are not as smooth for Black Americans. We analyzed the formal pipelines into several higher-paying professions that have traditionally been important cornerstones of upward mobility and access to the middle class. Aspiring Black professionals seem to hit roadblocks at identifiable points along the way to professions requiring postgraduate training, professions requiring undergraduate degrees and accreditation, and managerial roles.

⁹⁰ Jessica Guynn and Brent Schrottenboer, “Why are there still so few Black executives in America?,” *USA Today*, August 20, 2020.

⁹¹ Douglas Belkin, “Why we need more Black doctors—and how to get there,” *Wall Street Journal*, September 8, 2020.

⁹² Haider J. Warraich, “Racial disparities seen in how doctors treat pain, even among children,” *Washington Post*, July 11, 2020; and Kelly M. Hoffman et al., “Racial bias in pain assessment and treatment recommendations, and false beliefs about biological differences between Blacks and whites,” *Proceedings of the National Academy of Sciences*, April 2016, Volume 113, Number 16.

⁹³ Sara Harrison, “Five years of tech diversity reports—and little progress,” *Wired*, October 1, 2019.

⁹⁴ Sarah Jane Glynn, *Breadwinning mothers continue to be the U.S. norm*, Center for American Progress, May 2019.

⁹⁵ *The state of Black women in corporate America*, Lean In and McKinsey & Company, August 2020.

⁹⁶ Donald Tomaskovic-Devey and JooHee Han, *Is Silicon Valley tech diversity possible now?*, University of Massachusetts Amherst Center for Employment Equity, 2018.

⁹⁷ *Race in the workplace: The Black experience in the US private sector*, February 2021, McKinsey.com.

⁹⁸ See, for example, Costas Cavounidis and Kevin Lang, *Discrimination and worker evaluation*, NBER working paper 21612, October 2015.

A brief recap of findings from “Race in the workplace”

This report primarily analyzes racial gaps in the labor force through the lens of occupations and wages. But McKinsey has previously published research that offers complementary findings that round out the picture. *Race in the workplace: The Black experience in the US private sector* notes that the concentration of Black workers in certain industries and geographies creates obstacles and mismatches (Exhibit 5). It summarizes key labor market challenges for Black private-sector workers as follows:

1. Higher unemployment. If employment rates for Black workers were in line with those of the rest of the labor force, the private sector would currently have an additional 480,000 Black employees.

2. Geographic mismatches. Fewer than one in ten Black workers live in the country's highest-growth geographies. Companies that do not have corporate offices in states with large Black populations may want to consider whether a different footprint could help to diversify their workforces while expanding opportunity in new parts of the country.

3. Underrepresentation in fast-growing, higher-wage industries. Representation parity across industries would result in an additional 380,000 Black workers in higher-wage and faster-growing industries, such as information, professional, and business services.

4. Underrepresentation in higher-wage jobs. Currently, 43 percent of Black workers—approximately 6.5 million people—make less than \$30,000 annually, compared with 29 percent of the rest of the labor force.

5. Underrepresentation in the most in-demand jobs. Representation parity for in-demand, faster-growing jobs would translate to an additional 380,000 Black workers in IT, engineering, and the life, physical, and social sciences. It would also result in an additional 330,000 Black workers in the construction trades.

6. The disproportionate impact of technology. About one-third of Black workers, or five million people, are in jobs that will likely be vulnerable to automation over the next decade.

7. Lower odds of advancement and higher attrition for frontline and entry-level jobs. Black employees represent 18 percent of all frontline employees, 12 percent of entry-level corporate workers, and 7 percent of managerial employees in the participating company data set. There is both a revolving door in entry-level jobs and a broken rung on the ladder to managerial positions.

8. Low Black representation in executive levels. Black employees occupy only 3 percent of executive-level jobs across the entire US private sector. Representation is even lower among the Fortune 500.

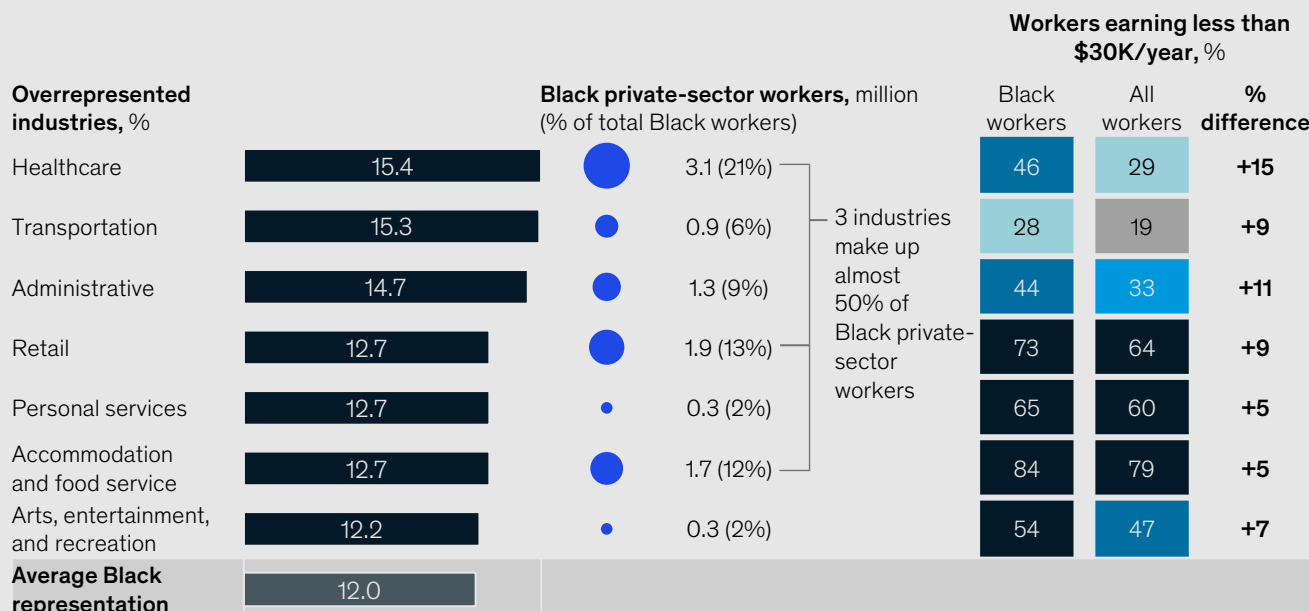
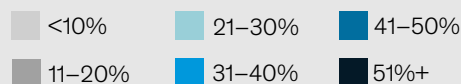
9. A trust deficit among Black employees toward their companies. Surveys conducted across 24 participating companies with 3.7 million employees found perceptions that promotions are not based on merit, leaders and companies have limited interest in diversity, and Black employees are not encouraged to bring their full and authentic selves to work.

10. Lack of managerial sponsorship and allyship. Fewer than one in three Black employees reported having a sponsor, and fewer than one in four reported having the support they need to advance—even though 87 percent of participating companies reported that they have sponsorship programs in place.

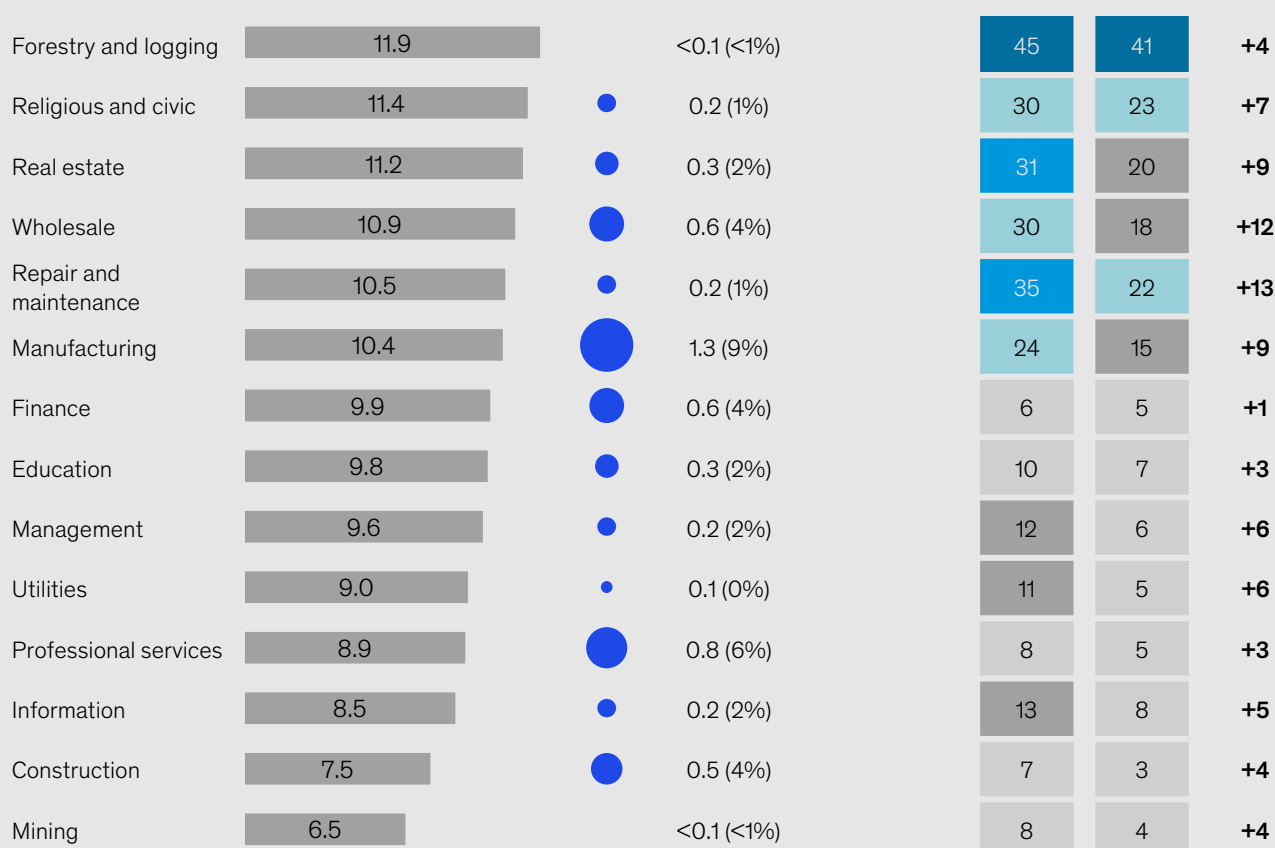
Black workers are overrepresented in industries with a large frontline presence and lower wages overall, with almost half of Black workers concentrated in three industries.

Black representation and wages by industry

Black workers as a percentage of total industry workers, 2019



Underrepresented industries, %



Note: The left side of the exhibit shows the representation of Black workers in each industry along with the number of Black workers in each industry. That is paired with the percentage of workers in those respective industries who make less than \$30,000 per year. The larger the gap between Black workers and all workers in an industry, the greater the disparity in wages in that industry.

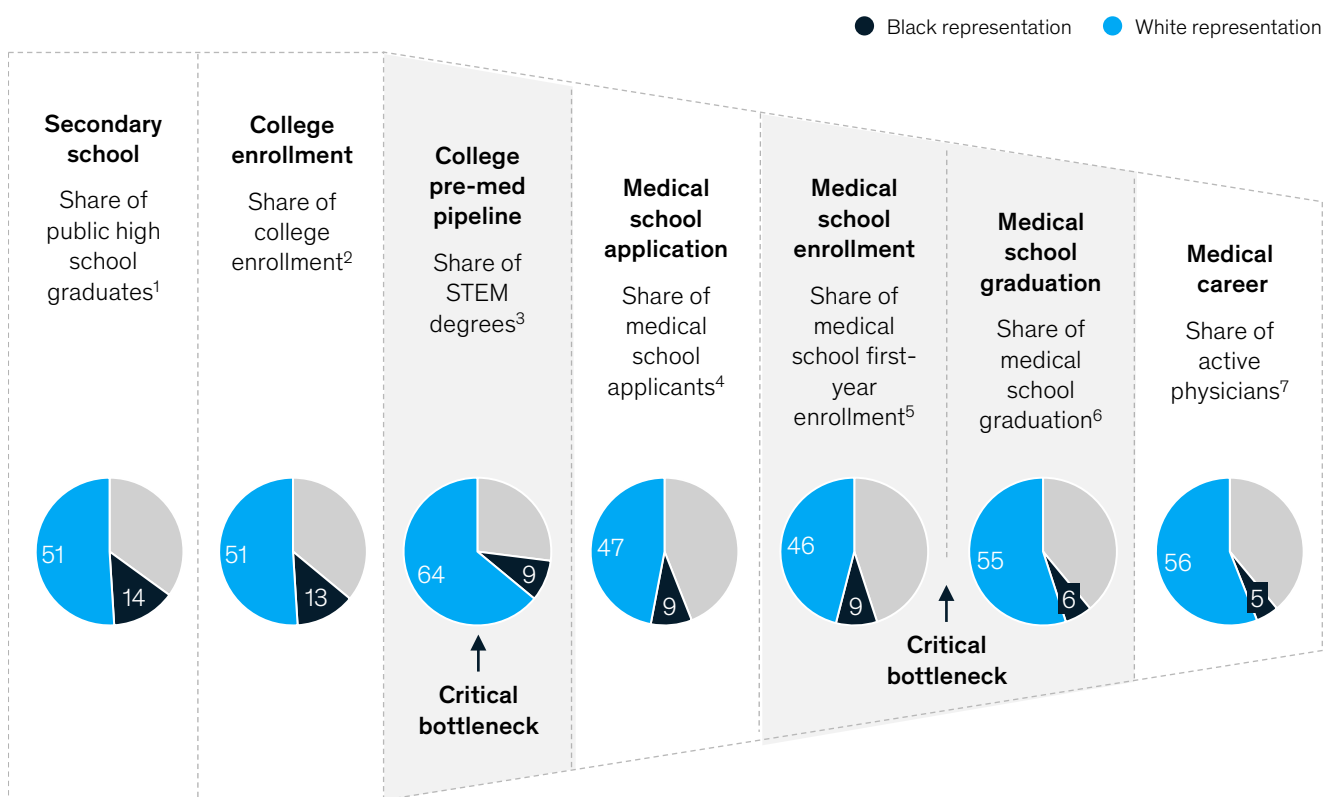
Source: Bureau of Labor Statistics, Occupational Employment Statistics, 2019; Moody's Analytics; US Census Bureau American Community Survey, 2019; McKinsey Global Institute analysis

On the road to becoming doctors, for example, we see the biggest falloff coming in the choice of college majors, with relatively few Black applicants choosing pre-med courses of study (Exhibit 6). As the pipeline fails to produce enough Black doctors each year to match the Black share of the population, the effects compound over time. Closing the gaps at each stage of the pipeline would immediately begin to add more Black doctors each year, but because of the length of training involved and the current makeup of the profession, it would take more than two decades to add the tens of thousands of Black doctors needed to achieve proportional representation. But it is important to get started, since Black physicians may engage more deeply with Black patients and overcome mistrust in the medical system.⁹⁹ While much can be done to support medical students along the way, Black high school and college students may need more engagement in chemistry and biological sciences, as well as role models and career guidance to show them what is possible.¹⁰⁰

Exhibit 6

Doctors: The pipeline of Black doctors thins because of lower attainment of pre-med college degrees.

Racial representation at key points along the professional development pathway for physicians



1. NCES Public High School Graduates (2019).

2. NCES Undergraduate Enrollment (2019).

3. NCES percentage distribution of STEM degrees/certificates conferred to US citizens (2015-16).

4. From AAMC 2020-21 applications data.

5. From AAMC 2020-21 matriculation data.

6. From AAMC 2018-19 medical school graduation data.

7. According to the AAMC, there are approximately 900,000 active practicing physicians in the United States.

Note: The Black share of the US population is 13.4 percent, while the white non-Hispanic share of the population is 60.1 percent. In a scenario of parity, with representation in the profession matching the Black share of the population, the United States would have some 77,000 Black doctors.

Source: IPUMS USA, US Census Bureau American Community Survey five -year dataset, 2014-18; US Census Current Population Survey 2019; Association of American Medical Colleges, Diversity in medicine: Facts and figures 2019; US Department of Education National Center for Education Statistics; McKinsey Global Institute and McKinsey Institute for Black Economic Mobility analysis

⁹⁹ Kaiser Family Foundation and The Undeclared survey on race and health, October 2020; and Marcella Alsan, Owen Garrick, and Grant Graziani, "Does diversity matter for health? Experimental evidence from Oakland," Stanford Institute for Economic Policy Research working paper number 18-030, September 2018.

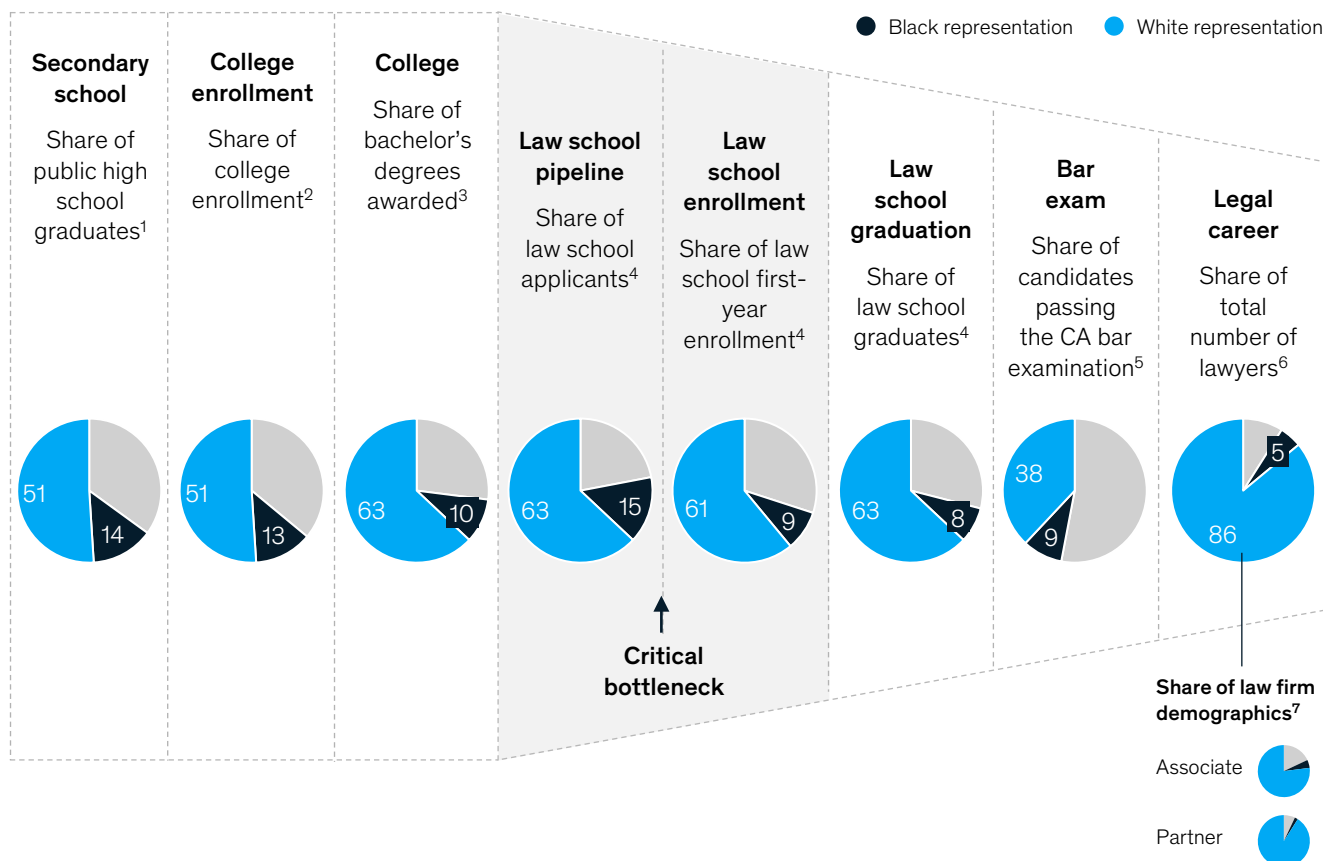
¹⁰⁰ Douglas Belkin, "Why we need more Black doctors—and how to get there," *Wall Street Journal*, September 8, 2020.

Looking at lawyers, we see a fall-off at every stage, with the steepest occurring between applications to law school and enrollment. If the attrition rates for Black students and candidates at each stage could be lowered to match those of their white peers, thousands more Black lawyers would enter the profession each year—with wider benefits of equality before the law accruing to society over time (Exhibit 7). However, the sobering fact is that even if gaps in the pipeline could be closed overnight, it would still take almost an additional two decades for the share of Black lawyers to match the Black share of the population, given the number of lawyers already working today.

Exhibit 7

Lawyers: The biggest bottleneck for Black students is enrolling in law school programs.

Racial representation at key points along the professional development pathway for lawyers



1. NCES Public High School Graduates (2019).

2. NCES Undergraduate Enrollment (2019).

3. NCES 2017 data on degrees awarded.

4. 2012-16 application and first-year enrollment and 2015-19 graduation numbers.

5. Only select states report bar examination statistics by race/ethnicity. Based on California February 2020 Bar Examination.

6. According to ABA data, there are approximately 1.3 million lawyers in the United States.

7. From NALP 2020 report on diversity in law firms.

Note: The Black share of the US population is 13.4 percent, while the white non-Hispanic share of the population is 60.1 percent. In a scenario of parity, with representation in the profession matching the Black share of the population, the United States would have some 110,000 Black lawyers.

Source: IPUMS USA, US Census Bureau's American Community Survey five-year dataset, 2014-18; US Census Current Population Survey 2019; Law School Admission Council; US Department of Education National Center for Education Statistics; National Association for Law Placement; California Bar Examination; American Bar Association, 2020 profile of the legal profession; McKinsey Global Institute and McKinsey Institute for Black Economic Mobility analysis

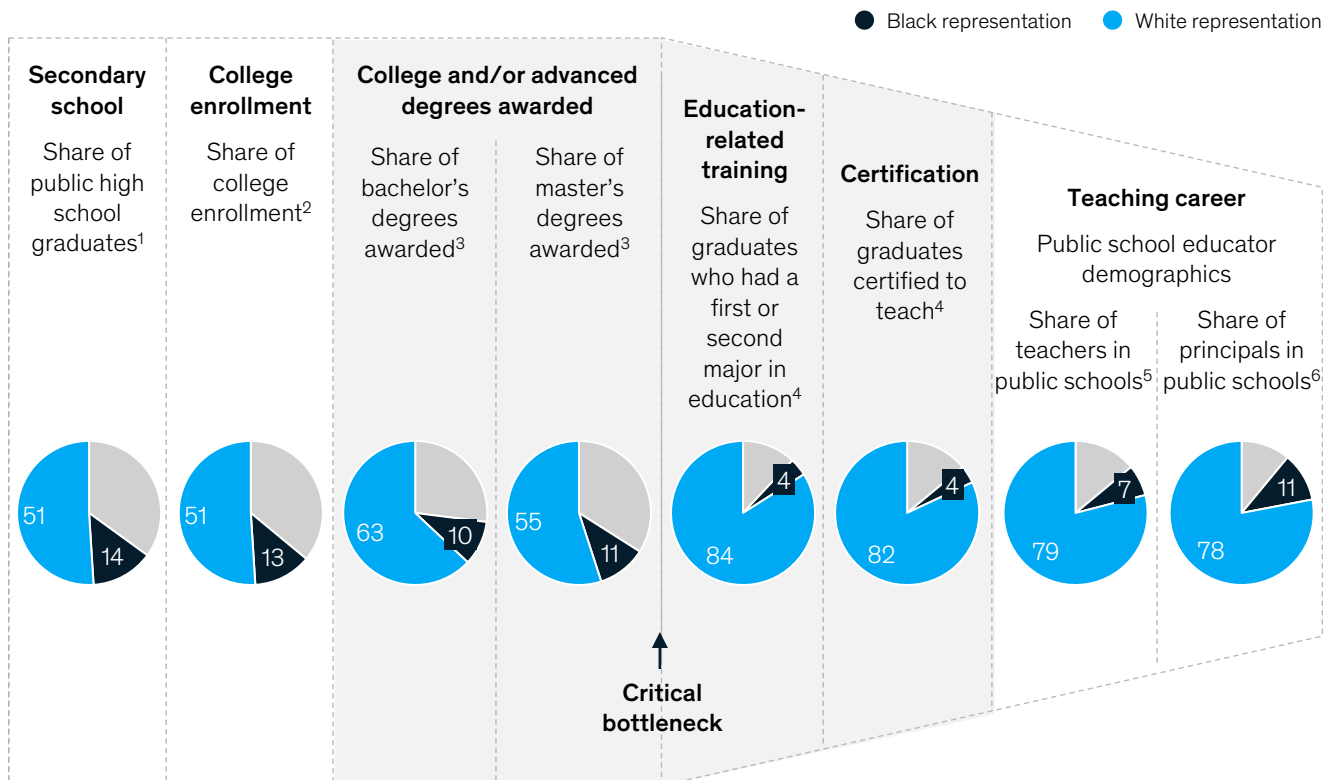
Representation also falls short among public school teachers—a gap that is continuously fed when thousands of candidates do not continue all the way through the professional development pipeline and the number of new teachers falls short every year. In this case, the sharpest falloffs come in the numbers undertaking dedicated education training and becoming certified. Research from the US Department of Education indicates that just

4 percent of recent graduates certified to teach are Black (Exhibit 8).¹⁰¹ Getting more Black teachers into classrooms can make a tangible difference in the performance of Black students: one research study found that Black students randomly assigned to at least one Black teacher in grades K-3 were nine percentage points more likely to graduate from high school and six percentage points more likely to enroll in college.¹⁰²

Exhibit 8

Teachers: The biggest falloff in producing more Black teachers comes in education-related training and certification.

Racial representation at key points along the professional development pathway for teachers



1. NCES Public High School Graduates (2019).

2. NCES Undergraduate Enrollment (2019).

3. NCES 2017 data on degrees awarded.

4. *The state of racial diversity in the educator workforce*, US Department of Education, July 2016.

5. NCES Characteristics of Public School Teachers (2017-18), which reports that there are approximately 3.5 million teachers in total in the United States.

6. NCES Characteristics of Public School Principals (2017-18).

Note: The Black share of the US population is 13.4 percent, while the white non-Hispanic share of the population is 60.1 percent. In a scenario of parity, with representation in the profession matching the Black share of the population, the United States would have some 220,000 Black public school teachers. Note that educational and licensing requirements for teachers vary by state.

Source: IPUMS USA, US Census Bureau's American Community Survey five -year dataset, 2014-18; US Census Current Population Survey 2019: US Department of Education National Center for Education Statistics, and Policy and Program Studies Service; McKinsey Global Institute and McKinsey Institute for Black Economic Mobility analysis

Some managerial occupations offer multiple ways to enter. These include frontline workers gaining promotions, direct college hires, candidates hired from different roles in related industries, or lateral hires who complete management training. Construction managers, for example, usually move into the role by apprenticing with a more senior person who already holds the position—a model that tends to reinforce the status quo of limited representation.

¹⁰¹ John B. King, Amy McIntosh, Jennifer Bell-Ellwanger, *The state of racial diversity in the educator workforce*, US Department of Education, July 2016; and Linda Tyler et al, *Toward increasing teacher diversity: Targeting support and intervention for teacher licensure candidates*, Educational Testing Service, 2011.

¹⁰² See, for example, Thomas S. Dee, "Teachers, race, and student achievement in a randomized experiment," *The Review of Economics and Statistics*, Volume 86, Issue 1, February 2004; and Seth Gershenson et al., *The long-run impacts of same-race teachers*, IZA Institute of Labor Economics, discussion paper number 10630, March 2017.

Lower Black attainment of computer science and other tech-related college degrees is one factor behind limited Black representation among software developers. Coding boot camps and online certifications offer other routes into this profession, but they have not yet yielded large numbers of Black developers. Increasing Black representation in this role matters not only for the wages available today but also for the growth potential in the years ahead—and for the ability to ensure that Black perspectives and innovation are reflected in the information networks that increasingly power the economy.

Pay gaps within occupational categories account for more than \$95 billion of the total annual wage disparity

In addition to skewed representation, we also see pay gaps between Black and white workers in the same occupational categories. This issue accounts for \$96 billion, or 44 percent, of the overall disparity. The largest pay gaps are in managerial and leadership roles.

A number of variables could be at work, including firm size and industry. There is a \$4 billion racial wage gap among sales representatives; those in STEM-related industries are highly paid, but fewer Black sales reps are employed in these fields, for example. Other factors could be related to differences within individual occupational categories (such as varying medical specialties or the exact type of business someone is managing) or tenure within roles.

It is difficult to assess exactly how much of the wage gap is driven by racial animus or unconscious bias, although some studies have found a significant percentage of the wage gap left “unexplained” after controlling for other variables.¹⁰³ Other research shows employers respond more favorably to resumes with “white” names and otherwise similar experience.¹⁰⁴

Federal Reserve regression analysis suggests that the state of residence contributes less to the earnings gap across all occupations than the effects of industry, specific occupation, and educational attainment.¹⁰⁵ Nevertheless, Black populations are geographically concentrated in Southern states where wages generally tend to be lower, which does come into play to some degree.

Another factor is gender. In roughly 85 percent of jobs with within-occupation wage gaps, Black women are paid less than both white women and Black men. They also have a significant presence in teaching, accounting, financial manager, and retail first-line supervisor roles—all occupations with substantial wage gaps between Black and white workers.

Today’s imbalances influence the future trajectory

The labor market inequities revealed by the pandemic, combined with accelerating technological change, add new layers of urgency to the task of broadening opportunities for Black workers. As the pandemic recedes, some of the changes it spurred in business models and consumer behavior are likely to stick, with implications for how Americans will work in the future. These shifts include more remote and hybrid work (which could depress demand in accommodation and food service), the booming growth of e-commerce and delivery services, and the adoption of automation and AI.¹⁰⁶

Automation technologies were already reshaping the American workplace before the pandemic. As a wide body of MGI research has noted, automation will cause some occupations to shrink and others to grow; perhaps its biggest effect will be changing the tasks and time allocation associated with many jobs.¹⁰⁷ More jobs of the future will involve

6.7M

Black workers hold jobs that are vulnerable to disruption by 2030

¹⁰³ Mary C. Daly, Bart Hobijn, and Joseph H. Pedtke, “Disappointing facts about the Black-white wage gap,” *FRBSF Economic Letter* 2017-06, Federal Reserve Bank of San Francisco, September 2017.

¹⁰⁴ See, for example, Sonia Kang et al., “Whitened resumes: Race and self-presentation in the labor market,” *Administrative Science Quarterly*, March 2016.

¹⁰⁵ Mary C. Daly, Bart Hobijn, and Joseph H. Pedtke, “Disappointing facts about the Black-white wage gap,” *FRBSF Economic Letter* 2017-06, Federal Reserve Bank of San Francisco, September 2017.

¹⁰⁶ *The future of work after COVID-19*, McKinsey Global Institute, February 2021.

¹⁰⁷ See, for example, *The future of work in America: People and places, today and tomorrow*, McKinsey Global Institute, July 2019, and *Jobs lost, jobs gained: What the future of work will mean for jobs, skills, and wages*, McKinsey Global Institute, November 2017.

digital skills, human interaction, judgment, and creativity to handle tasks at which humans outperform machines. Routine tasks are more subject to automation—and Black workers are overrepresented in roles that are likely to be affected in areas such as office support, food service, and production work. Multiple factors affect the risk of Black workers struggling in the future job market, including the roles they hold today, their educational attainment, and whether they live in regions with strong job growth overall or in distressed local economies.¹⁰⁸

Approximately 6.7 million Black workers (42 percent of the Black labor force) currently hold jobs that could be subject to disruption by 2030. That is not to say that these jobs are all disappearing. But falling demand does mean that some number of the workers in these roles today will need to move into different positions. MGI's post-pandemic scenarios show demand falling for four of the top ten occupations with the greatest absolute numbers of Black workers today (cashiers, janitors, cooks, and retail salespeople). Demand is similarly projected to fall in five of the top ten occupations with the largest shares of Black workers (Exhibit 9). Conversely, an aging population is expected to increase demand for the types of care-economy roles that many Black workers occupy today. Upgrading the quality and stability of these jobs is an issue of growing importance.

Exhibit 9

Labor demand is expected to decrease by 2030 in multiple occupations with large concentrations of Black workers.

Number of Black workers in occupation, thousand		Projected change in labor demand, 2018–30, ¹ %
Cashiers	401	-13
Janitors and building cleaners	391	-2
Cooks	353	-9
Retail salespersons	306	-16

Black workers as a share of all workers within occupation, %		Projected change in labor demand, 2018–30, ¹ %
Flight/passenger attendants	37.5	-23
Postal service mail sorters	35.8	-11
School bus monitors	34.8	-11
Barbers	33.4	-15
Bus drivers	31.6	-12

1. Based on MGI scenarios accounting for the effects of automation, increasing technology use, aging populations, post-COVID-19 workplace changes, and other trends.

Source: US Bureau of Labor Statistics; US Census Bureau; McKinsey Global Institute and McKinsey Institute for Black Economic Mobility analysis

¹⁰⁸ "The future of work in Black America," October 2019, McKinsey.com.

Multiple interventions can improve outcomes and expand opportunity for Black workers

There are no easy fixes to achieve parity; instead, it will require difficult and complex work to dismantle long-standing systemic barriers. It may also take new antidiscrimination measures and enforcement. Policy and educational institutions have a role here, yet much of the onus—and the opportunity—rests with employers.

While most of our research efforts focused on sizing the gaps, our findings suggest several starting points for action. The examples here are illustrative rather than comprehensive, and we have not analyzed the costs or effectiveness of every program and approach.

Initiatives by large companies in the five sectors that drive most of the aggregate wage gap (professional services, manufacturing, construction, trade/transportation/utilities, and financial services) could have substantial impact. For example, McKinsey research has found that Black employees are 1.4 times more likely to leave financial services firms than white employees; they are also half as likely to be promoted to manager, senior manager, or senior vice president.¹⁰⁹ Explicit action from large employers to improve equity and deliver a better workplace experience for employees of color could change attrition and promotion patterns across the entire industry, narrowing the overall wage disparity.

Improve educational opportunity and narrow the attainment gap

Many Black students are not starting off with a solid K-12 public education that prepares them for future careers. One study finds that more than 20 percent of children in the nation's underfunded, low-performing school districts are Black.¹¹⁰ In recent decades, many federal and local programs as well as hybrid public- and private-sector efforts have focused on turning around underperforming public schools—efforts that have met with some controversy and a mixed track record.¹¹¹ But the issue still needs attention and is open to a wide variety of approaches. These could involve local anchor companies, business leaders, and the social sector, or even rethinking the way public school funding is allocated (see chapter 6 for more discussion on this point).

Despite these challenges, Black Americans have been making strides in educational attainment. According to US Census Bureau data, the share of Black adults over age 25 with a bachelor's degree or higher rose from 19.8 percent in 2010 to 26.1 percent in 2019. But the Black-white attainment gap remains. The high school completion gap has narrowed to only three percentage points, but it is more pronounced at every level thereafter (Exhibit 10).

Workers of any race who lack degrees find many doors closed to them. Employers have been adding more and more credential requirements to job postings, whether or not a postsecondary degree is actually relevant to the job requirements or has previously been required.¹¹² Because of their lower college graduation rates, Black Americans have been disproportionately affected by this trend. This will take on an added dimension in the future; MGI's automation scenarios consistently show that education is the largest predictor of whether a worker's job could be disrupted.

Community college is an important option and a direct vocational training ground for many students of color. They can benefit from expanded access to key courses, career counseling, and greater resources. For Black students who pursue a bachelor's degree, cost is often a major hurdle; we will return to the topic of student debt in subsequent chapters.

Many Black students are the first in their families to attend college, which adds a layer of social, financial, and academic challenges. The College Advising Corps is a nonprofit that places recent college graduates as full-time college advisers in high schools nationwide, aiming to instill a college-going culture. Dozens of institutions have been creating

¹⁰⁹ "Racial equity in financial services," September 2020, McKinsey.com.

¹¹⁰ *Closing America's education funding gaps*, The Century Foundation, July 2020.

¹¹¹ See, for example, Joseph F. Murphy and Joshua F. Bleiberg, "Explaining the failure of school turnaround: Important issues," in *School turnaround policies and practices in the US: Learning from failed school reform*, Springer, 2019.

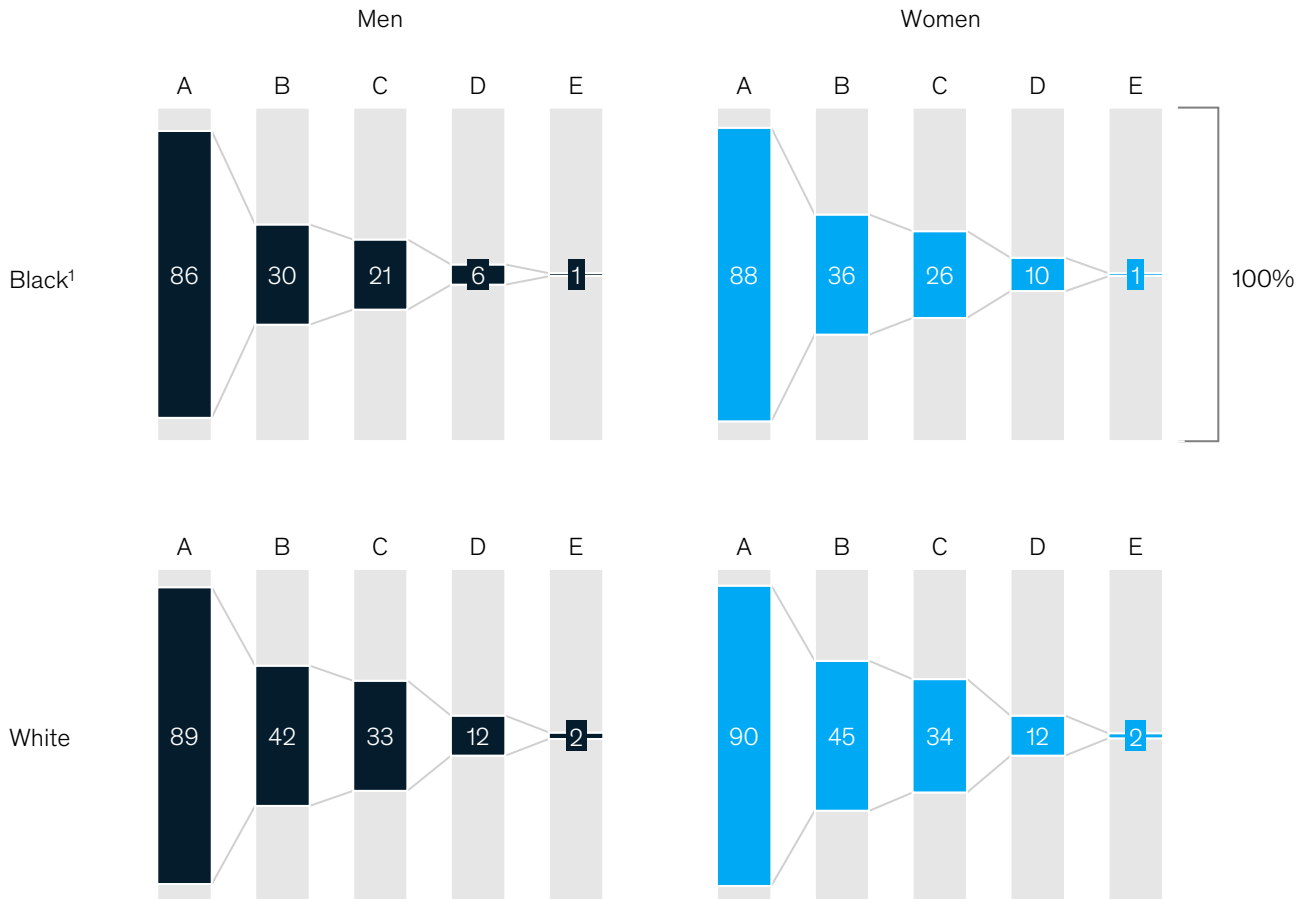
¹¹² Joseph B. Fuller and Manjari Raman, *Dismissed by degrees: How degree inflation is undermining US competitiveness and hurting America's middle class*, Harvard Business School, October 2017.

There is an educational attainment gap between Black and white Americans.

Educational attainment by race/ethnicity and sex, 2019

%

A High school B Associate degree C Bachelor's degree D Graduate E Doctorate



1. Alone or in combination.

Note: Figure may not sum to 100% because of rounding.

Source: US Census Current Population Survey, 2019; McKinsey Global Institute and McKinsey Institute for Black Economic Mobility analysis

dedicated programs to ease their way and increase their completion rates. Among them are the University of North Carolina, where the Carolina Firsts network helps students navigate the challenges, and Yale, where assistance for first-generation, low-income students includes financial guidance, academic mentorship, and social support. These programs, among others, signal an opportunity for academic institutions to serve Black students more effectively—and they might look to the success of historically Black colleges and universities (HBCUs) to do so (see Box 2, “Recognizing HBCUs as effective engines of Black mobility”).

STEM fields are the source of many of the fast-growing jobs of the future. But currently only 6 percent of computer science and engineering students are Black, well below the Black share of the population. Many organizations are working to change these numbers, including the National Society of Black Engineers, which develops student interest in engineering, encourages undergraduates to pursue advanced degrees, and connects members with career opportunities. Black Girls Code exposes younger girls to computer science through school and after-school programs, workshops, and hackathons, while Code 2040 helps recent graduates of color gain a foothold in the tech sector.

Recognizing HBCUs as effective engines of Black mobility

The nation's 101 historically Black colleges and universities (HBCUs) have been one of the most effective drivers of upward mobility. A mix of private and public institutions, they represent 3 percent of all US universities but confer 17 percent of the bachelor's degrees (and a quarter of the STEM degrees) earned by Black Americans. This is an outsized role for a small set of institutions—and they have vaulted many Black low-income students into the top quintile of income earners. Over 85 percent of institutions had a higher “mobility score” than the average across all institutions in the country (Exhibit 11).¹

However, HBCUs have historically been underfunded, and some are struggling financially.² Since the racial reckoning of 2020, a number of major corporations and philanthropists have made large financial commitments and established partnerships with these institutions. But they need sustained support—and greater recognition of their central role in Black intellectual life and building the Black middle class. The results and the sense of belonging delivered by HBCUs could hold valuable lessons that other colleges and universities could apply to improve the retention and completion rates of Black students, as well as the quality of their experience.³

¹ Integrated Postsecondary Education Data System, National Center for Educational Statistics.

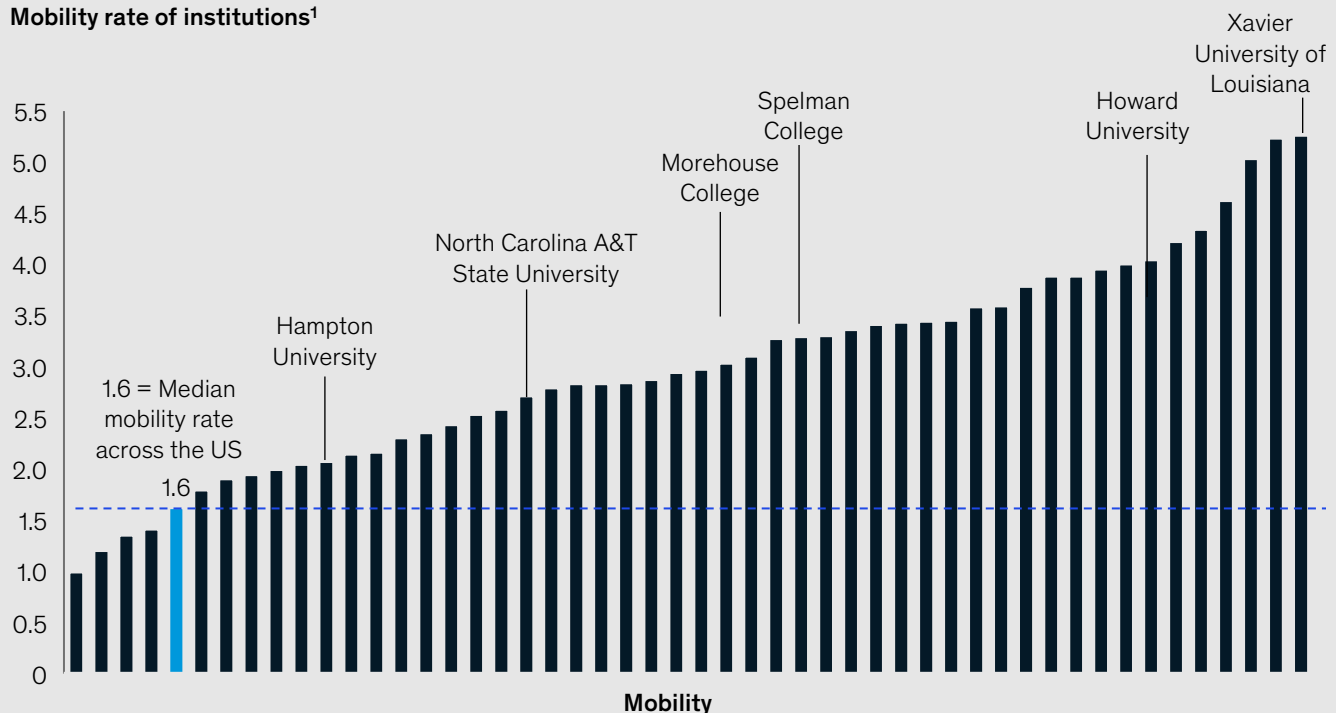
² Krystal L. Williams and BreAnna L. Davis, “Public and private investments and divestments in historically Black colleges and universities,” American Council on Education issue brief, January 2019.

³ David Wilson, “How historically Black colleges could help Ivy League schools become more inclusive,” *Washington Post*, February 12, 2016.

Exhibit 11

HBCUs have been a major engine of upward mobility for Black Americans.

Mobility rate of institutions¹



1. The mobility rate is the percent of students who have parents in the bottom 20 percent of the income distribution and reach the top 20 percent of the income distribution.

Note: Data covers 2,202 US colleges and universities, including 50 historically Black colleges and universities (HBCUs).

Source: US Department of Education's Integrated Postsecondary Education Data Systems (IPEDS); Opportunity Insights at Harvard University; McKinsey Global Institute and McKinsey Institute for Black Economic Mobility analysis

Improve Black representation in higher-paying jobs through both hiring and promotions

Employers can expand where and how they recruit and work to eliminate implicit and unconscious biases in hiring. Eliminating the use of salary history in hiring, as a dozen states have recently done, can break a cycle that locks in preexisting disparities.¹¹³

Companies can diversify their workforces by offer more training opportunities and apprenticeships. Because of lower family incomes and wealth, fewer Black students and recent graduates are in a position to accept unpaid internships to break into competitive fields. The nonprofit Pay Our Interns is highlighting this issue and pushing for greater diversity in federal government internships. A number of programs are geared toward putting young people of color onto professional paths; one example is Year Up, which offers training, six-month paid corporate internships, and networking opportunities to students from all backgrounds. The National Urban League has partnered with major national employers to offer training programs for the long-term unemployed to develop the skills needed for IT jobs.

Dozens of large US employers have formed a coalition, OneTen, pledging to create a collective one million careers for Black professionals over the next decade. One way to accelerate progress is by de-emphasizing traditional credentials and hiring based on ability and related skills. Opportunity @Work is tackling this issue by proposing a new taxonomy of skills and helping Black STARs (that is, people who were skilled through alternative routes, such as on the job or in the military) transfer their existing capabilities into higher-wage roles or add the next set of complementary skills that could unlock a more rewarding career.¹¹⁴ Digital platforms and tools make it possible to improve job matching and screen for raw talent in new ways—but it will be critical to ensure that new forms of bias do not creep into these systems.

Beyond hiring, another priority is to reduce the attrition of Black professionals who disproportionately end up fired or disciplined at work.¹¹⁵ Employers have to consider what kind of day-to-day workplace experience and professional development they are delivering to Black employees, who deserve equitable opportunities to grow professionally and earn promotions into higher-paying and more senior roles. Responses to the recent McKinsey American Opportunity Survey showed a clear racial split in optimism regarding job prospects and career progression (Exhibit 12).¹¹⁶ Formal mentorship and sponsorship programs are one option.

Consumer-facing companies that address these issues have an opportunity to better mirror their customer base, innovate, and become employers of choice. Food service and facilities giant Sodexo, for example, has implemented a mentoring program that prepares frontline employees to move into more senior roles. Walmart now incorporates a formal diversity and inclusion rating into performance evaluations of its salaried US managers.¹¹⁷ Large companies can also undertake pay audits and equalize the gaps they unearth.

Many companies are making earnest attempts to improve diversity and inclusion. But these programs need hard metrics and rigorous evaluation as well as granularity, so that gains among all minority groups do not obscure a lack of progress for Black workers specifically.

Employers have to consider not only diversity in hiring but whether they are creating equitable opportunities for Black employees to advance.

¹¹³ James E. Bessen, Chen Meng, and Erich Denk, *Perpetuating inequality: What salary history bans reveal about wages*, SSRN, June 2020.

¹¹⁴ Peter O. Blair et al., *Searching for STARs: Work experience as a job market signal for workers without bachelor's degrees*, NBER working paper number 26844, March 2020.

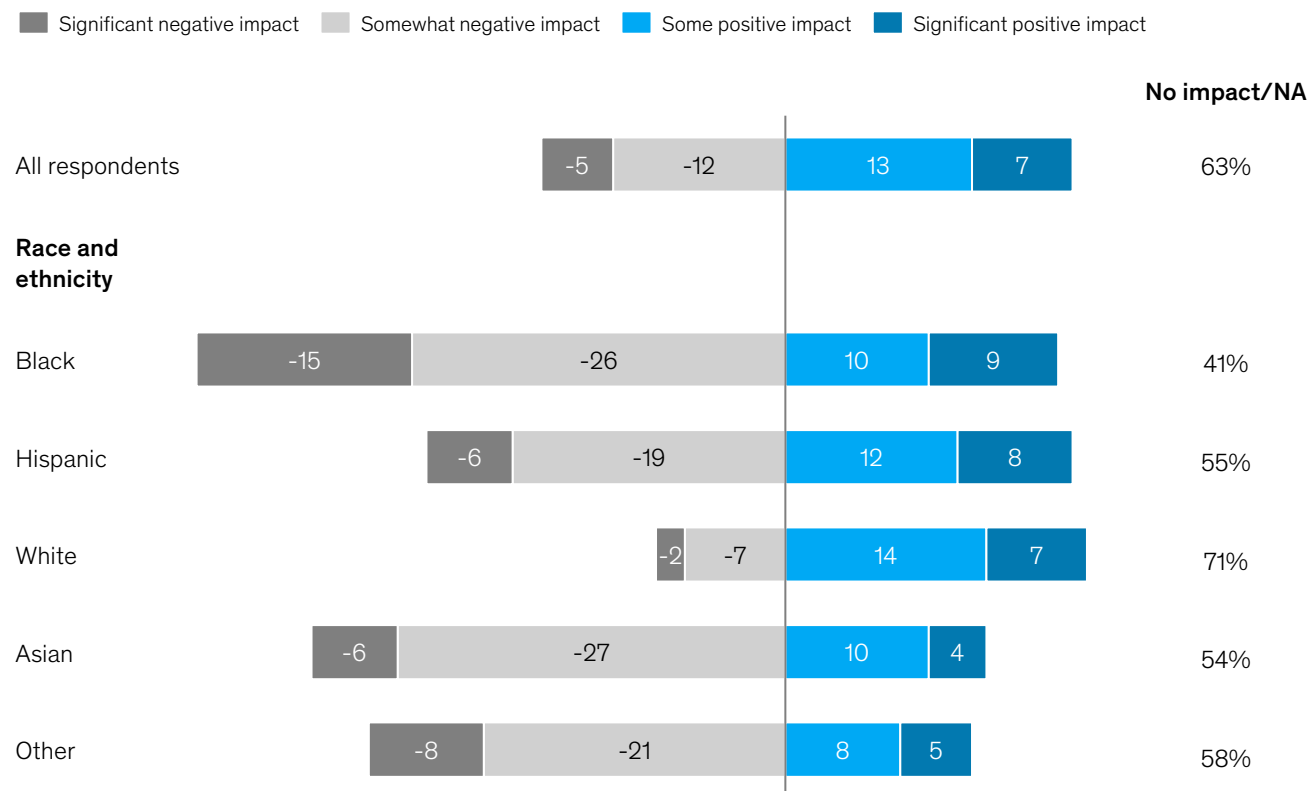
¹¹⁵ *The economic impact of closing the racial wealth gap*, August 2019, McKinsey.com.

¹¹⁶ *Unequal America: Ten insights on the state of economic opportunity*, May 2021, McKinsey.com. The McKinsey American Opportunity Survey included more than 25,000 respondents and was conducted online in March and April 2021.

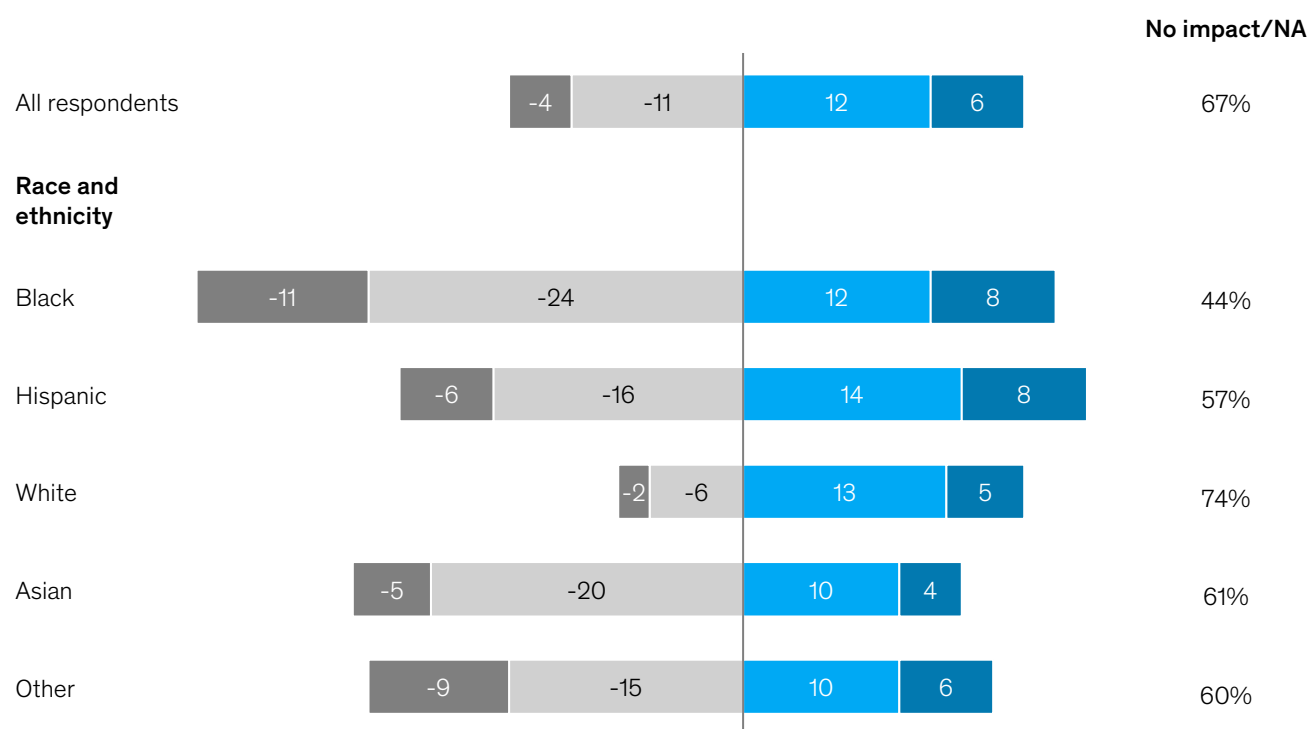
¹¹⁷ Fay Hanleybrown et al., *Advancing frontline employees of color: Innovating for competitive advantage in America's frontline workforce*, FSG and PolicyLink, January 2020.

In a recent McKinsey survey, workers of color—and Black workers in particular—reported that their race negatively affects their job prospects and recognition for their work.

To what extent, if at all, do you believe your race impacts your future job prospects?



To what extent, if at all, do you believe your race impacts your likelihood of being fairly recognized and rewarded for your work?



Source: McKinsey American Opportunity Survey, N=25,000 (May 2021); McKinsey Global Institute and McKinsey Institute for Black Economic Mobility analysis

Improve the jobs disproportionately held by Black workers today and create new pathways to better careers

Black workers are the backbone of the nation's caregivers and frontline workers, and the importance of their roles became clear during the pandemic. But many vital jobs in the US economy lack basic protections.

The public and private sectors can address issues such as the predictability of hours, living wages, workplace safety, sick leave, and benefits. Some major retailers and restaurant chains have been raising their starting minimum wages to \$15 an hour or higher.¹¹⁸ Jobs also don't have to be dead ends; they can offer employees opportunities to add new skills and progress to senior roles over time. A number of major US employers with large frontline workforces have begun to offer tuition assistance to employees seeking to further their education. These programs are not specifically designed to address racial equity, but they can be a tool for upward mobility.

Indeed, it is possible to map pathways from low-wage jobs into higher-paying jobs based on the overlaps in skills and activities. With the right training and opportunities, workers could move into growing or higher-wage occupations. A licensed nurse, for example, could feasibly add skills to move into higher-paying nursing fields or even become an occupational health and safety specialist (Exhibit 13). This is just one example among many; see Appendix B for a series of similar charts mapping potential pathways for other roles where Black workers are currently concentrated.

Help the excluded enter the labor market

Mass incarceration has a lifetime of consequences for millions of people who struggle to find work after their release. One study estimates that 3 percent of US adults and 15 percent of Black men have been imprisoned at some point, and one-third of Black men have felony convictions (see Box 3, "Locked out: Factors affecting Black labor force participation").¹¹⁹

The formerly incarcerated need stable jobs and incomes to re-enter society and get their lives on track, but their path to productive work is often blocked, with continuing negative impact not only on their own lives but on the broader economy, as their potential productive contributions are stymied.

One study has estimated that among the formerly incarcerated, 43.6 percent of Black women and 35.2 percent of Black men are unemployed, compared with 23.2 percent of white women and 18.4 percent of white men.¹²⁰ Closing the labor force participation gap for the approximately two million formerly incarcerated Black Americans and employing them at the same rate as their white peers could potentially add some 210,000 new workers. Removing the stigma surrounding those who have served their time would create opportunities for people to turn their lives around.

One organization focused on making re-entry possible is Homeboy Industries. Every year, Homeboy takes hundreds of ex-gang members and formerly incarcerated people through an intensive 18-month employment program, giving them opportunities to add skills and work experience in social enterprises. These businesses (which include bakeries, cafés, catering firms, silkscreen clothing production companies, and more) partially fund the organization's broader mental health programs, which reach thousands of clients annually. The Homeboy model has expanded into a global network of 400 community-based initiatives. The Anti-Recidivism Coalition is a nonprofit that provides re-entry services, support and mentoring, transitional housing, and job training opportunities. In addition, Georgetown University recently announced a program to allow people in prison to earn bachelor's degrees.¹²¹

¹¹⁸ Alina Selyukh, "Costco to raise minimum wage to \$16 an hour: 'This isn't altruism,'" NPR, February 25, 2021.

¹¹⁹ Sarah K. S. Shannon et al., "The growth, scope, and spatial distribution of people with felony records in the United States, 1948–2010," *Demography*, 2017, Volume 54.

¹²⁰ Lucius Couloute and Daniel Kopf, *Unemployment among formerly incarcerated people*, Prison Policy Institute, July 2018.

¹²¹ "Georgetown to launch bachelor's degree program at Maryland prison," Georgetown University, April 7, 2021.

Locked out: Factors affecting Black labor force participation

Attaining a scenario of parity, in which Black labor force participation and unemployment rates equal the corresponding rates for white Americans, would draw an additional one million Black workers into the labor force. Approximately 60 percent of the incremental gains would come from increased labor force participation by Black men; the remaining 40 percent of growth would be attributable to reduced unemployment for Black men and women.

The unemployment rate tells an incomplete story about who is not working, capturing only those who are actively looking for employment. Understanding how many people have disconnected from the labor market altogether due to discouragement, health and disability, or other reasons requires a look at the labor force participation rate.

For many years, Black male labor force participation has lagged while Black women have participated at higher rates than women of other racial and ethnic groups. After steadily declining from 1999 to 2013, Black labor force participation began to tick back up

as the continuing expansion drew more people off the sidelines and into jobs. However, in 2019, the rate stood at 64.8 percent for Black men, 4.4 percentage points lower than the rate for men overall. By contrast, Black women work at a rate that is 3.1 percentage points higher than for women overall.

While multiple factors depress the labor force participation of Black men, the aftereffects of mass incarceration are noteworthy. Imprisonment skyrocketed from the 1980s to the 2000s, driven by the “war on drugs” and political pressures to crack down on crime.¹ More recently, a reform movement has taken root in response to the social costs and racial inequities in sentencing. According to Department of Justice statistics, the Black imprisonment rate fell by 29 percent from 2009 to 2019, reaching its lowest level in three decades. However, the rate for Black Americans remained more than five times higher than for white Americans.²

The labor force participation rate is the ratio of those who are currently working or actively looking for work

as a share of the noninstitutionalized civilian workforce. It therefore takes those currently incarcerated (more than 452,000 Black adults in 2019³) and active-duty members of the military (almost 228,000 Black servicemembers) out of the equation—although it should be noted that these are sizable populations not in the workforce.

The denominator does, however, include the formerly incarcerated who become so discouraged that they stop looking for work altogether. In some cases, they may be stymied by low levels of schooling, long gaps in their work records, and a lack of experience; in other cases, it is the stigma and resulting bias of having a criminal record itself.⁴ Imprisonment takes a toll long after someone has served their term, extending their sentence in the outside world. A majority of employers, landlords, and colleges screen applicants for criminal records, limiting their options and causing collateral damage for the next generation.⁵

¹ *The growth of incarceration in the United States: Exploring causes and consequences*, Jeremy Travis, Bruce Western, and Steve Redburn, eds., National Research Council, National Academies Press, 2014.

² Defined as those sentenced to more than one year in state or federal prison per 100,000 resident adults. See E. Ann Carson, *Prisoners in 2019*, Bureau of Justice Statistics, US Department of Justice, October 2020.

³ Ibid.

⁴ Bruce Western and Catherine Sirois, “Racialized re-entry: Labor market inequality after incarceration,” *Social Forces*, June 2019, Volume 97, Issue 4.

⁵ Kenny Lo, *Expunging and sealing criminal records*, Center for American Progress, April 2020.

It will take decisive action from private employers to change the current picture—and there is a well-established business case for companies to diversify their workforces and their leadership ranks. McKinsey research in 2019 found that companies in the top quartile of ethnic and cultural diversity were 36 percent more profitable than those in the fourth quartile.¹²² These types of firm-level results, multiplied many times over across the full range of industries, would generate a strong macroeconomic boost. The misallocation and underutilization of Black talent holds back productivity growth and the entire economy—something the United States cannot afford to continue at a time of growing demographic headwinds.¹²³ In addition to increasing prosperity and security for Black workers and their families, achieving greater racial parity across occupations would spur consumption and tap into a reserve of human potential that the US economy has never fully activated.¹²⁴

¹²² *Diversity wins: How inclusion matters*, McKinsey & Company, May 2020.

¹²³ Chang-Tai Hsieh et al., “The allocation of talent and US economic growth,” *Econometrica*, September 2019, Volume 87, Number 5.

¹²⁴ Heather McGhee, *The sum of us: What racism costs everyone and how we can prosper together*, One World, 2021.



Shakeya, Hair salon owner
© Osato Dixon/McKinsey & Company

3. Black business owners: Getting off the ground and scaling up

Many people dream of setting up their own businesses and becoming their own bosses. Turning an idea into a flesh-and-blood enterprise is the ultimate act of economic self-determination—and more than three million Black founders have undertaken it. Building a business is never an easy undertaking, and Black owners do it while overcoming an extra set of disadvantages.

These disadvantages manifest in a \$1.6 trillion revenue gap between what Black-owned businesses generate today and what could be possible under a scenario of greater parity.¹²⁵ This chapter considers this gap from two angles: the small number of Black-owned employer companies across industries and their relatively smaller size (Exhibit 14).¹²⁶ Unfortunately, the disparity has grown larger over the past 20 years rather than narrowing. While we do not analyze the full range of root causes in detail, this chapter does highlight the lack of access to capital as a key driver of the gap.

If the Black share of business ownership matched the Black share of the population, 615,000 new enterprises would exist, potentially generating \$1 trillion in revenue across sectors. This could also create some six million jobs in Black-led workplaces where employees of color might not feel a sense of “otherness” or run up against bias.¹²⁷

4%

of Black-owned businesses employ at least one worker, compared to 20% of non-Black-owned businesses

In addition to representation, the other side of the revenue gap reflects a lack of scale. Although this chapter focuses on employer businesses with more than one worker, it is important to note that 96 percent of Black-owned firms (2.95 million) are microbusinesses or sole proprietorships with no employees (Exhibit 15). Employer firms constitute only 4 percent of the total universe of Black-owned businesses (far less than the 20 percent share of non-Black-owned businesses), and across industries, they remain smaller on average than other companies. If Black-owned firms matched the average size of their peers, they would generate an additional \$600 billion in revenue, increasing Black wealth in the process.

This revenue gap shows what is missing—but its inverse shows how much value could be created from encouraging Black entrepreneurship. Accelerating the growth of existing Black businesses and creating pathways for more startups could unlock economic participation and wealth accumulation. It could also increase competition, with positive effects on US productivity.¹²⁸ When Black-owned businesses thrive, their surrounding communities thrive along with them.¹²⁹

¹²⁵ In our parity scenario, the share of Black-owned businesses in every industry would match the Black share of the population, and the average revenues of Black-owned businesses would match those of non-Black-owned businesses. We note that the Brookings Institution has sized a far larger parity gap of \$5.9 trillion. However, that calculation includes unclassifiable firms (that is, firms for which no owners have stake of 10 percent or higher), for which the sex, ethnicity, race, or veteran status of ownership is unknown. See Andre M. Perry and Carl Romer, *To expand the economy, invest in Black businesses*, Brookings Institution, December 2020.

¹²⁶ Our analysis focuses on private nonfarm employer businesses (with at least one employee) that are classifiable by race/ethnicity of ownership.

¹²⁷ Job creation estimate based on the average size of Black-owned employer firms (9.7 employees) from the US Census Bureau's Annual Business Survey. Note that not all of these jobs would be net new additions to the overall economy.

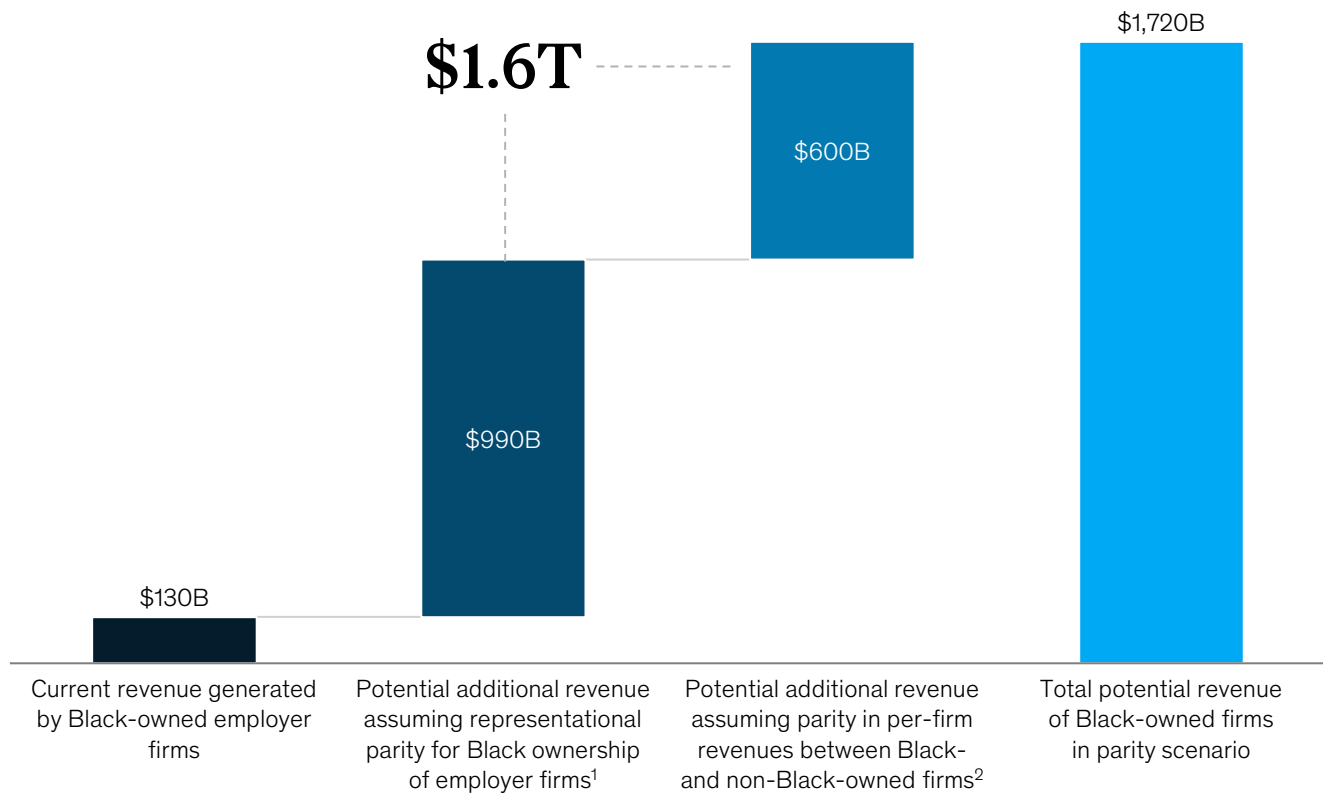
¹²⁸ *Will productivity and growth return after the COVID-19 crisis?* McKinsey Global Institute, March 2021.

¹²⁹ T. D. Boston, “The role of Black-owned businesses in Black community development,” in *Jobs and Economic Development in Minority Communities*, Paul Ong and Anastasia Loukaitou-Sideris, eds., Temple University Press, 2006.

Parity in both representation and per-firm revenues would result in \$1.6 trillion higher revenues for Black-owned employer businesses.

Annual revenue of Black-owned employer firms (current and potential)

\$ billion



1. Based on the difference in the share of Black-owned employer firms in each industry and the Black share of the US population, which is ~13 percent. In every industry, current representation is well below this definition of parity.

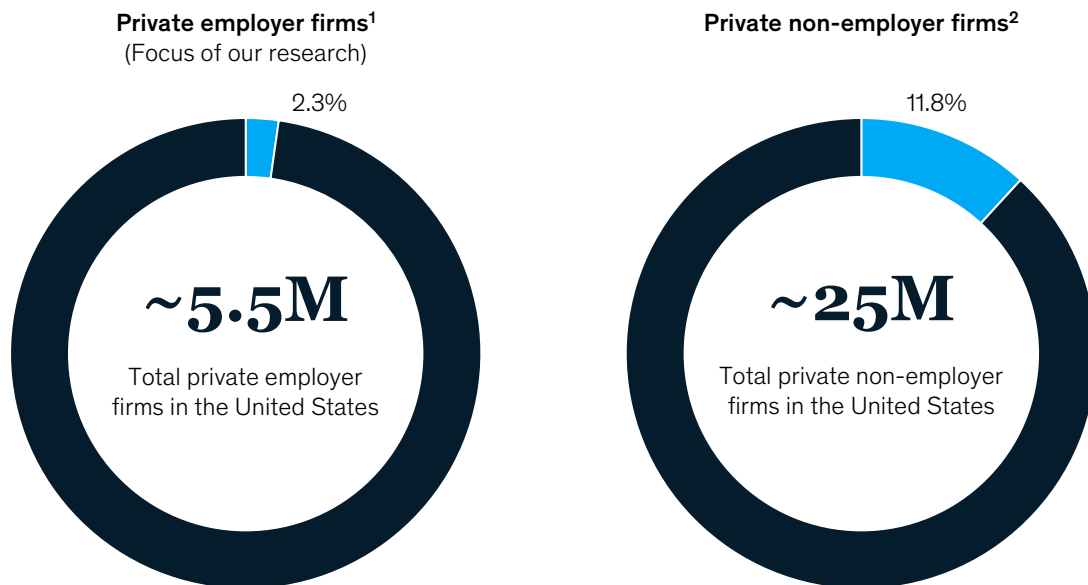
2. Based on the difference in average revenue between Black- and non-Black-owned employer firms. In most industries, the revenues of Black-owned firms are lower than those of non-Black-owned firms.

Note: Our analysis covers only racially classifiable privately held employer firms, which have at least one worker in addition to the owner. Sole proprietorships and publicly traded companies are excluded.

Source: "Building supportive ecosystems for Black-owned US businesses," McKinsey.com, October 2020; "To expand the economy, invest in Black businesses," Brookings Institution, December 2020; US Census Bureau's Annual Business Survey (2018); McKinsey Global Institute and McKinsey Institute for Black Economic Mobility analysis

Black-owned businesses make up only about 2 percent of all private employer firms in the United States.

■ Share of Black-owned ■ Share of non-Black-owned



1. Includes all classifiable (by race/ethnicity) nonfarm employer businesses filing 941, 944, or 1120 tax forms.

2. Includes businesses with no paid employees or payroll, annual receipts of \$1,000 or more (\$1 or more in construction industries), and filing IRS tax forms for sole proprietorships (Form 1040, Schedule C), partnerships (Form 1065), or corporations (Form 1120 series).

Note: Our research focuses on private employer firms classifiable by ownership race/ethnicity. It excludes publicly traded companies.

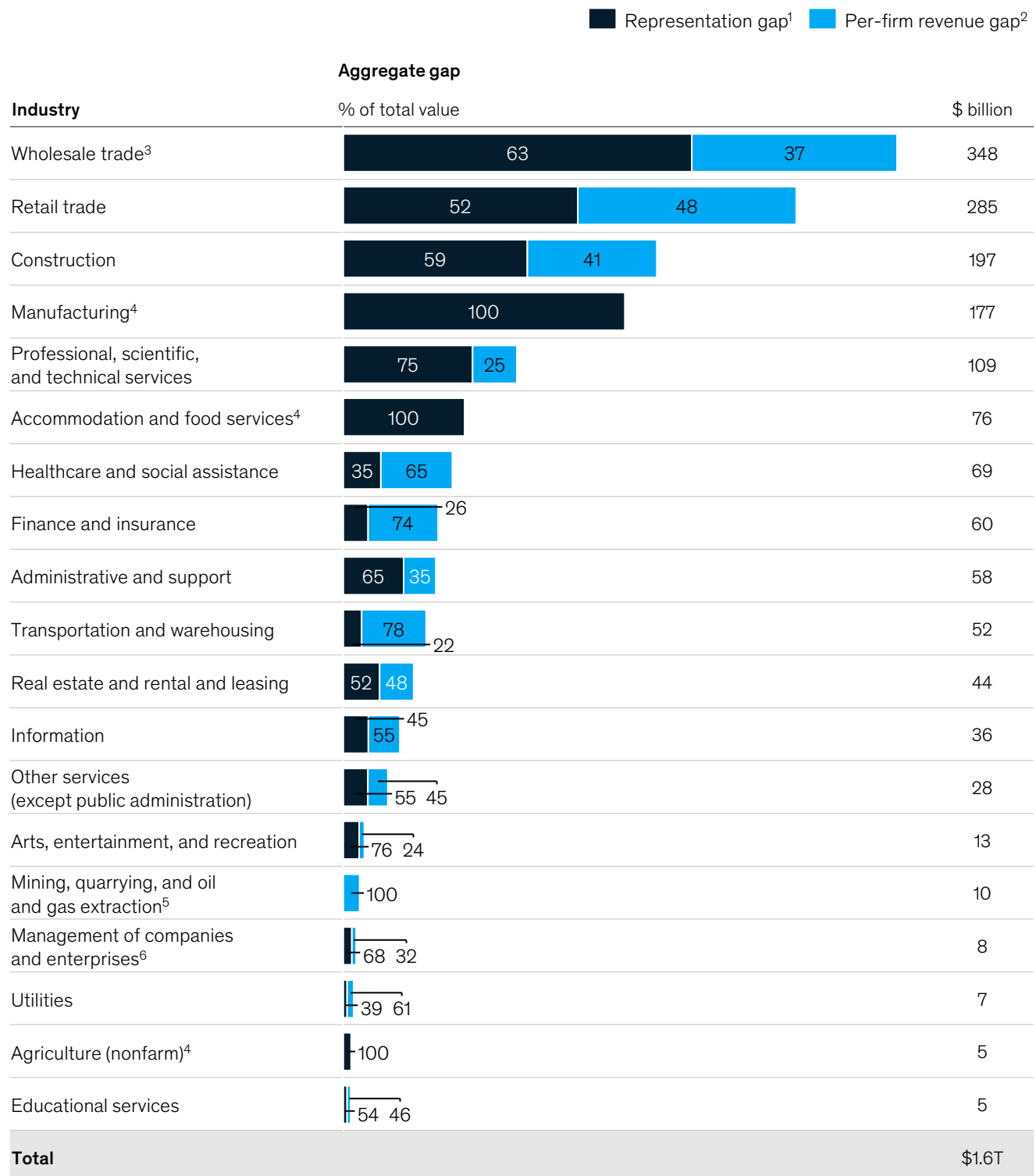
Source: US Census Bureau's Annual Business Survey (2018), McKinsey Global Institute and McKinsey Institute for Black Economic Mobility analysis

Considering both representation and size, most of the revenue gap is concentrated in just five industries

Similar to the pattern in the labor force, the revenue gap is highly concentrated (Exhibit 16). Seventy percent of it exists within just five industries: wholesale trade, retail trade, construction, manufacturing, and professional services.

Within these five industries, a number of factors may explain why the gap persists. In construction, for example, Black business owners rarely secure the kind of large-scale private commercial projects that can provide larger revenue opportunities. The owners we interviewed cited discrimination in the project bidding process, such as receiving bid requests only 24 to 48 hours before the due date when other construction companies are given weeks to prepare a fully fleshed-out bid. In wholesale trade, revenues are built on relationships, which can make this a hard field to penetrate.

Seventy percent of the revenue gap between Black- and non-Black-owned businesses is concentrated in just five industries.



1. Based on the difference in the share of Black-owned employer firms in each industry and the Black share of the US population, which is 13 percent. In every industry, current representation is well below this definition of parity.

2. Based on the difference in average revenue between Black- and non-Black-owned employer firms. In every industry (with the exception of manufacturing, accommodation and food services, and agriculture), the revenues of Black-owned firms are lower.

3. Including distributors of various products and services.

4. Data suggest there is no per-firm revenue gap between Black- and non-Black-owned firms in manufacturing, accommodation and food services, and agriculture.

5. According to the dataset, there are no Black-owned firms in the mining, quarrying, and oil, gas industry (likely due to sampling and low number of existing firms in the industry).

6. Includes holding companies and corporate managing offices.

Source: US Census Bureau Annual Business Survey (2018); McKinsey Global Institute and McKinsey Institute for Black Economic Mobility analysis

In a scenario with representational parity, the US economy would feature hundreds of thousands more Black-owned employer businesses

The US Census Bureau's Annual Business Survey identified some 124,000 Black-owned businesses with more than one worker. They constitute only 2 percent of the nation's total, far below Black Americans' 13 percent share of the US population.¹³⁰ If the Black share of business ownership reached parity with the Black share of the population, 615,000 new enterprises could be added, supporting six million jobs.¹³¹

The data contain absences that are particularly notable in industries such as mining, oil, and gas (with near zero Black- versus 17,500 non-Black-owned firms), utilities (11 versus 2,600), agriculture (100 versus 27,340), and manufacturing (1,600 versus 237,000). Notably, there are only 1,242 Black-owned information technology businesses and 66,569 non-Black-owned businesses.

The Black-owned businesses that do exist are concentrated in certain industries and geographies

Black ownership is stronger in less capital-intensive industries than in industries requiring heavy investment in plants and equipment (Exhibit 17). Roughly one-third of existing Black-owned employer businesses are in healthcare and social services, a sector that employs a disproportionate number of Black workers. Some have used their skills and connections to start home healthcare businesses; others include daycare providers and physician's offices. We conducted a number of interviews with business owners in the home healthcare field, and more than one cited the "low cost of failure" as a factor that paved their way. Access to patients and other providers can come from existing connections, and no capital-intensive equipment is needed. The owners of small home healthcare firms can maintain their day jobs while launching their services. The decision to go this route may be safer but ultimately limiting.

The number of Black-owned employer firms in professional services is high in relative terms, although representation is still an issue in this industry.¹³² These firms offer accounting, tax preparation, bookkeeping, and payroll services; computer systems design; legal services; and consulting services. Again, startups in these fields do not require extensive equipment and facilities, which keeps the cost of entry low.

Black-owned employer businesses are most heavily concentrated in large cities with concentrated Black populations. As Exhibit 18 shows, more than half are found in just 12 metro areas (New York, Washington, DC, Atlanta, St. Louis, Miami, Los Angeles, Chicago, Houston, Dallas, Philadelphia, Baltimore, and Detroit). Many provide healthcare services or professional services. In Washington, DC, the average Black-owned employer business generates 60 percent higher revenues than the national average. Professional services firms are predominant here.

¹³⁰ Our analysis covers only racially classifiable privately held employer firms that have at least one worker in addition to the owner. Sole proprietorships and publicly traded companies are excluded.

¹³¹ Not all of these jobs would represent net new jobs added to the economy.

¹³² Professional services is simultaneously one of the prime industries for Black entrepreneurs and one of the industries with a large gap in representation. Professional services firms constitute a significant share of Black-owned employer businesses, but their numbers remain low. Black-owned firms make up a lower share of all professional services firms than the Black share of the population.

Black-owned employer firms are primarily concentrated in the healthcare industry.

Industry ¹	Number of Black-owned employer firms ²	Black-owned firms as share of industry total, %
Healthcare and social assistance	39,714	6.8
Professional, scientific, and technical services	16,391	2.1
Administrative and support	10,136	3.0
Retail trade	8,752	1.4
Other services (except public administration)	8,314	2.1
Construction	8,219	1.2
Accommodation and food services	7,492	1.4
Transportation and warehousing	7,201	3.9
Finance and insurance	4,645	2.1
Real estate and rental and leasing	3,547	1.2
Arts, entertainment, and recreation	2,537	2.5
Wholesale trade	1,964	0.7
Educational services	1,830	2.9
Manufacturing	1,609	0.7
Information	1,242	1.8
Management of companies and enterprises	157	0.9
Agriculture	100	0.4
Utilities	11	0.4
Mining, quarrying, and oil and gas extraction ³	0	0
Total	~124K	~ 2.3% of all US employer businesses

1. As classified by US Census and NAICS.

2. Our analysis covers only racially classifiable privately held employer firms, which have at least one worker in addition to the owner. Sole proprietorships and publicly traded companies are excluded.

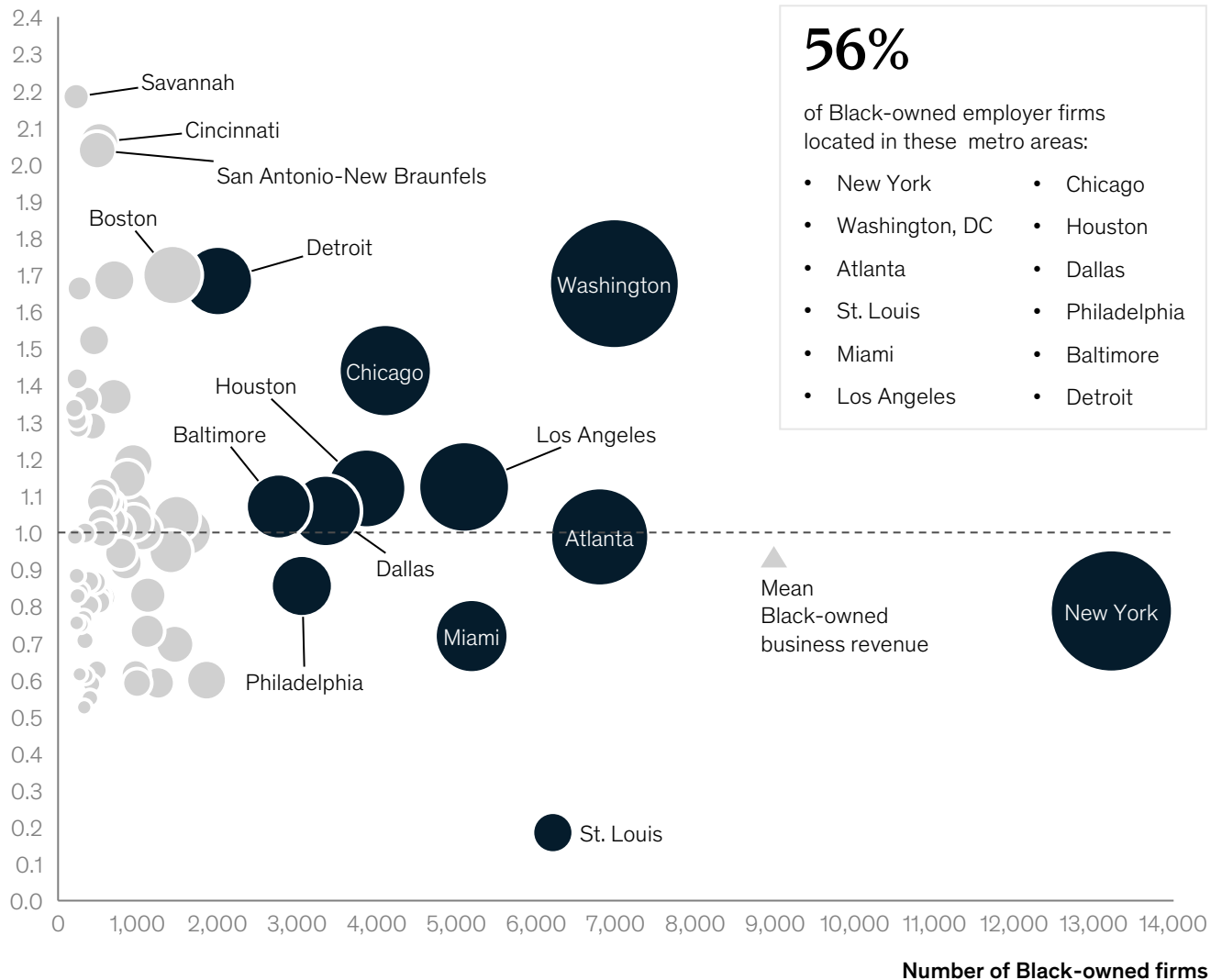
3. According to the dataset, there are no Black-owned firms in the mining, quarrying, and oil and gas industry (likely due to sampling and low number of existing firms in the industry).

Source: US Census Annual Business Survey (2018); McKinsey Global Institute and McKinsey Institute for Black Economic Mobility analysis

Just 12 US cities are home to more than half of all Black-owned employer businesses.

Mean per-firm revenue, \$ million

○ \$M in revenue generated by Black-owned firms



Black entrepreneurship is underrealized

The rate of Black entrepreneurship (that is, the percentage of the non-business owner population that starts a business each month) has historically lagged behind other races. All racial groups showed a strong uptick during the pandemic, a disruptive period that opened up unexpected opportunities for some and forced many others to pivot to stay afloat. This effect was even stronger among Black entrepreneurs.¹³³

People often start a business doing what they already know and building on the contacts they already have. The Black business owners we interviewed all had several years of previous work experience in the industry where their companies now focus.

The concentration of Black workers in a given industry shapes their potential to start businesses in that field. As Exhibit 19 shows, no industries have both a representative share of Black workers (matching the 12.9 percent Black share of the labor force) and a representative share of Black business owners (matching the 13.4 percent Black share of the population).

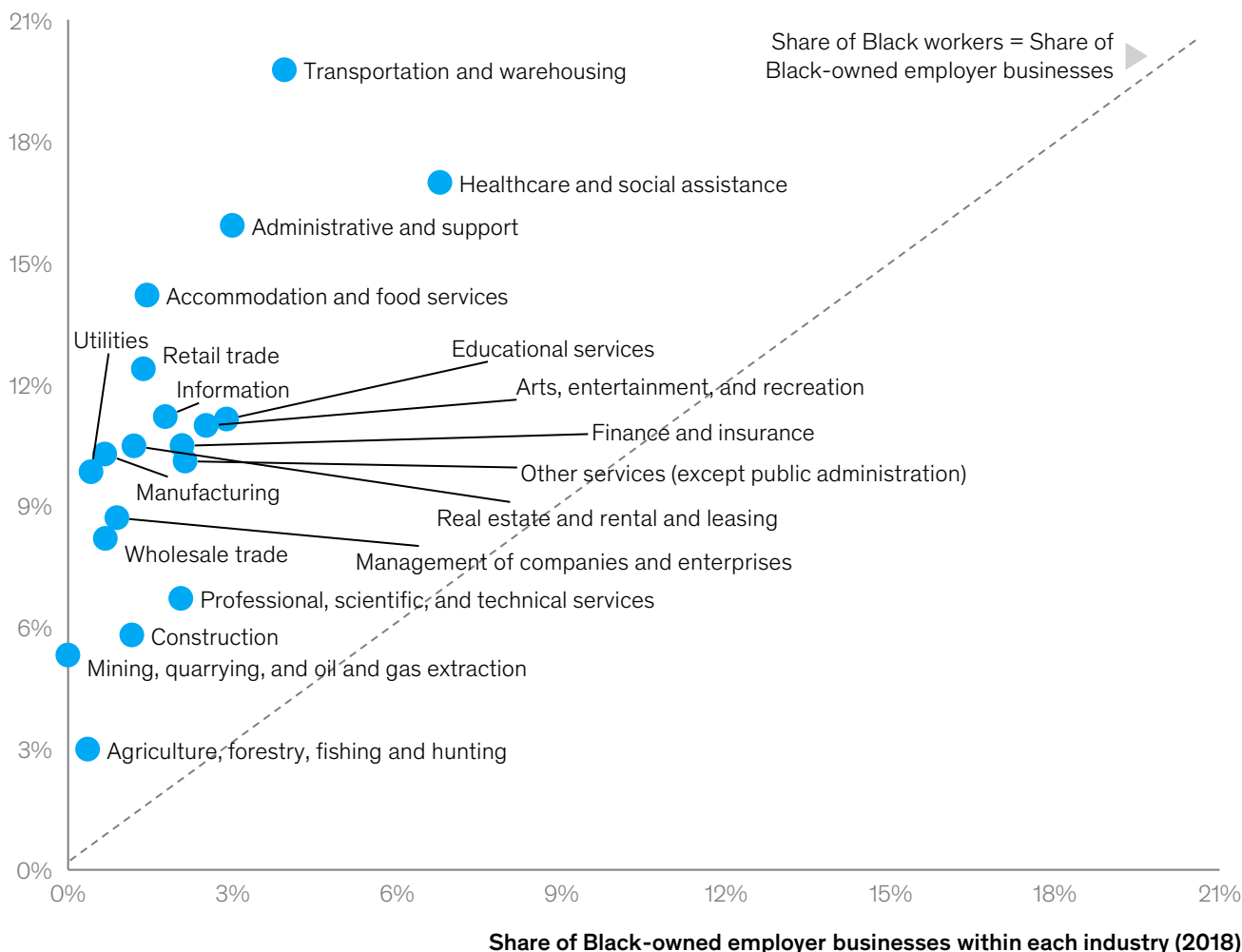
¹³³ Robert Fairlie and Sameeksha Desai, *National report on early-stage entrepreneurship in the United States: 2020*, Kauffman Indicators of Entrepreneurship, Ewing Marion Kauffman Foundation, February 2021. Note that Babson College's Global Entrepreneurship Monitor cites a different metric for the rate of entrepreneurship but also finds that Black rates have been historically low in relative terms. Julian E. Lange et al., *Global Entrepreneurship Monitor 2018/2019 United States report*, Babson College, 2019.

Nineteen percent of all Black workers are in healthcare. This has created a launching pad for roughly one-third of all Black-owned businesses, as noted above. However, they are still underrepresented, accounting for only 7 percent of all US healthcare businesses. Three additional industries (accommodation and food service, transportation and warehousing, and administrative support) have higher percentages of Black workers than their overall representation in the labor force; this could signal an opportunity to help more of them make the leap to starting their own businesses.

Exhibit 19

Black-owned businesses are underrepresented even in industries where Black workers are not.

Share of Black workers within each industry (2014–18)

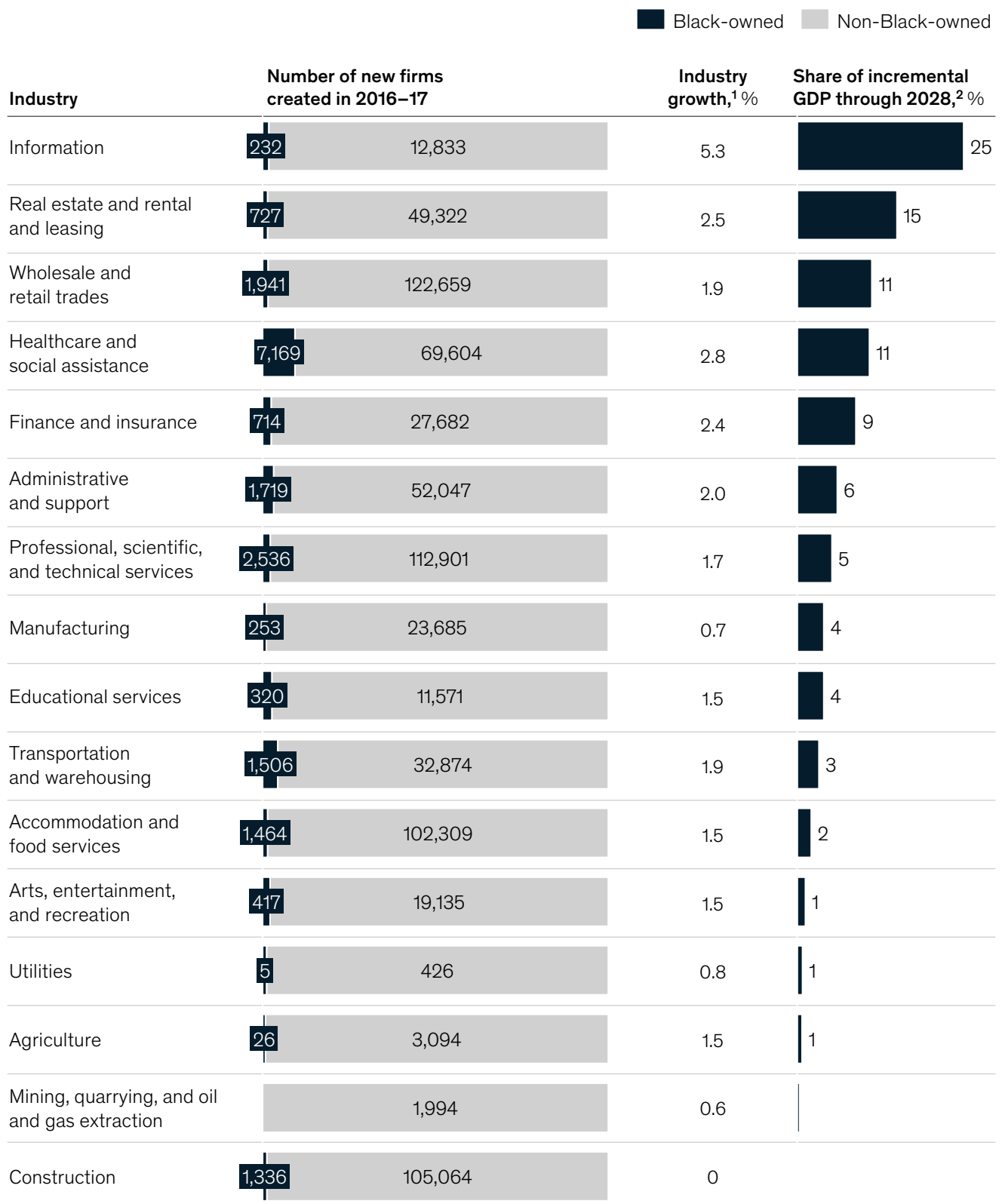


Source: Annual Business Survey and Current Population Survey (2018) from US Census Bureau, IPUMS USA, 5 -year dataset (2014–18) from US Census Bureau's American Community Survey, US Bureau of Labor Statistics; McKinsey Global Institute and McKinsey Institute for Black Economic Mobility analysis

While Black entrepreneurship is weighted toward healthcare, it is thinner in other fast-growing parts of the economy (Exhibit 20). In another decade, the IT industry is expected to contribute nearly a quarter of US GDP, but only 1.1 percent of new Black-owned firms created in the past two years have been in this field.¹³⁴ The presence of Black tech entrepreneurs will be critical to ensuring that the information ecosystems and digital tools of the future are inclusive. One place where they are thriving is Atlanta, Georgia (see Box 4, “Atlanta: Black mecca of tech”).

¹³⁴ Future growth projection from IHS Markit.

Newly created Black-owned firms are concentrated in the healthcare industry but are missing in other expanding industries.



1. Growth rates based on 10-year forward CAGR for value add to the economy

2. Based on contribution to 10-year incremental GDP between 2019 and 2028 projection

Note: Non-exhaustive. Does not include industries that are non-classified, other, or management of companies and enterprises.

Source: US Census Bureau Annual Business Survey (2018); IHS Markit; McKinsey Global Institute and McKinsey Institute for Black Economic Mobility analysis

Note: Non-exhaustive. Does not include industries that are non-classified, other, or management of companies and enterprises. The Annual Business Survey uses the collection year (the year the survey was collected) in the survey name rather than the reference year (the year the survey collects data on). This is in an effort to better reflect the collection cycle of the survey. The 2018 ABS, for example, covers reference year 2017.

Access to capital is a major roadblock for Black founders

Black entrepreneurs often hit structural and market barriers, particularly when seeking startup capital and loans. All Black founders we interviewed cited access to capital as the most significant up-front barrier to kick-starting and growing their businesses.

Entrepreneurs often go to family, friends, or personal contacts when they are first starting out. But the racial wealth gap, discussed in chapter 5, means that Black families are less likely to be able to stake relatives to a start.

Black-owned startups
launch with

1/3

the capital of white-owned
startups on average

White entrepreneurs start their businesses with \$107,000 of capital on average, while the corresponding figure for Black founders is \$35,000.¹³⁵ Starting from behind in this way creates a heavier debt burden; in a McKinsey survey, almost 30 percent of Black-owned businesses reported directing more than half their revenues to debt service in 2019.¹³⁶ Without funding, many Black founders cannot get their ideas off the drawing board.

Black founders are less likely to receive funding from traditional sources such as banks and credit unions than non-Black founders. Across all industries, they are less likely than other firms to receive the full amount requested from these sources. They often face a higher cost of capital and more stringent application processes than white loan applicants.¹³⁷

In a Federal Reserve survey, only 62 percent of Black business owners reported that they were approved for funding, compared to an 80 percent approval rate for white business owners. Credit scores (cited by 44 percent of rejected Black applicants) and insufficient credit history (cited by 32 percent) were the most common reasons given for loan denials.¹³⁸ However, research suggests that credit scores exhibit racial biases.¹³⁹ The results of the Federal Reserve survey echo earlier studies that also found Black business owners were far more likely not to apply for credit at all because of discouragement.¹⁴⁰

¹³⁵ Robert Fairlie, Alicia Robb, and David T. Robinson, *Black and white: Access to capital among minority-owned startups*, Stanford Institute for Economic Policy Research, working paper number 17-03, February 2017.

¹³⁶ McKinsey & Company COVID-19 US SMB Financial Pulse Survey, n = 1,004; responses collected May 8–13, 2020, from small and medium-size businesses with less than \$500 million in annual revenue.

¹³⁷ "Building supportive ecosystems for Black-owned US businesses," October 2020, McKinsey.com.

¹³⁸ *Small business credit survey, 2019 report on employer firms*, Federal Reserve Banks of Atlanta, Boston, Chicago, Cleveland, Dallas, Kansas City, Minneapolis, New York, Philadelphia, Richmond, St. Louis, and San Francisco, 2019. The survey reports that the level of debt aversion and risk profiles were similar across Black and non-Black business owner respondents.

¹³⁹ Loren Henderson et al., "Credit where credit is due?: Race, gender, and discrimination in the credit scores of business startups," *The Review of Black Political Economy*, January 2015, Volume 42, Issue 4.

¹⁴⁰ Alicia Robb, *Financing patterns and credit market experiences: A comparison by race and ethnicity for US employer firms*, US Small Business Administration Office of Advocacy, February 2018.

Box 4

Atlanta: Black mecca of tech

Almost 2,500 miles across the country from Silicon Valley, Atlanta is now on the map as a tech hub with a difference: diversity.

The city started with a number of crucial building blocks, most notably a pipeline of tech talent emerging from computer science and engineering programs at Georgia Tech and a cluster of HBCUs (Spelman, Morehouse, and Clark Atlanta University). Large Fortune 500 anchor corporations have also been willing to fund and support tech innovation.¹

A tech ecosystem began to gel several years ago with the addition of physical spaces for entrepreneurial collaboration and community. The epicenter is in Midtown, where startups and incubators cluster around Tech Square. It was here that Rodney Sampson cofounded the Opportunity Hub, where entrepreneurs can find support and access to capital and markets.² Another local focal point is Atlanta Tech Village, a coworking space that put hundreds of startups under one roof. One of its programs is the It Takes a Village Pre-Accelerator, which mentors rotating cohorts of seed-stage companies founded by women and people of color.³ Additionally, the Gathering Spot, a private club with predominately Black professional membership, offers conference rooms, podcasting studios, and event space.⁴

Venture capital is flooding into Atlanta. Crunchbase data shows almost \$2 billion raised for startups in 2020 alone, with some local startups quickly ramping up to significant revenue growth.⁵ Yet only a fraction of that investment is reaching Black entrepreneurs specifically.⁶

Some funds are aiming to fill that void. Paul Judge, who has launched several successful companies and became a venture investor in his own right, started TechSquare Labs, which has invested in dozens of Black-founded seed-stage startups. Collab Capital is recruiting local figures from sports, entertainment, and tech to invest in its own venture fund.⁷

Now the city is home to a cluster of young Black entrepreneurs and a tech industry where a quarter of the workforce is Black.⁸ Atlanta offers those workers a lower cost of living than Silicon Valley and is a diverse city where many of the highly visible influencers in business, entertainment, and government are Black. The concentration of tech talent and the innovative energy have caught the eye of major corporations, with spillover effects. Since last summer, Microsoft, Airbnb, Apple, and Google have announced plans to expand offices or make major investments in Atlanta.⁹

¹ Leon Stafford, "New Georgia Tech, Atlanta venture fund to put city on tech map," *Atlanta Journal-Constitution*, January 14, 2017.

² Reniya Dinkins et al., *An Atlanta organization's mission to bring racial equity to the tech ecosystem*, Brookings Institution, July 2020.

³ See atlantatechvillage.com/programs/pre-accelerator-program/.

⁴ Cameron Albert-Deitch, "How a new generation of Black entrepreneurs built Atlanta's hot startup scene," *Inc.*, February 2019.

⁵ Sophia Kunthata, "Funding to Atlanta to hit a 5-year high in 2020 as the city produces unicorns," Crunchbase, January 28, 2021.

⁶ Leon Stafford, "Atlanta fast becoming a mecca for African Americans in tech," *Atlanta Journal-Constitution*, February 18, 2020.

⁷ J.J. McCorvey, "Atlanta's Black tech founders are changing entrepreneurship in America. Can they avoid Silicon Valley's mistakes?" *Fast Company*, August 2019.

⁸ Includes computer- and math-related jobs.

⁹ Andy Peters, "West Coast heads east: Atlanta's Black talent lures tech titans," *Atlanta Journal-Constitution*, March 5, 2021.

Black-owned businesses had the most financing success with online lenders (with a 70 percent approval rate) and the least success with large banks (a 29 percent approval rate). However, both of these lending sources approved applications from white business owners at higher rates (84 percent and 60 percent, respectively).¹⁴¹ Although their usage is less frequent, Black-owned firms in select industries (professional services, real estate, finance and insurance, information technology, and transportation) have had the most success in receiving the full amounts requested from crowdfunding.¹⁴²

Venture capital is another source of financing for early-stage companies. While new Black-owned funds like Harlem Capital and Backstage Capital are focused on diversity as a comparative advantage, only about 1 percent of deal volume has been going to Black-owned businesses.¹⁴³ The issue is particularly acute for startups founded by Black women (see Box 5, “She’s the boss”).

Starting a company in a capital-intensive industry like manufacturing requires funding on an entirely different scale to purchase equipment, set up a plant, and perhaps secure warehousing for inventory. Banks are generally hesitant to give loans (especially with favorable terms and longer-term structures) to new firms in the industry that have not shown proven throughput capacity over multiple years. Many manufacturing firms require more than \$100,000 to open.¹⁴⁴

Our interviews with Black business owners surfaced another dimension of the issue: the need for more “patient” capital that gives them a runway to experiment and refine their offerings and operations. On aggregate, Black entrepreneurs are nearly three times as likely as white entrepreneurs to report that limited access to capital negatively affects their profits.¹⁴⁵

Box 5

She’s the boss

Facing limits on advancing careers, some enterprising Black women have improvised and made their own way. Thirty-nine percent of all Black-owned employer businesses have women at the helm (compared to 23 percent of white-owned employer businesses). The difficulties of accessing capital made them especially vulnerable during the pandemic, and it remains to be seen how they will bounce back.¹

Before the pandemic, Black women constituted the fastest-growing entrepreneurial demographic. The overall number of women-owned businesses grew by 21 percent from

2014 to 2019, while those founded by Black women grew by 50 percent.² Their presence is strongest in healthcare and education, and lightest in agriculture, construction, and wholesale trade. Despite their growing numbers, the challenges are still apparent in the fact that firms led by Black women average roughly half the revenue of firms led by Black men. The exception is in information technology, where firms headed by Black women post higher revenues.

Project Diane tracks data on digital startups with publicly announced venture capital investment, angel and seed funding, or equity crowdfunding.

Most of those led by women of color are concentrated in California, Georgia, and New York, and more of them have been able to secure funding in recent years. The project identified 34 such businesses that raised more than \$1 million in seed funding in 2018, and that number jumped to 93 by 2020. However, growth is starting from a low base. Women of color receive less than 0.2 percent of venture capital funding. The median seed round for digital startups with Black female founders was \$125,000—just one-twentieth of the national median of \$2.5 million.³

¹ Taylor Nicole Rogers, “Black women entrepreneurs fight to stay afloat in the pandemic,” *Financial Times*, March 7, 2021.

² *State of women-owned businesses report*, American Express, 2019. This includes both employer and non-employer businesses.

³ See projectdiane.com, a project of digitalundivided.

¹⁴¹ *Small business credit survey, 2019 report on employer firms*, Federal Reserve Banks of Atlanta, Boston, Chicago, Cleveland, Dallas, Kansas City, Minneapolis, New York, Philadelphia, Richmond, St. Louis, and San Francisco, 2019.

¹⁴² Annual Survey of Entrepreneurs, US Census Bureau, 2016.

¹⁴³ According to American Community Survey data. See also Gené Teare, “Highlighting notable funding to Black founders in 2020,” Crunchbase, February 12, 2021; and James Norman, “A VC’s guide to investing in Black founders,” *Harvard Business Review*, June 2020.

¹⁴⁴ Kerri Anne Renzulli, “Almost 60% of small business owners launch with less than \$25,000,” CNBC, February 13, 2019.

¹⁴⁵ Alicia Robb and Arnobio Morelix, *Startup financing trends by race: How access to capital impacts profitability*, Ewing Marion Kauffman Foundation, October 2016.

Once launched, Black-owned businesses face barriers to reaching the same scale as non-Black-owned peers

As noted at the beginning of this chapter, 96 percent of Black-owned businesses are sole proprietorships. But even when they become employer firms, they tend to remain relatively small, with about 15 percent fewer workers on average than non-Black-owned employer businesses. Only 2 percent of Black-owned companies employ more than 50 workers. This holds true even in industries in which scale matters. In construction, 70 percent of Black-owned employer firms have one to four employees, versus 52 percent of non-Black-owned firms. The comparable figures are 47 percent for Black-owned firms and 35 percent for non-Black-owned firms in manufacturing, 69 versus 51 percent in retail, and 58 versus 48 percent in wholesale.

The size gap also shows up in revenues. Black employer firms generate only 60 percent of the revenue produced by their non-Black-owned counterparts (\$1 million annually on average, versus \$2.4 million). This gap appears across nearly all industries, with manufacturing being a notable exception (see Box 6, “Manufacturing: A bright spot for Black-owned businesses”). In healthcare, for example, the average Black-owned business generates \$600,000 in revenues, while other businesses average double that amount.

The Black business owners we interviewed cited exclusion from professional networks and a lack of flexible capital to invest in technology and R&D as common challenges to scaling up. In home healthcare, for example, the average Black-owned business generates only 43 percent of the revenue of other firms in the industry. The hurdle seems to be branching out beyond the inaugural group of patients.

Box 6

Manufacturing: A bright spot for Black-owned businesses

Manufacturing stands out as the most successful arena for existing Black-owned businesses. Although only 1 percent of US manufacturing firms are under Black ownership, those companies generate slightly more revenue than non-Black-owned manufacturing businesses (\$5.8 million in annual revenue on average, versus \$5.7 million). They operate with fewer employees as well, meaning that they have achieved higher productivity.

Formal supplier diversity initiatives are a large driver of success, enabling owners to get a foot in the door, obtain larger orders, and build track records that give their businesses greater credibility. More than half of Black manufacturing revenue is found in the transportation equipment subsector, where supplier

diversity initiatives have created real opportunity. Notably, Black-owned manufacturing firms in Detroit and Chicago have capitalized on their proximity to major US carmakers to generate mean annual revenues of \$11 million and \$7 million, respectively.

Government programs can allocate a portion of project spending to minority- or women-owned suppliers. These types of programs have helped Black firms get into their industry ecosystem, although Black manufacturing firms need opportunities in the broader commercial sector to scale and sustain. Graduating from one of these programs and gaining accreditation as a recognized diverse supplier can open doors to additional opportunities.¹

Lessons from the Black manufacturing ecosystem can apply to other firms and industries. First, in the startup and launch phases, there may be opportunities to participate in government and private-sector programs to build capabilities and credibility. For example, school lunch programs and military food supply programs can be a way into the food manufacturing industry. Meeting the specific quality criteria and capacity expectations while delivering week after week can build a firm's muscle and showcase what it can do for other potential customers. This kind of approach may work in other industries where government contracts are offered, such as construction.

¹ Alexis Bateman, Ashley Barrington, and Katie Dale, “Why you need a supplier-diversity program,” *Harvard Business Review*, August 2020.

One driver of scale is innovation—and access to capital comes into play here. An analysis of American Community Survey data shows that Black-owned companies' spending on R&D is roughly 30 percent lower than that of non-Black-owned firms. The safety net for Black-owned businesses is thin, and cash constraints prevent many of them from innovating as boldly or frequently as they may want to.

Another barrier to scale is the lack of relationships. Black entrepreneurs might not be invited into the networks that can open doors, and they may not have mentors to guide them as they make key business decisions.¹⁴⁶ A major reason that so many Black businesses are able to start up in home healthcare is the ease of finding patients. Family, friends, and past patients served by Black nurses all provide the initial patient-customer relationships. However, many Black home healthcare firms are limited to people the owners and staff already know. A select few (such as A Better Solution, which operates in multiple markets across eight states) have successfully scaled up by establishing themselves as trusted partners for nearby hospitals and care centers that can refer an ongoing stream of patients; they can also diversify into related areas such as transportation. In other industries, like professional services, manufacturing, and construction, supplier diversity programs are the primary route to adding new customer relationships. The most common thread emerging from our interviews was the necessity of having a business mentor guiding founders past the startup stage and all the way through the scaling-up process. All of our interviewees credited strong mentors as a major contributor to the success of their businesses.

Black-owned businesses are more likely to shutter during their first several years than their white-owned counterparts. Sixteen percent of them fold after one year of operation, compared to 10 percent of white-owned firms. The survival rate improves over time, but the gap persists. Black businesses are also less likely to close their operations as a result of a sale or an owner's retirement. They are slightly more likely to close due to inadequate cash flow and sales, which is unsurprising given that they start with greater capital and cash constraints.¹⁴⁷ Very few Black-owned businesses are involved in mergers, although merging two smaller Black-owned businesses into one bigger entity could be financially rewarding for the owners involved and even positive for broader productivity growth.¹⁴⁸ One of the largest Black-owned staffing companies, Diversant, for example, saw accelerated growth after merging with another firm that expanded its customer reach and technical capabilities.¹⁴⁹

A number of initiatives can support Black entrepreneurship and help Black-owned businesses expand

Enabling more Black-owned businesses to launch and thrive is an important aspect of building wealth in the Black community. Getting there will require changing entrenched ecosystems that have limited them in the past.

There is a pressing need to act quickly. The COVID-19 pandemic caused historic damage to America's small business landscape, and the road has been even tougher for Black-owned businesses that had precarious finances before it struck. Between February and April 2020, 41 percent of them closed operations.¹⁵⁰ Without large capital reserves, Black-owned businesses struggled to outlast the pandemic. In a recent Federal Reserve survey, 92 percent of Black owners reported going through financial challenges in 2020, a higher share than any other racial group. They also found it harder to access relief programs. Only 43 percent received all of the Paycheck Protection Program funding they sought, compared to 79 percent of white-owned firms—and Black-owned firms were five times as likely to receive

¹⁴⁶ "Building supportive ecosystems for Black-owned US businesses," October 2020, McKinsey.com.

¹⁴⁷ *Small business owner race, liquidity, and survival*, JPMorgan Chase Institute, July 2020.

¹⁴⁸ Michael D. Giandrea, *Industry competition and total factor productivity growth*, US Bureau of Labor Statistics working paper number 399, 2006.

¹⁴⁹ "Diversant acquires Atrilogy Solutions Group," Diversant, March 10, 2021.

¹⁵⁰ Robert W. Fairlie, *The impact of COVID-19 on small business owners: Evidence of early-stage losses from the April 2020 Current Population Survey*, NBER working paper number 27309, June 2020.

no funding at all. Three-quarters of surveyed Black business owners wound up tapping their personal funds to help their companies survive.¹⁵¹

The concentrated nature of the revenue gap offers starting points for action. Since five industries (wholesale trade, retail trade, construction, manufacturing, and professional services) account for 70 percent of the gap, industry-specific business incubators and small business loan funds for Black entrepreneurs could help to diversify these fields while creating new avenues for Black innovation and economic participation. While our research efforts focused on the gap, we do see some examples of promising solutions and initiatives for addressing it. However, it should be noted that these examples are illustrative rather than comprehensive, and we have not analyzed their costs or effectiveness. Ongoing research efforts will be needed to track progress.

Directing capital where it is needed

As noted above, Black applicants face a higher cost of capital, more stringent application requirements, and higher denial rates from traditional lenders.¹⁵² Transparency and accountability about these disparities can inject greater fairness into lending practices.

Social investors and new lending approaches can expand the options for Black entrepreneurs. Martin Muoto, CEO of the urban real estate fund SoLa Impact, recently announced a \$1 billion Black Impact Fund that will invest exclusively in urban communities of color; part of its mission is expanding access to capital. A portion of the fund's appreciation will go toward an affiliated not-for-profit fund focused on building affordable housing for community members to purchase at cost.¹⁵³ Minority deposit institutions are much more likely to have physical branches in communities of color and to focus on lending to entrepreneurs and business owners of color.¹⁵⁴

Black business owners need lifelines to bounce back from the pandemic. Community development financial institutions (CDFIs) are designed to promote economic empowerment in distressed communities. When many Black-owned businesses did not receive Paycheck Protection Program loans during the COVID-19 pandemic, CDFIs became a vehicle to ramp up lending.¹⁵⁵ A number of major corporations have pledged to transfer a portion of their cash holdings into these institutions to enable greater lending. No-strings-attached lending is another option. Project Runway, for example, has dispersed small direct monthly grants to Black-owned microbusinesses, while L'Oréal and the NAACP have created an Inclusive Beauty Fund that gives \$10,000 grants to small Black-owned beauty businesses.¹⁵⁶

Credit scores are a significant limiting factor. Some large credit bureaus have started to expand how they determine scores, and some financial institutions, including new companies, have also begun to use alternative sources of data for underwriting. This could widen access to capital for the 62 million Americans (most of them some combination of Black, Hispanic, and low income) who have either no credit history or a credit history that is too limited to generate a credit score. Lenders can adopt alternative data such as payment history for electricity, gas, and telecom bills, rent payments, and even online ratings for small businesses. This approach could provide a more representative view of applicants with thinner credit histories, especially since over half of surveyed Black business owners relied on their personal credit scores to obtain financing.¹⁵⁷

¹⁵¹ *Small business credit survey, 2021 report on firms owned by people of color*, Federal Reserve. Ninety-two percent of Black-owned firms reported experiencing financial challenges in 2020 (up from 85 percent the previous year), followed by Asian-owned firms (89 percent, up from 70 percent), Hispanic-owned firms (85 percent, up from 78 percent), and white-owned firms (79 percent, up from 65 percent in 2019).

¹⁵² Robert Fairlie, Alicia Robb, and David T. Robinson, *Black and white: Access to capital among minority-owned startups*, Stanford Institute for Economic Policy Research, discussion paper number 17-03, February 2017.

¹⁵³ "Leading minority-led fund manager launches \$1 billion 'Black Impact Fund' to invest in Black and brown communities," SoLa Impact press release, December 2, 2020.

¹⁵⁴ James R. Barth et al., *Minority-owned deposit institutions: A market overview*, Milken Institute, 2019.

¹⁵⁵ Michaela Moscufo and Adiel Kaplan, "Community Development Funds get more support to relieve minority businesses," NBC News, February 12, 2021.

¹⁵⁶ Tessa Petak, "L'Oreal teams up with NAACP to give grants to small Black-owned beauty businesses," *InStyle*, February 1, 2021.

¹⁵⁷ *The state of alternative data*, Experian, 2018; and *CFPB data point: Becoming credit visible*, US Consumer Financial Protection Bureau, June 2017.

Expanding supplier diversity programs

Large organizations can drive change through the reach of their supply chains. A number of major US corporations have recently committed to increasing spending with diverse suppliers. Target, for instance, announced that it intends to spend more than \$2 billion with Black-owned suppliers by 2025. The company's new Forward Founders program will support Black entrepreneurs in the process of reaching the scale necessary to serve national retailers.¹⁵⁸ Coca-Cola plans to more than double its spending with Black-owned suppliers in the next five years.¹⁵⁹ This trend gives a range of Black enterprises, especially manufacturing businesses, an opening to expand.

Setting clear and transparent targets for spending with minority suppliers can create accountability. Corporations can also take a more expansive approach to these programs; they can include advisory, staffing, and technology services rather than simply manufactured goods. A coalition of 18 large financial institutions, Corporate Call to Action, has committed to \$10 billion in spending with minority-owned (and especially Black-owned) businesses, most of which will likely be service providers given the nature of the industry.¹⁶⁰

Black-owned businesses also need greater awareness of these opportunities to prompt more of them to register as diverse suppliers. The Council for Supplier Diversity provides opportunities to meet with corporate buyers and decision makers. Additionally, many corporations have established web portals and events to bring in more Black-owned suppliers. Creating unified portals for entire industries can eliminate the need to repeat company-specific registrations.

Enabling more Black-owned businesses to launch and thrive is an important aspect of building wealth in the Black community.

Making expertise, advice, and professional resources available

Even when they are able to secure capital, Black founders also need relevant and reliable advice, coaching, and mentorship from industry veterans. They may also benefit from professional legal, accounting, technology, and design services. Many Black-owned businesses lack the resources to fully digitize their operations, but private-sector and social-sector organizations can provide free or discounted tech services and assistance, including web-based courses.¹⁶¹ Mastercard, for example, has committed \$500 million to Black communities, with a substantial portion going to products, services, technology, and financial support to bring more Black-owned businesses into the digital economy.¹⁶²

¹⁵⁸ Michael Browne, "Target to spend more than \$2 billion with Black-owned businesses by 2025," *Supermarket News*, April 7, 2021.

¹⁵⁹ "Coca-Cola commits \$500 million in additional spending with Black-owned suppliers," Coca-Cola, October 20, 2020.

¹⁶⁰ "Coalition of 18 financial institutions commits to measurable plan to improve economic and racial equity," Ford Foundation, May 18, 2021.

¹⁶¹ "Building supportive ecosystems for Black-owned US businesses," October 2020, McKinsey.com.

¹⁶² "Mastercard pledges \$500 million to help close racial wealth and opportunity gap for Black communities across America," Mastercard, September 17, 2020.

Incubators and accelerators can provide a range of support to help small businesses get off the ground. There are many examples across the country, including some with a specific focus on minority founders. But these programs can be small and fragmented. Connecting them into broader industry networks could boost their impact.¹⁶³ One organization taking this kind of approach is the Black Innovation Alliance. In partnership with Village Capital, it launched a national initiative to strengthen incubators and accelerators focused on Black entrepreneurs with training and resources.¹⁶⁴ The Black Founder List was created to link Black-owned, venture-backed companies and form networks that can collaborate to tackle business challenges.¹⁶⁵ Other government agencies can consider replicating the Mentor-Protégé Program established by the Department of Defense, which helps small businesses gain new opportunities in the broader defense industry.

¹⁶³ Joseph Parilla and Darrin Redus, *How a new Minority Business Accelerator grant program can close the racial entrepreneurship gap*, Brookings Institution, December 2020.

¹⁶⁴ Mary Ann Azevedo, "Black Innovation Alliance, Village Capital team up to support founders of color," TechCrunch, April 7, 2021.

¹⁶⁵ Gené Teare, "The conversation and the data: A look at funding to Black founders," Crunchbase, June 5, 2020.



Elijah, Store owner
© Osato Dixon/McKinsey & Company

4. Black consumers: Underserved communities and room for growth

American consumers drive more than two-thirds of US GDP. Black consumers are very much in the picture but too often left out of the frame by companies that have not seen them as a priority demographic. As a result, some of their needs are unmet, and many US companies have been missing the chance to cultivate a market with substantial potential in their own backyards. This matters—and not only because of the latent contribution to the economy or the market companies have been missing. Contained within the catchall of consumption are billions of micro choices that determine how people obtain both the necessities and the pleasures of life.

Although the Black share of the US population is 13.4 percent, Black households accounted for just under 10 percent of the nation's total spending on goods and services in 2019. This gap is primarily the result of lower incomes and wealth. Because Black workers bring home smaller paychecks, they have less money to spend (and save) every month, especially after accounting for debt. Achieving wage parity by addressing the disparities described in chapter 2 would boost Black spending power by some 40 percent, increasing consumption in the entire US economy. Even in the absence of this kind of progress, however, it is a mistake to assume that every Black family is stretched, and the picture is changing.

This chapter explores two drivers of the consumption gap that are not related to incomes: inadequate access in Black communities as well as unmet demand for goods and services that better meet the needs and preferences of Black consumers. There is a dual opportunity to add revenue for companies and growth for the economy while addressing important gaps in neglected communities and creating value for consumers.

There is a dual opportunity to add revenue for companies and growth for the economy while addressing important gaps in neglected communities and creating value for consumers.

Looking at the biggest categories of household spending reveals gaps in many Black neighborhoods. Years of underinvestment by the private sector have left some communities with a dearth of retail options and key services. For Black households, this can translate into persistent challenges, tacking additional travel time onto errands and the purchase of necessities. It can also have more serious implications, with 8.3 million Black Americans lacking easy access to fresh food and 16 million living in areas with few healthcare providers. Companies that meet the needs of these underserved areas can address equity issues while capturing new sources of growth. Our analysis indicates that many businesses could profitably expand into “consumer deserts.”

Finally, we consider the actual products and services being offered. Our own survey of Black consumers indicates that they are less likely to be satisfied with the offerings currently available to them and willing to change their buying behavior as a result, with some \$260 billion in current spending at stake. Furthermore, they would be willing to pay more for offerings that better geared to their preferences. This is an invitation for innovative companies to compete for this market and better meet the needs of Black consumers in the process.

Together, the effects of income parity, expanded access to goods and services in majority-Black communities, and offerings that truly resonate could put some \$700 billion at stake. Some of this would be additional consumption and consumer surplus, while current market shares could shift. In short, a sizable and growing market is not being fully served, and significant future market share and brand loyalty are up for grabs.

The Black consumer market is dynamic but constrained from reaching its full potential

We look at consumption by examining the major line items for households each month—expenditures that go toward meeting basic needs and providing comfort, convenience, and entertainment.

Consumer spending by Black households is big and growing

Combined spending by all Black households has increased 5 percent annually over the past two decades, reaching approximately \$835 billion in 2019.¹⁶⁶ It has outpaced the growth rate of combined spending by white households (3 percent), driven mostly by faster population growth. This research examines actual household spending in line with the US Bureau of Labor Statistics definition, which includes the following categories: food, housing, apparel and services, transportation, healthcare, entertainment, and other.¹⁶⁷

Black consumers are younger, more plugged into smartphones, and more brand aware than other groups. The median age of Black Americans is 34, a decade younger than the median age for white Americans. Black consumers are highly digital: they are more likely to own a smartphone, and they use their phones 12 percent more. They are also nearly three times more likely to expect the brands they use to align with their values and support social causes.¹⁶⁸ Furthermore, Black consumers have often set trends that other groups have followed.

Yet there is a large disparity in consumption between Black and white households

Black households account for 13.4 percent of the US population but only 9.9 percent of total consumer expenditures. This gap has remained constant for at least 35 years—and it represents \$300 billion in unrealized consumption for Black households and the broader US economy.

Black per-household consumption is growing faster than that of white households. But it is starting from a lower base and growing in line with a proportional increase in population. Black households still spend less than white households, and current growth rates would not erase this disparity for 100 years in the absence of faster gains in wages and wealth.

Spending on the basics is crowding out other types of consumption. This is a fact of life and a source of anxiety for all poor and middle-class American families, and it is even more fraught for many Black households. Years of low inflation, combined with the availability of imported goods, have held down the prices of many goods, from food and clothing to vehicles and electronics. But the costs of housing, healthcare, and education—needs that are foundational to the quality of life and the possibility of future mobility—have steadily climbed and are eating up a larger share of household budgets. The share of expenditures that Black households

45%

of Black household spending goes to housing, healthcare, and education

¹⁶⁶ While some marketing reports put their estimates of Black buying power as high as \$1.3 trillion, this usually involves looking at pretax income. Our analysis is based on actual expenditures, taken from the Bureau of Labor Statistics Consumer Expenditures survey. Data capture both current spending and spending financed by debt.

¹⁶⁷ See the detailed definition at bls.gov/cex/csxgloss.htm.

¹⁶⁸ *It's in the bag: Black consumers' path to purchase*, Nielsen, September 2019.

allocate to housing, healthcare, and education has been rising, from 38 percent in 1984 to 45 percent in 2019.

The persistent myth that Black consumers are lavish spenders is simply not true. Our analysis of publicly available but previously uncompiled microdata from the Census Bureau's Consumer Expenditure Survey shows that at similar income levels, Black households spend a smaller share of income than white households, although more goes toward the basics.

The private sector can expand access to goods and services in Black communities

Success starts with showing up. In many Black neighborhoods, residents are waiting for companies to do just that. Companies that expand into underserved communities have a chance to address residents' needs profitably today while securing loyalty and growth in the future.

Black Americans are more likely to live in “consumer deserts”

Across all the categories of spending we examined, a higher percentage of the Black population lives in neighborhoods with insufficient access to goods and services (Exhibit 21).

1 in 5

Black households
situated in food deserts

- **Food.** Most Americans take the convenience of a neighborhood supermarket with a dozen well-stocked aisles and a bounty of choice for granted. But buying healthy, affordable food is a harder task for the residents of many majority-Black communities, both urban and rural. The absence of supermarkets in many Black communities means that food is more expensive, choice is limited, and fresh produce is harder to come by.¹⁶⁹ This can reinforce poor nutrition, which can have chronic health consequences.

One out of every five Black households is situated in a food desert, defined by the USDA as a low-income neighborhood with inadequate access to food. This applies to roughly 8.3 million Black residents, 40 percent of whom are concentrated in five states: Georgia, Texas, Mississippi, Florida, and Louisiana. Black households are twice as likely as white households to live in a community with this type of food access issue.

Counties with an above-average Black population have fewer grocery stores, restaurants, and farmers markets—but more small convenience stores where fresh food offerings are limited (Exhibit 22). This pattern holds even when analyzing only low-income counties, and it tends to be especially persistent in counties with more concentrated Black populations.

54%

of Black renter households
are cost burdened

- **Housing.** Access to affordable housing is a society-wide issue but it hits Black Americans even harder. The US Department of Housing and Urban Development defines households as cost burdened when more than 30 percent of their gross income goes toward housing—a tipping point that begins to squeeze their ability to spend on other categories. In 2019, 43 percent of Black households were cost burdened, compared to 25 percent of white households. A 30-percentage-point gap in home ownership rates separates Black and white households, a topic we explore in greater detail in chapter 5. Housing affordability becomes especially acute for renters—and 53.7 percent of Black renter households were cost burdened in 2019, even before the pandemic disproportionately hit Black incomes.¹⁷⁰ Furthermore, a legacy of discrimination in housing markets has limited opportunities for families of color to live in areas with higher-quality public schools, which are partially funded by local property taxes (see chapter 6 for more on this funding model). Much of the nation's rental apartment stock is geographically concentrated in a way that tends to reinforce pockets of poverty and patterns of segregation.

¹⁶⁹ See, for example, Ashanté M. Reese, *Black food geographies: Race, self-reliance, and food access in Washington, DC*, University of North Carolina Press, 2019; *Cultivating food justice: Race, class, and sustainability*, Alison Hope Alkon and Julian Agyeman, eds., MIT Press, 2011; and Mengyao Zhang and Ghosh Debarchana, “Spatial supermarket redlining and neighborhood vulnerability: A case study of Hartford, Connecticut,” *Transactions in GIS*, February 2016, Volume 20, Issue 1.

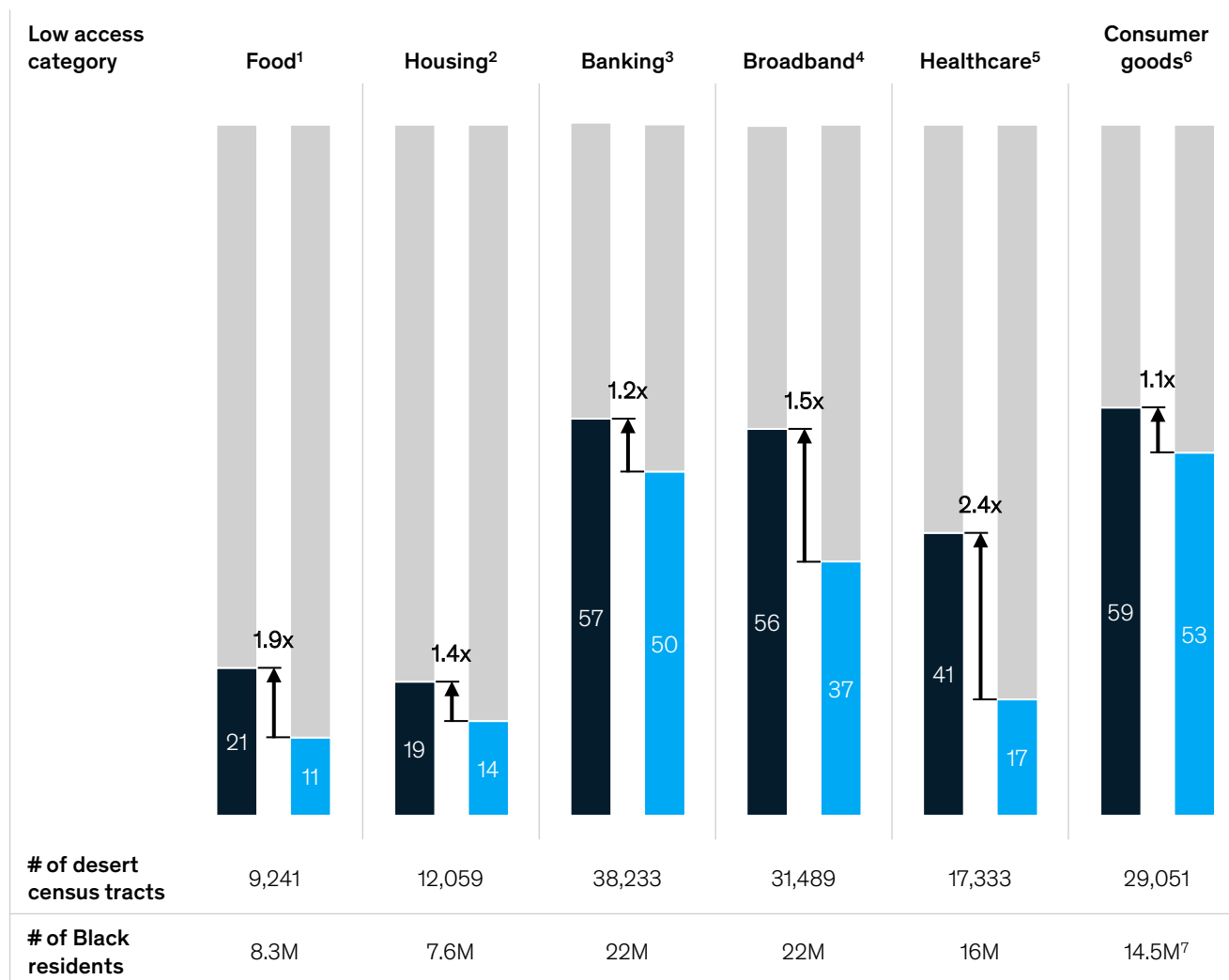
¹⁷⁰ *The state of the nation's housing 2020*, Joint Center for Housing Studies of Harvard University; and *Out of reach: The high cost of housing*, National Low Income Housing Coalition, 2020.

Black Americans are more likely than white Americans to live in consumer “deserts.”

Share of population that lives in a census tract designated a “desert”

%

Black White







72% of average Black household consumption represented in these categories

1. USDA designation. The USDA defines a food desert as a census tract that is both low-income and low-access. The criteria for identifying a low-income census tract match the definitions used for the New Markets Tax Credit program. A census tract is considered low access if at least 500 people, or 33 percent of the population, are far away from a supermarket or grocery store. There are four different distance measures; the measure utilized here is one mile away in urban areas and 10 miles away in rural areas.
2. Census tracts that are low-income (as defined above) and in a state that has less than the national level of affordable and available units per 100 extremely low-income households, as defined by the National Low Income Housing Coalition.
3. Census tracts in states that have an above-average proportion of unbanked individuals (not served by a bank or financial institution), as measured by the FDIC.
4. Census tracts with fewer than 800 high-speed connections per 1,000 households, as measured by the FCC (Form 477 Census Tract Data on Internet Access Services).
5. Census tracts designated as medically underserved areas or healthcare provider shortage areas by the Health Resources & Services Administration. HRSA uses a scoring index that includes provider-population ratios, poverty rates, travel time, and other metrics.
6. Census tracts in counties with a below-average number of “supercenters” as identified by USDA. This includes warehouses, clubs, and supercenters (NAICS code 452910), retailers that sell a general line of groceries in addition to other goods.
7. Data not available for all census tracts. 14.5M is 59 percent of the Black population in census tracts for which data on consumer goods were available.

Source: USDA Food Access Research Atlas; Health Resources & Services Administration; National Low Income Housing Coalition; FDIC, *How America banks*; FCC; McKinsey Global Institute and McKinsey Institute for Black Economic Mobility analysis

Counties with above-average Black populations tend to have fewer fresh food options but more convenience stores.

Average number of stores per 10,000 residents, by county, 2016

	Above-average Black representation ¹	÷	Below-average Black representation ¹	=	Relative prevalence in counties with above-average Black populations ¹
 Grocery stores	1.9		2.6		74%
 Convenience stores	6.8		5.7		119%
 Restaurants	5.5		8.3		65%
 Farmers markets	0.3		0.7		47%
Number of counties	635		2,508		

1. Average in this case means matching the Black share of the population (~13%).

Source: USDA Food Environment Atlas (September 2020), McKinsey Global Institute and McKinsey Institute for Black Economic Mobility analysis

Black Americans are

2.4x

more likely than white Americans to live in neighborhoods with limited healthcare services

- **Healthcare.** Black Americans are nearly 2.4 times more likely than white Americans to live in a neighborhood with limited healthcare services, defined as areas that are either medically underserved or have too few providers relative to the population.¹⁷¹ This trend exacerbates the other challenges Black patients face when interacting with the healthcare system, which cumulatively produce worse treatment outcomes.¹⁷² One in four Black respondents to a Kaiser Family Foundation survey in 2020 reported difficulties in finding conveniently located healthcare, and almost half reported difficulties finding care they could afford.¹⁷³ Many of the public hospitals and federally funded community health centers that serve the nation's poorest communities struggle financially, a situation that worsened during the COVID-19 pandemic.¹⁷⁴
- **Broadband.** Black households are 50 percent more likely to live in areas with limited broadband service.¹⁷⁵ In some urban neighborhoods, networks are in place (although highly localized gaps may exist). But many internet service providers impose credit checks or require cash deposits from new customers, which disproportionately turns away Black households.¹⁷⁶ In rural areas, affordability is often coupled with a lack of network reach.¹⁷⁷ Gaps in broadband coverage and accessibility have created a digital divide with spillover effects on accessing information, job hunting, remote work, and remote learning. Addressing this divide will require action to improve infrastructure, affordability, and adoption.
- **Banking.** Bank branches have been closing rapidly in recent years, with a 7 percent decline in the total number of physical banks from 2012 to 2017.¹⁷⁸ These closures are increasing the number of banking deserts (defined as census tracts with no bank

¹⁷¹ Definitions from the US Health Resources & Services Administration, US Department of Health and Human Services; [bhw. hrsa.gov/workforce-shortage-areas/shortage-designation](https://www.hrsa.gov/workforce-shortage-areas/shortage-designation).

¹⁷² See, for example, Zinzi D. Bailey et al., "Structural racism and health inequities in the USA: Evidence and interventions," *The Lancet*, April 2017, Volume 389, Number 10077.

¹⁷³ Survey on race and health conducted in 2020 by the Kaiser Family Foundation and ESPN's The Undeclared; included 1,769 US adults with an oversample of 777 Black Americans.

¹⁷⁴ Jordan Rau and Emmarie Huetteman, "Some urban hospitals face closure or cutbacks as the pandemic adds to fiscal woes," NPR, September 15, 2020; and Joseph P. Williams, "Code red: The grim state of urban hospitals," *US News & World Report*, July 10, 2019.

¹⁷⁵ We define "limited" as less than 80 percent coverage, based on FCC census tract data showing the number of residential fixed high-speed connections over 200 kbps in at least one direction per 1,000 households, [fcc.gov/form-477-census-tract-data-internet-access-services](https://www.fcc.gov/form-477-census-tract-data-internet-access-services).

¹⁷⁶ S. Derek Turner, *Digital denied: The impact of systemic racial discrimination on home-internet adoption*, Free Press, December 2016.

¹⁷⁷ Nicol Turner Lee, *Closing the digital and economic divides in rural America*, Brookings Institution, 2019.

¹⁷⁸ *Perspectives from Main Street: Bank branch access in rural communities*, Board of Governors of the Federal Reserve System, November 2019.

branches within 10 miles of the center).¹⁷⁹ Black Americans are disproportionately likely to live in banking deserts, whether urban or rural. According to FDIC data, nearly half of all Black households were unbanked or underbanked in 2017, compared to just 20 percent of white households. In the absence of banks, some consumers turn to alternatives such as payday lenders (for a more detailed discussion, see chapter 5). Although online-based banking can help fill the gap, that solution does not work for everyone. Additionally, researchers have found that closures of local bank branches place a real constraint on small businesses.¹⁸⁰

Perhaps surprisingly, given disparities in broadband connections, computer availability, and financial services, Black consumers are actually more likely to participate in e-commerce. They have compensated for broadband gaps by becoming more “mobile first” than the rest of the population.¹⁸¹ Black consumers account for 23 percent of US cellphone sales and own smartphones at a slightly higher rate than the overall population. Black consumers are more likely than average to use digital apps, including for e-commerce but especially for financial transactions.¹⁸²

Multiple types of access issues can coexist

Many urban neighborhoods experience more than one of the gaps described above. Black households are 2.4 times more likely than white households to live in urban census tracts that have multiple types of access gaps. They are simultaneously food deserts (that is, they are low-income areas with the nearest grocery store at least a mile away); medically underserved or facing a provider shortage; and places where housing and transportation costs exceed 50 percent of the local median income. Some 2.7 million Black Americans live in urban environments where all of these issues are present (Exhibit 23). Some 400,000 of them are concentrated in low-access neighborhoods in Memphis, Atlanta, and Miami.

This pattern also exists in rural areas, although fewer people are affected. Three percent of all Black Americans (163,000 people) live in census tracts of fewer than 2,500 people that have limited access to food, medical care, and the internet. These tracts are food deserts (with the nearest grocery store at least 20 miles away), medically underserved or facing a provider shortage, and underconnected (with less than 80 percent broadband coverage). Black households are twice as likely as white households to live in one of these census tracts.

Our analysis suggests that businesses could profitably serve low-access neighborhoods

Site selection for major retailers is not always guided by data-informed decision-making. In fact, some portion of it may be shaped by a combination of familiarity and risk aversion—which has kept the idea of being the first to populate relatively empty retail landscapes low on the list of priority investments. Yet our analysis indicates that these can be profitable moves.

We used McKinsey’s proprietary Omni site selection platform to analyze food deserts and the location of grocery stores in Washington, DC. Using mobile phone data as an admittedly imprecise but directional proxy for foot traffic, we created a model illustrating a hypothetical scenario in which new grocery stores were sited in underserved parts of Southeast DC. We identified three locations in areas currently classified as food deserts and found enough potential demand to support a profitable hypothetical grocery store. The results suggest that new grocery stores sited in food deserts could be profitable while addressing the needs of residents (Exhibit 24).

Establishing a footprint in an underserved neighborhood was a strategy that worked for Whole Foods in Midtown Detroit.¹⁸³ It also played out in the early 2000s in East Liberty, a low-income neighborhood in Pittsburgh where city funding was used to acquire vacant

¹⁷⁹ *Liberty Street economics*, “Banking deserts, branch closings, and soft information,” blog entry by Donald P. Morgan, Maxim L. Pinkovsky, and Bryan Yang, New York Federal Reserve, March 7, 2016.

¹⁸⁰ Hoai-Luu Q. Nguyen, “Are credit markets still local? Evidence from bank branch closings,” *American Economic Journal, Applied Economics* 2019, January 2019, Volume 11, Issue 1.

¹⁸¹ Andrew Perrin and Erica Turner, “Smartphones help Blacks, Hispanics bridge some—but not all—digital gaps with whites,” Pew Research Center, August 20, 2019.

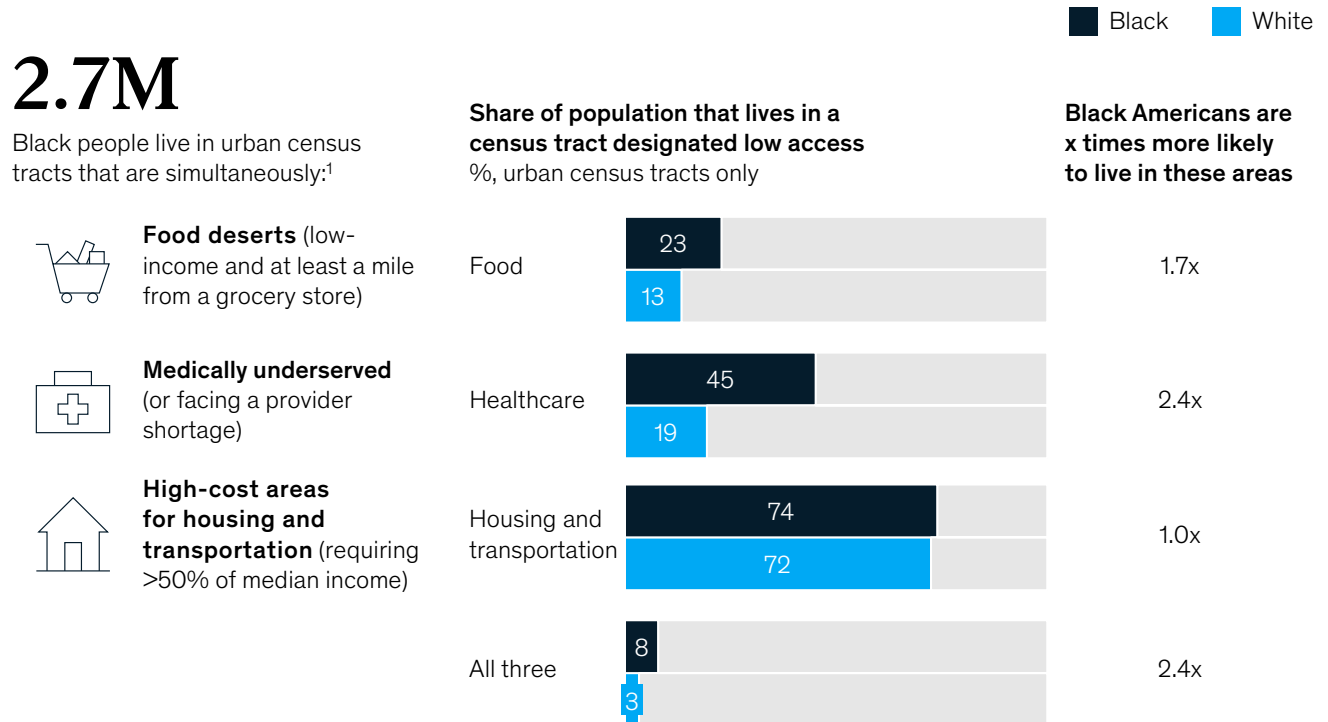
¹⁸² *From consumers to creators: The digital lives of Black consumers*, Nielsen, 2018.

¹⁸³ Lolly Bowean, “As Whole Foods ventures to Englewood, many eyes on Detroit store,” *Chicago Tribune*, March 16, 2015.

land. The local development authority attracted a Home Depot, with the city sharing some risk to overcome hesitation. The store eventually became one of the highest-volume locations in the region, and before long, a grocery store followed, then an entire multitenant retail complex.¹⁸⁴ These types of economic development initiatives have to weigh the risks of gentrification, however, keeping a careful eye on the dynamics affecting affordable housing options.

Exhibit 23

Nearly 3 million Black urban residents live in neighborhoods with limited access to food, housing, healthcare, and transportation.



1. Urban census tracts are defined as having more than 2,500 residents.

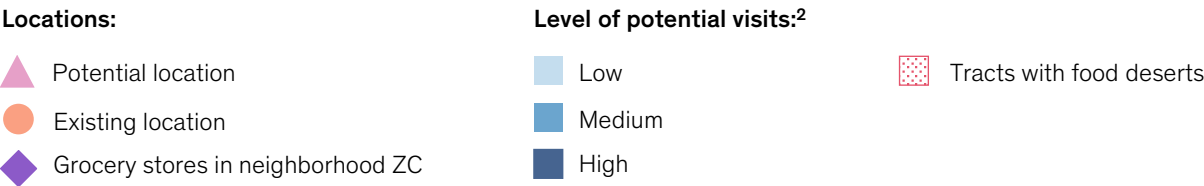
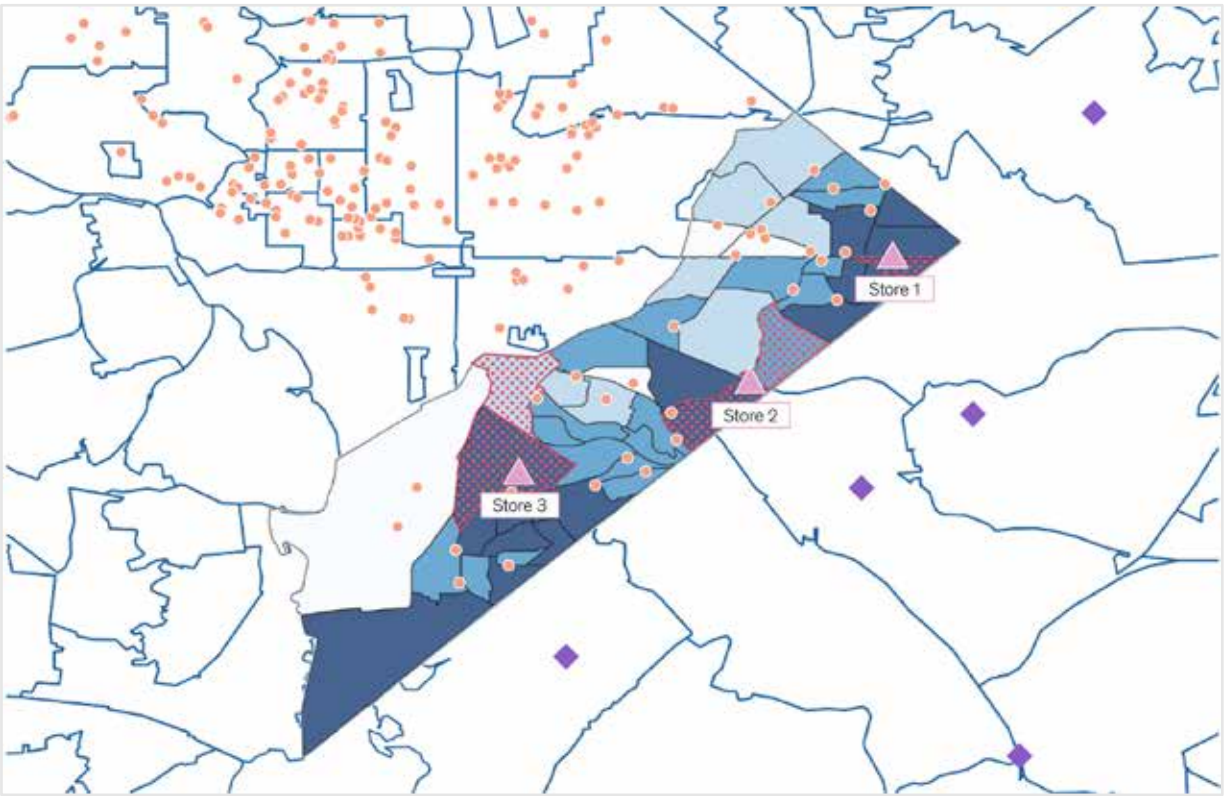
Source: USDA Food Access Research Atlas, Health Resources & Services Administration, HUD Location Affordability Index, McKinsey Global Institute and McKinsey Institute for Black Economic Mobility analysis

¹⁸⁴ Bridget Land and Maureen McAvey, *Retail in underserved communities*, Urban Land Institute, 2014.

Food desert communities could be expansion opportunities for grocery retailers.

Washington, DC, example

Potential revenue based on local demand from within and neighboring zip codes:¹



1. Potential visits percentage multiplied by the total zip code consumer expenditure of food at home.

2. Visits that the potential stores could capture based on their location. We analyzed the foot traffic for the existing grocery stores, then modeled to allocate the existing visits taking into account the potential locations. Please reference modeling details in note section.

Note: For each potential grocery store, we estimated revenue using expected foot traffic as a proxy, assuming foot traffic correlated with revenue. "Food expenditure" included spend on any food except for restaurants and other food away from home, as defined by the Bureau of Labor Statistics Consumer Expenditure Survey's "Food At Home" category. We assumed foot traffic to a grocery store would come from two geographies: (1) within a store's ZIP code; (2) from ZIP codes directly adjacent to the store. This is a conservative assumption given that some foot traffic would likely come from geographies further from the immediately adjacent ZIP code(s).

Within a store's ZIP code, we used the Huff Probability Model to estimate foot traffic by census tract, weighting the existing high-foot-traffic grocery stores as 40x more attractive than low-foot-traffic market stores to reflect the same phenomenon in the data; in our exploration of the foot traffic data we found that larger supermarkets have 40x more foot traffic than smaller markets. We assumed the new potential grocery store would be as attractive as an existing high-foot-traffic grocery store. In addition, we used a distance decay exponent of 1 in the Huff Probability Model equation. We found this value to best approximate the distance decay curve for nearby supermarkets.

For adjacent ZIP codes, we estimated foot traffic based on shortest distance to a grocery store only. To do this, we divided the neighboring ZIP codes using a hexagon grid to create hexagon centroids and assigned each hexagon the nearest grocery store. Then, we summed the total area of hexagons by grocery store to arrive at percent of area captured by each grocery store. Then we assumed foot traffic was evenly distributed throughout the area of the ZIP code.

Source: McKinsey Omni site selection proprietary tool; Experian; US Census Bureau's Consumer Expenditure survey; McKinsey Global Institute and McKinsey Institute for Black Economic Mobility analysis

Companies can better serve Black consumers through more tailored products and improved experiences

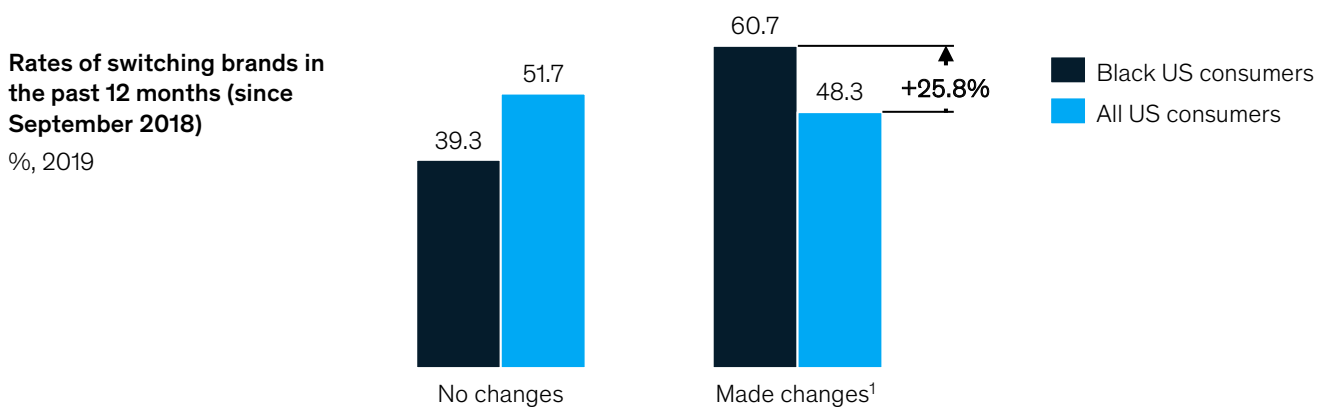
Many companies have not hit the mark when it comes to giving Black consumers what they actually want. Data from the 2020 McKinsey Consumer Sentiment Survey shows that Black consumers are more open than other demographic groups to switching what and how they buy.¹⁸⁵ On average, Black consumers are over 25 percent more likely to switch brands, which indicates that their preferences are not being met (Exhibit 25). Yet Black consumers are also less likely to be satisfied with a new product when they do switch, a pattern that holds across more and less expensive brands.

In some categories, one product offering can suit all demographic groups. But this is not true across the board—and even when it is, marketing campaigns that come across as irrelevant, tone-deaf, or exclusionary can land with a thud with Black audiences.

Exhibit 25

Responses to McKinsey consumer surveys suggest Black consumers are seeking products that better suit their needs.

On average, Black consumers are >25% more likely to switch brands...



... yet less likely to be satisfied with a new product, whether it is more or less expensive

Rate of dissatisfaction with a new product by Black consumers (among consumers that recently switched)		Found the new brand worse than expected	Prefer the old brand and want to switch back
	Switched to a less expensive brand	67% More likely	46% More likely
	Switched to a more expensive brand	22% More likely	25% More likely

1. Options for changing buying behavior are: switching to a less expensive brand, switching to a more expensive brand, looking for lower prices on same brand, buying only when on sale, buying less frequently, and other changes.

Source: McKinsey 2020 Global Sentiment Survey (survey conducted September 2019); McKinsey Global Institute analysis

¹⁸⁵ "The McKinsey 2020 Global Consumer Sentiment Survey: A tale of two segments," February 2020, McKinsey.com.

Some products and services intentionally tailored to Black consumers have been highly successful. Bevel, for example, is a brand of personal-care and grooming products created by a Black founder; the idea was born out of his frustration that shaving products made for white men did not work for him.¹⁸⁶ Launched in 2013, the company attracted a number of Black celebrity endorsements. Procter & Gamble acquired the brand and is expanding to nationwide distribution. Similarly, Black women were long an afterthought for most large cosmetics companies. Rihanna saw an opening to create a brand centered on their needs and launched Fenty Beauty, with a signature foundation product offered in 50 shades to be inclusive of all skin tones. The line generated \$100 million in sales within weeks of its debut; the company was valued at \$3 billion after just 15 months. Rihanna has since introduced a lingerie line, Savage X Fenty, that celebrates body positivity and was also quickly valued at \$1 billion. Named to honor Tulsa's "Black Wall Street," site of a notorious racial massacre in 1921, Greenwood is a digital banking service geared to Black and Latino customers. It has attracted financing from some of the nation's largest traditional banks.

To gauge unmet demand, we launched a proprietary consumer survey. Across spending categories, analysis of our survey indicates a willingness to shift approximately \$260 billion, or some 30 percent of current aggregate spending by Black consumers—a significant market for which companies can compete (Exhibit 26). Respondents also report a willingness to spend up to 1.2 times more on average on offerings that are better suited to their needs and preferences. This is an invitation for innovative companies to compete and better meet the needs of Black consumers.

The responses yielded some reasons for consumer dissatisfaction that are shared relatively evenly across racial groups; value for money was the biggest issue for both Black and white respondents across all spending categories (most acutely in housing). But Black consumers were far more likely than white respondents to say that current product and service offerings do not meet their needs, especially in personal care products and services, banking and financial services, healthcare, and food (Exhibit 27). Black respondents also noted not seeing themselves in advertising and marketing campaigns, a lack of same-race business ownership, and a lack of company commitment to social justice.

Black consumers are unfortunately too familiar with the experience of "shopping while Black." They are too often denied good customer service or treated with suspicion based on their race. They sometimes encounter different security protocols, from being trailed by security guards to having Black beauty products locked up while white products are not. In a 2018 Gallup poll, 59 percent of Black respondents said they had been treated unfairly in stores. Corporate parents can put a stop to the racial profiling of Black shoppers by establishing clear values and guidelines for store managers and frontline workers—and then enforcing those expectations across locations.

¹⁸⁶ Tristan Walker, "I created a shaving brand for Black men because we deserve better," *Men's Health*, August 10, 2020.

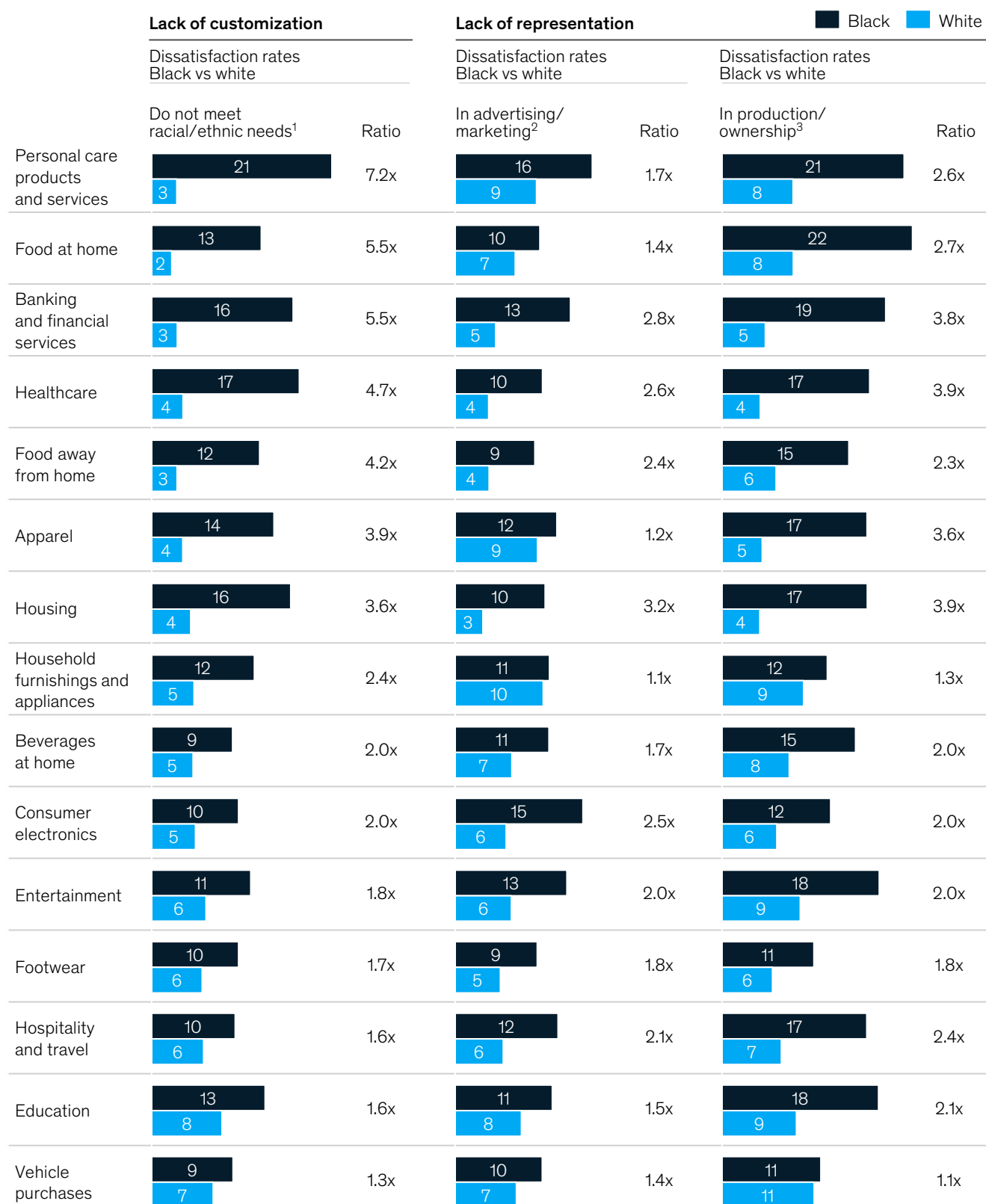
Survey results show Black consumers are dissatisfied with products and services accounting for \$260 billion in spending—and they would be willing to pay more for the right offerings.

	Share of respondents expressing dissatisfaction with current offerings in category, %	Revenue at stake, \$ billion	Additional willingness to pay for better products/services, %
Housing	38.7	105.5	6.3–10.6
Banking and financial services	49.5	42.8	8.4–14.0
Healthcare	42.7	25.3	7.2–11.3
Food away from home	47.5	20.4	15.5–24.0
Vehicle purchases	30.4	16.6	9.8–15.5
Food at home	19.6	11.1	15.2–23.5
Hospitality and travel	36.8	6.3	11.3–17.0
Apparel	22.7	5.9	8.1–12.0
Household furnishings and appliances	24.1	5.7	11.2–17.0
Education	38.4	5.4	17.8–26.1
Consumer electronics	24.8	4.0	14.9–23.4
Entertainment	26.4	3.0	14.7–23.2
Personal care products and services	20.6	2.6	16.6–24.9
Footwear	21.1	2.3	17.3–25.9
Beverages at home	20.6	2.0	15.9–24.4

Total ~\$260 billion revenue at stake

Source: McKinsey consumer survey 2021 (n = 6,200); McKinsey Global Institute and McKinsey Institute for Black Economic Mobility analysis

Survey results suggest reasons for consumer dissatisfaction differ across groups, with Black respondents more likely to cite lack of customization and representation.



1. Survey reason for dissatisfaction selected: "Products/services in this category do not meet the needs of my racial/ethnic group."

2. Survey reason for dissatisfaction selected: "Advertising/marketing for products/services in this category do not feature people who look like me."

3. Survey reason for dissatisfaction selected: "Not enough products/services in this category are produced/offered/owned by people from my racial/ethnic group."

Note: Other reasons for dissatisfaction surveyed included company commitment to addressing social inequities; company support for the environment/climate; and products/services are trustworthy, high quality, widely available / convenient, and provide good value.

Source: McKinsey consumer survey, May 2021 (n = 6,200); McKinsey Global Institute and McKinsey Institute for Black Economic Mobility analysis

The gaps can be filled

The actors with the greatest ability to bring retail and key services to the urban environment are major corporations. But a lack of diversity characterizes occupations that shape decisions about which consumers to target as well as those involving product development and design. Just 6.3 percent of marketing research analysts and 5.7 percent of marketing managers in the United States are Black.

The nature of retail decision making often defaults to the status quo. McKinsey's Retail Practice has found that many firms determine new locations based on their existing footprint, expanding only into locations that match sites with currently successful stores. Some may perceive low-access locations as risky or unprofitable. These decisions are often delegated to a commercial real estate department rather than analyzed more strategically. Even companies that are moving toward the use of analytics may be relying on data that misses Black consumers.

In healthcare in particular, a variety of public programs and subsidies are available to encourage providers to serve low-income populations. But many of the public hospitals and federally funded community health centers that serve the nation's poorest communities struggle financially, a situation that worsened during the COVID-19 pandemic.¹⁸⁷

While our research efforts focused on the gaps, we do see some examples of promising solutions and initiatives. However, it should be noted that these examples are illustrative rather than comprehensive, and we have not analyzed their costs or effectiveness.

Underserved communities need more investment

At a broad level, expanding housing, retail, and services in Black communities is largely dependent on private businesses deciding to invest in these neighborhoods. But local governments sometimes seed development, perhaps with targeted investment or public-private partnerships managed by their economic development agencies. The city of Detroit, for example, has pooled city, philanthropic, and corporate capital into a \$130 million Strategic Neighborhood Fund, selecting underserved corridors in seven neighborhoods for projects such as new commercial development in vacant storefronts and improved parks.¹⁸⁸

Stewardship can ensure that programs deliver benefits to Black residents in addition to developers. Public incentives and public-private partnerships can work, but transparency, accountability, and a clear focus on existing residents have to be baked in. Birmingham, Alabama, is emphasizing community engagement, support for small Black-owned businesses, and historic preservation in the economic development plan for the Fourth Avenue District.¹⁸⁹

Social investors, too, can be a force in transforming underserved neighborhoods. The Local Initiatives Support Corporation (LISC) is a nonprofit intermediary that consolidates public and private resources, then makes capital available to underserved groups and places. The Community Development Trust, one of its affiliate arms, is a real estate investment trust fund dedicated to affordable housing.¹⁹⁰ Several Black athletes are using their capital and their platforms to drive change by partnering with private real estate developers and investment funds on economic development projects. Magic Johnson helped to pioneer this approach; for decades, he has invested in retail franchises and mixed-use developments in underserved inner-city neighborhoods. Former Red Sox slugger Mo Vaughn created a company that has acquired dozens of deteriorating apartment buildings and rehabbed them to provide better-quality and well-managed affordable housing for low-income tenants; his projects include thousands of units in the Bronx.¹⁹¹ The LeBron James Family Foundation has invested in

¹⁸⁷ See, for example, Jordan Rau and Emmarie Huettelman, "Some urban hospitals face closure or cutbacks as the pandemic adds to fiscal woes," NPR, September 15, 2020; and *Stateline*, "Virus imperils health care safety net," blog entry by Michael Ollove, The Pew Charitable Trusts, September 1, 2020.

¹⁸⁸ Fiona Kelliher, "7 Detroit neighborhoods to split \$35M pledge from companies," *Detroit Free Press*, December 10, 2018.

¹⁸⁹ Urban Impact kicks off historic revitalization in 4th Ave. Business District," *Birmingham Times*, July 4, 2019.

¹⁹⁰ See lisc.org.

¹⁹¹ Cara Buckley, "Power player," *New York Times*, July 30, 2010; and Joe Anuta, "City taps developer to transform NYPD garage in Jamaica into large affordable housing project," *Crain's New York*, January 26, 2017.

schools, residential developments, and community amenities in his hometown of Akron, Ohio, and beyond.¹⁹²

Affordable housing is a critical issue that needs attention in all major US cities. In Los Angeles, where the housing crisis is acute, one intervention that has successfully produced thousands of units involved allowing developers to build larger multifamily projects near transit in exchange for setting aside a greater share of affordable units.¹⁹³

Some innovative pilot programs tackling the gaps could be replicated in many more communities. Grassroots initiatives to get fresh produce into food deserts include mobile produce stands, local food co-ops, and pop-up farm stands at transit stations. In Atlanta, the Fresh MARTA Market operates in five transit stations that serve low-income neighborhoods with limited food access. The markets double the value of SNAP benefits spent there, and local food bank staff members are on hand to tell patrons about benefit programs and help them enroll.¹⁹⁴ The ability to order groceries online with SNAP benefits is rapidly expanding across retailers and geographies as a USDA pilot program scales up.¹⁹⁵ Aldi, for example, launched a service with Instacart in late 2020 covering 60 stores in Georgia, with the intent of rapidly expanding to 570 stores in four more states.¹⁹⁶

In Maryland, the Montgomery County Department of Health and Human Services has mobilized a coalition to tackle six major health issues among local Black residents through education, outreach, support programs, and case management.¹⁹⁷ During the COVID-19 pandemic, some healthcare providers developed mobile and pop-up methods for expanding testing and vaccination services in underserved communities.

Prioritizing Black consumers can create a win-win

Brands are increasingly responding to Black consumers, with some major corporations marketing directly to them. Nike, for example, made a conscious decision not to avoid the fault lines of race and policing but to take a position by making Colin Kaepernick the face of a 2018 campaign. Despite generating threats of a boycott, Nike's move produced an immediate online sales bump of more than 30 percent over the same week in the preceding year.¹⁹⁸ Procter & Gamble not only acquired Bevel, as noted above; the company also established an online beauty platform for women of color and used the collective insights to launch a hair-care line.¹⁹⁹ In 2018, the company released an Emmy Award-winning ad spot, "The Talk," featuring Black parents discussing prejudice with their children. However, some brands have stumbled when speaking to Black audiences, particularly in a way that acknowledges social issues; these attempts can seem glib, calculating, or jarring if the companies behind the campaigns fail to act in a way that matches the sentiment.

Companies can avoid neglecting Black consumers or making this kind of misstep by ensuring that they have Black representation internally, especially in key decision-making roles affecting product design, R&D, site selection, and marketing. Advertising, too, has long been a largely white industry, but consumer-facing companies that want to create inclusive campaigns need agencies with multicultural talent. SeeHer, an initiative of the Association of National Advertisers, and Oprah Winfrey's OWN network have produced a guide for brands to encourage more accurate portrayals of Black women in advertising.²⁰⁰ In addition, a growing movement is calling on companies and brands to direct more of their ad dollars to Black-owned media.

¹⁹² Keith Schneider, "How LeBron James uses his influence to improve community development," *New York Times*, March 16, 2021.

¹⁹³ *Affordable housing in Los Angeles: Delivering more—and doing it faster*, McKinsey Global Institute, November 2019.

¹⁹⁴ See itsmarta.com/marta-market.aspx.

¹⁹⁵ Catherine Douglas Moran, "SNAP online availability is about to explode. But grocers say they still face too many hurdles," *Grocery Dive*, February 16, 2021.

¹⁹⁶ "Instacart and ALDI announce EBT SNAP pilot to increase access to same-day grocery delivery and pickup," Instacart, October 22, 2020.

¹⁹⁷ See aahp.montgomerycounty.org.

¹⁹⁸ Jonathan Berr, "Nike stock reaches all-time high after Colin Kaepernick ad," CBS News, September 18, 2018.

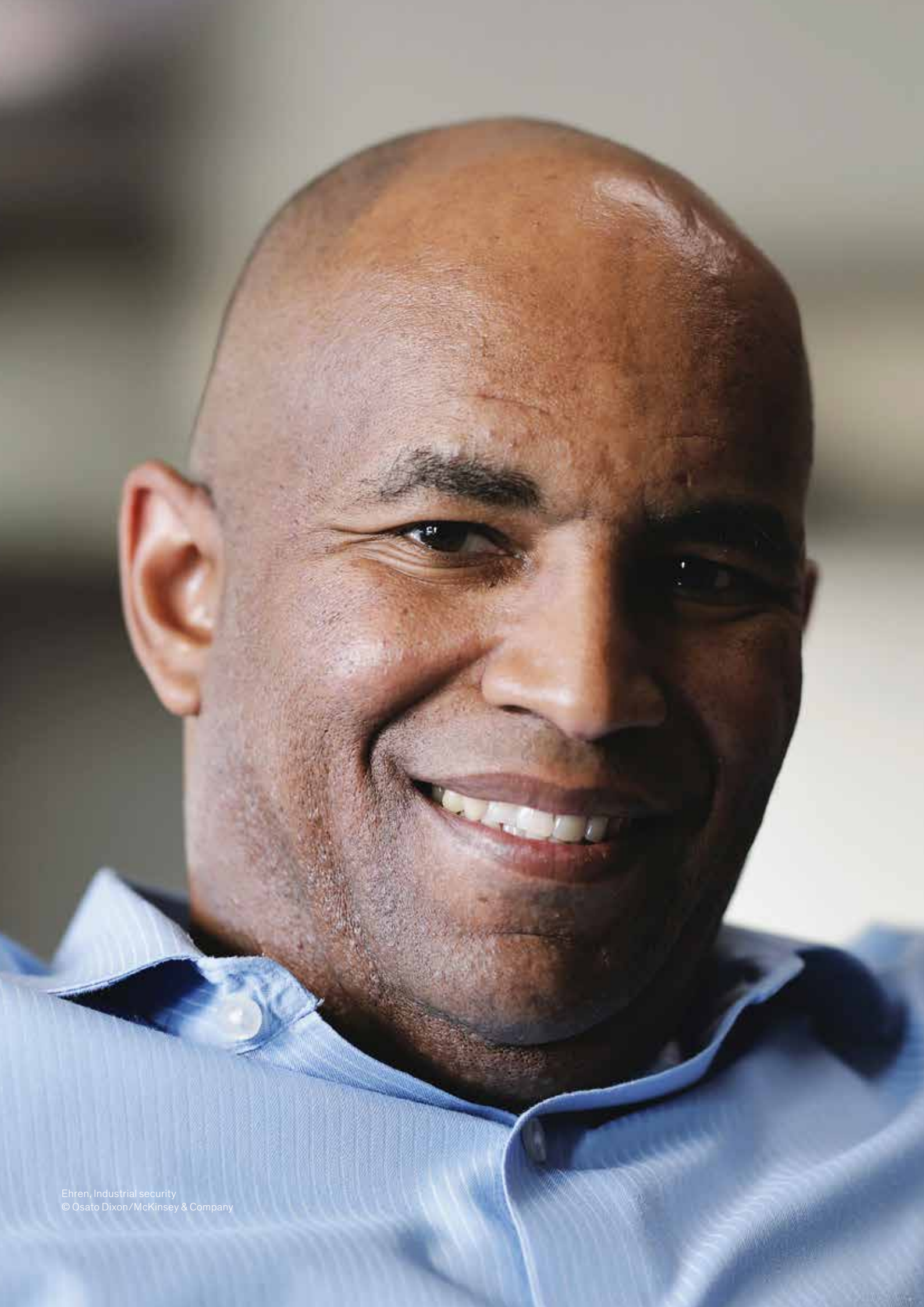
¹⁹⁹ "P&G's My Black Is Beautiful platform launches a new hair care line in partnership with Sally Beauty," *My Black Is Beautiful*, July 1, 2019.

²⁰⁰ Jeanine Poggi, "How brands should think about representation of Black women in creative," *Ad Age*, March 6, 2021.

Similarly, McKinsey research recently documented a lack of representation on- and off-screen in the film and TV industries. Black-led projects tend to be underfunded, but they often earn higher relative returns.²⁰¹ However, *Black Panther*'s billion-dollar box office receipts demolished the myth that films with Black creatives and casts do not have crossover appeal. Recognizing the appetite, Netflix has prioritized building a library of content centered on Black characters and experiences. Our report found that by addressing the barriers in content development, financing, marketing, and distribution, the film and TV industry could unlock the equivalent of a 7 percent increase in baseline industry annual revenues (more than \$10 billion).

Expanding housing, retail, and services in Black communities is largely dependent on private businesses deciding to invest in these neighborhoods.

²⁰¹ *Black representation in film and TV: The challenges and impact of increasing diversity*, March 2021, McKinsey.com.



5. Black savers and investors: Confronting the racial wealth gap

America's racial wealth gap reflects deeply entrenched structural disadvantages and patterns that have persisted through centuries and passed through generations, restricting economic mobility.

Today, the median Black household has only about one-eighth of the wealth held by the median white household.²⁰² This disparity has been well publicized, but the actual dollar amounts are still striking: while the median white household has amassed \$188,000, the median Black family has about \$24,000 to show for their efforts at saving and investing.²⁰³ Black households have fewer family assets to draw from and are constrained in their ability to save. Some 3.5 million Black families have negative net worth due to debt, while an additional 4.3 million have net worth of less than \$10,000. Conversely, only about 340,000 Black American families have net worth above \$1 million (Exhibit 28).

In addition to looking at a snapshot of household wealth, this chapter considers the flows of funds that continually shape the picture, the different types of assets held by Black households, their level of debt, and the ways in which they interact with the financial system. It builds on and extends previous McKinsey research, *The economic impact of closing the racial wealth gap*.

These long-standing patterns are the product of decades of exclusionary policies.²⁰⁴ Disrupting them will not be easy. But that does not mean nothing can be done. The outcomes for Black Americans in their roles as workers and business owners have a direct bearing on their wealth, as does their community context. These factors can be changed, as other chapters in this report describe. A number of other public and private interventions addressing income, home ownership, fair lending practices, and market participation can also chip away at the gap.

This is not simply about economics; it is about what wealth can do for people. Making it possible for Black families to build greater wealth would affect every aspect of their well-being. It would improve their prospects for owning the roof over their heads, sending their children to college without debt, starting their own businesses, and simply having greater peace of mind.

²⁰²Wealth is defined as the sum total of a household's financial and nonfinancial assets (including real estate, business equity, savings, and investments) minus debts (including mortgages, credit card debt, and all types of loans). Note that a 2019 McKinsey report, *The economic impact of closing the racial wealth gap*, found a ten-to-one wealth gap between white and Black families, while we find an eight-to-one gap. The previous report was based on 2016 data, while this report uses more recent 2019 data. While the ratio has gotten smaller, the gap has widened in absolute dollar terms.

²⁰³Survey of Consumer Finances, 1989–2019 data, Federal Reserve, 2019.

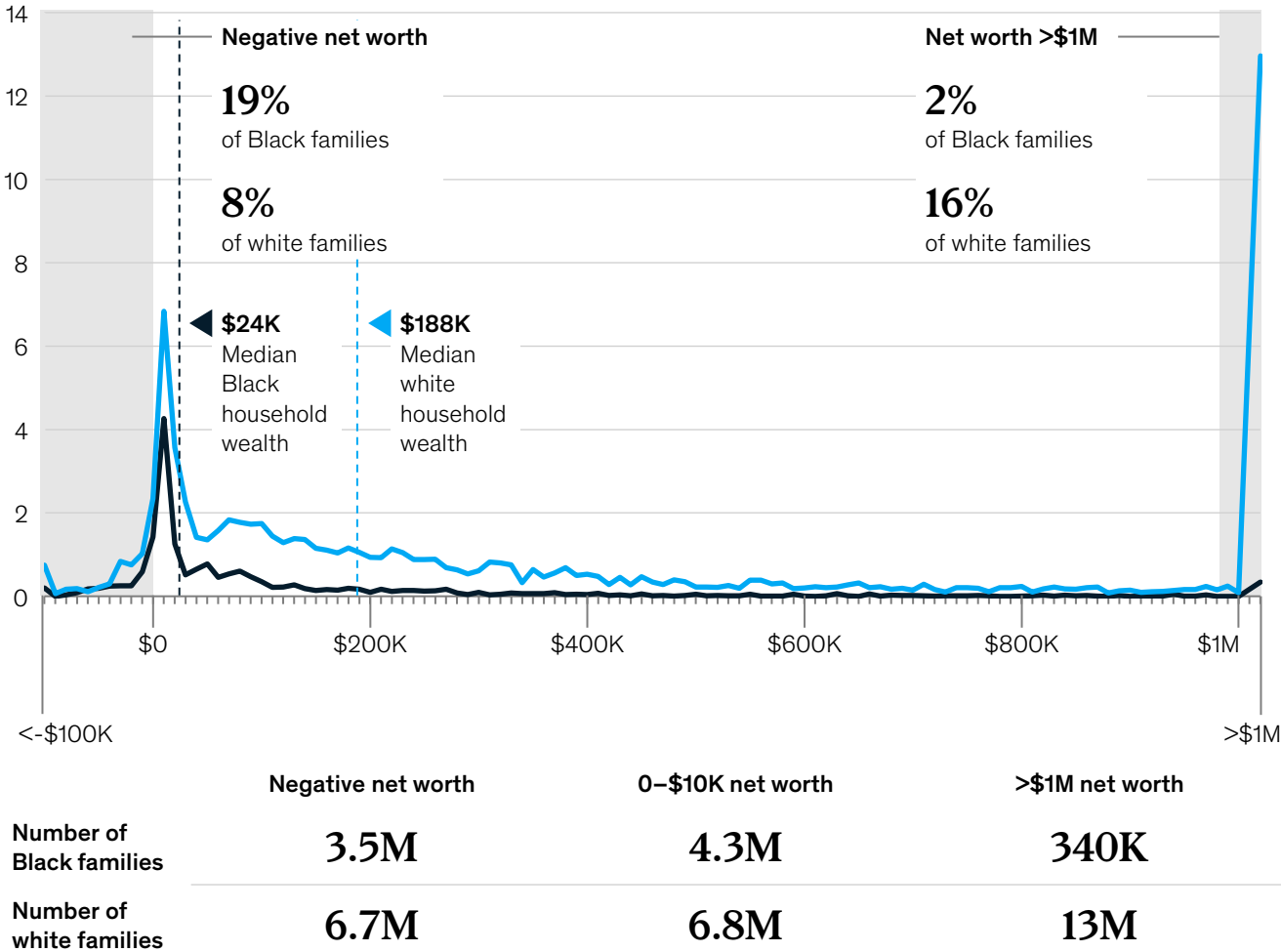
²⁰⁴For an overview, see "The case for accelerating financial inclusion in Black communities," February 2020, McKinsey.com.

Black families are concentrated in low-net-worth brackets and underrepresented in higher net worth brackets.

Number of families within net worth brackets, Black vs. white (2019)

Million

Number of Black families
Number of white families



Note: Mean Black household net worth is about \$143,000; mean white household network is about \$983,000.
Source: Federal Reserve Survey of Consumer Finance (2019); McKinsey Global Institute and McKinsey Institute for Black Economic Mobility analysis

Wealth and its distribution over time

It is the line that generations could never tilt upward. Despite accounting for 13.4 percent of the US population, Black Americans hold just above 1.5 percent of the nation's wealth today—and this share has risen by only a single percentage point since Reconstruction (Exhibit 29).¹

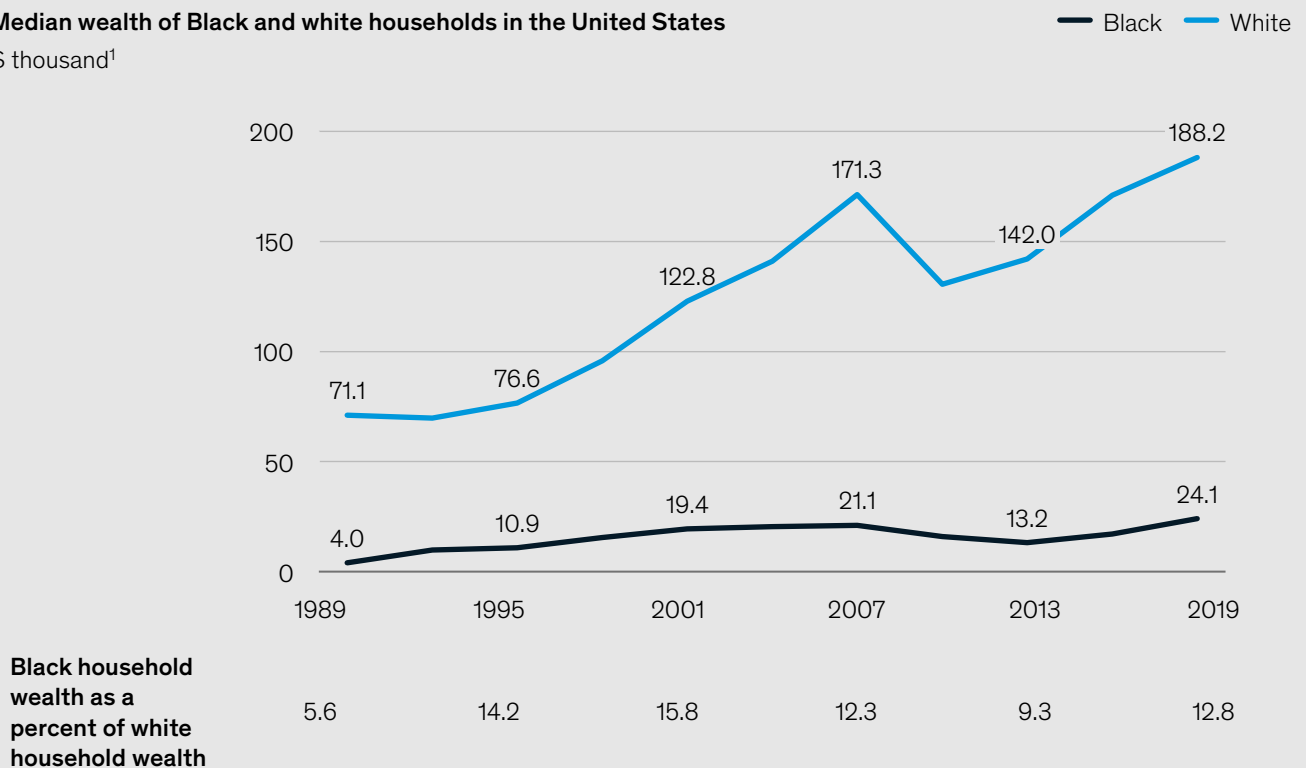
This stagnation is the product of laws and systems put in place over decades to limit Black mobility in the economy and in society more broadly—while an entire tool kit of policies built a more prosperous white middle class. Not only were Black Americans concentrated in the lowest-wage jobs; they were excluded from many New Deal programs. Redlining in federal housing policies (a topic we return to in chapter 6) largely blocked Black Americans from obtaining mortgages and building home equity. After World War II, large suburban developments built by the Veterans Administration imposed racial restrictions.²

Exhibit 29

The racial wealth gap has persisted for decades.

Median wealth of Black and white households in the United States

\$ thousand¹



1. Mean wealth figures in 2019: White = \$983.4K, Black = \$142.5K.

Source: Federal Reserve Survey of Consumer Finances (2019); McKinsey Global Institute and McKinsey Institute for Black Economic Mobility analysis

¹ Calvin Schermerhorn, "Why the racial wealth gap persists, more than 150 years after emancipation," *Washington Post*, June 19, 2019. Note that this article uses a slightly different metric for the wealth gap than our findings. See also Robert A. Margo, "Accumulation of property by Southern Blacks before World War I: Comment and further evidence," *American Economic Review*, September 1984, Volume 74, Number 4.

² Richard Rothstein, *The color of law: A forgotten history of how our government segregated America*, Liveright, 2017.

When Black Americans did manage to build wealth, it was at risk of seizure and violence. The 1921 massacre in the Greenwood neighborhood of Tulsa, Oklahoma, known as the Black Wall Street, is the most notorious example among many incidents. Manhattan Beach, California, is reckoning with its history today, having recently issued a formal apology to descendants of the Bruce family, whose oceanfront resort was seized by the city a century ago.³ Similarly, the Florida legislature awarded cash payments and college scholarships to survivors and descendants of the 1923 Rosewood massacre, in which a white mob forced Black residents out of their homes.⁴

Historical exclusion from the financial system lingers on in the form of limited participation in it today.⁵ The gaps revealed by an analysis of Federal Reserve data are striking at every level (Exhibit 30).

The 90th-percentile Black household has only three-quarters of the wealth of the 70th-percentile white household. The \$24,000 held by the median Black household corresponds to the wealth of the 25th-percentile white family.

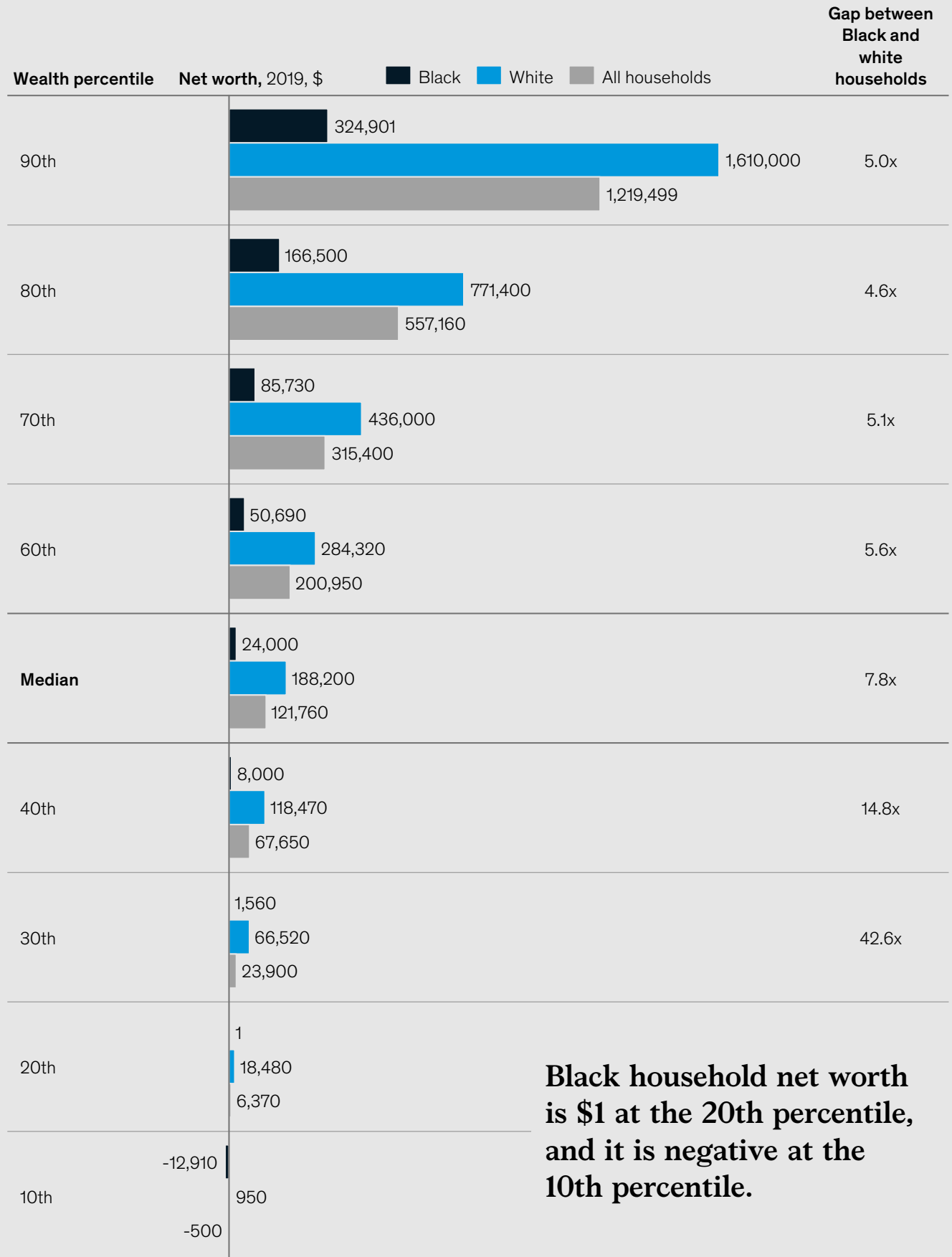
In relative terms, the racial wealth gap is widest between the poorest households. White households at the 30th percentile may be struggling, but they have 40 times more wealth than similarly situated Black households. The 10th-percentile white household has very little, but its net worth is still positive. The 10th-percentile Black household is in a hole, with a negative net worth of almost \$13,000. It is one thing to be poor in America; it is another thing entirely to be poor and Black in America.

³ Jaclyn Cosgrove and Rosanna Xia, "Black descendants of Bruce's Beach owner could get Manhattan Beach land back under plan," *Los Angeles Times*, April 9, 2021.

⁴ Victor Luckerson, "What a Florida reparations case can teach us about justice in America," *Time*, September 10, 2020.

⁵ See, for example, Mehrsa Baradaran, *The color of money: Black banks and the racial wealth gap*, Belknap Press of Harvard University Press, 2017; Raj Chetty et al., "Race and economic opportunity in the United States: An intergenerational perspective," *The Quarterly Journal of Economics*, May 2020, Volume 135, Issue 2; Melvin Oliver and Thomas Shapiro, *Black wealth/white wealth: A new perspective on racial inequality*, Routledge Press, 2006; Dalton Conley, *Being Black, living in the red: Race, wealth, and social policy in America*, University of California Press, 2009; and Angela Hanks, Danyelle Solomon, and Christian E. Weller, *Systematic inequality: How America's structural racism helped create the Black-white wealth gap*, Center for American Progress, February 2018.

The racial wealth gap exists at all levels.



Source: Federal Reserve Survey of Consumer Finances (2019); McKinsey Global Institute and McKinsey Institute for Black Economic Mobility analysis

Annual wealth flows continually feed the gap

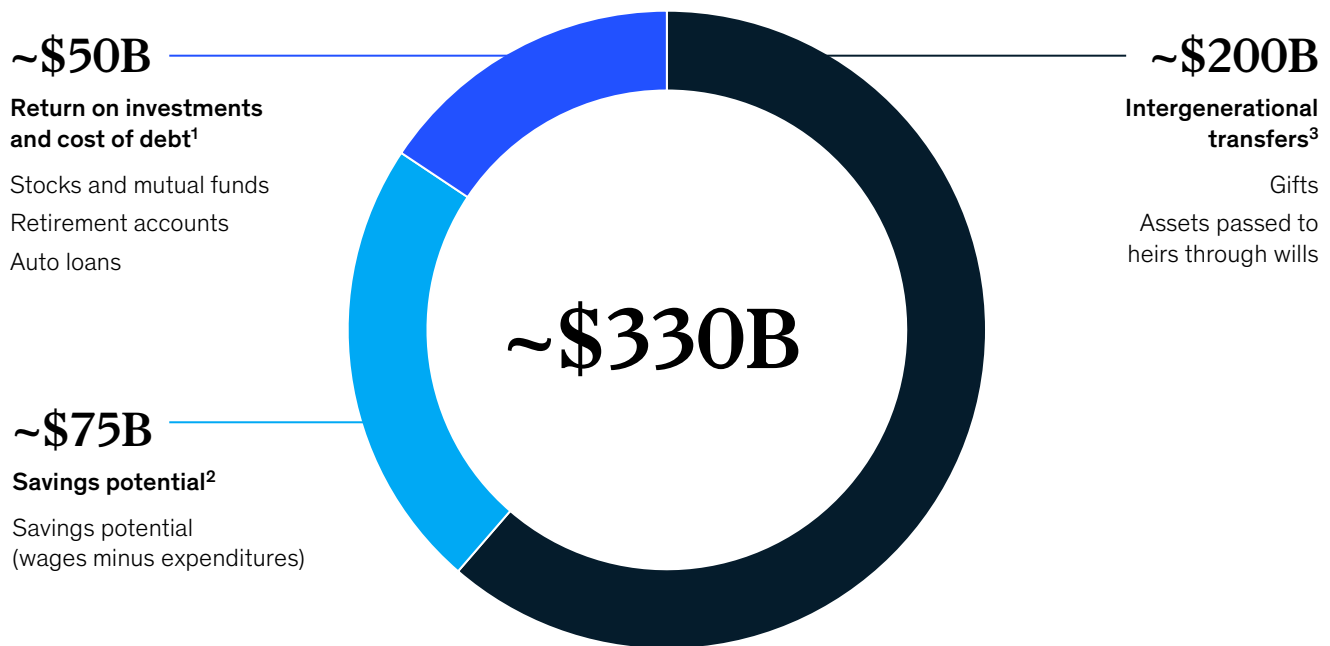
Total wealth is fed by the intergenerational transfers (including inheritances), savings, returns, and debt that flow into and out of households. We analyze the annual median for each of these components to see how they affect the overall picture. Combining them, we estimate a \$330 billion aggregate disparity between median Black and white households in annual flows of new wealth (Exhibit 31).²⁰⁵

Exhibit 31

Intergenerational transfers account for some 60 percent of the disparity in annual wealth flows.

Estimated annual flow disparity between Black vs. white households, by type

\$ billion



1. Based on estimates of participation and returns/cost disparities for a select set of assets and liabilities (stocks and mutual funds, retirement accounts, and auto loans). Disparities exist in other assets including bonds, checking and savings accounts, mortgages, and student loans, but they are excluded from this analysis.

2. Calculated as wages minus expenditures (including net changes of assets / liabilities), with expenditures taken from the BLS Consumer Expenditure Survey.

3. Gap is due to both lower likelihood of Black households receiving inheritances as well as the lower mean value of those inheritances (~\$83,000 for Black households and ~\$236,000 for white households).

Note: This should not be read as the absolute difference in flows of wealth to Black and white households. It reflects the gap between current flows of wealth to Black households benchmarked against a scenario in which Black household participation in each of these flows matches that of white households; this approach controls for differences in the size of the population.

Source: Federal Reserve Survey of Consumer Finances; Kriston McIntosh, Emily Moss, Ryan Nunn, and Jay Shambaugh, "Examining the Black-white wealth gap," Brookings Institution blog, February 2020; Jeffrey P. Thompson and Gustavo A. Suarez, *Exploring the racial wealth gap using the Survey of Consumer Finances*, Finance and Economics Discussion Series 2015-076, Federal Reserve, 2015; BLS Consumer Expenditure Survey; McKinsey Global Institute and McKinsey Institute for Black Economic Mobility analysis

²⁰⁵ This figure should not be read as the absolute difference in flows of wealth to Black and white households. It reflects the gap between current flows of wealth to Black households benchmarked against a scenario in which Black household participation in each of these flows matches that of white households; this approach controls for differences in the size of the population.

\$200B

gap in flow of
intergenerational transfers
to Black families every year
vs. a scenario of parity

Intergenerational transfers account for most of the disparity in annual flows

Some 60 percent of the annual disparity in wealth flows derives from intergenerational transfers, such as inheritance. Every year brings a massive transfer of family wealth, creating an effect that is both profound and perpetuating through generations. The aggregate gap in inheritances between Black and white recipients is estimated at some \$200 billion.²⁰⁶

Black Americans are less likely to receive inheritances, and when they do, the amounts are smaller. This is driven first and foremost by the fact that Black families have had less to pass on, a cycle that has persisted for generations. White households that inherit greater family wealth are better positioned to purchase homes, educate their children, secure additional assets, and retire more comfortably.

Black incomes have historically been lower throughout life than white incomes, and they remain so today, as discussed in chapter 2. Because their budgets are tighter, Black households have had less available to invest in the kind of assets that can be passed on, including real estate, stocks, bonds, and life insurance policy payouts. If there is real estate to be passed on to Black heirs, it tends to have a lower valuation than white-owned property. Disparities in these asset holdings are discussed in greater detail below.

The lower likelihood of receiving or passing on an inheritance has implications for wealth-planning behavior. A 2019 survey found that 45 percent of white adults had wills, compared to just 31 percent of Black adults.²⁰⁷ However, if land and homes are passed on without a will in place, value is often lost. Less than 2 percent of all US financial planners are Black, potentially reducing Black families' access to and trust in wealth-planning resources.²⁰⁸

Black households are caught in a tug-of-war between savings and debt

On the whole, Black households find it harder to save—not only because of lower incomes but also because they have greater demands eating into every paycheck. As a result, we see a \$75 billion gap between their annual savings and that of white households, as noted in Exhibit 30.

Black households spend a smaller share of income on nonessentials relative to white households. But, as discussed in chapter 4, more and more of their income is eaten up by the basics, as the costs of housing, healthcare, and higher education have steadily climbed. Expenditures on those categories rose from 38 percent of Black household income in 1984 to 45 percent in 2019.

\$2,000

additional interest paid by
Black borrowers over the life
of an auto loan

In addition, Black families extend more support to extended family. Some 45 percent of Black college-educated households gave financial support to other family members. The same was true for only 16 percent of white college-educated households. With greater demands on smaller paychecks, Black households are more likely to take on debt. Due to data limitations, our sizing of the racial disparity in annual wealth flows includes only auto loans as a substantial and representative example. However, it is interesting to note that Black consumers are less likely than other groups to have credit cards. In one survey, a substantial share of Black respondents mentioned a desire to avoid debt as their reason for not having them.²⁰⁹

In auto loans, Black customers are often charged higher interest rates.²¹⁰ Consequently, Black borrowers pay an average of \$2,000 more than white borrowers in extra interest over the life of an auto loan. White borrowers are also 75 percent more likely to be offered more financing

²⁰⁶This considers a scenario in which the mean size of Black inheritance (\$83,000) matches the mean size of white inheritance (\$236,000), along with the likelihood of receiving one. The 2020 estimate is from data analysis in *Up front*, "Examining the Black-white wealth gap," blog entry by Kriston McIntosh et al., Brookings Institution, February 27, 2020 (drawing on Jeffrey P. Thompson and Gustavo A. Suarez, Exploring the racial wealth gap using the Survey of Consumer Finances, Finance and Economics Discussion Series, 2015-076, Federal Reserve, August 2015).

²⁰⁷Caring.com survey, 2019.

²⁰⁸Chris Davis, "How to find a Black financial advisor," Nerdwallet.com, February 24, 2021.

²⁰⁹Claire Williams, "Access to cheap money has a racial gap," Morning Consult, June 3, 2019; poll shows that 70 percent of white adults have credit or charge cards, compared to 56 percent of Black adults.

²¹⁰Alexander W. Butler, Erik J. Mayer, and James Weston, *Racial discrimination in the auto loan market*, SSRN, March 2021; and Michael Corkery and Jessica Silver-Greenberg, "Prosecutors scrutinize minority borrowers' auto loans," *New York Times*, March 30, 2015.

\$23K

higher average student debt burden for Black college graduates than white college graduates

options than Black customers.²¹¹ We estimate the cost to Black borrowers from differences in observed interest rates at nearly \$2 billion annually.

Fewer Black students graduate from college without education debt.²¹² Lower wealth overall means that few families are able to put their children through college without loans. Some of this debt load is also driven by the disproportionate enrollment of Black students in for-profit institutions, some of which have low completion rates and offer training that has not improved career outcomes.²¹³

Four years after earning a degree, Black graduates carry approximately \$23,000 more in student debt on average than white graduates, making their balances almost 80 percent higher. This gap has grown more than 10 times larger since 1993, as education costs have climbed and more Black Americans have sought both degrees and financial assistance to get them. Black borrowers are more likely to struggle with their debt burdens. Forty-eight percent owe more than they originally borrowed after four years due to interest accrual. Less than 20 percent of white borrowers are in the same situation, as many enter higher-paying jobs that enable them to pay down debt faster.²¹⁴

Box 8

The wealth of Black women

The disparities facing Black households overall are magnified for Black women, who earn less but often shoulder responsibility for their family's well-being.

The starting point is sobering. As discussed in chapter 2, Black women are doubly disadvantaged in the labor market and bring home smaller incomes. Black Americans are more likely than white Americans to carry debt, and women are more likely to carry debt than men. Black women stand at the intersection of these trends. Many carry not only educational debt but also cumulative debt from interactions with payday lenders.¹ One study found that the median wealth of single Black women is \$200, while the median wealth of single white men is \$28,900.² Many Black women are rent burdened or living in substandard homes.³

Single parenthood has become increasingly common in the United States.⁴ According to Census data, nearly half of Black children live with their mothers only. More than half of Black mothers are single breadwinners, a far higher share than for any other racial or ethnic group.⁵ The economic security of Black women is inextricably tied to the health and prosperity of Black communities and the next generation.

¹ Suparna Bhaskaran, *Pinklining: How Wall Street's predatory products pillage women's wealth, opportunities, and futures*, New Jersey Communities United, ISAIAH, and ACCE Institute, 2016; and Amy J. Schmitz, "Females on the fringe: Considering gender in payday lending policy," *Chicago-Kent Law Review*, 2014, Volume 89, Issue 1.

² Heather McCulloch, *Closing the women's wealth gap: What it is, why it matters, and what can be done about it*, January 2017, womenswealthgap.org. The corresponding median wealth figure for single Black men is \$300, and for white women, it is \$15,640.

³ *Black womenomics: Investing in the underinvested*, Goldman Sachs, March 2021.

⁴ Gretchen Livingston, *The changing profile of unmarried parents*, Pew Research Center, April 2018.

⁵ Sarah Jane Glynn, *Breadwinning mothers continue to be the US norm*, Center for American Progress, May 10, 2019.

²¹¹ *Statement of Commissioner Rebecca Kelly Slaughter in the matter of Liberty Chevrolet, Inc. d/b/a Bronx Honda*, US Federal Trade Commission, May 27, 2020; and Mark A. Cohen, "Imperfect competition in auto lending: Subjective markup, racial disparity, and class-action litigation," *Review of Law & Economics*, March 2012, Volume 8, Issue 1.

²¹² Dorothy A. Brown, "College isn't the solution for the racial wealth gap. It's part of the problem," *Washington Post*, April 9, 2021.

²¹³ Lorelle Espinosa and Sandy Baum, "Black students' 'unprecedented and unequal' college debt should cause alarm," *The Hechinger Report*, February 19, 2019; "For-profit colleges by the numbers," Center for Analysis of Postsecondary Education and Employment, capseecenter.org/research/by-the-numbers/for-profit-college-infographic/.

²¹⁴ *Voter vitals*, "Who owes all that student debt? And who'd benefit if it were forgiven?," blog entry by Adam Looney, David Wessel, and Kadija Yilla, Brookings Institution, January 28, 2020. Also see educationdata.org/student-loan-debt-by-race.

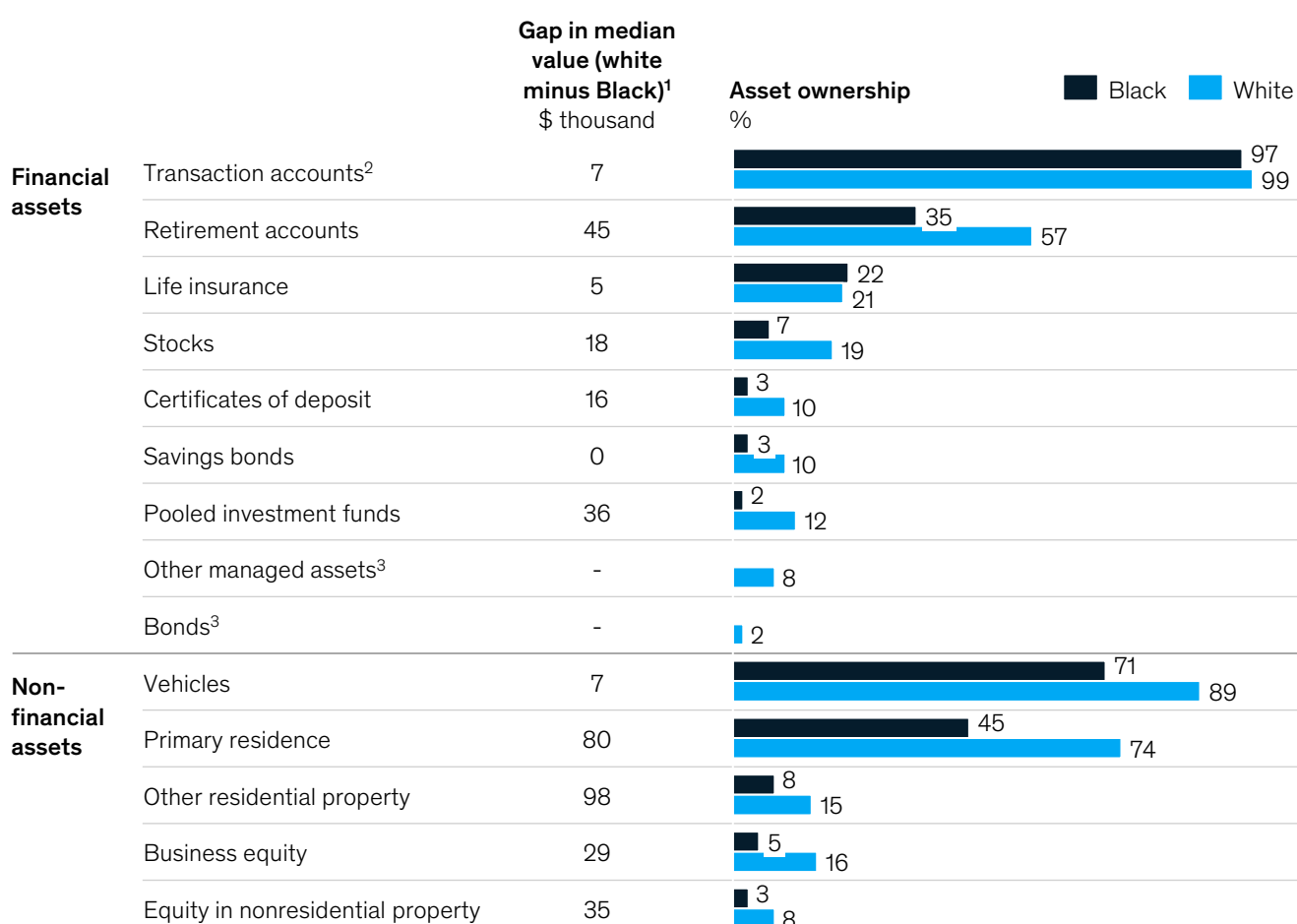
Black households hold fewer and lower-value assets

Household wealth is held in a variety of assets, both financial and nonfinancial. In both categories, we see that Black households have limited holdings (Exhibit 32). Most of this is due to the simple fact that Black Americans earn less. Many have to stretch to pay the bills today and do not have the ability to build wealth for the long term. But when it comes to investing in the stock market specifically, whether in or outside of a retirement account, there is also an element of mistrust and risk aversion. Approximately 19 percent of white households directly hold stocks, but just 7 percent of Black households participate in the stock market.²¹⁵ The reluctance or inability to invest narrows Black Americans' opportunities to benefit from long-term stock market appreciation; it also reduces their cushion for absorbing unexpected setbacks and major life changes. Intergenerational history has also led to some distrust of financial institutions by Black individuals.²¹⁶

Exhibit 32

Black families are less likely to hold assets than white households—and when they do, the median value of those assets is lower.

Black and white family holdings of financial and non-financial assets, 2019



1. Value of median white household holdings minus median Black household holdings.

2. FDIC estimates ~5.4 percent of U.S. households were unbanked in 2019.

3. Ten or fewer observations for Black families.

Source: Federal Reserve Survey of Consumer Finances 2019; McKinsey Global Institute and McKinsey Institute for Black Economic Mobility analysis

²¹⁵ Survey of Consumer Finances, 1989–2019 data, Federal Reserve, 2019.

²¹⁶ Mehrsa Baradaran, *The color of money: Black banks and the racial wealth gap*, Belknap Press of Harvard University Press, 2017; and Michelle Singletary, "The legacy of slavery made my grandmother fear investing," *Washington Post*, October 9, 2020.

~30p.p.

difference in Black and white
home ownership rates

Home ownership

Home ownership is strongly correlated with wealth. The median net worth of home-owning households was more than 40 times higher than that of renting households in 2019.²¹⁷ However, the median Black-owned home is valued at \$150,000, versus \$230,000 for a white-owned home.²¹⁸

The Black home ownership rate at the end of 2020 stood at 44.1 percent, 21.7 percentage points below the national average and 30.4 percentage points below the white home ownership rate.²¹⁹ Historical discrimination in housing policy and lending practices (a topic discussed more fully in chapter 6) has combined with more limited savings and access to capital to perpetuate this gap. This also means that many Black families miss out on one of the biggest tax benefits for households: the mortgage interest deduction.

The racial gap in home ownership varies widely across metro areas. It is widest in Minneapolis, where just 25 percent of Black families own a home, compared with 76 percent of white families, according to a Redfin analysis of Census Bureau data. This is followed by Grand Rapids, Salt Lake City, and Milwaukee. Black home ownership rates are highest in Washington, DC, Birmingham, and Richmond.²²⁰

The process of purchasing a home contains more pitfalls for Black Americans. They are likely to find their mortgage applications denied or to be offered higher interest rates on their loans.²²¹ Some of this is due to their lower incomes and lower credit scores, but there is also a lingering element of bias in lending.²²² Zillow analysis of data compiled under the terms of the Home Mortgage Disclosure Act found that Black applicants were denied mortgages at an 80 percent higher rate than white applicants.²²³ Black borrowers also disproportionately lost their homes to foreclosure after the 2008 financial crisis.²²⁴ And finally, when they are seeking to sell or refinance, Black home owners often receive lower appraisals of their properties.²²⁵ Media accounts have documented instances in which removing family photos or having a white friend greet the appraiser has resulted in sharply higher figures.²²⁶

Stocks

Few Black Americans participate in the stock market, and those who do have smaller median holdings than white investors.²²⁷ While 18.6 percent of white households own stocks, the rate for Black households is 6.7 percent. Additionally, only 1.8 percent of Black families have mutual fund holdings, compared to 11.9 percent of white families.²²⁸

We calculate that disparities in stock and mutual fund investing resulted in \$26 billion in missed annual opportunities for Black savers. This is based on a scenario that involves closing the household participation gap, closing the gap in median holdings, and assuming historical rates of return.²²⁹

²¹⁷ Neil Bhutta et al., "Changes in US family finances from 2016 to 2019: Evidence from the Survey of Consumer Finances," *Federal Reserve Bulletin*, September 2020, Volume 106, Number 5.

²¹⁸ Neil Bhutta et al., "Disparities in wealth by race and ethnicity in the 2019 Survey of Consumer Finances," *Federal Reserve FEDS Notes*, September 28, 2020.

²¹⁹ "Quarterly residential vacancies and homeownership, fourth quarter 2020," US Census Bureau, April 2021.

²²⁰ Dana Anderson, "Minneapolis, Milwaukee & Salt Lake City have the lowest Black homeownership rates in the U.S., with just over one-quarter of Black families owning their home," Redfin, June 2020.

²²¹ *Fact Tank*, "Blacks and Hispanics face extra challenges in getting home loans," blog entry by Drew DeSilver and Kristen Bialik, Pew Research Center, January 10, 2017.

²²² Diana Olick, "A troubling tale of a Black man trying to refinance his mortgage," CNBC, August 19, 2020.

²²³ Nicole Bachaud, *Black applicants are far more likely to be denied a mortgage*, Zillow, August 2020.

²²⁴ Nathalie Baptiste, "Staggering loss of Black wealth due to subprime scandal continues unabated," *The American Prospect*, October 13, 2014.

²²⁵ Dana Anderson, *The price of racial bias: Homes in Black neighborhoods are valued at an average of \$46,000 less than similar homes in white neighborhoods*, Redfin, April 20, 2021; and Andre M. Perry, Jonathan Rothwell, and David Harshbarger, *The devaluation of assets in Black neighborhoods: The case of residential property*, Brookings Institution, November 2018.

²²⁶ Michelle Bond, "Homes in Black neighborhoods are valued less than similar homes in white areas," *Philadelphia Inquirer*, April 28, 2021; Alexandria Burris, "Black homeowner had a white friend stand in for third appraisal. Her home value doubled," *Indianapolis Star*, May 13, 2021; and Debra Kamin, "Black homeowners face discrimination in appraisals," *New York Times*, August 25, 2020.

²²⁷ Survey of Consumer Finances, 1989–2019 data, Federal Reserve, 2019.

²²⁸ Kim Parker and Richard Fry, *More than half of US households have some investment in the stock market*, Pew Research Center, March 2020.

²²⁹ We assume a 10.7 percent rate of return, which tracks the nominal performance of the S&P 500 index from January 1989 to December 2020.

35%

of Black families have retirement accounts, compared to 57% of white families

Retirement

Black Americans are less likely to have dedicated retirement savings accounts, and those who do participate have smaller balances on average than white Americans. In 2019, 35 percent of Black families had retirement accounts, compared to 57 percent of white families. The median savings in those accounts was \$30,000 for Black families, versus \$80,000 for white families—a gap that has widened over time.²³⁰

The disparities in both asset participation and amounts saved affect the ability of Black savers to set aside money for a comfortable retirement. Their retirement security is also affected by their lower overall wealth and higher student loan debt. The biggest factor is simply where they sit in the labor market. Black Americans are paid less, which makes it harder to save, and they are more likely to hold jobs that do not offer employer-based retirement benefits. Participation in workplace retirement plans was similar across races until the shift toward 401(k)s as the most common employer-based offering; Black workers are less likely to be offered a retirement plan or to opt in.²³¹ In addition, retirement account ownership is closely linked to job participation and status; Black workers are more likely to hold lower-wage or part-time positions, which fuels a cycle of lower likelihood of having retirement savings.

Life insurance

Historically, life insurance provided a savings vehicle to Black families who were barred from accessing other investment products. Without adequate life insurance coverage, Black families might find themselves in jeopardy when a breadwinner dies or unable to leave anything to heirs.

Black savers are somewhat more likely than whites to hold a cash value life insurance policy—but their policies have 45 percent lower values.²³² These policies have often been marketed to Black consumers as a way to cover funeral costs rather than as a tool for building wealth.

The racial wealth gap is persistent and structural but not entirely immutable

Having persisted for many decades, America's racial wealth gap does not lend itself to easy or quick solutions. While most of our research efforts focused on sizing the gaps, our findings suggest several starting points for action. They should be read as illustrative rather than comprehensive, and ongoing research will be needed to track progress.

Among the ideas that have been proposed are wealth and estate taxes, reparations, student loan forgiveness, and “baby bonds” (investment accounts for infants, seeded with government grants).²³³ Home ownership is an important avenue for Black families to build wealth, but programs to encourage it need to be carefully designed with safeguards against predatory lending. Another option for closing the wealth gap would be to reconsider the ways in which tax policy favors property ownership.²³⁴

Some of the broadest ways to narrow the gap rest on making progress within the other roles discussed in this report. Improving outcomes for Black workers, helping Black entrepreneurs build wealth through ownership, and strengthening enablers such as education could all help to move the needle. In addition, some tangible actions specifically within the financial arena can begin to make a difference.

Encourage savings by expanding access to retirement accounts

According to Bureau of Labor Statistics data, one-third of all US workers do not have access to employer-based retirement plans; only 77 percent of those who do have access participate.

²³⁰ 2019 Survey of Consumer Finances, Federal Reserve, 2020.

²³¹ Monique Morrissey, “White workers have nearly five times as much wealth in retirement accounts as Black workers,” Economic Policy Institute, February 2016.

²³² Taylor Medine, *Is there a life insurance race gap?*, Haven Life, September 2020.

²³³ See, for example, Ta-Nehisi Coates, “The case for reparations,” *The Atlantic*, June 2014; and *Urban wire*, “How baby bonds could help Americans start adulthood strong and narrow the racial wealth gap,” blog entry by Kilolo Kijakazi and Alexander Carther, Urban Institute, January 23, 2020.

²³⁴ Dorothy A. Brown, *The whiteness of wealth: How the tax system impoverishes Black Americans—and how we can fix it*, Crown Publishing, 2021.

Private employers can play a major role in improving the economic security of their workers—and particularly of their low-wage workers—by adding retirement benefits, contributing to them without matching requirements, offering financial education to manage these accounts, and encouraging uptake through automatic enrollment.²³⁵

Some states have stepped in to help fill the gaps where private employers are not offering such accounts. CalSavers, OregonSaves, and Illinois Secure Choice are examples of state programs offering Roth-style, automatic IRA accounts. Employers that do not offer their own retirement savings plans are required to enroll their employees in these state-administered programs, with employees retaining the ability to opt out.²³⁶

Expand access to financial guidance and planning services

According to the Certified Financial Planner Board of Standards, less than 2 percent of all certified financial planners are Black.²³⁷ Improving representation could be one of the keys to overcoming Black mistrust of the financial system and connecting more Black savers with advisory services to help them build wealth. Where existing large financial planning services have not connected with Black savers, new entrepreneurial approaches may be more successful. Brunch & Budget advisers, for example, make financial planning more approachable by breaking bread with clients and having active discussions about the racial wealth gap. Founded by women of color, 250 Wealth Partners is a virtual, fee-only financial planning service specifically targeting first-generation wealth builders.

Increasing representation in the legal field, too, could help improve access to legal services such as drawing up wills. John Deere recently partnered with the National Black Growers Council and the Thurgood Marshall College Fund to establish the LEAP coalition to help Black farmers establish clear title to property passed on without a will, which can lead to loss of their land and livelihoods.²³⁸

Scale up financial innovation for inclusion

Fourteen percent of Black adults are unbanked, and almost one-third are underbanked. Lack of access to traditional banking in financial emergencies can lead them to turn to services such as payday loans and advances, money orders, check cashing services, pawn shop loans, or tax refund advances.²³⁹ During the COVID-19 pandemic, unbanked populations have also experienced delays and issues in receiving government relief benefits.²⁴⁰ Short-term fixes, which often take the form of high-interest loans, can be financial quicksand.

Multiple solutions can fill these service gaps without trapping borrowers in a vicious debt cycle. One proposal involves expanding banking services in post offices, which are already dotted around the country, employ many Black workers, and are known entities in the communities they serve. Postal banking is common in many other countries, including Italy and Japan.²⁴¹ Another avenue is mobile banking. One Black-owned startup, Mobility Capital Finance, specifically aims to help low-income Black clients obtain affordable services and avoid the fees that often eat into their balances at other banks. It offers mobile check deposits, free bill paying services, and debit cards that can help to build credit.²⁴² Named to honor Tulsa's Black Wall Street, which was destroyed in 1921, Greenwood is a newly launched digital banking service geared to Black and Latino customers. In addition, new

14%

of Black adults are unbanked

²³⁵ See irs.gov/retirement-plans/plan-participant-employee/retirement-topics-automatic-enrollment for details on automatic enrollment rules.

²³⁶ Meera Jagannathan, "When Social Security isn't enough—here are the best ways to close the racial retirement gap," *MarketWatch*, March 23, 2021.

²³⁷ Chris Davis, "How to find a Black financial advisor," *Nerdwallet.com*, February 24, 2021.

²³⁸ See deere.com/en/customer-stories/leap/.

²³⁹ *Report on the economic well-being of US households in 2019*, Federal Reserve, May 2020. Unbanked adults do not have checking, savings, or money market accounts; underbanked adults do have at least one account but also turn to alternative financial products.

²⁴⁰ Michelle Singletary, "The FDIC wants to make it easier for millions of 'unbanked' Americans to get their stimulus payments," *Washington Post*, April 6, 2021.

²⁴¹ Mehra Baradaran, *The color of money: Black banks and the racial wealth gap*, Belknap Press of Harvard University Press, 2017; and Yasmin Gagne, "The answer to helping the unbanked exists on every Main Street: the post office," *Fast Company*, October 2019.

²⁴² Jeffrey McKinney, "Black company aims to offer mobile banking services to 100,000 people by next year," *Black Enterprise*, March 26, 2021. Also see moca.fi.

digital payment models (such as Affirm and Klarna) offer consumers different ways to make purchases through installments.²⁴³

Finally, alternative credit scoring methods can improve on traditional models, drawing on a range of big data (such as bill-paying behavior). These approaches can widen access to credit for those with thin histories. Zest, for example, applies AI to offer new credit scoring methods within the financial system. Some of the largest US banks are moving to use broader data sets, such as information on deposit accounts, to evaluate credit card applicants rather than relying solely on FICO scores.²⁴⁴

Traditional financial institutions, too, have a role to play in expanding inclusion. JPMorgan Chase has committed \$30 billion over the next five years to tackle systemic racism by financing affordable housing; committing to targets in home loans, refinancing, and small business lending for minority borrowers; making low-cost account services available; and investing in Minority Depository Institutions.²⁴⁵ Citi has also committed to investing in MDIs and providing them with technical assistance; it has also pledged to work with community development financial institutions through a new program, Citi Start Credit, to help minority entrepreneurs improve credit scores and access lending.²⁴⁶

Root out bias and predatory practices in lending

Fair lending standards are in place, but eliminating persistent bias in the financial system takes enforcement. One place to focus is the gap in denial rates for equally qualified Black and white borrowers seeking business loans, mortgages, and personal loans.

Predatory practices in auto and payday lending target the most vulnerable. Dallas, for example, passed a city ordinance regulating both payday and auto loans, spurred by advocacy from local Black churches.²⁴⁷ The recently enacted Illinois Predatory Lending Prevention Act caps interest rates on short-term loans.²⁴⁸ Hawaii is taking similar legislative action.²⁴⁹

²⁴³ See affirm.com and klarna.com.

²⁴⁴ Brian Chappatta, "Big banks wake up to life beyond credit scores," *Bloomberg Opinion*, May 17, 2021.

²⁴⁵ See jpmorganchase.com/impact/path-forward/.

²⁴⁶ "Citi launches more than \$1 billion in strategic initiatives to help close the racial wealth gap," Citigroup, September 23, 2020.

²⁴⁷ Christopher Connelly, "How Black churches helped Dallas rein in payday lenders," *Texas Standard*, April 5, 2021.

²⁴⁸ See woodstockinstitute.org.

²⁴⁹ Anita Hofschneider, "Legislative negotiators agree to end payday loans in Hawaii by 2022," *Honolulu Civil Beat*, April 20, 2021.



Brooke, High school student
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6. Black residents: Public investment and outcomes

Many of the racial gaps described in earlier chapters could be narrowed or closed by private-sector actors—and yet they have not been. Others are far beyond the scope of what individual actors and institutions can address. These types of market failures—and indeed the delivery of many types of public goods crucial to economic well-being—can only be addressed by government.

Through policy and investment, the public sector helps to set a baseline economic context for how all Americans participate in the economy.²⁵⁰ Residents are affected by those choices at the community and local level, the state level, and the national level. This chapter primarily takes the most expansive of those lenses—and it finds that many of the fundamental services that meet this definition, from education to healthcare access, fall short for Black Americans.

This chapter focuses on a limited set of government programs, with an eye toward those that enable economic participation. These include tax expenditures, healthcare, housing, education, Social Security, and public transit, all of which represent large shares of public spending.²⁵¹ We do not evaluate the merits and effectiveness of every policy or program, nor do we explore the trade-offs and political challenges of changing what exists today. Instead, we provide a fact base that examines how spending and broad program parameters affect racial gaps.²⁵²

Our analysis finds that many government expenditures have features that amplify existing racial disparities in income and wealth. Some of this is due to program design, such as eligibility rules or funding mechanisms. We also find disparities in program spending and in the quality of services delivered.

At least 30 percent of all public spending goes to established programs with features that amplify existing racial disparities. This is based on three of the largest categories of public spending: select tax expenditure items, Social Security, and local spending on K-12 education.²⁵³ Some tax expenditure items, such as reduced rates on property capital gains, mortgage interest deductions (which are allowed for multiple properties), and pension contribution exclusions, benefit wealthy individuals to a much larger extent than lower-income individuals—and Black Americans are disproportionately represented in those income brackets.²⁵⁴ In the case of Social Security, benefits are calculated on the basis of each individual's lifetime earnings. Low-income recipients, who need support in their old age the most, receive smaller benefits. The US model of funding a large share of public education through local property taxes means that schools in wealthy neighborhoods are

At least

30%

of all public spending goes to programs with features that amplify existing racial disparities

²⁵⁰For a high-level discussion including comparisons with global peers, see *The social contract in the 21st century: Outcomes so far for workers, consumers, and savers in advanced economies*, McKinsey Global Institute, February 2020.

²⁵¹In 2019, the largest categories of spending in the \$4.4 trillion US federal budget were Social Security, national defense, Medicare/Medicaid, and other income security programs. "Budget functions," House Committee on the Budget. State and local governments also play a large role, particularly in K-12 education, state university systems, and health and hospitals.

²⁵²Although government plays an important regulatory role in many aspects of the economy, regulation and enforcement are not the primary focus of this chapter. The criminal justice system, public safety, and voting rights are all vital issues for Black Americans, but they, too, are beyond the scope of this report.

²⁵³These items collectively account for \$2.1 trillion (roughly \$500 billion in tax expenditures, \$1 trillion in Social Security, and \$600 billion in local spending on K-12 education).

²⁵⁴Dorothy A. Brown, *The whiteness of wealth: How the tax system impoverishes Black Americans—and how we can fix it*, Crown Publishing, 2021.

well resourced, while those in disadvantaged neighborhoods may not be equipped to help children thrive.

In the past, some policy and public investment decisions were intentionally discriminatory; even as they were reversed, the effects of the original policies were not erased. In many other cases, well-intentioned policies have contained omissions or produced unintended consequences. Not all programs are well executed, and others that are successful may be underfunded relative to the scope of the problem they are intended to address.

At the broadest level, it is apparent that Black Americans on aggregate face greater barriers to participating in some public programs and receive less in per capita government spending. The results show up in the physical infrastructure of Black neighborhoods, in lower-quality public schools and public hospitals, and in limited higher education opportunities. One study found that Baltimore neighborhoods that were more than 85 percent Black received only one-third of the public funding per capita that went to neighborhoods that were less than 50 percent Black, for example.²⁵⁵ Public investment alone may be insufficient to bridge all of the gaps, but it can be a catalyst that lowers risk and gets private capital flowing into vulnerable and marginalized communities.

Most federal tax expenditures benefit the wealthiest income brackets

Tax policy is one of the most powerful tools governments use to shape economic activity. Tax expenditures (such as reduced tax rates, credits, and exclusions) represent the government's choice to forgo revenue rather than investing it elsewhere. Federal tax expenditures totaled \$1.4 trillion in forgone tax revenue in 2019.²⁵⁶ All income groups benefit to some extent from tax expenditures, but the highest-income groups benefit the most as a share of their pre-tax income.²⁵⁷

Perhaps surprisingly, only 14 percent of federal tax breaks by value were claimed by corporations in 2019.²⁵⁸ Individuals benefit from 86 percent of tax expenditures (some \$1.2 trillion).²⁵⁹ These include tax exemptions for pension contributions, employer contributions to health insurance premiums, and life insurance payouts; tax deductions for mortgage interest on property; reduced tax rates on capital gains and dividends; tax exemptions on inheritances of less than \$11.5 million; and many more.

Two major line items—the Earned Income Tax Credit and the Child Tax Credit—primarily benefit low- and moderate-income working people. These are particularly important benefits for women of color.²⁶⁰ However, many other large line items benefit Americans with real estate holdings, employer benefit packages, investment portfolios, and family wealth. They are much less relevant to lower-income Americans, who are less likely to own property, have retirement accounts, or receive inheritances.

Almost 60 percent of the federal tax breaks claimed by individuals went to taxpayers in the highest income quintile in 2019.²⁶¹ As Exhibit 33 shows, Black taxpayers are underrepresented in the top two income quintiles relative to their 13.4 percent share of the US population. In a scenario of income parity, with proportional representation in those brackets, Black Americans would have received at least \$35 billion more in tax breaks (while also paying more in taxes).²⁶²

~60%

of federal tax breaks were claimed by individuals in the highest income quintile, where Black Americans are underrepresented

²⁵⁵ Brett Theodos et al., *Neighborhood investment flows in Baltimore*, Urban Institute, September 2020. Funding levels were \$8,160 per household per year versus \$26,533 per household per year.

²⁵⁶ "Estimates of federal tax expenditures for fiscal years 2019–2023," Joint Committee on Taxation, December 2019. "Expenditures" refers to programs offering reduced tax rates, deductions, and tax breaks.

²⁵⁷ See, for example, Daniel Berger and Eric Toder, *Distributional effects of individual income tax expenditures after the 2017 Tax Cuts and Jobs Act*, Tax Policy Center, June 2019.

²⁵⁸ These include benefits such as lower tax rates for foreign companies to do business in the United States and deductions allowed for equipment depreciation.

²⁵⁹ Tax breaks, formally referred to as "tax expenditures," are enumerated in "Estimates of federal tax expenditures for fiscal years 2019–2023," Joint Committee on Taxation, December 2019.

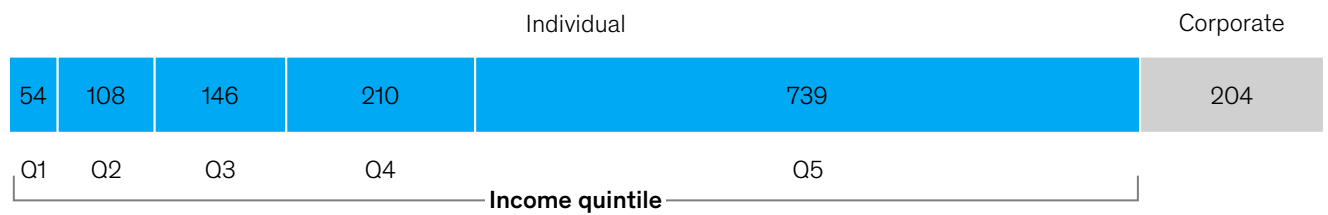
²⁶⁰ Chuck Marr and Yixuan Huang, "Women of color especially benefit from working family tax credits," Center on Budget and Policy Priorities, September 2019. The American Rescue Plan enacted in 2021 temporarily expands both of these credits.

²⁶¹ "Policy basics: Federal tax expenditures," Center on Budget and Policy Priorities, updated December 2020.

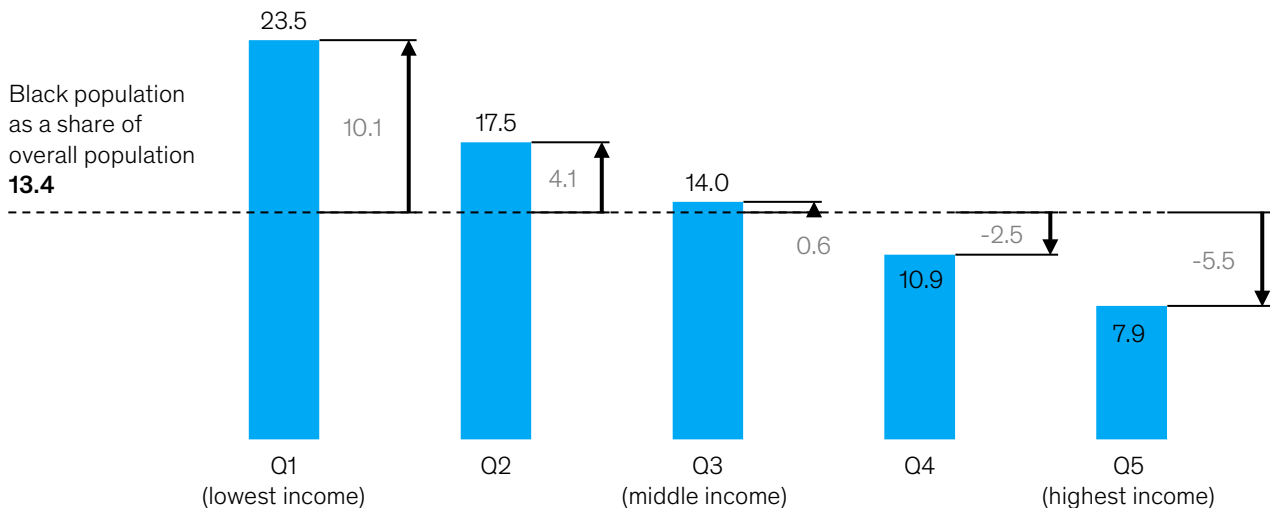
²⁶² This assumes that the population benefitting from tax breaks by income quintile mirrors the racial breakdown by income quintile.

Most federal tax expenditures benefit individuals in the top income quintile.

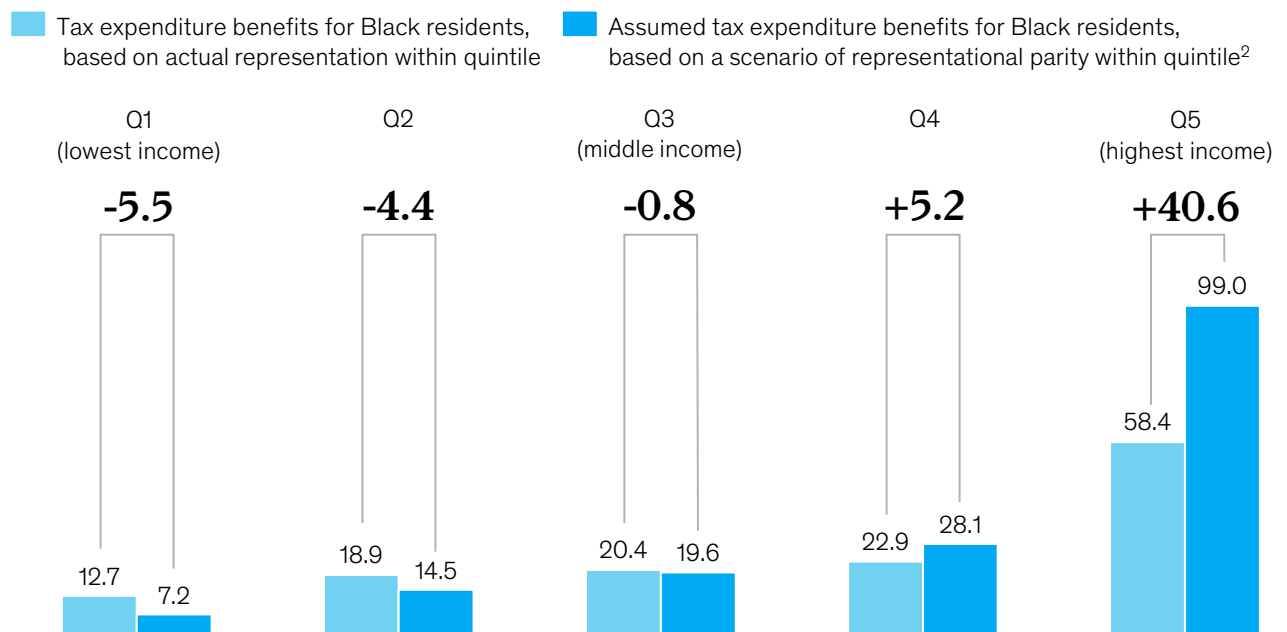
Federal tax expenditure by type, 2019,¹ \$ billion



Black population as a share of income quintile, 2019, %



Tax expenditure benefits, actual and in scenario of representational parity, by income quintile, \$ billion



1. Top 1% receives 24% of all tax expenditure benefits.

2. Based on a scenario in which the share of Black residents in each income quintile matches the Black share of the US population (13.4%).

Note: Expenditures include reduced tax rates, credits, exclusions, deductions, and other tax breaks.

Source: Joint Committee on Taxation, Federal Tax Expenditures FY 2019–23; Table 2, "Distributional Effects of Individual Income Tax Expenditures After the 2017 Tax Cuts and Jobs Act," June 2019, Tax Policy Center via Center on Budget and Policy Priorities; US Census Bureau's American Community Survey, 2019, one-year estimates; McKinsey Global Institute and McKinsey Institute for Black Economic Mobility analysis

Millions of Black Americans face gaps in access to healthcare

Good health is a fundamental precondition for productive participation in the economy.²⁶³ Yet medical bills constrain household spending in other critical areas—and they are a major factor behind bankruptcies in the United States.

Historically, the public sector has taken action to improve health outcomes for all Americans by investing in research, hospitals, and healthcare coverage. The largest programs in the latter category are Medicare, Medicaid, and most recently the Affordable Care Act (ACA). However, despite coverage gains from the ACA, Census Bureau data indicate that 10.6 percent of Black Americans were uninsured as of 2017 (compared to 6.3 percent of non-Hispanic whites). They remained over 1.5 times more likely to be uninsured than their white counterparts.²⁶⁴ Black Americans are less likely to hold jobs that have employer-sponsored coverage, and lower wages mean that they have difficulty affording private coverage. Almost half of Black respondents to a Kaiser Family Foundation survey in 2020 reported difficulty finding healthcare they could afford.²⁶⁵

18M

Black Americans live in the 12 states that have not accepted Medicaid expansion under the ACA

The Medicaid program, jointly funded by states and the federal government, was created to bridge the gap in coverage for low-income households. Yet stringent eligibility rules in certain states make it difficult for Black residents living in poverty to obtain benefits. More than 18 million Black Americans live in the 12 states that have not accepted Medicaid expansion under the ACA. Doing so would make Medicaid coverage available to parents whose earnings put them at or below 138 percent of the federal poverty line (\$21,330 in annual income for a family of three).²⁶⁶ The rules in those 12 states vary, but income caps are set much lower, making it harder to qualify (Exhibit 34). In Texas, for example, only parents or caregivers making less than \$3,000 a year, or below 14 percent of the federal poverty line, can qualify for Medicaid coverage.²⁶⁷

The eight states that have not accepted Medicaid expansion and have large Black populations—Texas, Georgia, Florida, North Carolina, Mississippi, Alabama, South Carolina, and Tennessee—are home to almost one million low-income Black residents who would be eligible for Medicaid at the post-expansion income threshold of 138 percent of the federal poverty line. Sixty percent of them live in three states: Texas, Georgia, and Florida.

²⁶³ See, for example, *Prioritizing health: A prescription for prosperity*, McKinsey Global Institute, July 2020.

²⁶⁴ Samantha Artiga, Kendal Orgera, and Anthony Damico, *Changes in health coverage by race and ethnicity since the ACA, 2010–2018*, Kaiser Family Foundation, March 2020.

²⁶⁵ Survey on race and health conducted in 2020 by the Kaiser Family Foundation and ESPN's The Undeclared; included 1,769 US adults with an oversample of 777 Black Americans.

²⁶⁶ 2019 American Community Survey single-year estimates, US Census Bureau, September 2020.

²⁶⁷ "Medicaid for parents & caretakers," Texas Department of Health and Human Services, hhs.texas.gov/services/health/medicaid-chip/programs-services/children-families/medicaid-parents-caretakers, April 2021.

States that have not accepted Medicaid expansion under the Affordable Care Act set their own income limits for eligibility.

States that have not expanded Medicaid eligibility under the ACA, 2019

Income eligibility for parents and Black population share

	State's income eligibility threshold for Medicaid, ¹ % of federal poverty level	State's maximum annual income eligibility threshold for a family of three, ² \$	Black share of state population, %
Wisconsin	100	21,330	7
Tennessee	95	20,264	17
South Carolina	67	14,291	27
Wyoming	54	11,518	1
South Dakota	49	10,452	2
North Carolina	42	8,959	22
Kansas	38	8,105	6
Georgia	35	7,466	32
Florida	32	6,826	17
Mississippi	26	5,546	38
Alabama	18	3,839	27
Texas	14	2,986	13

1. Eligibility levels are based on a family of three for parents and an individual for childless adults. In 2019, the FPL was \$21,330 for a family of three and \$12,490 for an individual. Thresholds include the standard 5% federal poverty level disregard.

2. Calculation based on annual income eligibility as percentage of federal poverty level.

Note: The ACA expands Medicaid coverage for most low-income adults to 138% of the federal poverty level. Some 18 million Black Americans, or ~40% of the Black population in the United States, live in these 12 non-expansion states.

Source: Tricia Brooks, Lauren Roygardner, and Samantha Artiga, *Medicaid and CHIP eligibility, enrollment, and cost-sharing policies as of January 2019: Findings from a 50-state survey*, Kaiser Family Foundation; Georgetown University Center for Children and Families; Texas Health and Human Services; McKinsey Global Institute and McKinsey Institute for Black Economic Mobility analysis

Black Americans face a major housing gap

Housing determines stability; it can inflict stress on a household budget or be a vehicle for building long-term wealth. Where a family lives can influence their economic mobility for generations. Housing also affects the wealth and vibrancy of communities.

For decades, federal housing policies created segregation (see Box 9, “A history of discrimination in housing policy”). While policy no longer codifies nor permits overt discrimination, communities were shaped by this legacy. It lingers on in the form of de facto housing segregation and underinvestment in Black communities. Research shows that residential segregation continues to inhibit home value appreciation in predominantly Black neighborhoods to this day.²⁶⁸

Because K-12 public schools typically get a substantial share of funding from local property taxes, where a family lives can determine whether their children get a solid education that makes them truly college-ready. (See below for more on this topic.)

Housing and the neighborhood environment are also major determinants of health.²⁶⁹

Residents of poor-quality housing units may live with stress, maintenance issues, toxins, and extreme temperatures. Overcrowding can also be a public health risk, as the pandemic demonstrated.²⁷⁰

The median net wealth of US home owners is 80 times higher than that of renters.²⁷¹ But only 44 percent of Black households own their homes. That is 30 percentage points lower than the home ownership rate for white households (74 percent). When they do own homes, the median value (\$217,000) is 30 percent lower than that of white-owned homes (\$309,000). The majority of Black households are renters, and 53.7 percent of them were cost burdened in 2019.²⁷² (For more on this topic, see chapter 4.)

Home equity is one of the most important building blocks of wealth and retirement security, as discussed in greater detail in chapter 5. With lower home ownership rates, Black residents are less likely to live in a rent-free home on retirement, putting additional strain on their savings or Social Security checks. It also limits their ability to pass on property and give the next generation a leg up.

~40%

of Americans experiencing homelessness are Black

Some 20 million US renter households are cost burdened, and roughly 40 percent of them (8.5 million) are Black households.²⁷³ If Black Americans were not overrepresented in this group relative to their share of the population, roughly 5.5 million fewer Black households would be rent burdened. Precarious finances make them vulnerable to losing their homes, which can affect their ability to hold a stable job or afford other basic necessities.²⁷⁴ Some 40 percent of the 500,000 people experiencing homelessness across the country are Black.²⁷⁵ If they were not overrepresented in this group, almost 150,000 unhoused Black Americans would have a roof over their heads.

²⁶⁸ Kimberly Quick, *Attacking the Black-white opportunity gap that comes from residential segregation*, The Century Foundation, June 2019.

²⁶⁹ See, for example, Nabihah Maqbool, Janet Viveiros, and Mindy Ault, *The impacts of affordable housing on health: A research summary*, Center for Housing Policy, April 2015.

²⁷⁰ Khansa Ahmad et al., “Association of poor housing conditions with COVID-19 incidence and mortality across US counties,” *PLoS One*, November 2020, Volume 15, Number 11.

²⁷¹ Jonathan Eggleston and Donald Hays, “Many US households do not have biggest contributors to wealth: Home equity and retirement accounts,” US Census Bureau, August 2019.

²⁷² The US Department of Housing and Urban Development defines households as “cost burdened” when more than 30 percent of their gross income goes toward housing—a tipping point that begins to squeeze their ability to spend on other categories. *The state of the nation’s housing 2020*, Joint Center for Housing Studies of Harvard University, November 2020; and *Out of reach: The high cost of housing*, National Low Income Housing Coalition, 2020.

²⁷³ *The state of the nation’s housing 2020*, Joint Center for Housing Studies of Harvard University, November 2020.

²⁷⁴ Stateline, “A pileup of inequities: Why people of color are hit hardest by homelessness,” blog entry by Teresa Wiltz, The Pew Charitable Trusts, March 29, 2019; and Whitney Airgood-Obrycki, Alexander Herman, and Sophia Wedeen, *The rent eats first: Rental housing unaffordability in the US*, Joint Center for Housing Studies of Harvard University, January 2021.

²⁷⁵ *The 2019 annual homeless assessment report (AHAR) to Congress*, US Department of Housing and Urban Development, Office of Community Planning and Development, January 2020.

Box 9

A history of discrimination in housing policy

Boundaries—once literal and now mostly figurative—have delineated Black neighborhoods across the nation for many decades. Racial segregation in housing was the result of conscious policy decisions.¹ Even after those policies were reversed, their effects calcified over time. Segregation has been maintained by both explicit and unspoken discrimination on the part of lenders, local zoning boards, urban planners, and white home owners. These forces have marginalized most majority-Black communities and prevented many Black families from putting down roots in places with better schools and neighborhood amenities.

While the New Deal enacted policies to create a more prosperous white middle class, Black Americans were specifically excluded, particularly when it came to housing. The Federal Housing Administration spent decades refusing to insure mortgages in and around neighborhoods with Black majorities, a practice known as redlining. Racial covenants in residential deeds were commonplace (and legal for the first half of the 20th century); they prevented owners in predominantly white neighborhoods from selling or renting to Black households.²

The Fair Housing Act of 1968 was meant to eliminate discrimination. But it has been well documented that private actors have found ways around it. Real estate brokers, for example, have stoked fears of integration to convince white home owners to sell at below-market prices in order to sell to Black homebuyers at above-market prices.³ Black mortgage applicants are likely to be charged higher interest rates. Their properties often receive lower appraisals when they are applying for home purchase or refinancing loans; conversely, their properties have sometimes been appraised above market value for property tax assessments.⁴ In the housing bubble that preceded the 2008 financial crisis, predatory mortgage lending to poor minority borrowers contributed to a wave of foreclosures and losses.⁵

These issues also extend to the rental market. One large study documented that Black renters were charged more than white renters for identical units, with the effect growing more pronounced in neighborhoods with higher white shares of the population.⁶ Additionally, many states and localities do not have source-of-income protections, which means that landlords may refuse to accept Black tenants who receive government rental assistance (such as housing choice vouchers). One study found just one available unit that would accept a Section 8 voucher out of 39 advertisements screened.⁷

¹ See, for example, Richard Rothstein, *The color of law: A forgotten history of how our government segregated America*, Liveright, 2017; and Keeanga-Yamahtta Taylor, *Race for profit: How banks and the real estate industry undermined Black homeownership*, University of North Carolina Press, 2019.

² Sarah Shoenfeld and Mara Cherkasky, *The rise and demise of racially restrictive covenants in Bloomingdale, D.C.* Policy Center, April 2019.

³ Kriston Capps, "How real-estate brokers can benefit from stoking racial fears in white neighborhoods," CityLab, March 2015.

⁴ Robert Bartlett et al., *Consumer-lending discrimination in the fintech era*, UC Berkeley, November 2019; Debra Kamin, "Black homeowners face discrimination in appraisals," *New York Times*, August 25, 2020; and Carlos Avenancio-León and Troup Howard, *The assessment gap: Racial inequalities in property taxation*, Washington Center for Equitable Growth, June 2020.

⁵ See, for example, Jacob S. Rugh and Douglas S. Massey, "Racial segregation and the American foreclosure crisis," *American Sociological Review*, October 2010, Volume 75, Issue 5.

⁶ Dirk W. Early, Paul E. Carrillo, and Edgar O. Olsen, *Racial rent differences in US housing markets*, SSRN, July 2018.

⁷ Mary K. Cunningham et al., *A pilot study of landlord acceptance of housing choice vouchers*, Urban Institute, August 2018.

The public sector spends about \$125 billion annually on housing assistance. This includes federal programs (\$55 billion in assistance and \$10 billion in low-income housing development tax credits in 2019) as well as state and local programs (some \$60 billion in assistance in 2017).²⁷⁶ Eighty percent of federal assistance spending comes from three programs through the US Department of Housing and Urban Development: tenant-based rental assistance via vouchers administered by local public housing authorities (\$22 billion), project-based rental assistance via contracts with landlords who rent to low-income households (\$12 billion), and public housing owned and operated by public housing authorities (\$7 billion).²⁷⁷ In addition to annual housing assistance budgets, recent federal relief packages enacted in response to the pandemic have given state and local governments flexibility and an infusion of resources that many could put into support for affordable housing.²⁷⁸

However, the need outstrips the scale of these investments. Only about a quarter of those eligible for Section 8 housing choice vouchers actually receive them, for example.²⁷⁹ In cities across the nation, there is an acute shortage of affordable housing. Supply has not kept up with population growth for a variety of reasons, including zoning restrictions, onerous permitting processes, high land and construction costs, and community resistance.²⁸⁰

Across the United States, more than three-quarters of affordable housing stock is naturally occurring—that is, housing that is affordable without public subsidies.²⁸¹ Keeping unsubsidized housing affordable will likely require collaboration between the public, private, and social sectors, because many of these properties have fragile finances. Counting these units in local affordable-housing goals, supporting dedicated investment funds, and expanding underwriting programs for preservation are among the potential solutions.²⁸²

Housing solutions often originate at the local level, from community land trusts in places such as Seattle and Houston to the use of public funds to buy and convert properties for low-income or permanent supportive housing.²⁸³ A few cities have eliminated single-family zoning to encourage building and allow greater density. Others have granted developers the right to build larger multifamily projects in exchange for setting aside a greater share of affordable units.

The US model of funding for K-12 public schools amplifies gaps in community wealth and affects the quality of education

Education prepares individuals for employment and entrepreneurship—and public K-12 schools have long been flashpoints in America's racial reckoning. The Supreme Court struck down school segregation in *Brown v. Board of Education*, but a series of decisions in the 1990s allowed court oversight of desegregation to phase out. Research has documented a gradual trend toward resegregation in large school districts since then.²⁸⁴ In addition, many parents have opted out of public schools. Some 5.7 million US students, two-thirds of them white, were enrolled in private elementary and secondary schools in 2017.²⁸⁵

Overall, US public schools remain separate and unequal for Black students, as multiple metrics show. As of 2019, the Black rate of high school completion among age 25 and older was almost six percentage points lower than the white completion rate (88.8 percent

²⁷⁶ "Budget functions," House Committee on the Budget; "State and local expenditures," Urban Institute.

²⁷⁷ "Budget functions," House Committee on the Budget; and Peter G. Peterson Foundation blog, "How does the federal government support housing for low-income households?," July 29, 2020.

²⁷⁸ *The avenue*, "The American Rescue Plan's secret ingredient? Flexible state and local aid," blog entry by Mark Muro, Eli Byerly Duke, and Joseph Parilla, Brookings Institution, April 2, 2021.

²⁷⁹ Dylan Matthews, "76 percent of people who qualify for housing aid don't get it," Vox, May 2014.

²⁸⁰ See, for example, "Housing affordability: A supply-side tool kit for cities," McKinsey Global Institute, October 2017; and *Affordable housing in Los Angeles: Delivering more—and doing it faster*, McKinsey Global Institute, November 2019.

²⁸¹ "New CoStar data identifies 5.5 million units of naturally occurring affordable housing in markets across the United States," Urban Land Institute, October 2016.

²⁸² "Preserving the largest and most at-risk supply of affordable housing," February 2021, McKinsey.com.

²⁸³ Mark Roseland and Christopher Boone, "How community land trusts can help heal segregated cities," Next City, September 14, 2020; and Nate Berg, "The radical way cities are tackling affordable housing," *Fast Company*, April 2021.

²⁸⁴ Sean F. Reardon et al., "Brown fades: The end of court-ordered school desegregation and the resegregation of American public schools," *Journal of Policy Analysis and Management*, 2012, Volume 31, Issue 4.

²⁸⁵ "Private school enrollment," in *The condition of education*, annual report of the National Center for Education Statistics, US Department of Education's Institute of Education Sciences, May 2020.

versus 94.6 percent).²⁸⁶ Black students still score more than 100 points below white students on the SAT even after controlling for gender, socioeconomic status, and previous academic achievement.²⁸⁷

Academics have identified various factors behind these gaps. They include school funding, access to additional or private instruction, exposure to violence, and negative stereotypes.²⁸⁸ Some of the disparities detailed in other parts of this report, including family income and wealth, housing, access to nutrition and broadband, and the community context, also feed into these dynamics. Families with lower incomes cannot afford to hire tutors to help their children master a challenging subject or prep for college admission tests.

Unfortunately, the classroom can also impart early lessons about discrimination. Black K-12 students are more likely to be subject to disciplinary action in school.²⁸⁹ This puts some children on a track that can lead to expulsion, dropping out, and possibly interaction with the criminal justice system.²⁹⁰ On the opposite side of that equation, low-income, female, and Black children are less likely to be identified as gifted students and placed into advanced classes.²⁹¹

Most US states provide some level of baseline funding to local school districts, with the remainder generated by local property taxes. This approach creates variability based on community wealth that can bake in existing advantages and disadvantages associated with income. Nationwide, 81 percent of local revenues for public school districts were derived from local property taxes in 2017–18.²⁹² Affluent residents, through property taxes on higher-value homes, can fund schools with full staffing, well-maintained physical facilities, technology, and extracurricular programs. Lower-income residents may not generate enough property tax revenue to do the same. One study finds that more than 20 percent of children in the nation's underfunded, low-performing school districts are Black.²⁹³

\$1,800

less in instructional
spending per pupil in
Black-concentrated public
school districts

The national average for instructional spending in Black-concentrated public school districts (that is, schools in which 75 percent or more of the student population is Black) is \$1,800 less per pupil than in white-concentrated school districts. Across the entire country, this adds up to a \$14 billion annual gap that affects 7.7 million Black students. The disparity is largest in states with the largest Black student populations, including Texas and Georgia. Spending per pupil is not the only factor determining educational outcomes, but sustained spending does matter.²⁹⁴ The quality of the foundation children acquire in the K-12 years can determine their success or failure in postsecondary education and throughout their careers.

²⁸⁶ *Digest of education statistics 2019*, Table 104.10, National Center for Educational Statistics, February 2021.

²⁸⁷ Nicholas P. Triplett and James E. Ford, "E(race)ing inequities: The state of racial equity in North Carolina public schools," Center for Racial Equity in Education, August 2019. It should be noted that multiple studies have found racial bias in the content of standardized tests; see, for example, Maria Veronica Santelices and Mark Wilson, "The case of Freedle, the SAT, and the standardization approach to differential item functioning," *Harvard Educational Review*, spring 2010.

²⁸⁸ See, for example, Bruce D. Baker, "How money matters for schools," Learning Policy Institute, December 2017; Ember Smith and Richard V. Reeves, "SAT math scores mirror and maintain racial inequity," Brookings Institution, December 2020; Desmond Ang, "The effects of police violence on inner-city students," *Quarterly Journal of Economics*, 2021, Volume 136, Number 1; Claude Steele, "Stereotype threat and African-American student achievement," in *Young, gifted, and black: Promoting high achievement among African-American students*, Theresa Perry, Claude Steele, and Asa G. Hilliard III, Beacon Press, 2003.

²⁸⁹ Travis Riddle and Stacey Sinclair, "Racial disparities in school-based disciplinary actions are associated with county-level rates of racial bias," *Proceedings of the National Academy of Sciences*, April 2019, Volume 116, Number 17; and *K-12 education: Discipline disparities for Black students, boys, and students with disabilities*, US Government Accountability Office, March 2018.

²⁹⁰ Jayanti Owens, "Unpacking the drivers of racial disparities in school suspension and expulsion," *Social Forces*, June 2020, Volume 98, Issue 4; and *Civil rights data collection: Data snapshot: School discipline*, issue brief number 1, US Department of Education Office for Civil Rights, March 2014.

²⁹¹ David Card and Laura Giuliano, "Universal screening increases the representation of low-income and minority students in gifted education," *Proceedings of the National Academy of Sciences*, November 2016, Volume 113, Number 48.

²⁹² *Public school revenue sources*, National Center for Education Statistics, May 2021.

²⁹³ *Closing America's education funding gaps*, The Century Foundation, July 2020. See also C. Kirabo Jackson, Cora Wigger, and Heyu Xiong, "Do school spending cuts matter? Evidence from the Great Recession," *American Economic Journal: Economic Policy*, May 2021, Volume 13, Number 2.

²⁹⁴ Mark Dynarski, "It's not nothing: The role of money in improving education," Brookings Institution, March 2017; and Julien Lafortune, Jesse Rothstein, and Diane Whitmore Schanzenbach, *School finance reform and the distribution of student achievement*, NBER working paper number 22011, February 2016.

Racial disparities also exist in higher education

Racial disparities in higher education show up at multiple stages, from enrollment to completion and job placement. Black high school students are less likely to attend colleges and universities. When they do, they take longer to obtain a degree on average.²⁹⁵ They are more likely to drop out without degrees and to leave carrying a higher debt burden.²⁹⁶ Within six years of starting higher education, one out of three Black borrowers who had begun repayment defaulted on their loans, compared to only 13 percent of their white counterparts, with the highest rates of default among those who attended private for-profit institutions.²⁹⁷ The risk of default is especially high for Black borrowers who did not obtain a degree (55 percent).²⁹⁸ It is exceptionally hard for young Black Americans to get a foothold in life if they leave college with no credential but student loans coming due.

Public-sector investment in higher education attempts to lessen the financial burden for students and families. At the federal level, Pell Grants offer direct assistance to low-income students. State and local governments operate public university systems that generally charge lower tuition to in-state residents than private institutions. In 2017, total public investment in higher education came to \$172 billion. Of this, \$75 billion came from the federal government; 40 percent of that share went to student aid, and 35 percent went to research grants. State and local investment of \$97 billion focused on institutional operations (more than 75 percent) and some research funding (less than 25 percent).²⁹⁹

Public state university systems are meant to make education affordable and accessible. But Black students are often underrepresented at the most selective institutions in those systems.³⁰⁰ One study that examined the nation's 101 most selective public colleges and universities found that Black enrollment matched the state's population at only 9 percent of these institutions; those located in states with large Black populations were the least accessible to Black students.³⁰¹ HBCUs, some of which are public institutions, have long been a success story for Black Americans. See chapter 7 for a deeper discussion.

Among the income support programs that benefit Black Americans, Social Security has design features that amplify existing disparities

Ever since the New Deal, supplemental and replacement income programs have been an essential stopgap against extreme poverty and even the support needed for people to move up. In 2019, the federal government spent more than \$1.5 trillion on income security and food assistance. By far the largest share of this spending (almost 70 percent) went toward Social Security.³⁰² State and local spending supplements federal programs; in fiscal year 2017, these programs totaled some \$200 billion.³⁰³

Many federally and locally funded programs have empirically reduced poverty. Research has found that programs addressing child poverty (such as the Earned Income Tax Credit) and food insecurity (such as the Women, Infants, and Children, or WIC, nutrition program) have been effective.³⁰⁴ One study on WIC found that babies whose mothers participated in WIC are more likely to survive infancy, and two-year-olds score higher on mental development

²⁹⁵ Ariana De La Fuente and Marissa Alayna Navarro, "Black and Latinx students are getting less bang for their bachelor's degrees," Center for American Progress, January 2020.

²⁹⁶ *Digest of Education Statistics 2019*, National Center for Educational Statistics, February 2021.

²⁹⁷ Ben Miller, *The continued student loan crisis for Black borrowers*, Center for American Progress, December 2019.

²⁹⁸ Judith Scott-Clayton and Jing Li, *Black-white disparity in student loan debt more than triples after graduation*, Brookings Institution, October 2016.

²⁹⁹ "Two decades of change in federal and state higher education funding: Recent trends across levels of government," Pew Research, October 2019.

³⁰⁰ Lauren Lumpin, Meredith Kolodner, and Nick Anderson, "Flagship universities say diversity is a priority. But Black enrollment in many states continues to lag," *Washington Post*, April 18, 2021.

³⁰¹ "Segregation forever? The continued underrepresentation of Black and Latino undergraduates at the nation's 101 most selective public colleges and universities," The Education Trust, July 2020.

³⁰² "Budget functions," House Committee on the Budget.

³⁰³ "State and local expenditures," fiscal year 2017, Urban Institute.

³⁰⁴ See, for example, "Earned income tax credits, Health impact in five years," Population Health and Healthcare Office, Centers for Disease Control and Prevention, 2017; Mary Kay Fox, William Hamilton, and Biing-Hwan Lin, *Effects of food assistance and nutrition programs on nutrition and health: Volume 3, Literature review*, US Department of Agriculture, December 2004; Silvie Colman, Ira Nichols-Barrer, and Julie Redline, *Effects of the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC): A review of recent research*, US Department of Agriculture, January 2012.

\$170K

mean lifetime Social Security benefits for Black retirees, vs. \$260K for white retirees

assessments.³⁰⁵ Still, in 2017, almost half of the those eligible for WIC did not receive benefits; some seven million people were left out.³⁰⁶ For the Black WIC-eligible population, coverage rates are some of the highest, at just under 60 percent covered, compared to 40 percent for whites. However, the share of the Black population eligible for WIC is over twice that of the white population (5.6 percent of the Black population, compared to 2.1 percent of the white population). This reflects the lower incomes of Black Americans.

However, as noted above, Social Security represents the lion's share of safety net spending in the United States. It was 190 times larger than the WIC program in fiscal year 2019, when it represented 23 percent of all federal outlays. Most working Americans pay into the program through a dedicated income tax, on the promise that they will receive monthly benefits scaled to the amount of their contributions over the years. Benefits represent the culmination of an individual's working life, and they support consumption by seniors.

Social Security is one of the most successful antipoverty programs in the nation's history.³⁰⁷ However, its design extends income inequality through the retirement years, with particular disadvantages to Black Americans. Several factors are at play. First, retirement tax contributions are capped at \$140,000, which is the lower bound of the top income quintile.³⁰⁸ This means that the highest-paid workers take home larger paychecks after they pass this cap, for the remainder of the calendar year.

The methodology for determining Social Security benefits disadvantages Black retirees according to how long they will receive benefits and the size of the checks they get. On average, Black retirees have four fewer years between retirement and life expectancy than white retirees.³⁰⁹ Further, Black workers generally hold lower-paying jobs, as described in Chapter 2—and then their Social Security benefits are calculated on those lower earnings. Lifetime earnings are one-third lower on average for Black men than for white men, and 13 percent lower for Black women than for white women.³¹⁰ Social Security then locks that gap into place permanently. Mean lifetime benefits are one-third lower for Black retirees than for white retirees (\$170,000 versus \$260,000), for an annual difference of \$2,500.

If disparities in income and life expectancy did not exist, Black retirees would receive \$31 billion more in Social Security benefits every year (Exhibit 35). To arrive at this number, we calculated how much more in benefits Black recipients would receive if they each got \$2,500 more per year and if 400,000 more Black Americans received benefits (on a par with the white share of the population receiving benefits after age 62).

³⁰⁵ Steven Carlson and Zoe Neuberger, "WIC works: Addressing the nutrition and health needs of low-income families for more than four decades," Center on Budget and Policy Priorities, January 2021.

³⁰⁶ "WIC 2017 eligibility and coverage rates," US Food and Nutrition Service, US Department of Agriculture, April 2020.

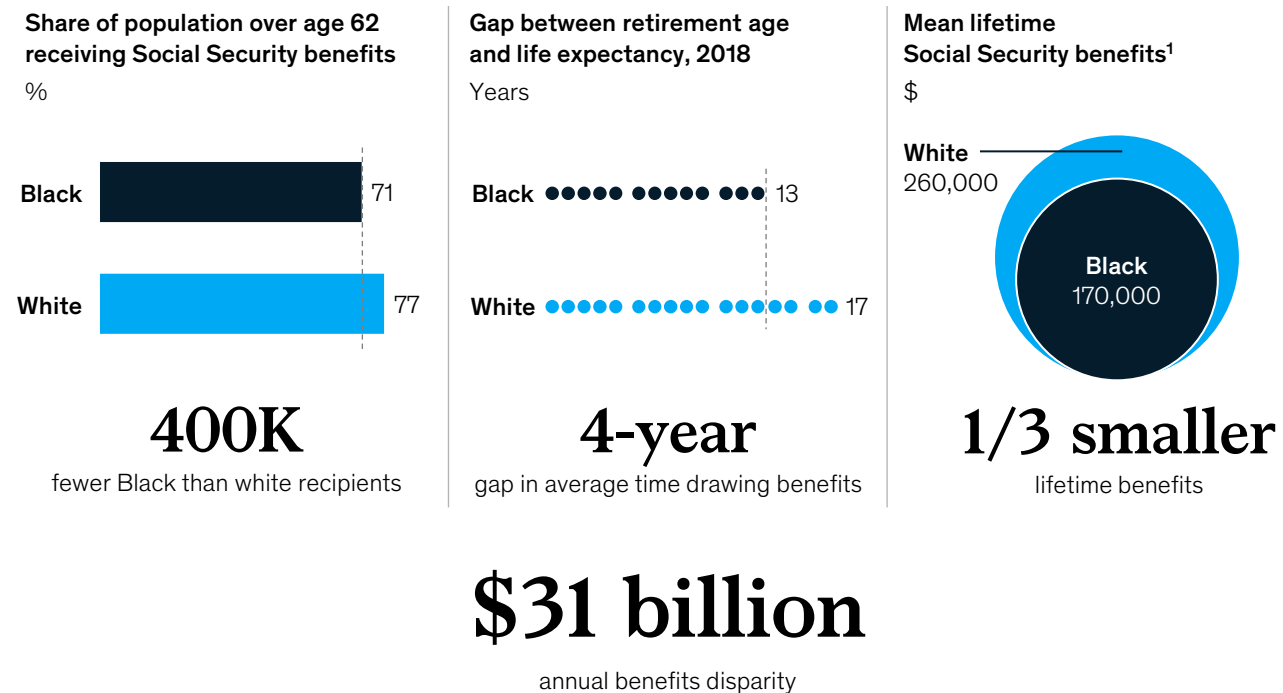
³⁰⁷ See, for example, Kathleen Romig, *Social Security lifts more Americans above poverty than any other program*, Center on Budget and Policy Priorities, February 2020.

³⁰⁸ "Contributions and benefits base," Social Security Administration, May 2021.

³⁰⁹ "Retirement statistics & trend analysis, Fiscal year 2014 to fiscal year 2018," Office of Personnel Management, September 2020; Elizabeth Arias and Jiaquan Xu, "United States life tables, 2018," *National Vital Statistics Reports*, Centers for Disease Control and Prevention, November 2020, Volume 69, Number 12.

³¹⁰ Melissa Favreault, "Average accumulated real lifetime earnings at ages 58–62 for people born 1950–54, by gender and race/ethnicity," Urban Institute, 2015. Calculated in 2015 dollars for people ages 58 to 62 in 2012. Excludes people outside the United States for more than 10 years of adulthood; this is especially important for Hispanics, who are more likely foreign born.

Adding recipients and equalizing benefits would result in Black retirees receiving \$31 billion more in Social Security annually.



1. \$13,100/year for 13 years for Black recipients; \$15,500/year for 17 years for white recipients.

Source: Social Security Administration; US Office of Personnel Management; US Centers for Disease Control; "Nine charts about wealth inequality in America," Urban Institute; McKinsey Global Institute and McKinsey Institute for Black Economic Mobility analysis

Transit infrastructure, which enables economic participation, is less available in Black population centers

Public infrastructure enables residents to participate in the economy. Publicly owned and maintained roads and bridges enable safe and fast means of traveling to work and local businesses. Public transit, and most recently bike and scooter shares, also contribute to local publicly funded transportation systems.

However, access to quality public infrastructure is not equal. Public investment in and upkeep of a space can establish a premium area of a city. For example, people tend to be willing to pay higher housing prices for homes located near rapid-transit stops. One study of real estate in Washington, DC, determined that buyers will pay an almost \$9,000 premium to live within a mile of a Metrorail (known as Metro) station, and up to \$40,000 extra to live within a quarter-mile of a Metro station.³¹¹ These public amenities, and the mobility they confer, are less accessible to lower-income residents, who are often people of color.

To give just one example, Metro lines in Washington, DC, are not as accessible as bus lines in areas of the city with more Black residents. About 65 percent of the city's Black population lives in a Metro desert (defined as being more than half a mile from a Metro stop), compared to 45 percent of its non-Black population. Of DC's eight wards, wards 7 and 8, in the southeastern corner of the city, have the highest Black population and the largest populations in a Metro desert. By contrast, almost all residents are within one-half mile of a bus stop. Only about 1 percent of both the Black and non-Black populations live in a bus stop desert.³¹²

³¹¹ "Proximity to a Metro rail station and Its Impact on Washington, DC, metropolitan house prices: Amenity or not?" Freddie Mac, September 2019.

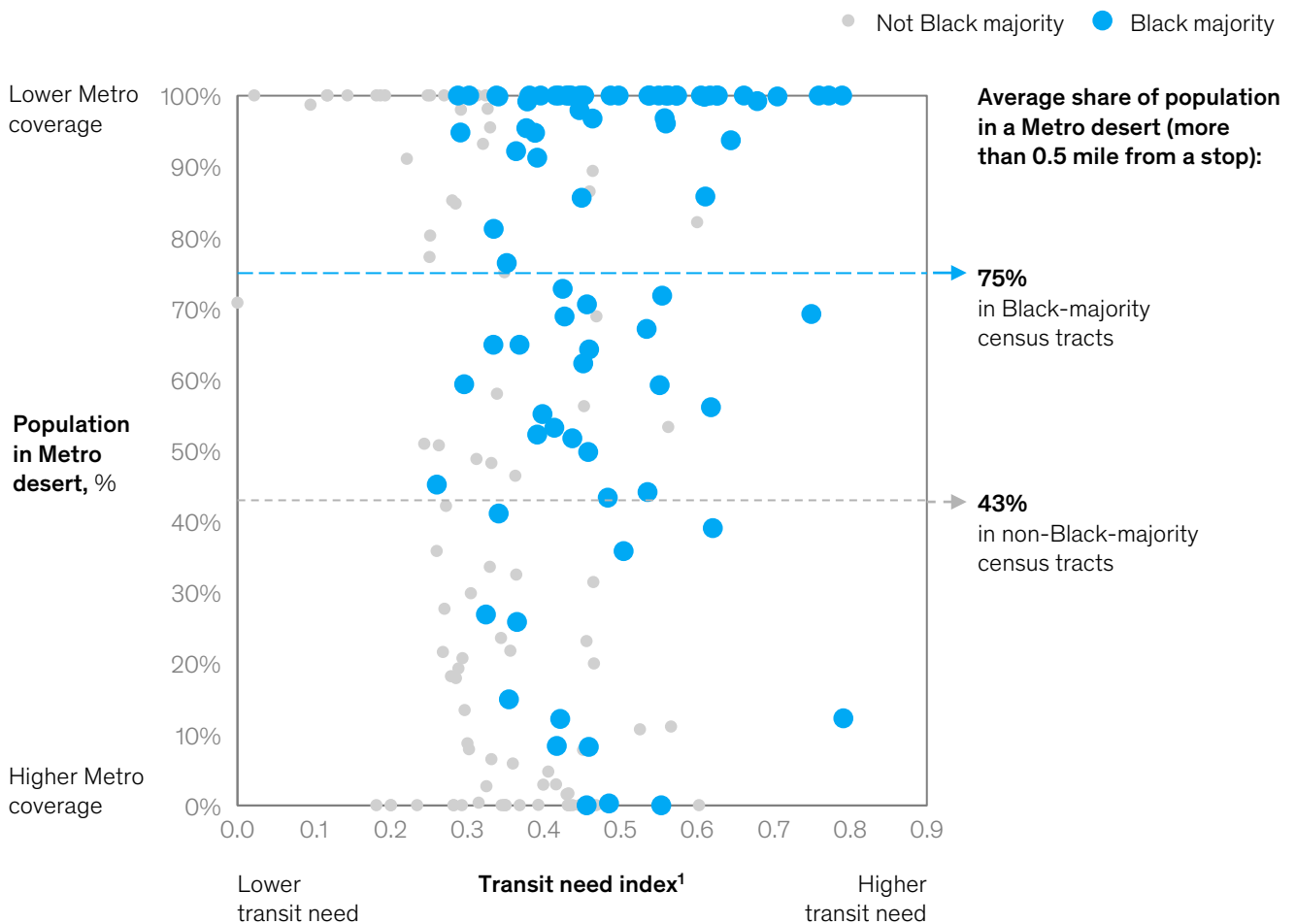
³¹² Data from the 2019 American Community Survey (five-year estimates) and Open Data DC; analysis by McKinsey FinLab's CityX tool.

At the same time, Black residents of the District of Columbia are four times more likely to be in high need of public transit than non-Black residents. We defined high transit need as being in a census tract where the combined percentage of households without a car and with commutes exceeding 45 minutes is in the top 20 percent of all DC census tracts. The average Black-majority census tract has both higher transit need and a higher percentage of the population in a Metro desert than the average census tract without a Black majority (Exhibit 36).

Exhibit 36

On average, majority-Black census tracts have larger populations in Metro deserts and greater transit need than non-Black majority tracts.

Population in Metro deserts, by transit need, in Washington, DC



1. Transit need index was calculated using population without a car and population with commutes exceeding 45 minutes, with both factors weighted equally. Source: Open Data DC; McKinsey FinLab's CityX tool; McKinsey Global Institute and McKinsey Institute for Black Economic Mobility analysis

These types of patterns are by no means unique to Washington, DC. They are visible in other cities across the country, where transit agencies sometimes invest to attract affluent riders who have other options, rather than prioritizing service for those who ride out of necessity.³¹³ Overall, disparities in access to public transit infrastructure limit the ability of Black residents to participate in the local economy as seamlessly as other residents can.

³¹³ *Urban edge*, "Racism has shaped public transit, and it's riddled with inequities," blog entry by Christof Spieler, Kinder Institute for Urban Research, Rice University, August 24, 2020.

Spotlight: Key takeaways

Across all roles, Black Americans encounter gaps and barriers that limit their economic participation and prosperity

1. Workers: Occupational gaps and bottlenecks in career progression manifest as a substantial wage disparity. We calculate a \$220 billion annual wage gap, a figure that accounts for lack of parity in representation across occupations and racial pay gaps within occupational categories. Relative to their 12.9 percent share of the US labor force, Black workers are strikingly underrepresented in higher-paying professions (such as doctors, lawyers, software developers, and executive roles) and concentrated in low-wage jobs (such as nursing assistants, home health aides, cooks, cashiers, and security guards). Many of these low-wage roles lack stability, benefits, and protections—and their pathways to advancement are not obvious. The median wage for all US workers is around \$42,000 per year, but 43 percent of Black workers earn less than \$30,000 per year. Today's gaps and lack of parity could grow even more stark in the future, driven by automation and other disruptions affecting the future of work.

2. Business owners: There are relatively few Black-owned employer businesses, and those that exist are smaller than other companies within their industries. Black-owned businesses account for only 2 percent of all US private businesses with more than one worker. They are strikingly absent across multiple industries; a disproportionate share are small caregiving services. In fact, Black-owned businesses are smaller in size

than their peers across industries. Taking both representation and per-firm revenues into account, we calculate a \$1.6 trillion revenue gap. Limited access to capital is a key driver of this disparity. Black-owned businesses start with one-third of the capital of white-owned businesses on average, and they are more likely to be denied credit.

3. Consumers: Many Black communities lack access to the products and services they need, and Black consumers in our own survey reported dissatisfactions with current offerings across many categories of spending. Many Black communities lack sufficient access to high-quality retail and fundamental services. Some 8.3 million Black Americans lack easy access to fresh food, and 16 million live in areas with few healthcare providers. Black households are also 50 percent more likely to live in areas with limited broadband service, and the cost of housing strains budgets for 54 percent of Black renter households. Our own survey of Black consumers indicates that they are less likely to be satisfied with the products and services currently available to them and are willing to change their buying behavior as a result. This is an invitation for innovative companies to compete for this market and better serve Black consumers in the process. We estimate that \$260 billion in current spending could be in play—and survey respondents even reported a willingness to pay 20 percent more on average for offerings that better meet their needs.

4. Savers/investors: The racial wealth gap reflects intergenerational wealth transfers and lower financial inclusion and participation for Black households. Inheritances account for 60 percent of the gap in new wealth flowing to Black and white families each

year. Some 3.5 million Black families have negative net worth due to debt, while an additional 4.3 million have net worth of less than \$10,000. Conversely, only about 340,000 Black American families have net worth above \$1 million. Black households are also less likely to own various types of assets and instruments. The Black home ownership rate is 30 percentage points lower than the white homeownership rate, and the median value of Black-owned homes is one-third lower. Thirty-five percent of Black households have retirement accounts and just 7 percent directly hold stocks (vs. 57 percent and 19 percent, respectively, for white households).

5. Residents: Across a set of public programs that ease hardship, foster wealth creation, and enable economic participation, we see disparities in per capita spending and access. Many government programs shape economic activity or set the baseline context for how individuals participate in the economy by widening access to fundamental enablers such as healthcare, education, housing, infrastructure, and safety net spending to sustain consumption. But some large programs have design features that amplify racial gaps. Medicaid is designed to provide healthcare coverage to the lowest-income households, but Black residents are disproportionately affected by eligibility rules in certain states. Medicaid expansion under the Affordable Care Act in eight states could cover an additional one million Black residents within 138 percent of the federal poverty line. In education, the national average for annual instructional spending in Black-concentrated public school districts (in which 75 percent or more of the student population is Black) is \$1,800 less per pupil than in white-concentrated school

districts, a gap that affects 7.7 million Black students across the country. Disparities in income and life expectancy reduce the Social Security benefits received by Black retirees by \$31 billion every year.

Closing the gaps could build a more dynamic and inclusive economy, foster economic mobility, and realize untapped human potential

6. A multi-pronged approach could improve labor market outcomes for Black Americans, potentially boosting incomes by 30 percent.

The first part of this equation involves increasing Black representation in higher-paying roles, as well as closing representation gaps across sectors and regions. In some cases, this will involve multiyear efforts to ensure that more Black candidates make it through the formal development pipelines to enter professions such as doctors, lawyers, and teachers. In other cases, it will take targeted action from companies in underrepresented sectors and geographies to tackle gaps and mismatches. Private-sector employers can make rapid and dramatic progress by expanding where and how they recruit, de-emphasizing traditional credentials, tapping into providers of skills-based training, and offering more apprenticeships and paid internships to Black applicants. Beyond hiring, employers can also improve the workplace experience and establish mentoring programs so that Black employees have opportunities to advance. But representation in professional roles is only one part of the issue. It is equally important to improve the quality of the low-wage jobs held by millions of Black workers today, focusing on pay, stable hours, workplace protections,

sick leave, employer benefits, and access to training that could enable upward mobility.

7. Achieving parity in business ownership would lead to the creation of 615,000 new Black-owned workplaces, while boosting innovation.

Large organizations can drive change through the reach of their supply chains. Beyond the actions of individual companies are issues that permeate entire ecosystems, starting with more transparency and fairness in the way capital is allocated. Social investors, community development financial institutions, minority deposit institutions, and new lending approaches can expand the options for Black entrepreneurs. Large banks, small banks, and online lenders can utilize alternative credit assessment methods to help determine the likelihood of repayment, offsetting often thinner credit histories for Black Americans. Black founders can also benefit from relevant and reliable mentorship from industry veterans as well as legal, accounting, technology, and design services.

8. Investment can expand access to fundamental services in consumer deserts, and companies can better serve the entire Black consumer market. At a broad level, delivering the affordable housing, retail, healthcare, broadband, and other services that Black neighborhoods need to thrive is largely dependent on private businesses deciding to invest there. Our analysis suggests that they can profitably serve previously neglected areas. Local governments sometimes seed development, perhaps with targeted investment or public-private partnerships managed by their economic development agencies. There is a dual opportunity to add revenue for companies and growth for the economy while addressing important gaps in neglected communities and creating value for consumers.

9. The racial wealth gap is not easy to address, but steps toward financial inclusion can help to narrow it.

America's persistent racial wealth gap does not lend itself to easy or quick solutions. Addressing occupational and wage gaps to improve outcomes for Black workers, helping Black entrepreneurs build wealth through ownership, and strengthening enablers such as education could all help to move the needle. In addition, the financial services industry can improve access to products for Black savers and investors. Private employers can play a major role in improving the economic security of their workers—and particularly of their low-wage workers—by adding retirement benefits. Providing financial services to the 14 percent of Black adults who are unbanked could reduce their likelihood of turning to predatory debt.

10. By investing in underserved people and communities, the United States has an opportunity to rebuild a post-pandemic economy with a genuine focus on equity and inclusion. Addressing wage disparities alone could propel some two million Black Americans into the middle class for the first time. This could reverse current trends, with cascading effects lifting the prospects of the next generation even further. Fixing the broken rungs on the ladder of mobility and investing to lift up people and communities is not only a matter of long-overdue social justice for Black Americans; it can also make the economy more robust for everyone. The United States has immense stores of talent and entrepreneurial dynamism in Black communities from coast to coast—and it cannot afford to neglect or encumber that potential any longer, particularly at a time of growing demographic headwinds.



Simone and Bria, Dancers
© Osato Dixon/McKinsey & Company

Appendix A:

Technical notes

Worker role analyses and methodology

We rely on labor market data from IPUMS USA, which organizes microdata from the US Census Bureau. We also incorporate data from the US Bureau of Labor Statistics, the National Center for Education Statistics (NCES), the Association of American Medical Colleges, the American Bar Association, and other sources as noted throughout the chapter. We also build on previous McKinsey research, including *Race in the workplace*; *The future of work in America: People and places, today and tomorrow*; and *The future of work after COVID-19*.

Our main labor market analyses include sizing the gap between the current state and a scenario of greater parity, pipeline progression for Black Americans entering key professions, and pathway analytics for individuals to move from many of the low-wage roles disproportionately held by Black Americans today into higher-paying roles.

Parity sizing

We assess the current state for Black workers using an IPUMS USA five-year dataset (2014-18) based on the US Census Bureau's American Community Survey (ACS). The five-year dataset combines single-year files to allow for sufficient sample size; it is nationally representative via weighting each data point in the sample. We use this data to analyze the representation of Black workers across 530 ACS-defined occupational categories as well as differences in the median wages paid to Black and white workers within each occupational category.

We weigh the current state against scenarios of parity in both representation and pay. We then analyze the gap associated with each of these drivers; when combined, they form a \$220 billion aggregate disparity in annual wages.

With regard to representation, the parity scenario is one in which Black worker representation in each occupational category matches the Black share of the US labor force (12.9 percent), which is turn close to the Black share of the population (13.4 percent).³¹⁴ This involves both reducing their concentration in low-wage roles in which their representation currently exceeds 12.9 percent as well as increasing their representation in higher-paying occupations. However, there are currently not enough actively employed Black workers to achieve uniform 12.9 percent representation across all roles. This scenario requires the addition of one million Black workers to the labor force. Achieving this could involve employing Black Americans who are currently unemployed and looking for work or activating others who are currently not participating in the labor force for a variety of reasons (that is, some combination of reducing the Black unemployment rate or raising the Black labor force participation rate).

With regard to wages within individual occupational categories, we consider parity scenario in which the current differences in median wages paid to Black and white workers within specific categories are eliminated.

³¹⁴ The labor force includes the population over age 16 who are employed as well as those who are unemployed (not currently employed but actively looking for work). Those outside the labor force are neither employed nor seeking work for any number of reasons.

Analyzing the pipelines into key professions

We analyze key professions with above-average wages in which Black worker representation is lower than the share of Black workers in the labor force. These have traditionally been important roles for entering the middle class.

We construct a road map that represents the typical formal journey through education, training, and ultimately entering the profession (recognizing that there are some nontraditional ways to enter that exist outside this view). At each stage along the way, we use various data sources to capture the share of Black representation, seeking to identify the points at which drop-offs occur. These data sources include government agencies (the US Census Bureau, the US Department of Education), professional associations (the Association of American Medical Colleges, the American Bar Association), and others. Our identification of the potential bottlenecks is based on changes in Black representation at various points.

We also consider a scenario in which there is representational parity at each stage (based on matching the 12.9 percent Black share of the labor force) and how many new Black professionals would enter each field under those conditions. We can then determine how many years it would take to diversify the number of practicing professionals in these fields.

While we provide hypotheses for the potential reasons for the bottlenecks, we acknowledge the need for further research to understand why they manifest and how they could be addressed.

Mapping pathways from low-wage roles into higher-paying roles

The pathway analyses focus on select low-wage occupations in which Black workers are disproportionately concentrated (e.g., healthcare aides, janitors, drivers, customer service representatives). For each of these roles, we identify multiple potential pathways that individual workers could take to move into higher-paying jobs. We illustrate this for one occupation in chapter 2, and Appendix B contains illustrations for additional occupations collectively held by millions of Black workers.

These pathways are based on similarities in skills and activities between jobs that make them complementary and logical moves. We also focus on moving individuals into occupations that are forecast to remain in demand in the years ahead, based on projected net employment change through 2030.

Both similarities in occupations and projected future labor demand rely on proprietary data from the McKinsey Global Institute (MGI). Similarity is based on identifying overlaps in pairs of occupations based on MGI's detailed analysis of the work activities associated with each occupation and the time typically spent on them. Labor demand through 2030 is based on MGI's detailed modeling of future of work scenarios. These scenarios incorporate multiple variables, including the effects of automation and other technologies, rising incomes, aging populations, climate change, infrastructure investment, rising education levels, and marketization of unpaid work, plus post-COVID-19 workplace trends.³¹⁵

³¹⁵ For more on these scenarios, see *The future of work after COVID-19*, McKinsey Global Institute, February 2021.

Business owner role analyses and methodology

We rely on business data and research from the US Census Bureau—in particular, its Annual Business Survey (ABS). The ABS program captures select economic and demographic characteristics regarding businesses and business owners. It collects data on all nonfarm employer businesses filing the 941, 944, or 1120 tax forms. Our analyses of ABS data primarily focus on private employer firms (that is, companies that have at least one worker in addition to the owner) that are classifiable by the race/ethnicity of the owner. Sole proprietorships and publicly traded companies are excluded.

We also interviewed Black business owners to add their perspective to our quantitative findings, and rely on the Federal Reserve’s Small Business Credit Survey in our discussion of capital access issues.

Parity sizing and analytics

We weigh the current state against scenarios of parity in both industry representation and per-firm revenue within industries. We then analyze the revenue gap associated with each of these drivers; when combined, they form a \$1.6 trillion annual revenue gap between Black-owned and non-Black-owned businesses.

With regard to industry representation, we measure the current state (against a parity scenario in which the share of Black-owned private employer firms within each industry matches the Black share of the US population (13.4 percent)). This relies on the current number of Black-owned employer firms in each industry and the total number of firms in that industry as reported by the Census Bureau’s ABS program. The estimate of the number of jobs that Black-led firms could create is based on the average number of employees at Black-owned employer firms (9.7 employees) from the ABS; we further note that not all of these jobs would be net new additions to the overall economy.

With regard to per-firm revenue, we consider the difference in the per-firm revenue of Black-owned private employer firms and the revenue of non-Black-owned private employer firms within each industry (listed as sales, value of shipments, or revenue). We then consider a scenario in which this gap is closed.

Entrepreneurship data and discussion

We reference both quantitative evidence and qualitative considerations for our entrepreneurship discussion. Our analysis of newly created Black-owned companies focuses on those that have been operating for less than two years, as reported by the Census Bureau’s ABS program. The discussion of the industry distribution of the newly created Black-owned firms references both industry growth and each industry’s contribution to GDP. The industry growth rate is calculated as the 10-year forward compound annual growth rate based on value add to the economy. The GDP contribution is calculated as contribution to 10-year incremental GDP between 2019 and a 2028 projection. Both projections are from IHS Markit.

For discussion of entrepreneurial rates and potential barriers, we consult sources including the *GEM global entrepreneurship monitor* (2020), the Kauffman Foundation’s 2020 National report on early-stage entrepreneurship, and previous research conducted by McKinsey & Company.³¹⁶ We also conducted more than ten detailed interviews with Black business owners in several industries (healthcare, professional services, construction, and manufacturing).

³¹⁶ See, for example, “Building supportive ecosystems for Black-owned US businesses,” October 2020, McKinsey.com.

Consumer role analyses and methodology

This research explores multiple aspects of consumer disparities, including spending, access, and the quality of available products and services in terms of meeting the needs and preferences of Black consumers. Our analyses build on both publicly available sources and proprietary McKinsey & Company data, research, and tools. Among the public sources consulted are the US Census Bureau's Consumer Expenditure Survey (which is conducted on behalf of the US Bureau of Labor Statistics), the US Department of Agriculture's Food Environment Atlas data, healthcare access data from the US Department of Health and Human Services, data on access to banking services from the Federal Deposit Insurance Corporation, and various other public and private entities.

We also designed and implemented a major consumer survey (conducted May 2021, N=6,200) to estimate Black consumer dissatisfaction, current spending that is subject to shifts, and willingness to pay more for better products and services. We also reference the McKinsey Global Sentiment Survey 2020, conducted in September 2019.

Spending data and analytics

We assess the level of Black consumer spending based on the Consumer Expenditure Survey. Specifically, we calculate the share of US consumer spending by Black consumers (9.9 percent of the \$8.3 trillion annual total), with a breakdown by major household spending categories (including food, apparel, entertainment, housing, transportation, healthcare, etc.).

While some marketing reports estimate Black “buying power” of up to \$1.3 trillion, this usually involves looking at pretax income. Our analysis is based on \$835 billion in actual 2019 expenditures (with data capturing both current spending and spending financed by debt).

Access data and discussion

Our access discussion considers six types of consumer “deserts,” in which there is insufficient access to fresh food, affordable housing, banking, broadband, healthcare, and consumer goods.

- **Food access:** We rely on the US Department of Agriculture definition of food deserts as census tracts that are both low-income and low-access. The criteria for identifying a low-income census tract are the same as the definitions used for the New Markets Tax Credit program. Low access is defined as being far from a supermarket or grocery store. A census tract is considered low access if at least 500 people, or one third of the population, live far away a supermarket. There are four different distance measures of low access: the measure utilized here is one mile in urban areas and 10 miles in rural areas.
- **Affordable housing access:** For the national level analysis, we define low housing access as census tracts that are low-income and in a state that has less than the national level of affordable and available units per 100 extremely low income households, as defined by the National Low Income Housing Coalition (NLIHC).

For the overlapping desert analysis, we use data from the HUD Location Affordability Index, and identify high-cost housing and transportation areas as census tracts where combined cost of housing and transportation is greater than 50 percent of median income. We use this definition to reflect the rising costs of transportation.

For the housing desert interactive chart, we follow the prevailing standard of housing cost burden in the United States—that is paying 30 percent or more of household income on housing. Our calculation is based on data from HUD's Office of Policy Development and Research (PD&R).

- **Banking access:** We use state-level data on the unbanked population published by the FDIC. For the purpose of our analysis, we define a banking desert as a census tract with an above-average proportion of unbanked individuals in the state.
- **Broadband access:** We define broadband deserts as having less than 80 percent coverage, based on FCC data showing the number of residential fixed high-speed

connections (over 200 kbps in at least one direction) per 1,000 households in each census tract. See [fcc.gov/form-477-census-tract-data-internet-access-services](https://www.fcc.gov/form-477-census-tract-data-internet-access-services).

- **Healthcare access:** We use data and definitions from the US Department of Health and Human Services, which designates medically underserved areas and healthcare provider shortage areas. Our perspective is also informed by the Health Resources & Services Administration's scoring index, which includes provider-population ratios, poverty rates, travel time, and other metrics.
- **Consumer goods access:** We use USDA data that considers consumer goods deserts as census tracts in counties with a below-average number of "supercenters." Supercenters include warehouses clubs and supercenters (NAICS code 452910), retailers that sell a general line of groceries in addition to apparel, furniture, and appliances.

Food desert grocery store siting analyses

We undertook an illustrative exercise to explore possibilities for expanding access to fresh food in food deserts, using McKinsey's proprietary Omni site selection tool to consider three potential locations for grocery stores within food deserts in Washington, DC. For each potential location, we estimate the revenue potential of a hypothetical new supermarket location based on consumer expenditures from the surrounding and adjacent zip codes. We use mobile phone data as an admitted imprecise but directional proxy for expected foot traffic, on the assumption that foot traffic is correlated with revenue.

To estimate revenue potential from within the zip code, we use the Huff Probability Model to estimate foot traffic by census tract and assume the new potential grocery store would be as attractive as an existing high-foot-traffic grocery store. In addition, we use a distance decay exponent of 1 in the Huff Probability model equation.

To estimate revenue potential from adjacent zip codes, we estimate foot traffic based on shortest distance grocery store only. Specifically, we divide the neighboring ZIP codes using a hexagon grid to create hexagon centroids, assigning each hexagon to the nearest grocery store. Then we sum the total area of hexagons by grocery store to arrive at the share of area captured by each, assuming that foot traffic is evenly distributed throughout the zip code.

Quality/preference data analytics

We designed and executed a large-scale proprietary consumer survey to gauge Black consumer dissatisfaction, the associated revenue at risk, and Black consumers' willingness to pay more for better products and services across 15 spending categories. The survey collected data from 6,200 respondents in the United States. We constructed a nationally representative sample to reflect national demographics.

Our assessment of the revenue at risk is based on the level of dissatisfaction across spending categories, as revealed by the survey, and the associated category spending based on the Consumer Expenditure Survey. To estimate willingness to pay, we implement the Gabor-Granger methodology in our survey. The survey randomizes the starting level of willingness to pay for respondents, then loops the question to establish each respondent's maximum willingness to pay for better products or services.

Saver/investor role analyses and methodology

The analyses build on data from the Survey of Consumer Finances (SCF), a triennial cross-sectional survey of US families, conducted by the Board of Governors of the Federal Reserve System. The SCF includes information on family balance sheets, income, and demographic characteristics. We also reference research and data published by other research entities, including the Brookings Institution/Hamilton Project and the Pew Research Center.

Parity scenarios and sizing

Our analyses consider disparities in annual wealth flows from three potential sources, including intergenerational transfers, savings potential, and asset allocation/financial participation (instruments or debts held).

- With regard to intergenerational transfers, we measure the difference between the current state and a parity scenario in which Black families have the same likelihood of receiving inheritances and gifts as white families, and the conditional mean value of those transfers equals that of white families. According to the Federal Reserve's Survey of Consumer Finances, Black families (10.6 percent) are less than half as likely to receive intergenerational transfers as their white peers (22.9 percent); the conditional mean of intergenerational transfers for Black families (\$82,940) is one-third that of white families (\$236,495). We also consider the total number of Black families as the total Black population (~45 million, inclusive of Black population of Hispanic origin, as well as the multiracial Black population), divided by the average size (3.77) of Black families.
- With regard to annual savings potential, we calculate wages minus expenditures (including net changes of assets / liabilities), using expenditure data from the Consumer Expenditure Survey. This is measured against a parity scenario in which Black annual household income equals white annual household income.
- Finally, we estimate the gap in financial market participation and return/cost disparities based on a select set of financial instruments (including stocks and mutual funds, retirement accounts, and auto loans). We consider the current state against a scenario of parity that closes the gap in the likelihood of holding specific financial instruments and the median value of those holdings and then assuming a 10.7 percent one-year return (which tracks the nominal performance of the S&P 500 index from January 1989 to December 2020). The parity scenario also assumes that Black borrowers are not charged higher interest rates on auto loans. The current state is based on data from the Federal Reserve's Survey of Consumer Finances, which reports both the share of families holding various assets and debt instrument and the median value of those holdings.

Our analyses do not intend to provide a comprehensive assessment of all the disparities that exist in financial markets. They are illustrative examples.

Family net wealth analysis

We use data from Federal Reserve's Survey of Consumer Finances on reported family net worth by race. We then apply the weight variable (WGT) to calculate the corresponding number of households at that net worth level. For the purpose of our analysis, we set net worth brackets at \$10,000 increments (except for the two tails, where we group net worth data below negative \$100,000, and above \$1,000,000 respectively).

Resident role analyses and methodology

Our exploration of the resident role focuses on a limited set of government programs, with an eye toward those that enable economic participation. These include tax expenditures, healthcare, housing, education, income support programs, and public transit, all of which represent large shares of public spending. We do not evaluate the merits and effectiveness of every policy or program, nor do we explore the trade-offs and political challenges of changing what exists today. Instead, we provide a fact base that examines how spending and broad program parameters affect racial gaps.

The analyses build on research and data from government entities (including but not limited to the Joint Committee on Taxation, the Social Security Administration, and Open Data DC) as well as other research institutions (such as the Tax Policy Center and the Kaiser Family Foundation).

Analyzing disparities in program access and spending

To measure gaps in tax expenditures, we rely on data and definitions from the Joint Committee on Taxation and the Tax Policy Foundation. We estimate the gap between the tax expenditure benefits Black Americans currently receive versus what they would receive if their representation in each income quintile matched the Black share of the population. In the calculation, we made simplifying assumptions that income is distributed uniformly within each quintile so that the racial representation reflects the tax expenditure benefits accrued to each group within that quintile.

To measure gaps in healthcare access, we estimate the number of Black residents living in states that have not accepted the Medicaid expansion under the Affordable Care Act. Our analyses build on the data and research collected and published by the Kaiser Family Foundation. To estimate the number of Black residents who would be eligible for Medicaid at the post-expansion income threshold of 138 percent of the federal poverty line, we multiply the total number of newly eligible population by the percentage of that population estimated to be Black by each state to arrive at roughly 1 million newly eligible Black residents. Life expectancy data is from the Centers for Disease Control and Prevention.

To measure gaps in income support programs, we estimate disparities in the Social Security benefits received by Black retirees based on three major factors. The first is the difference in the share of the Black and white populations over age 62 receiving Social Security income (71 vs. 77 percent, which translates into approximately 400,000 fewer Black benefit recipients). This is a simplifying assumption, as retirees have the option to delay retirement. Second, we consider racial differences in life expectancy, using an estimated four years as the white-Black gap between retirement age and life expectancy. Finally, we consider the difference in mean Social Security income as a result of lower lifetime earnings.

Our discussion of gaps in public transit infrastructure uses Washington, DC, as an illustrative example. We identify the share of households without a car and the share of households with commutes exceeding 45 minutes, based on data from the American Community Survey. We then estimate the potential need for public transit by census tract as an arithmetic average of the two metrics normalized from 0 to 1. We defined high transit need as being in a census tract where the combined percentage of households without a car and with commutes exceeding 45 minutes is in the top 20 percent of all DC census tracts. The average Black-majority census tract has both higher transit need and a higher percentage of the population in a Metro desert than the average census tract without a Black majority.



Pauline, Administrative support
© Osato Dixon/McKinsey & Company

Appendix B:

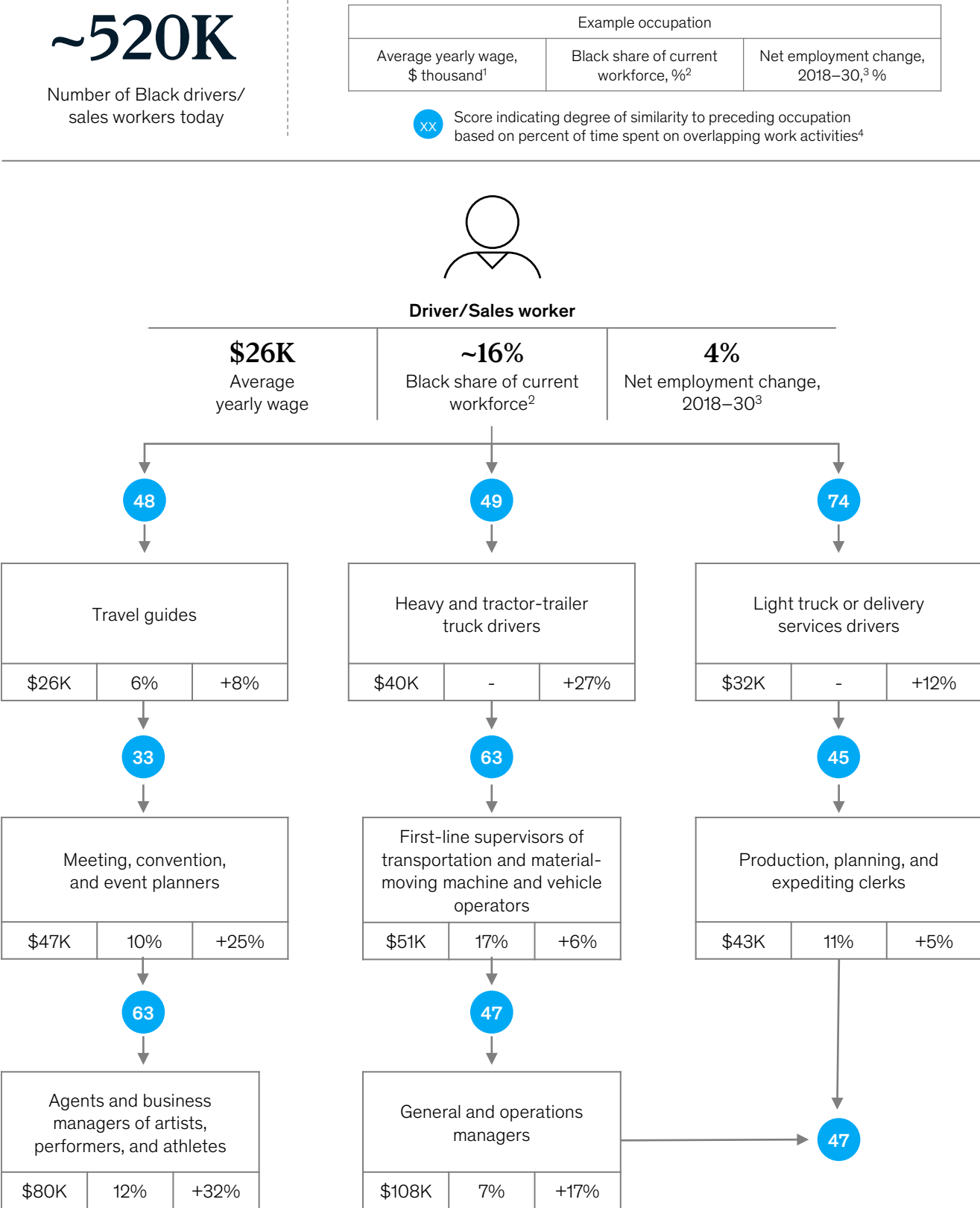
Example pathways from today's jobs to new careers

As discussed in chapter 2, Black workers are currently concentrated in low-wage occupations—and many of these jobs are vulnerable to disruption as automation technologies are adopted and the post-pandemic economy continues to evolve. One of the most urgent priorities emerging from our research is the need to create pathways that can enable people to move out of low-wage work and into better positions. With the right training and opportunities, Black workers could move into growing or higher-wage occupations that require similar or complementary skills and aptitudes. The charts that follow provide some illustrative examples.

To define potential career pathways out of declining occupations, MGI calculated an adjacency score between occupations based on the similarity of the work activities involved. In our analysis of 2,000 work activities in 800 occupations, we created more than 300 activity categories and computed the percentage of time devoted to similar work activity categories across occupations. We then applied a filter for salary to ensure that a worker would transition only to the same or a higher salary in the next occupation.

A driver/sales worker could follow several different pathways to growing and more highly paid occupations.

Illustrative



A home health aide could follow several different pathways to growing and more highly paid occupations.

Illustrative

~150K

Number of Black home health aides today

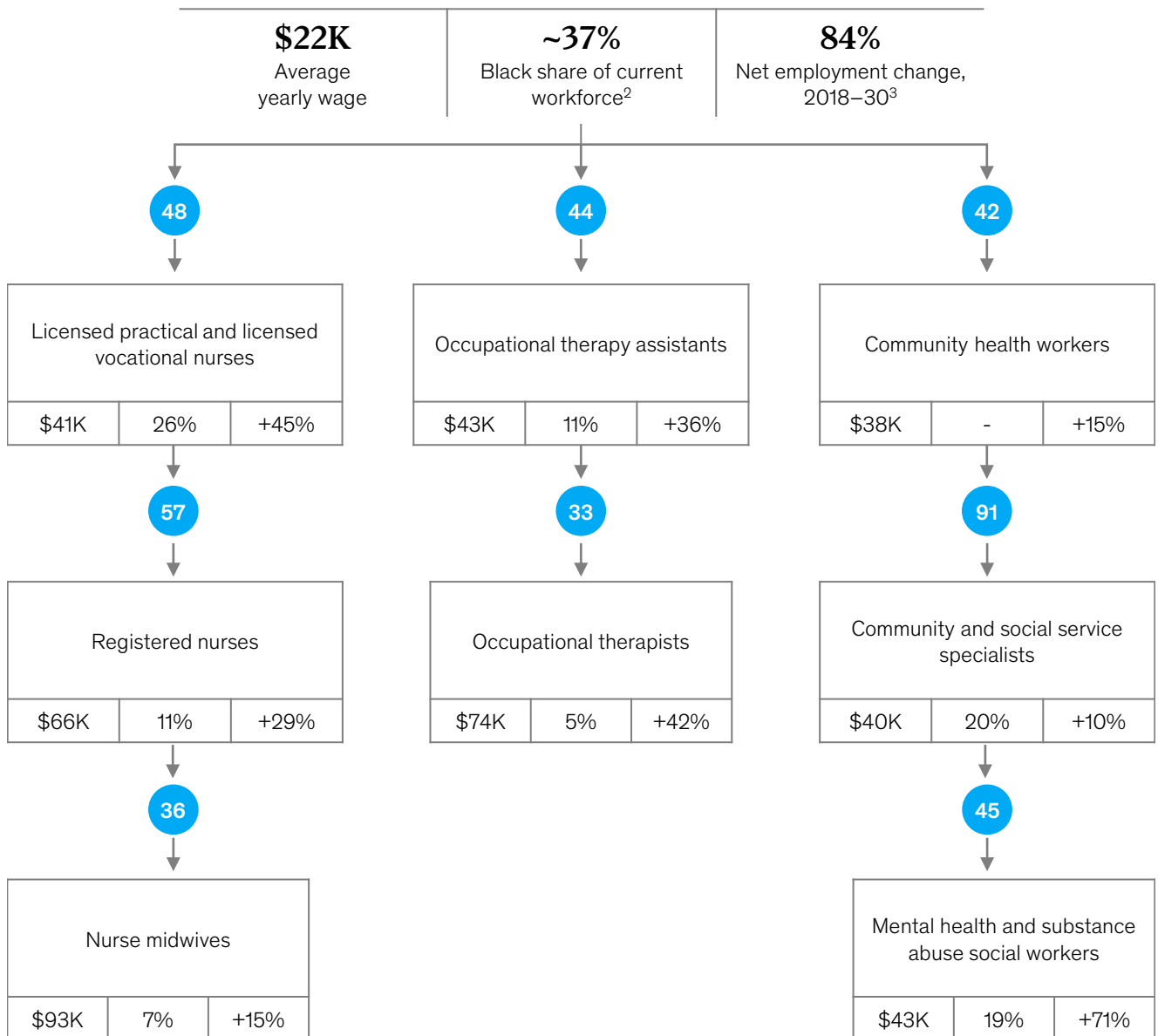
Example occupation		
Average yearly wage, \$ thousand ¹	Black share of current workforce, % ²	Net employment change, 2018–30, ³ %



Score indicating degree of similarity to preceding occupation based on percent of time spent on overlapping work activities⁴



Home health aides



1. Refers to average yearly wage for the occupation.

2. Based on IPUMS USA, five-year dataset (2014–18) from US Census Bureau's American Community Survey.

3. MGI scenarios based on the effects of automation, rising incomes, aging populations, increased technology use, climate change, infrastructure investment, rising education levels, and marketization of unpaid work, plus post-COVID-19 workplace trends.

4. MGI analysis of work activities in each occupation and time spent in each work activity, then grouping work activities into 322 categories and calculating percent of time spent in overlapping categories for each pair of occupations.

Source: US Bureau of Labor Statistics; McKinsey Global Institute and McKinsey Institute for Black Economic Mobility analysis

A personal care aide could follow several different pathways to growing and more highly paid occupations.

Illustrative

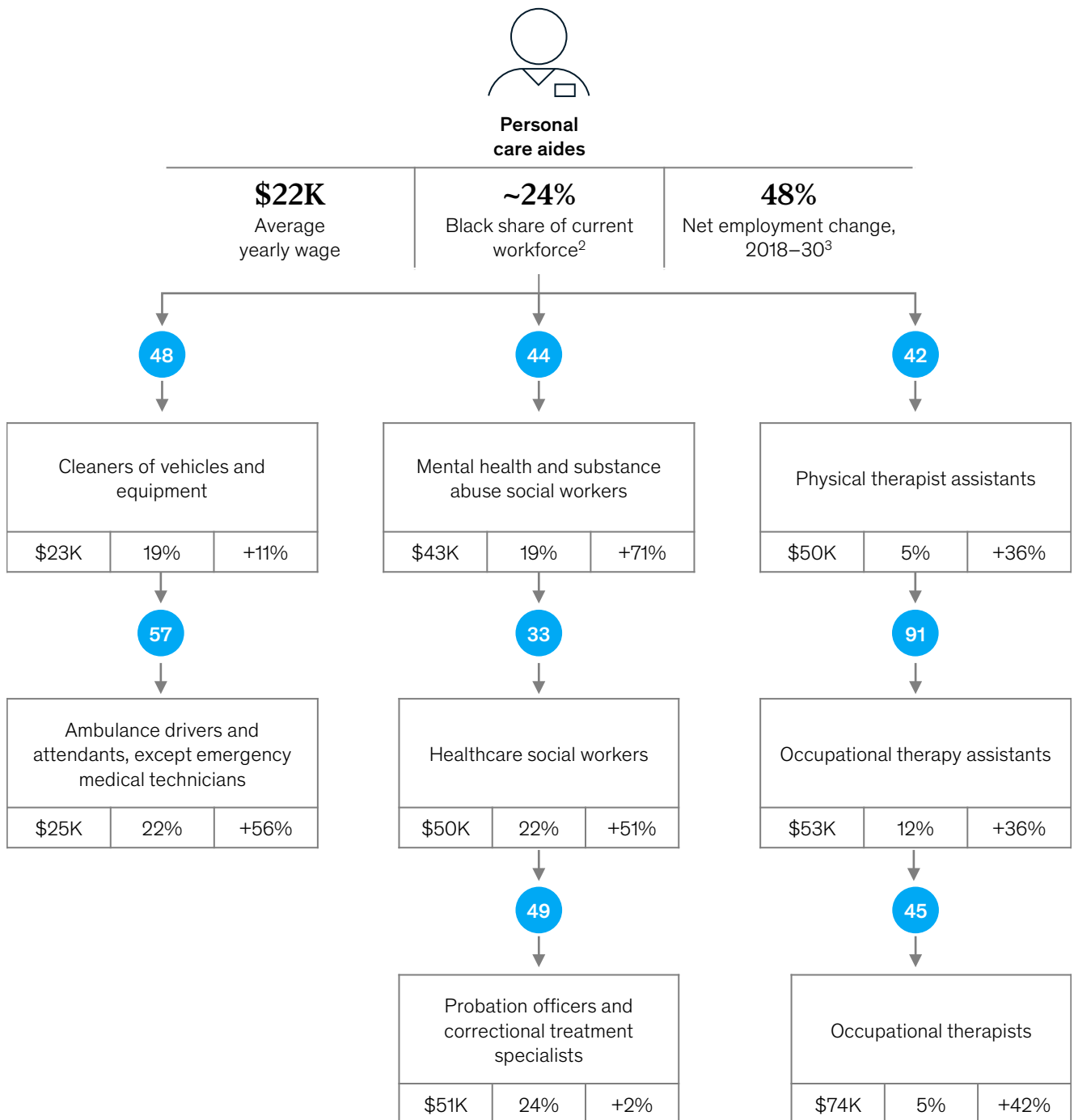
~280K

Number of Black personal care aides today

Example occupation		
Average yearly wage, \$ thousand ¹	Black share of current workforce, % ²	Net employment change, 2018–30, ³ %



Score indicating degree of similarity to preceding occupation based on percent of time spent on overlapping work activities⁴



1. Refers to average yearly wage for the occupation.

2. Based on IPUMS USA, five-year dataset (2014–18) from US Census Bureau's American Community Survey.

3. MGI scenarios based on the effects of automation, rising incomes, aging populations, increased technology use, climate change, infrastructure investment, rising education levels, and marketization of unpaid work, plus post-COVID-19 workplace trends.

4. MGI analysis of work activities in each occupation and time spent in each work activity, then grouping work activities into 322 categories and calculating percent of time spent in overlapping categories for each pair of occupations.

Source: US Bureau of Labor Statistics; McKinsey Global Institute and McKinsey Institute for Black Economic Mobility analysis

~420K

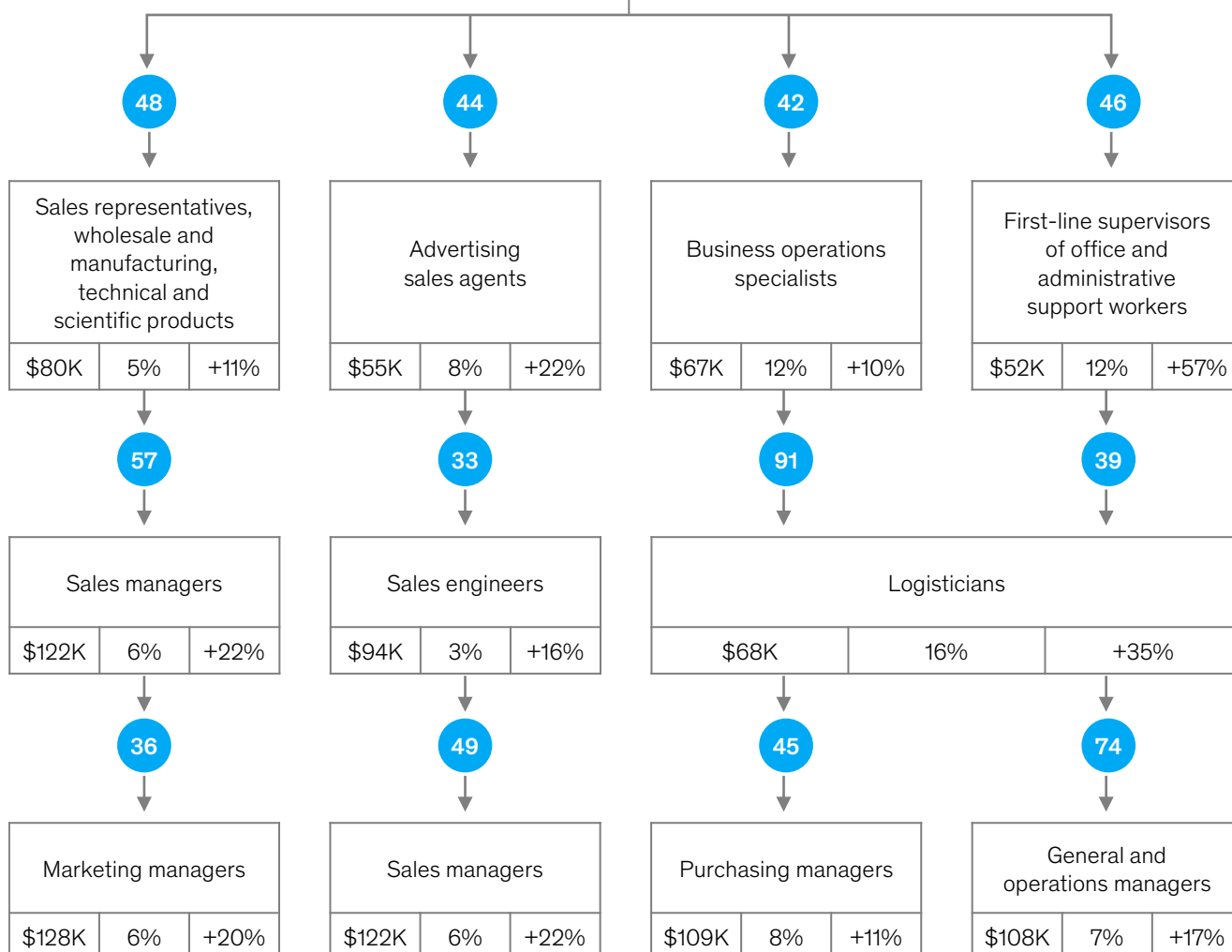
Example occupation		
Average yearly wage, \$ thousand ¹	Black share of current workforce, % ²	Net employment change, 2018–30, ³ %



\$32K
Average
yearly wage

~18%
Black share of current
workforce²

2%
Net employment change,
2018–30³



4. MGI analysis of work activities in each occupation and time spent in each work activity, then grouping work activities into 322 categories and calculating percent of time spent in overlapping categories for each pair of occupations.

Source: US Bureau of Labor Statistics; McKinsey Global Institute and McKinsey Institute for Black Economic Mobility analysis

A nursing assistant could follow several different pathways to growing and more highly paid occupations.

Illustrative

~440K

Number of Black nursing assistants today

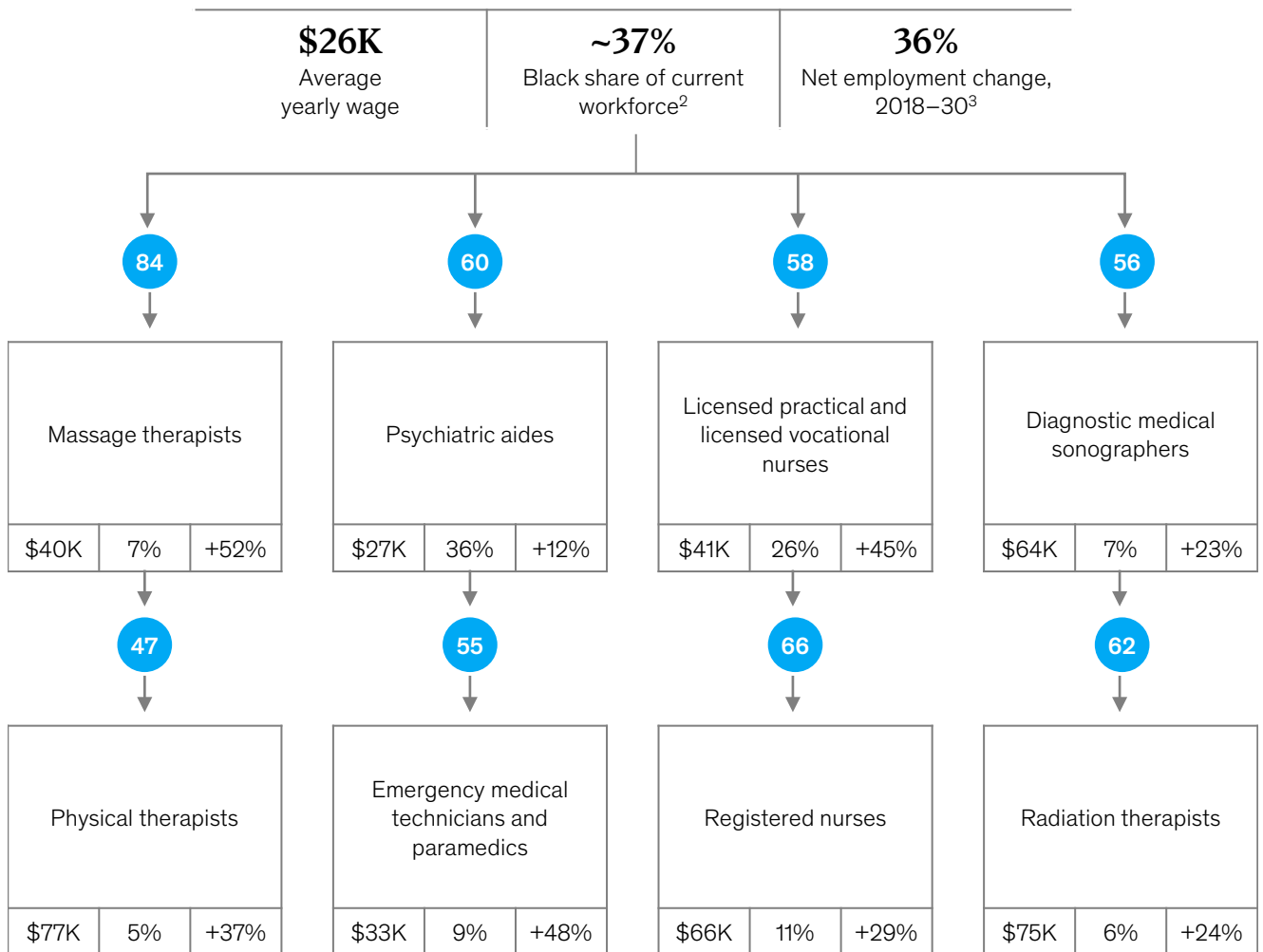
Example occupation		
Average yearly wage, \$ thousand ¹	Black share of current workforce, % ²	Net employment change, 2018–30, ³ %



Score indicating degree of similarity to preceding occupation based on percent of time spent on overlapping work activities⁴



Nursing assistants



1. Refers to average yearly wage for the occupation.

2. Based on IPUMS USA, five-year dataset (2014–18) from US Census Bureau's American Community Survey.

3. MGI scenarios based on the effects of automation, rising incomes, aging populations, increased technology use, climate change, infrastructure investment, rising education levels, and marketization of unpaid work, plus post-COVID-19 workplace trends.

4. MGI analysis of work activities in each occupation and time spent in each work activity, then grouping work activities into 322 categories and calculating percent of time spent in overlapping categories for each pair of occupations.

Source: US Bureau of Labor Statistics; McKinsey Global Institute and McKinsey Institute for Black Economic Mobility analysis

A security guard could follow several different pathways to growing and more highly paid occupations.

Illustrative

~265K

Number of Black security guards today

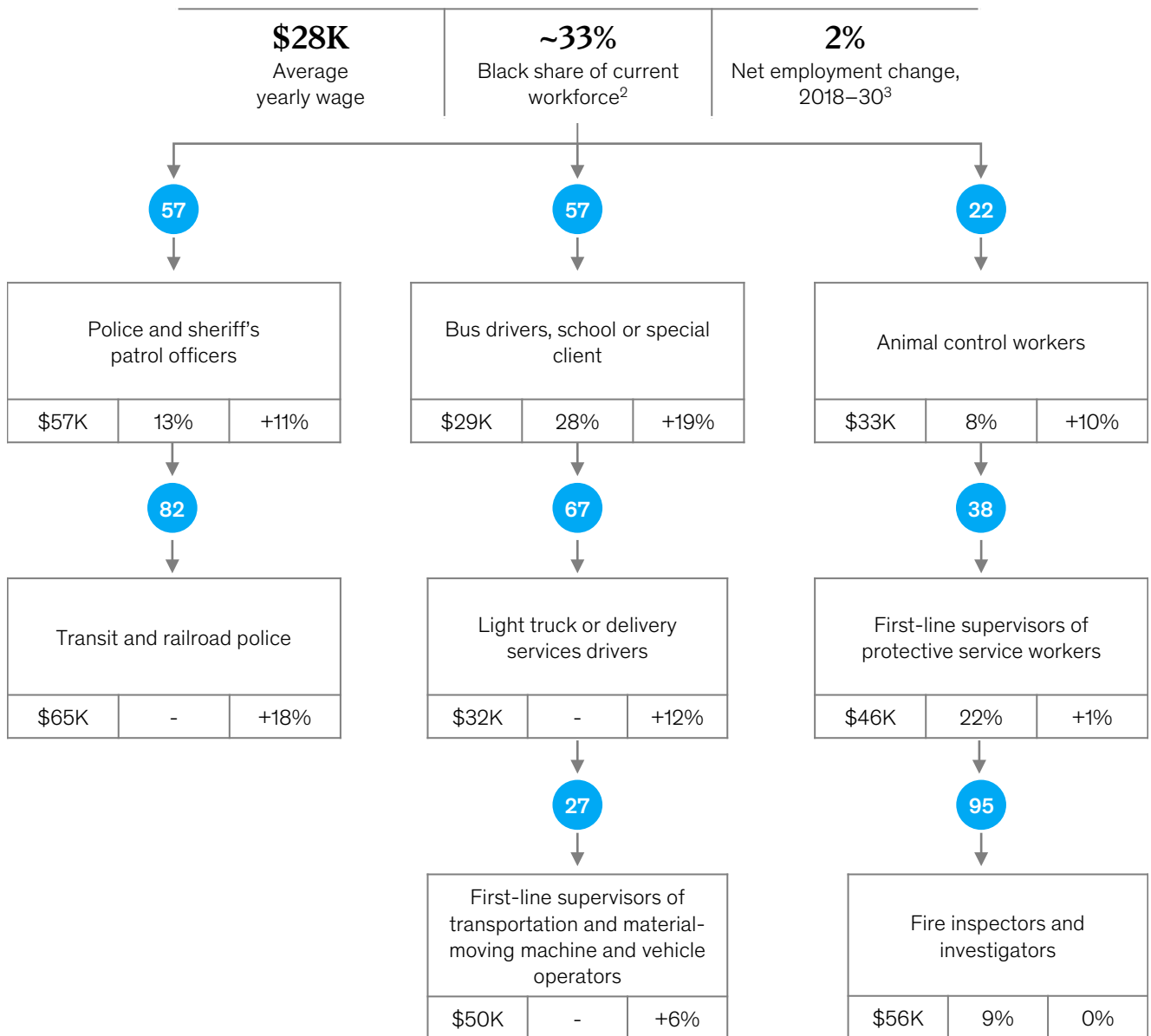
Example occupation		
Average yearly wage, \$ thousand ¹	Black share of current workforce, % ²	Net employment change, 2018–30, ³ %



Score indicating degree of similarity to preceding occupation based on percent of time spent on overlapping work activities⁴



Security guards



1. Refers to average yearly wage for the occupation.

2. Based on IPUMS USA, five-year dataset (2014–18) from US Census Bureau's American Community Survey.

3. MGI scenarios based on the effects of automation, rising incomes, aging populations, increased technology use, climate change, infrastructure investment, rising education levels, and marketization of unpaid work, plus post-COVID-19 workplace trends.

4. MGI analysis of work activities in each occupation and time spent in each work activity, then grouping work activities into 322 categories and calculating percent of time spent in overlapping categories for each pair of occupations.

Source: US Bureau of Labor Statistics; McKinsey Global Institute and McKinsey Institute for Black Economic Mobility analysis



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