

How COVID-19 Could Widen Racial Gaps in Financial Outcomes

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Amidst the COVID-19 crisis, policy makers are grappling with the potential short- and long-term economic impacts of efforts to mitigate the spread of the virus on families. Unemployment rose at an unprecedented pace in the first months of the crisis, and the U.S. government issued stimulus payments to hundreds of millions of Americans. In a recent report, “Racial Gaps in Financial Outcomes: Big Data Evidence,” the JPMorgan Chase Institute offered a lens on how different segments of the population might manage income fluctuations in a COVID-19-induced downturn.² Drawing on data from between 2013 and 2018, we found that Black and Hispanic families’ spending is more sensitive to short-term income fluctuations than that of White families. This result is largely explained by the large racial gap in liquid assets we observe—Black and Hispanic families have just 30 to 40 cents in liquid assets for every dollar held by White families.

Our research suggests that even if Black, Hispanic, and White families experience the same declines in income during the COVID-19 crisis, Black and Hispanic families will likely reduce their everyday spending to a greater extent. Thus, while government programs aimed at restoring lost income—including unemployment insurance and stimulus payments—are essential for all groups, such programs are especially critical for Black and Hispanic families.

Public health data already reveal that the impacts of COVID-19 in the United States have been unevenly distributed across demographic groups. An analysis published by the Associated Press (AP) on April 8, 2020, found that Black individuals accounted for 42 percent of COVID-19 fatalities in the states and localities studied—even though they make up just 21 percent of the population in these locations.³ In Louisiana, one of the three states that we study in our new report, the gap is even starker: at

RACIAL GAPS IN FINANCIAL OUTCOMES

Longstanding gaps in income and wealth between White families and Black and Hispanic families have been well documented and have only grown following the Great Recession (Bayer and Charles 2018; Chetty et al. 2019; McKernan et al. 2014a; Thompson and Suarez 2019). Many factors have systematically contributed to wealth-building of many White families while impeding wealth-building among Black and Hispanic families, including:

- Intergenerational transfers of wealth within families (e.g., Meschede et al. 2017; Chiteji and Hamilton 2002; McKernan et al. 2014b)
- Neighborhood conditions such as poverty rates, racial bias, and home values (e.g., Chetty et al. 2019; Perry et al. 2018)
- Geographic and financial barriers to human capital accumulation (e.g., Dobbie and Fryer 2011; Jackson and Reynolds 2013; Addo et al. 2016)
- Racial segregation and discrimination in the labor market (e.g., Grodsky and Pager 2001; Bertrand & Mullainathan 2004)
- Racial biases in the policies and practices of government, institutions, and the private sector (e.g., Oliver and Shapiro 2013; Katznelson 2005; Robles et al. 2006; Bayer et al. 2014; Asante-Muhammad et al. 2017; Bartlett et al. 2019).

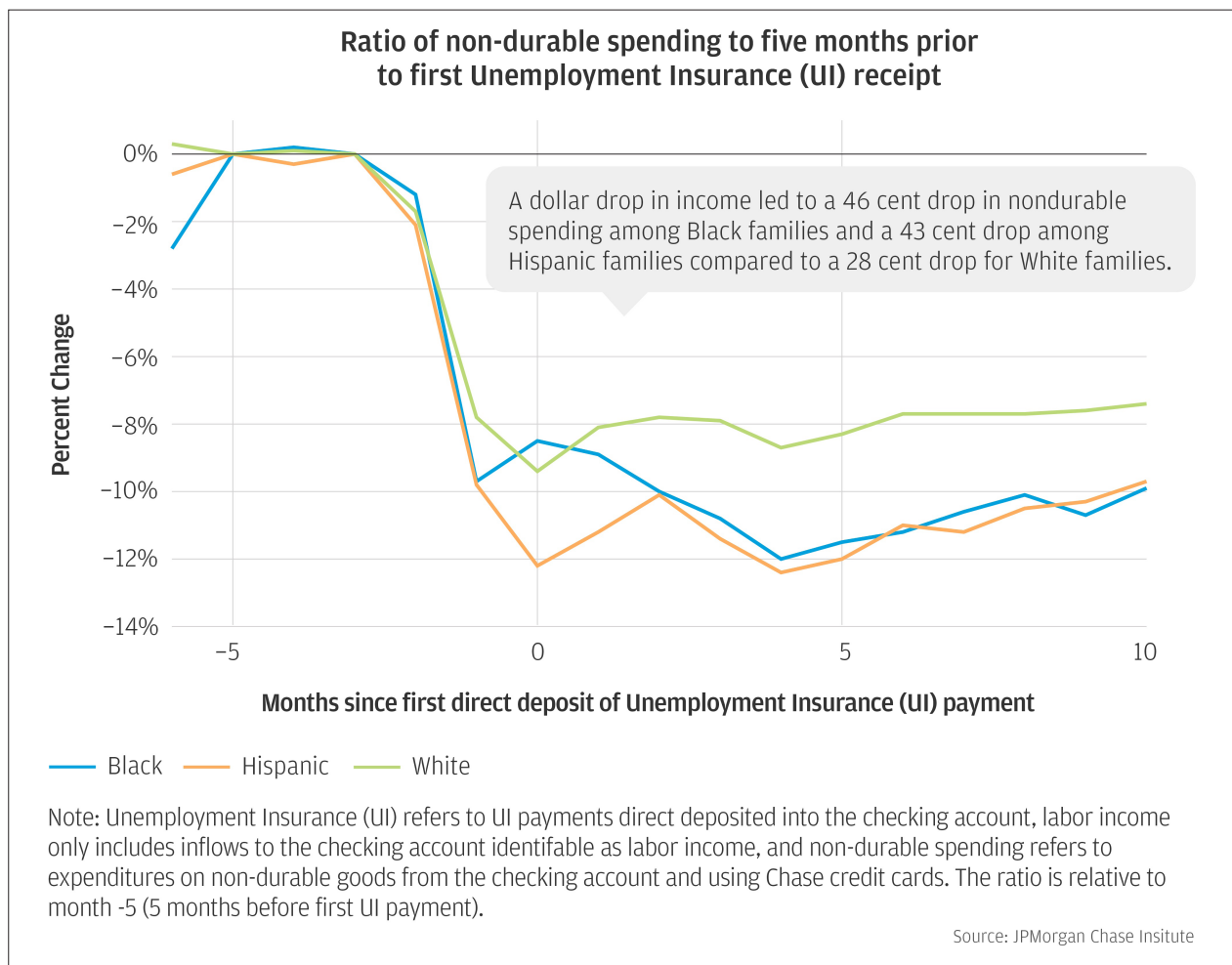
These forces, most of which have substantial, if under-examined, structural components (Emmons and Ricketts 2017; Aspen Institute 2004; Kijakazi et al. 2019), not only have a direct effect on wealth and wealth accumulation at a given point in time, but may create racial differences in the key determinants of wealth over time and across generations.

the time of the AP analysis, 70 percent of Louisianans who had died of COVID-19 were Black, though Black individuals comprise just 32 percent of the state population.

While the full economic impacts of COVID-19 are still unknown, it is likely that Black and Hispanic families will experience larger income declines than White families. For one, Black and Hispanic workers are slightly more likely to be paid hourly wages (rather than fixed salaries) than White workers and are therefore more susceptible to layoffs, especially in the short term.⁴ Second, research indicates that Black and Hispanic workers are less likely to have access to paid leave.⁵ In the context of COVID-19, these disparities are likely to manifest themselves in the form of larger income declines among Black households. This is concerning—our research shows that Black and Hispanic families earn less than White families to begin with, roughly 70 cents for every dollar earned by White families. Moreover, they have fewer liquid asset reserves to fall back on. For every dollar held by White families, Black families have just 32 cents and Hispanic families just 47 cents.

The JPMorgan Chase Institute's research quantifies how involuntary job loss differentially impacts consumption and well-being across racial groups. In an event-study examining families who receive unemployment insurance, we find that a \$1.00 decline in income upon job loss (after accounting for unemployment insurance benefits received) is associated with a fall in non-durable spending of \$0.46 among Black families, \$0.43 among Hispanic families, and \$0.28 among White families (Figure 1). Thus, while all families tend to reduce spending upon job loss, Black and Hispanic families do so to a larger extent. These numbers imply that when families experience a \$500 decline in

Figure 1: After involuntary job loss, Black and Hispanic families cut their everyday spending more than White families.

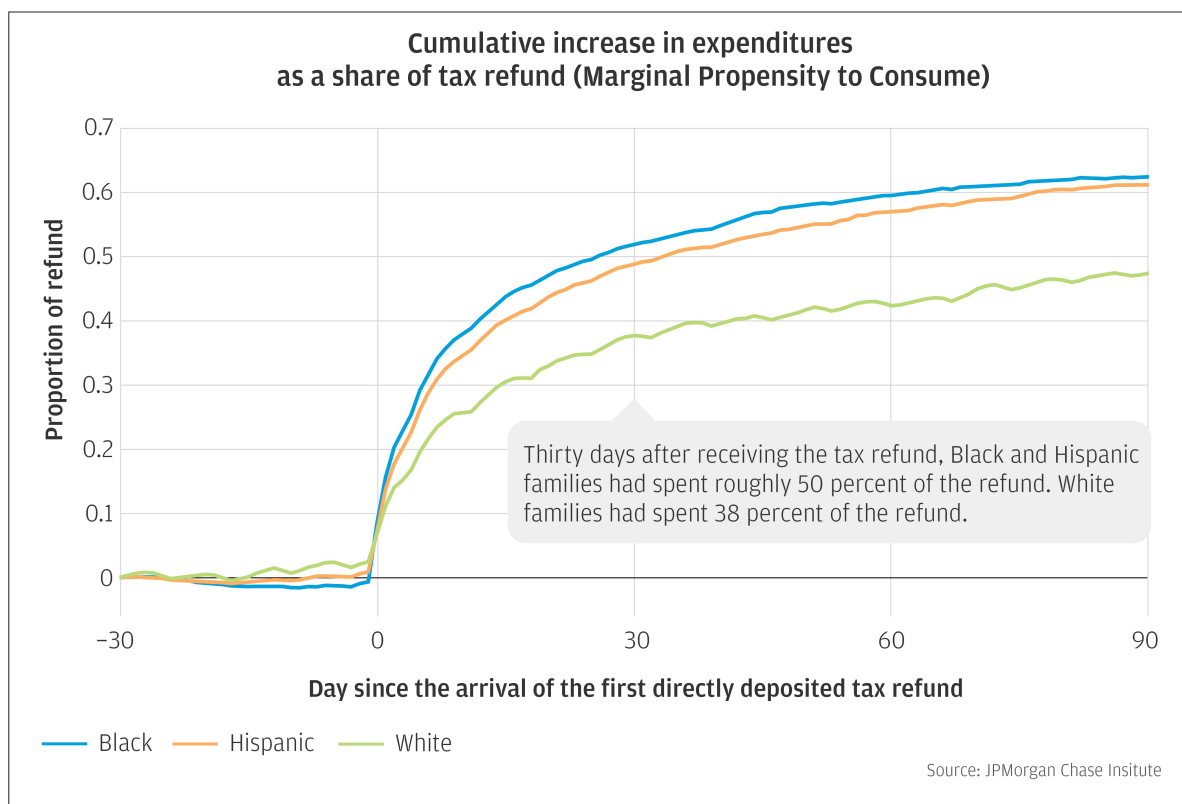


monthly income as a result of job loss, Black and Hispanic families reduce their monthly spending by roughly \$230 and \$215, respectively—a \$75 to \$90 larger cut in spending than White families make (\$140), resulting in perhaps one less trip to the grocery store per month.

We anticipate a similar disparity in consumption changes among individuals who face moderate income losses—for instance, among workers who are not laid off but whose hours are cut. In a companion academic paper, we examine the path of families' spending when their employer raises or lowers pay for all employees.⁶ Even in the face of these smaller employer-driven income changes, Black families alter consumption by 50 percent more than White families, and Hispanic families by 20 percent more than White families. For example, a one-month decline in labor income of \$500 leads to a one-month decline in consumption of \$146 for Black families and \$121 for Hispanic families, compared to \$100 for White families.

In addition to describing disparities in families' responses to income loss, the “Racial Gaps in Financial Outcomes” report also studies how families' spending changes upon receipt of a tax refund. Our results on this subject inform our expectations of how families may respond to the stimulus payments that the federal government has authorized under the CARES Act;⁷ these stimulus payments will be similar to tax refunds in magnitude (most tax refunds⁸ and stimulus payments⁹ are in the \$1,200-\$4,000 range) and timing (families can roughly anticipate their arrival date). In our report, we find that Black and Hispanic families exhibit larger increases in spending upon receipt of a tax refund. Thirty days after receiving a tax refund, Black families have spent 52 percent of their refund, while Hispanic families have spent 49 percent and White families just 38 percent (Figure 2). Thus, in the same way that Black and Hispanic families' spending is more sensitive to declines in income than White families' spending, their spending is also more sensitive to increases in income. In short, the stimulus payment may be more instrumental for Black and Hispanic families than White families in allowing them to sustain consumption levels or catch up on spending they may have deferred.

Figure 2: Thirty days after receiving the tax refund, Black and Hispanic families had spent roughly 50 percent of the refund. White families had spent 38 percent of the refund.



For those whose aim is to reduce racial disparities in financial outcomes, it is essential to understand why racial groups exhibit different levels of sensitivity to income changes. In our report, we find that racial differences in liquid assets almost entirely account for differences in consumption sensitivity. We don't claim to have proven a causal link, but when we control for racial disparities in liquid assets (specifically measured as liquid asset *buffer*, or how many months' worth of spending one has in liquid assets), racial gaps in the spending response to income fluctuations largely disappear. Thus, if Black, Hispanic, and White families all had the same levels of liquid assets, we might expect to see almost no racial differences in their spending response to involuntary job loss, payroll fluctuations, or the arrival of the tax refund.

These results suggest that policy makers seeking to ease the economic burden of COVID-19 should consider focusing their efforts on families with the lowest liquid asset buffers. These efforts may take the form of income-support programs, such as expanded unemployment insurance, paid leave, and direct stimulus payments; alternatively, policies that help low-liquid-asset families reduce large expenses (e.g., rent payments and medical expenses) or build assets may also be effective. Regardless of the specific policies implemented, decision-makers should recognize that without policy intervention, even a short economic downturn will be hardest to weather for families with low liquid assets, disproportionately so for Black and Hispanic families.

Diana Farrell is the founding President and Chief Executive Officer of the JPMorgan Chase Institute. Previously, Ms. Farrell was a Senior Partner at McKinsey & Company where she was the Global Head of the McKinsey Center for Government and the McKinsey Global Institute. Ms. Farrell served in the White House as Deputy Director of the National Economic Council and Deputy Assistant to the President on Economic Policy for 2009-2010. During her tenure, she led interagency processes and stakeholder management on a broad portfolio of economic and legislative initiatives. Ms. Farrell coordinated policy development and stakeholder engagement for innovation and competition strategies broadly, and led financial policy initiatives including the passage of major legislation. She also served as a member of the President's Auto Recovery Task Force. Ms. Farrell currently serves on the Board of Directors for eBay, The Urban Institute and the National Bureau of Economic Research, and is a Trustee Emeritus of Wesleyan University. In addition, Ms. Farrell is a Trustee of the Trilateral Commission and served as a Co-Chair of the World Economic Forum's Council on Economic Progress. Ms. Farrell is also a member of the Council on Foreign Relations, the Economic Club of New York, the Bretton Woods Committee, and the National Academies of Science's Committee on National Statistics. Ms. Farrell holds an M.B.A. from Harvard Business School, and has a B.A. from Wesleyan University, from where she was awarded a Distinguished Alumna award. She is a member of the Aspen Strategy Group.

¹ Please refer to www.jpmorganchaseinstitute.com for foundational papers and additional co-authors related to this summary document, specifically, "How COVID-19 Could Widen Racial Gaps in Financial Outcomes" at <https://institute.jpmorganchase.com/institute/research/household-income-spending/how-covid-19-could-widen-racial-gaps-in-financial-outcomes> and "Racial Gaps in Financial Outcomes" at <https://institute.jpmorganchase.com/institute/research/household-income-spending/report-racial-gaps-in-financial-outcomes>. The companion academic publication to this chapter, "Wealth, Race, and Consumption Smoothing of Typical Income Shocks" is at https://cpb-us-w2.wpmucdn.com/voices.uchicago.edu/dist/1/801/files/2018/08/2020-04-20_race_cons_smoothing.pdf.

² Diana Farrell, Fiona Greig, Chris Wheat, Max Liebeskind, Peter Ganong, Damon Jones, and Pascal Noel, "Racial Gaps in Financial Outcomes," JPMorgan Chase Institute and University of Chicago, April 2020, <https://institute.jpmorganchase.com/institute/research/household-income-spending/report-racial-gaps-in-financial-outcomes>.

³ Kat Stafford, Meghan Hoyer, and Aaron Morrison, "Outcry Over Racial Data Grows as Virus Slams Black Americans," AP, April 8, 2020, <https://apnews.com/article/71d952faad4a2a5d14441534f7230c7c>.

⁴ U.S. Bureau of Labor Statistics, "Characteristics of Minimum Wage Workers, 2018," BLS Reports, March 2019, <https://www.bls.gov/opub/reports/minimum-wage/2018/home.htm>.

⁵ U.S. Bureau of Labor Statistics, "Racial and Ethnic Disparities in Access to and Use of Paid Family and Medical Leave: Evidence from Four Nationally Representative Datasets," Monthly Labor Review, January 2019, <https://www.bls.gov/opub/mlr/2019/article/racial-and-ethnic-disparities-in-access-to-and-use-of-paid-family-and-medical-leave.htm>.

⁶ Peter Ganong, Damon Jones, Pascal Noel, Diana Farrell, Fiona Greig, and Chris Wheat, "Wealth, Race, and Consumption Smoothing of Typical Income Shocks," University of Chicago, National Bureau of Economic Research, and JPMorgan Chase Institute, April 21, 2020, https://cpb-us-w2.wpmucdn.com/voices.uchicago.edu/dist/1/801/files/2018/08/2020-04-20_race_cons_smoothing.pdf.

⁷ H.R. 748, CARES Act, <https://www.congress.gov/bill/116th-congress/house-bill/748/text>.

⁸ Diana Farrell, Fiona Greig, and Amar Hamoudi, "Tax Time: How Families Manage Tax Refunds and Payments," JPMorgan Chase Institute, March 2019, <https://institute.jpmorganchase.com/content/dam/jpmc/jpmorgan-chase-and-co/institute/pdf/institute-tax-time-report-full.pdf>.

⁹ Zack Friedman, "Everything You Need to Know About Your \$1,200 Stimulus Check," *Forbes*, April 13, 2020, <https://www.forbes.com/sites/zackfriedman/2020/04/13/stimulus-check-everything-need-know/#6d14cb2e254f>.