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Diversity and Inclusion Practice

America 2021: The opportunity to advance racial equity

To America's leaders, innovators, and changemakers: the task of building a more perfect society needs your help.

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Repairing the frayed social fabric in the United States is one of the most pressing issues of our time. It's not a new problem. But if we do not address the underlying issues preventing us from achieving equitable growth and inclusion, the economic and social divisions that drove the civil unrest following the murder of George Floyd in May 2020 will only become worse. The new administration has an opportunity to make a forceful case for racial equity by explaining the challenges, highlighting the areas of opportunity, and taking bold action to embed racial equity into our national fabric. Only by actively renewing the social contract, starting with a race-conscious approach at the foundation, can we begin to stifle the impact of rising inequality and damaging social disparities and help the nation heal.

In this memo, we hope to contribute ideas for consideration by leaders, innovators, and change-makers in every sphere—public, private, and social. Our ideas concern inclusive growth for all races and the impact in particular of higher Black participation in different roles in the economy. We attempt to point out where efforts to advance racial equity through the economy face challenges and might benefit from national leadership. And we offer tactical considerations for leaders across the country to take action.

What is inclusive growth?

In a forthcoming article, we posit that inclusive growth is about embedding equity into the economic-growth process and advancing racial equity through the economy in particular. When asked what "inclusive growth" means, a McKinsey-convened panel of more than 50 US economic-development experts agreed on this definition: "growth that broadly benefits all members of society." Notably, four-fifths ranked "income inequality [or] share of total income" in their top three choices for metrics to assess inclusive growth; just 28 percent named "absolute average income." More than 60 percent of respondents stated that inclusive growth should aim to "improve economic outcomes for all people, equally" or that "groups [should] share benefits equally"; about a third said that the goal of inclusive growth is "primarily improving economic outcomes for the least well-off."

The economic case for racial equity and inclusive growth

As the nation seeks an exit from the COVID-19 pandemic and a return to economic health, leaders in every industry are intently focused on under-standing and improving performance drivers. Racial equity and inclusive growth (see sidebar "What is inclusive growth?") is one of those drivers; estab-lishing a just society and improving socioeconomic systems could lift the economic wellbeing of companies, sectors, and the public at large. There is a strong case for why. We have previously estimated that closing the Black–white and Hispanic–white racial wealth gaps would boost consumption and investment within the US economy by an additional $2 trillion to $3 trillion. That's equivalent to 8 percent to 12 percent of US GDP. Advancing racial equity and achieving inclusive growth would mean new opportunities for participation in the economy and an additional $6,000–$8,500 in annual income per capita. Businesses, families, and communities across the country would benefit.

Simply putting racial equity on the federal agenda, as the new administration has done, is an enormous first step[1]—similar in significance to moves made by previous administrations and the private sector on the freedom to marry regardless of gender or sexual orientation.[2] Leaders everywhere could further elevate racial equity as a societal and institutional priority through the following actions:

— Crafting and clearly articulating an agenda that highlights the case for advancing racial equity in every part of the economy and its benefits for all of us

[1] Joseph R. Biden Jr., "Executive order on advancing racial equity and support for underserved communities through the federal government," White House, January 20, 2021, whitehouse.gov.
[2] Charlie Savage and Sheryl Gay Stolberg, "In shift, US says Marriage Act blocks gay rights," *New York Times*, February 23, 2011, nytimes.com.

— Laying out a cohesive call to action—along with principles, clear goals, and metrics for advancing racial equity—to inspire and set the course for the public, private, and social sectors

Four dimensions of opportunity

Even with a clear case for racial equity and a national call to action, advancing racial equity across the economy will remain a significant challenge. Better tools are needed to help ensure that public and private efforts deploy resources effectively and yield tangible results. Nationally, we need to understand where the challenges lie and the nature of the most critical barriers. Public- and private-sector leaders could help in the following ways:

— Supporting specific research, for example, at executive-branch agencies (such as the Department of Labor), to create new targeted data and insights

— Encouraging the adoption of national metrics and standards to determine the development impact of federal, state, and local policies and regulations

— Embedding racial-equity considerations into funding decisions, and tying further funding to evidence-based results (a goal that the new administration has embraced)[3]

Our research found racial inequities across four economic dimensions: family wealth, family income, family savings and consumption, and the community context. In each, social systems affect the ways individuals and families of color enact their economic roles as entrepreneurs, workers, consumers, savers, and residents. Challenges in these dimensions lead to lost economic value, not only for those groups, but also for the economy as a whole. America's leaders can begin structuring solutions that remove the barriers blocking economic gains across these roles and areas of opportunity. We consider each of these four dimensions in more detail below.

Improving family-wealth creation, especially for business owners and entrepreneurs

Black families struggle to add assets to their family balance sheet, especially a stake in a business. Black business owners face challenges at all five stages of the entrepreneurial journey: ideation, starting up, sustaining growth, scaling, and exiting. For example, 50 percent of Black-owned businesses are concentrated within five sectors, though they represent only 20 percent of total corporate revenue. And the average starting capital for Black-owned businesses is $35,000, relative to $107,000 for white-owned businesses.

Better ecosystems—the networks of people and capital in which businesses operate—can reduce these structural obstacles to building Black-owned business and, in our estimate, add $290 billion in business equity. Nationally, leaders could support the creation of more supportive ecosystems for Black- and brown-owned businesses by focusing on four key areas: policies that produce equitable outcomes (such as more inclusive procurement practices); equitable access to capital (from banks, investors, foundations, and public programs); new business capabilities and knowledge sharing (for example, from the private and social sectors to minority-owned small and medium-size businesses); and greater opportunities for mentorship and sponsorship (such as conscious development and sponsorship of more Black leaders within organizations).

America's leaders could help in two other ways, starting with funding. Family-wealth creation would benefit from new funding vehicles (such as impact-investing funds, like the newly formed Lafayette Square, which invests in creating housing, jobs, and financial inclusion). Increased funding for technical assistance would also benefit minority-owned businesses.

As President Biden has already laid out as part of his plan, the public and private sectors could increase total procurement from minority-owned businesses. The benefits are proven.[4] The

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[3] "Executive order on advancing racial equity and support for underserved communities through the federal government," January 20, 2021.
[4] Ashley Barrington, Alexis Bateman, and Katie Date, "Why you need a supplier-diversity program," *Harvard Business Review*, August 17, 2020, hbr.org.

Biden administration has the opportunity to go even further by helping private-sector organizations increase supplier diversity (for example, by creating information-based tools for companies).

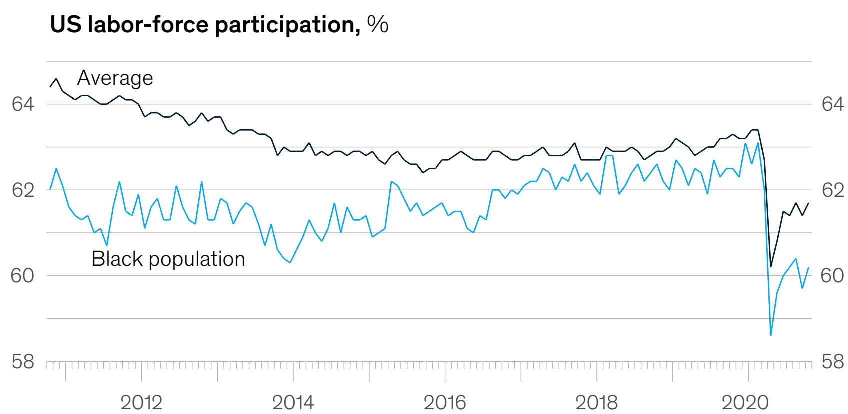
Helping workers increase family income

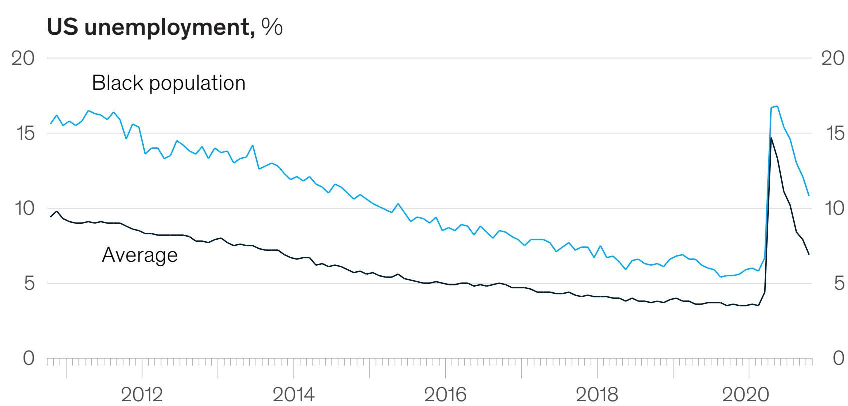
Black workers are poorly positioned in the US economy due to gaps in human-capital development. Without concerted counter-efforts, shifts now underway in the economy could heighten disparities that already harm Black workers. For example, research shows that automation could widen the racial wealth gap. While a majority of the general population is employed in directive roles, a majority of Black workers are in support roles—food preparer, administrative support worker, factory worker—that are precisely the roles most susceptible to automation.[5]

In 2019, we published research on the "economic intersectionality" of race, gender, age, education, and geography as it relates to the future of work for Black workers. In one analysis from forthcoming research by the newly founded McKinsey Institute for Black Economic Mobility in partnership with the McKinsey Global Institute, we further examine Black workers' economic position on three measures: labor-force participation, representation in occupations, and pay gaps within specific occupations (Exhibit 1). The labor-force disparity

Exhibit 1

Black Americans' labor-force underrepresentation persists, even in economic expansion, and the COVID-19 crisis negated the progress made toward parity.



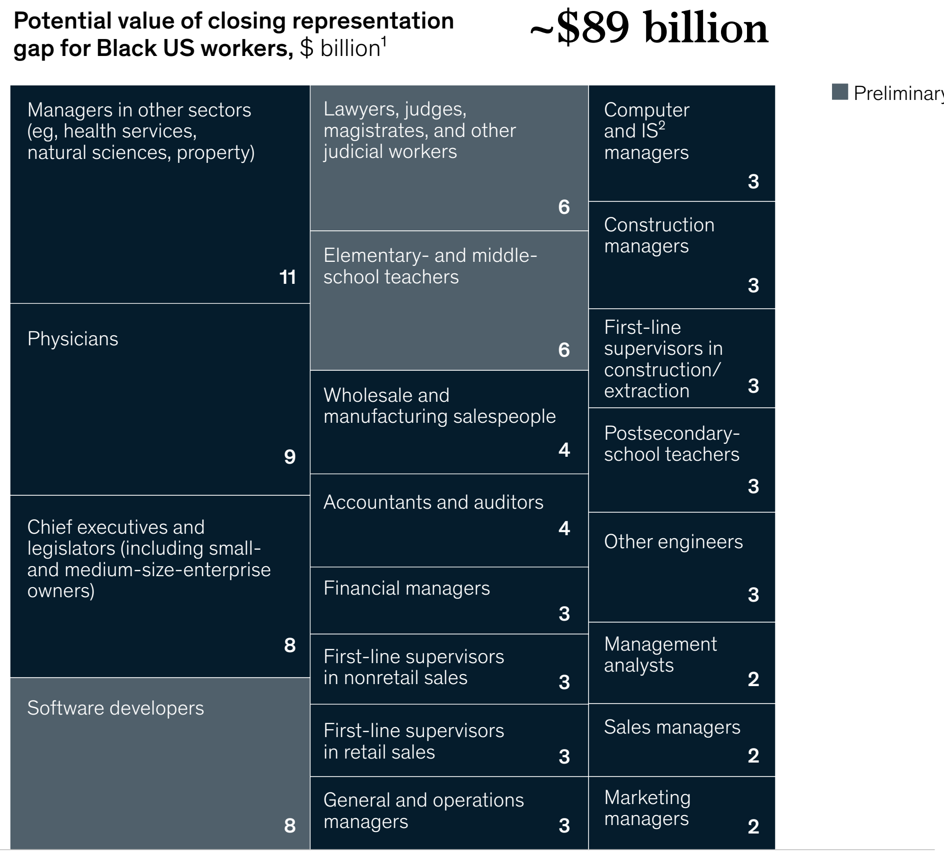


Source: FRED Economic Data, Federal Reserve Bank of St. Louis, January 12, 2020, fred.stlouisfed.org

[5] McKinsey Global Institute Analysis of 2014–18 5-year American Community Survey (ACS) data from IPUMS USA, University of Minnesota, ipums.org.

Exhibit 1 (continued)

Black Americans are underrepresented in 20 occupations; closing the gap could add about $89 billion of annual income.



[1]Product of representation gap, total workers from all races, and median annual wages earned by Black US workers, per occupation. [2]Information systems.
Source: "ACS 5-yr data, 2014–2018," IPUMS USA, January 12, 2020, usa.ipums.org

Advancing racial equity and achieving inclusive growth would mean new opportunities for participation in the economy and an additional $6,000–$8,500 in annual income per capita.

Exhibit 1 (continued)

Wages for the same US jobs are lower for Black workers than for white workers; closing the gap in 20 occupations could add about $44 billion in annual income.

Potential value of closing wage gap for Black US workers, $ billion[1]

~$44 billion

[1]Product of delta between median annual wages of Black and white US workers per occupation multiplied by number of Black workers in corresponding occupation if representation gap is closed to replicate 12.9% (share of Black workers in US labor force) in each occupation. [2]Information systems.
Source: "ACS 5-yr data, 2014–2018," IPUMS USA, January 12, 2020, usa.ipums.org

persists despite a decade-long economic expansion—and the pandemic has reversed recent progress in narrowing the gap. Gaps in representation in 20 well-paid occupations are similarly stubborn. And the difference in wages paid to Black and other workers in the same occupations presents a further challenge.

In our analysis, if these gaps were closed, Black workers would receive more than $200 billion more in aggregate compensation annually, almost 30 percent more than their total income in 2018. But this value is concentrated: just 20 occupations and fewer than 4 percent of all jobs account for more than 60 percent of the aggregate wage gap. Many of these are higher-paying occupations, and achiev-ing parity in them will require sustained effort.

Closing the gaps won't be easy, but a few high-potential actions are available. One is to help people get to where the jobs are and to foster more areas where good jobs are being generated: ten American growth hubs hold the highest potential for Black workers (Exhibit 2). Younger workers may find more opportunities in large cities, such as Atlanta, Dallas, and Houston, or in high-growth hubs, such as Charlotte, where the Black population has grown by 64 percent since 2000. Public- and private-sector institutions can pursue a variety of programs to pave the way. Charlotte recently approved more than $200 million in bonds to improve transportation and affordable housing to support the city's growth and stability.

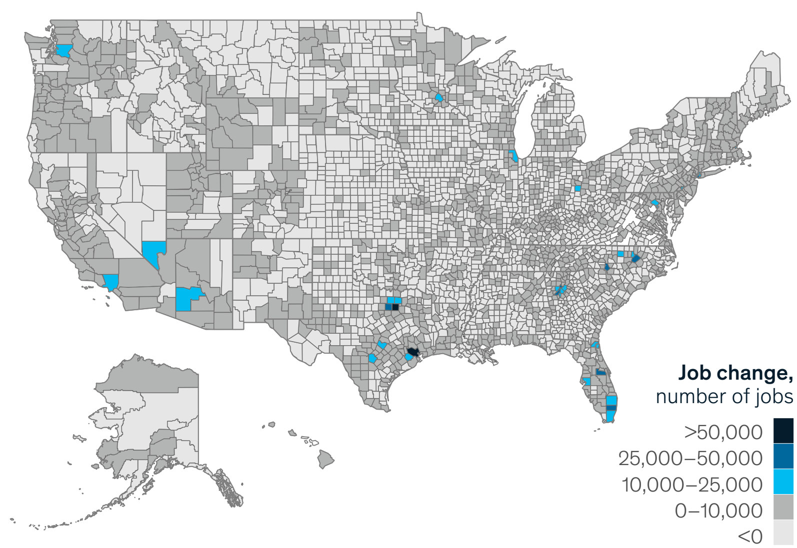
Private-sector employers leave value on the table by not including and progressing Black talent through their pipelines. Since 2014, our *Diversity wins* reports have demonstrated that organizations with top-quartile diversity in their leadership teams are 36 percent more likely to outperform their peers in earnings before interest and taxes. We see this correlation manifest in other ways: it ultimately affects access to talent (40 percent of millennials won't accept jobs in companies that are not inclusive), innovation and decision making, and as environmental, social, and governance issues become more prominent, in a company's license to operate.

Despite this compelling evidence, diversity in the talent pipeline remains underdeveloped. People of color represent less than 15 percent of the C-suite and are poorly represented as early in the career path as the vice-president stage. A clear CEO

Exhibit 2

Ten growth hubs represent the largest opportunities for Black US workers in the automated economy of the future.

Net job growth for Black workers per US county in 2017–30



Top 10 US counties for Black workers' net job growth in 2017–30, change in number of jobs

Harris County (Houston, TX)	81,089	Tarrant County (Fort Worth, TX)	28,781
Dallas County (Dallas, TX)	61,434	Wake County (Raleigh, NC)	26,739
Fulton County (Atlanta, GA)	47,607	Broward County (Miami, FL)	25,129
Orange County (Orlando, FL)	37,430	Kings County (New York City, NY)	25,031
Mecklenburg County (Charlotte, NC)	35,436	Los Angeles County (Los Angeles, CA)	23,678

Note: Map is colored white for counties without available data.
Source: US Bureau of Labor Statistics; McKinsey Global Institute analysis

mandate, strong metrics, and targeted programs across people processes are required to move beyond early-pipeline representation to the true opportunity for family-wealth creation, found in the salaries of leadership roles.

Producing more family savings through better products for savers and consumers

Saving is a challenge for Black families for a large part due to a lack of options for financial consumers and gaps in our financial system. Exclusionary policies and strategies, from limited access to federal mortgage lending to geographic barriers and a dearth of bank branches in Black neighborhoods, have hindered the economic wellbeing of Black Americans. The result is financial exclusion for Black Americans in every part of the financial system. Nearly half of Black households in 2017 were unbanked or underbanked. Without the ability to affordably save, invest, and insure themselves against risks, many Black families struggle to translate their income into wealth.

Financial inclusion will not be achieved unless the private, public, and social sectors commit to coordinated efforts. But the rewards will be enormous. Consider the private sector: our research shows that financial institutions could realize approximately $2 billion in incremental annual revenue if Black Americans had the same access to financial products as white Americans. If Black Americans reached full wealth parity with white Americans, financial-services companies could realize up to $60 billion in additional revenue from Black customers each year.

Leaders at banks and other financial institutions can start simply by rooting out the geographic, process, and economic barriers at their institutions that make it more difficult for Black families to gain full access to financial products and services. The public sector could monitor and enforce equity in policies related to financial inclusion—for example, ensuring real estate agents do not discriminate against Black families who wish to move into majority-white neighborhoods. Government could also identify and support initiatives where research points to better inclusion in the financial system, such as student-loan reform, postal banking to provide better access to the financial system, and incentives for innovations and R&D designed to improve goods, services, and experiences for people of color. Finally, the social sector can help identify and pilot innovative solutions, such as the Reboot Representation tech coalition, which, once proven, could be brought to scale.

Providing better community context for residents

Community institutions shape outcomes for Black residents, and the failure to close systemic gaps in community institutions will further damage economic mobility. The gaps were laid bare during the COVID-19 crisis, which has disproportionately affected both the health and the economic wellbeing of Black Americans, Hispanic and Latino populations, and Asian Americans. Compared to white Americans, the estimated age-adjusted COVID-19 mortality rate is 3.8 times greater for Black Americans and 2.5 times greater for Hispanic and Latino populations. That is aggravated further by the fact that Black Americans are three times and individuals from the Hispanic and Latino communities are two times more likely to report loss of health insurance during the pandemic compared with white respondents. From an economic standpoint, the share of minority-owned businesses and minority employment is highest in the industries most directly impacted by COVID-19.

To make a start on rebalancing these inequities, the new administration could consider more support for place-based transformations across the country. A US-focused development bank could help serve as the backbone to support these transformations in underinvested neighborhoods across the country. Other countries have had success with this structure.[6] A few critical areas on which such place-based transformations could focus are improving local fair-housing policies to increase housing security, improving public-health infrastructure, increasing broadband access to minority populations,

[6] The European Investment Fund (EIF), a part of the European Investment Bank Group, is mandated to help small and medium-size businesses access capital and to support European objectives to encourage growth, innovation, R&D, and employment. In 2020 alone, the EIF provided over EUR 12 billion in financing. Its main focus has been in addressing the economic impact of the COVID-19 pandemic on small and medium-size European businesses. See "The EIF in 2020," European Investment Fund, last updated January 22, 2021, eif.org.

and combating food insecurity through increasing support of school food programs in underinvested neighborhoods.

Time for bold action

The police killing of George Floyd in May 2020 spurred many organizations to take action. Nearly a third of Fortune 1000 companies made public statements on racial equity; 22 percent made external commitments, including more than $66 billion for racial-equity initiatives. At McKinsey, we published ten actions by which we committed to the fight. And we launched the Institute for Black Economic Mobility, to offer in-depth research, a forum for debate, and practical assets and capabilities to create real-world impact.

In the Institute's inaugural report, *It's time for a new approach to racial equity*, we highlighted the

Collaboration at scale: Improving the homebuyer's journey

Historical forces have created a vicious cycle of persistent and systemic differences in opportunity. There is no "silver bullet" that can undo these root-cause barriers simultaneously. Instead, the full constellation of stakeholders involved in these efforts, including the federal government, must align on a shared set of key priorities for sustained impact and implement parallel strategies that counteract the most common challenges in the journeys where they occur.

For example, increasing homeownership in neighborhoods of opportunity should be a key priority for racial equity. Even before the pandemic further exacerbated racial inequities, only 42 percent of Black households owned a home compared with 73 percent of white households. Removing the systemic barriers embedded within the homebuying journey will likely be a key priority for federal agencies like the Department of Housing and Urban Development (HUD) and many other stakeholders—such as the National Low Income Housing Coalition, the National Governors Association, the Council for Affordable and Rural Housing, and EAH Housing—as they tackle this issue nationally and in place-based efforts.

At first glance, several barriers faced by Black homebuyers seem to require distinct solutions. In our view, these challenges are better seen as compounding; each challenge bears on the others and thus requires interconnected solutions. Beginning with the racial wealth gap itself, we know that Black Americans are less likely to have the financial capital to afford the down payment for a new home. However, even if this challenge is overcome, racial segmentation in the credit market and the legacy of poor experiences for consumers make it more difficult for Black borrowers to apply for and obtain a mortgage. And even those who manage to save a down payment and receive credit face discriminatory real estate practices that prevent them from selecting homes where they want to live.

These challenges, viewed independently, fall into the remit of many federal agencies. However, Black Americans' homeownership gap is the culmination of the entire series of micro challenges. To truly advance racial equity, a stronger interagency process could help breakdown silos between agencies and solve the homebuying journey for Black Americans as a whole. Increasing the ability of federal agencies to address the distinct challenges within their purview while simultaneously working together and with other stakeholders to address interconnected barriers could better enable progress.

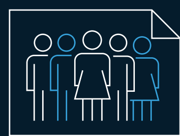
For example, HUD can continue to develop solutions to single barriers by increasing its mortgage-insurance program for people of color and funding for first-time homebuyer programs—programs that have proven their effectiveness.[1] But it could also coordinate with the Department of Justice to engage more fully in the prosecution of housing-discrimination violations, and with the Consumer Financial Protection Bureau to improve experiences for mortgage applicants. HUD can also collaborate with the nongovernmental organizations driving this work in key states and localities. By serving as both a force for change and as a coordinator of action, HUD could serve as the backbone to address barriers for Black homebuyers across the entire homeownership journey.

[1] The Federal Housing Administration (FHA), a part of HUD, has in-force insurance on more than eight million single-family mortgages. FHA played a critical role in supplying access to mortgage credit during the 2008-09 financial crisis, when many lower-income families had only limited access to other capital sources. See "The Federal Housing Administration," hud.gov.

Exhibit 3

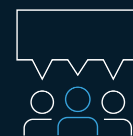
To embed racial equity in the US national fabric fully, the federal government could lead a coalition of stakeholders in three ways.

Potential administration actions to establish racial equity in the United States



1 Produce a national report on advancing racial equity across economy, with transparency on goals, initiatives, research, collaboration, metrics for success, and progress to date

2 Invest broadly in whole-of-government initiatives that seek holistic, cross-cutting solutions to racial-equity challenges



3 Create a national task force to examine racial equity, with policy framework for collaboration and coordination across public, private, and social sectors to ensure national accountability

reasons why no one sector can solve this challenge on its own and the elements needed for a coordinated national coalition focused on racial equity to succeed and produce the highest possible returns for society. Only in that way can we ensure long-term accountability, such that the best interventions for challenges are identified and implemented, regardless of stakeholder.

The federal government likely will be the main actor in a national coalition. To fully embed racial equity in the national fabric, the new administration could take the following steps (Exhibit 3):

- Produce a national report on advancing racial equity across the economy, providing transparency on goals and initiatives, areas for research and collaboration, metrics for success, and progress to date

- Increase investment in interagency or "whole of government" initiatives to root out systemic barriers and create holistic cross-cutting solutions for key outcomes for increasing equity (for an example, see sidebar "Collaboration at scale: Improving the homebuyer's journey")

- Create a national task force and a policy framework for collaboration and coordination across the public, private, and social sectors to ensure national accountability

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The challenges listed in this memo stem from longstanding systemic issues that will not be solved overnight or solved fully by the new administration and its supporters and partners in the private sector. What we *can* do is work together to create a national framework that can lock racial equity into the national agenda; reinforce long-term accountability for government, business, and society; and find ways to increase coordination and maximum impact from all the ideas now coming to the fore.

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