Executive summary

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

June 2021

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.

About the McKinsey Global Institute

Since its founding in 1990, the McKinsey Global Institute (MGI) has sought to develop a deeper understanding of the evolving global economy. As the business and economics research arm of McKinsey & Company, MGI aims to help leaders in the commercial, public, and social sectors understand trends and forces shaping the global economy.

MGI research combines the disciplines of economics and management, employing the analytical tools of economics with the insights of business leaders. Its "micro-to-macro" methodology examines microeconomic industry trends to better understand the broad macroeconomic forces affecting business strategy and public policy. Current research focuses on six themes: productivity and growth, natural resources, labor markets, the evolution of global financial markets, the economic impact of technology and innovation, and urbanization.

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.

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

Executive summary

June 2021

Authors
Shelley Stewart III
Michael Chui
James Manyika
JP Julien
Vivian Hunt
Bob Sternfels
Jonathan Woetzel
Haiyang Zhang

In brief

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

Workers

20
occupations account for **60%** of the **$220B** racial wage disparity

43%
of Black workers are in jobs that pay **<$30K** annually

Residents

3.5
years lower pre-pandemic life expectancy for Black Americans

30%
of public spending goes to programs with features that amplify racial disparities

Business owners

2%
of private US employer firms are Black-owned

~2.4x
more likely for Black owners to be denied financing than white owners

Savers

19%
of Black families have negative net worth (vs. **8%** of white families)

$24K
median Black family wealth (vs. **$188K** median white family wealth)

Consumers

2.7M
Black Americans live in “deserts” that lack multiple vital services

$260B
in current spending on products and services for which Black consumers are dissatisfied

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

McKinsey Institute for Black Economic Mobility and the McKinsey Global Institute

Crystal, Mental health counselor

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.

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.

20

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

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.

Exhibit E1

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

Representation gap[1] | Within-occupation wage gap[2]

Aggregate value of closing representation and within-occupation wage gaps

Occupational categories	% of total value: Representation gap[1]	% of total value: Within-occupation wage gap[2]	$ billion
Other managers (eg, health service, natural science, property)	61	39	18
Public and private executives (including small business owners)[3]	60	40	14
Physicians	72	28	12
Software developers	79	21	10
Sales representatives, wholesale and manufacturing	52	48	8
Lawyers, judges, magistrates, and other judicial workers	75	25	8
Elementary and middle school teachers	84	16	7
Financial managers	48	52	6
First-line supervisors of nonretail sales workers	52	48	6
Accountants and auditors	74	26	5
First-line supervisors of retail sales workers	59	41	5
General and operations managers	67	33	5
Computer and information systems managers	76	24	4
Construction managers	73	27	4
First-line supervisors of construction trades and extraction workers	69	31	4
Postsecondary teachers	74	26	4
Other engineers	82	18	4
Management analysts	69	31	3
Sales managers	63	37	3
Marketing managers	67	33	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

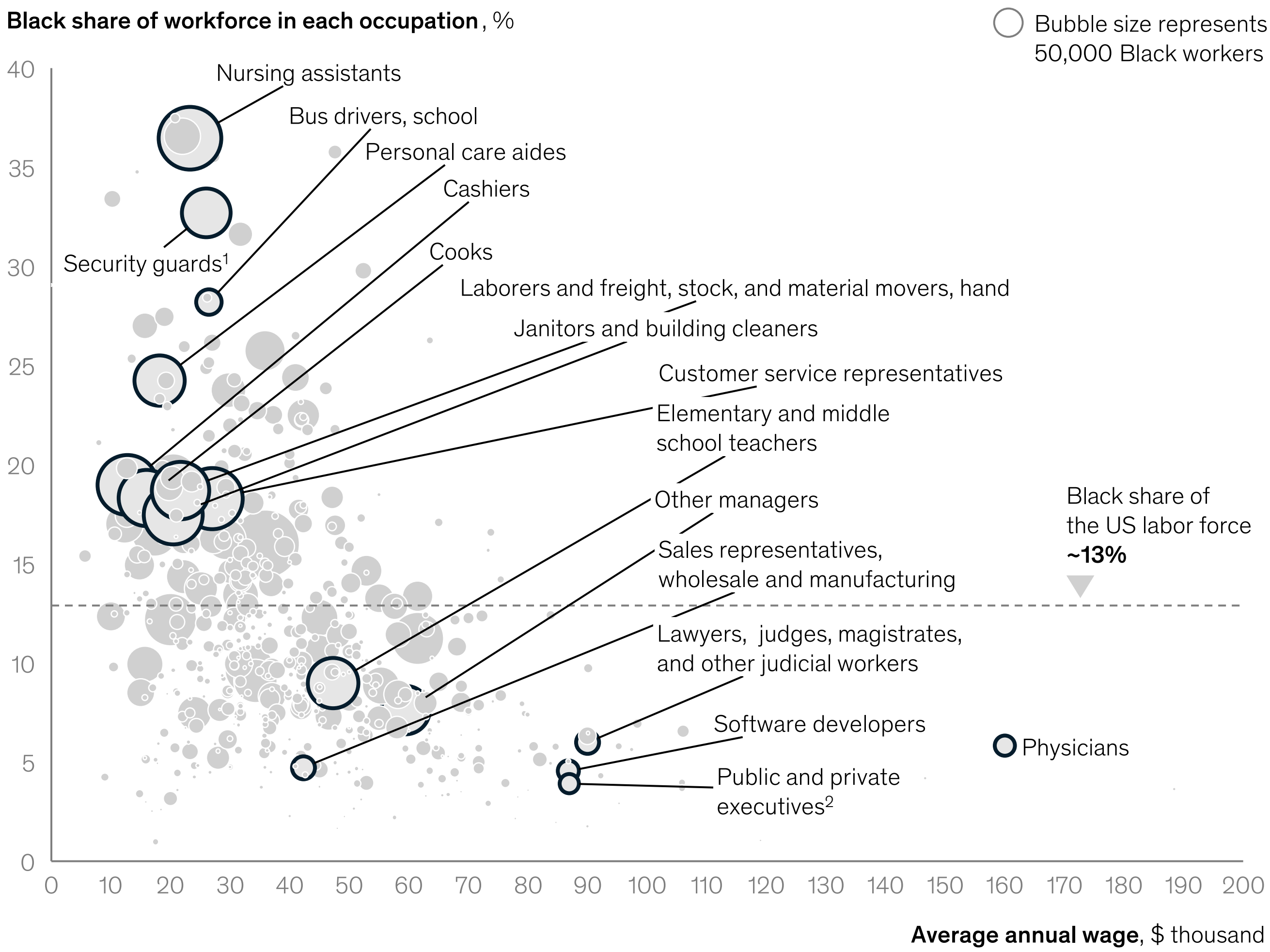
Clear racial patterns continue to exist across the US labor force (Exhibit E2). Nearly half of Black workers are concentrated in healthcare, retail, and accommodation and food service. The vast majority of Black workers within those industries are in lower-paying service roles rather than professional 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



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.

Exhibit E3

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 Undefeated 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]

$96B

in racial pay gaps within occupational categories

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.

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 Schrotenboer, "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.

>40%

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

— **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

[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.

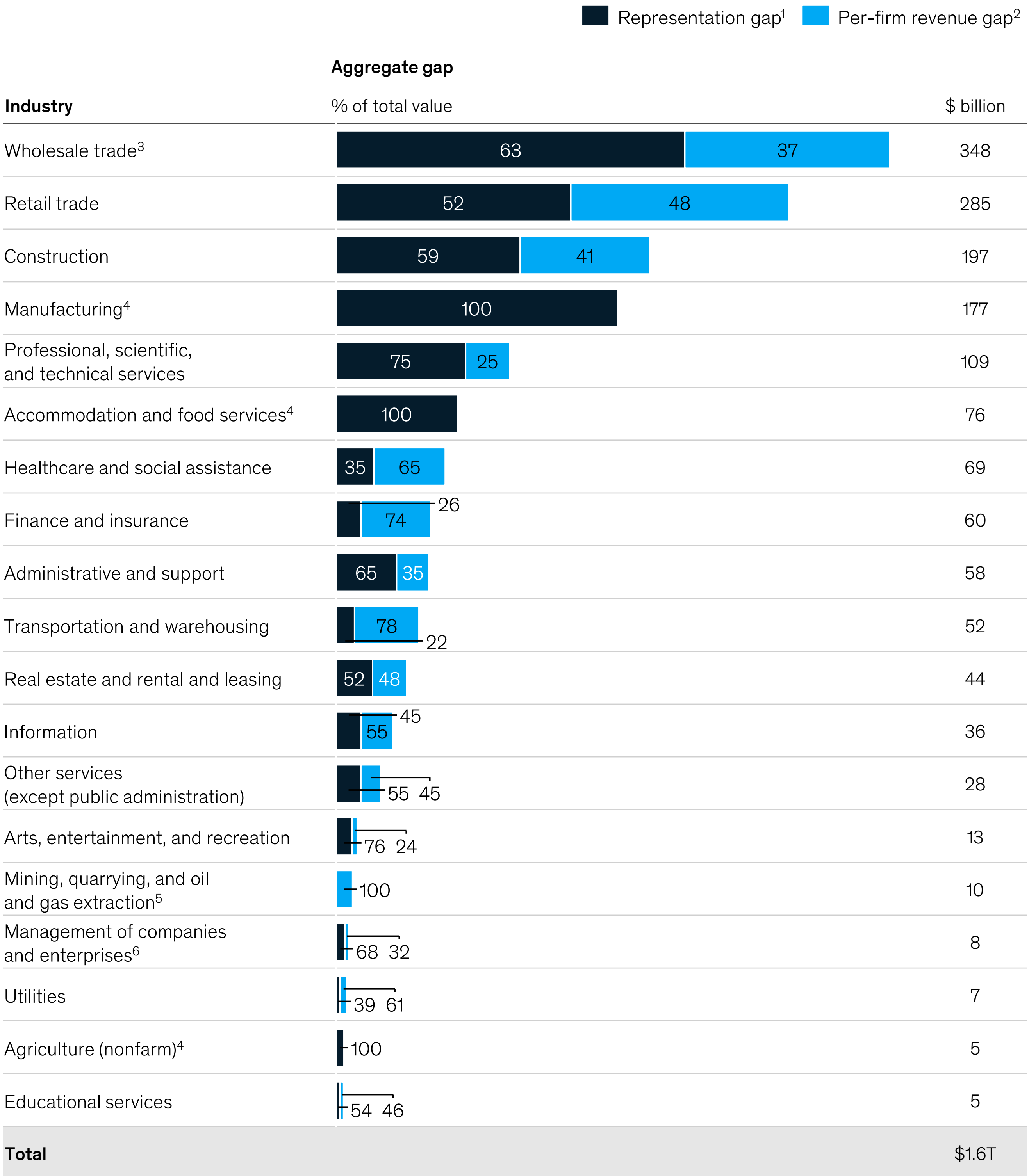
Similar to the pattern in the labor force, the aggregate revenue gap is highly concentrated. Seventy percent of it exists within just five industries: wholesale trade, retail trade, construction, manufacturing, and professional services (Exhibit E4).

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.

Exhibit E4

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-intense 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.

~54%

of Black renter households are cost burdened

— **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).

[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.

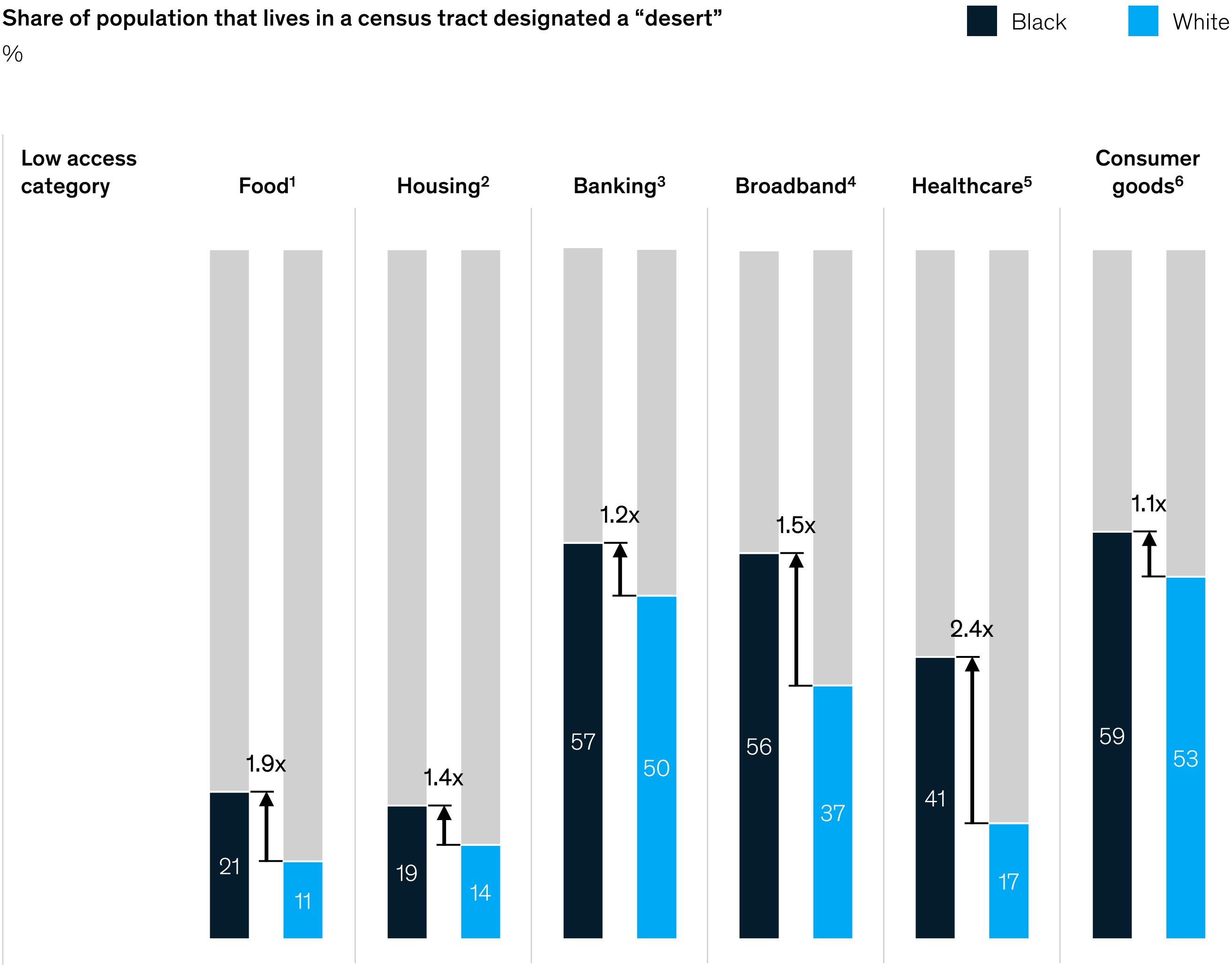
[36] *The state of the nation's housing 2020,* Joint Center for Housing Studies of Harvard University, November 2020; and *Out of reach: The high cost of housing,* National Low Income Housing Coalition, 2020.

Exhibit E5

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"

%



Low access category	Food[1]	Housing[2]	Banking[3]	Broadband[4]	Healthcare[5]	Consumer goods[6]
# of desert census tracts	9,241	12,059	38,233	31,489	17,333	29,051
# of Black residents	8.3M	7.6M	22M	22M	16M	14.5M[7]

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.

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; bhw.hrsa.gov/workforce-shortage-areas/shortage-designation.

41 Survey on race and health conducted in 2020 by the Kaiser Family Foundation and ESPN's The Undefeated; 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.

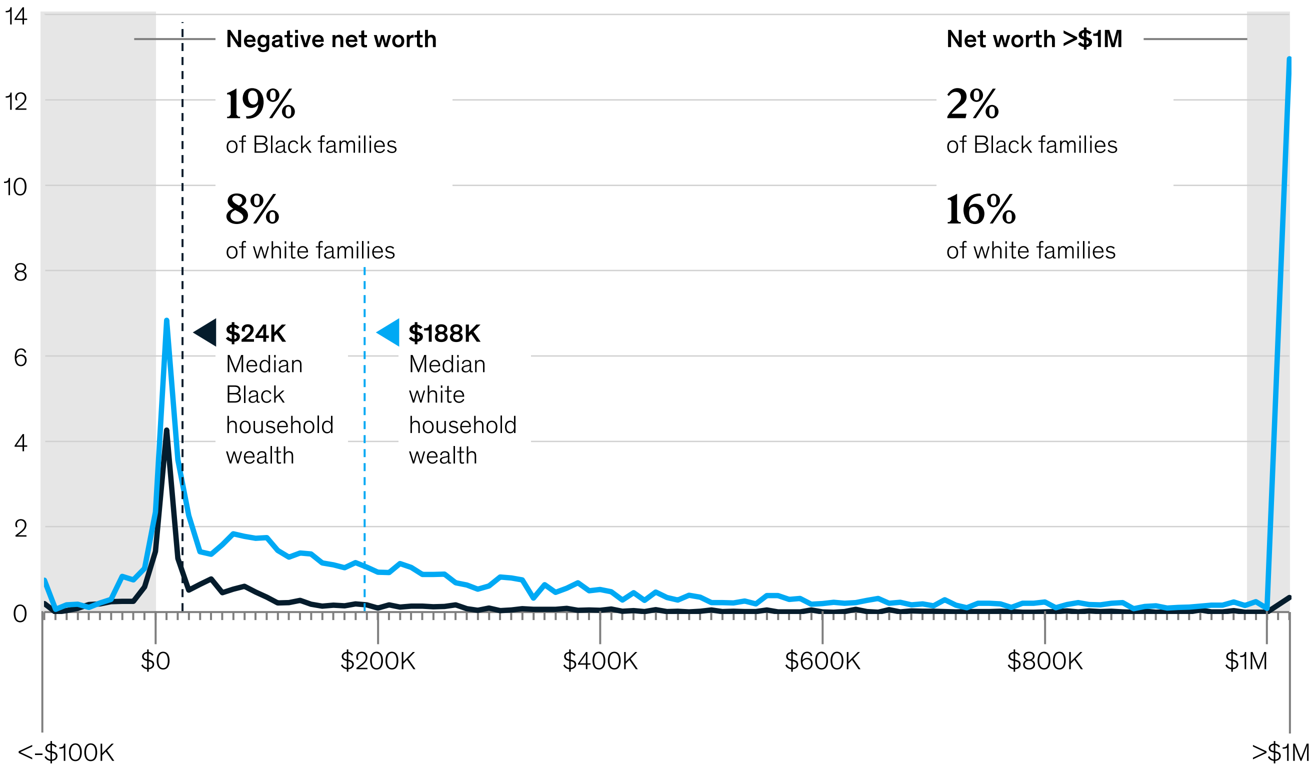
Exhibit E7

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

Number of Black families
Number of white families



	Negative net worth	0–$10K net worth	>$1M net worth
Number of Black families	3.5M	4.3M	340K
Number of white families	6.7M	6.8M	13M

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]

~30p.p.

gap in Black and white home ownership rates

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]

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.

Exhibit E8

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

		Gap in median value (white minus Black)[1] $ thousand	Asset ownership, % Black	Asset ownership, % White
Financial assets	Transaction accounts[2]	7	97	99
	Retirement accounts	45	35	57
	Life insurance	5	22	21
	Stocks	18	7	19
	Certificates of deposit	16	3	10
	Savings bonds	0	3	10
	Pooled investment funds	36	2	12
	Other managed assets[3]	-		8
	Bonds[3]	-		2
Non-financial assets	Vehicles	7	71	89
	Primary residence	80	45	74
	Other residential property	98	8	15
	Business equity	29	5	16
	Equity in nonresidential property	35	3	8

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.

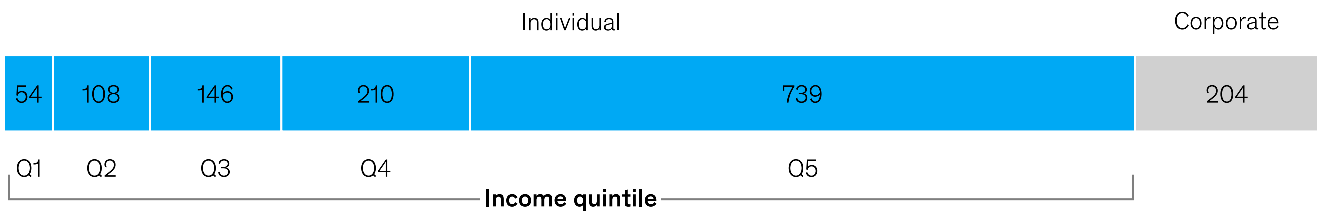
Discriminatory government housing policies have been changed, but their effects calcified over time.

[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 Undefeated; 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.

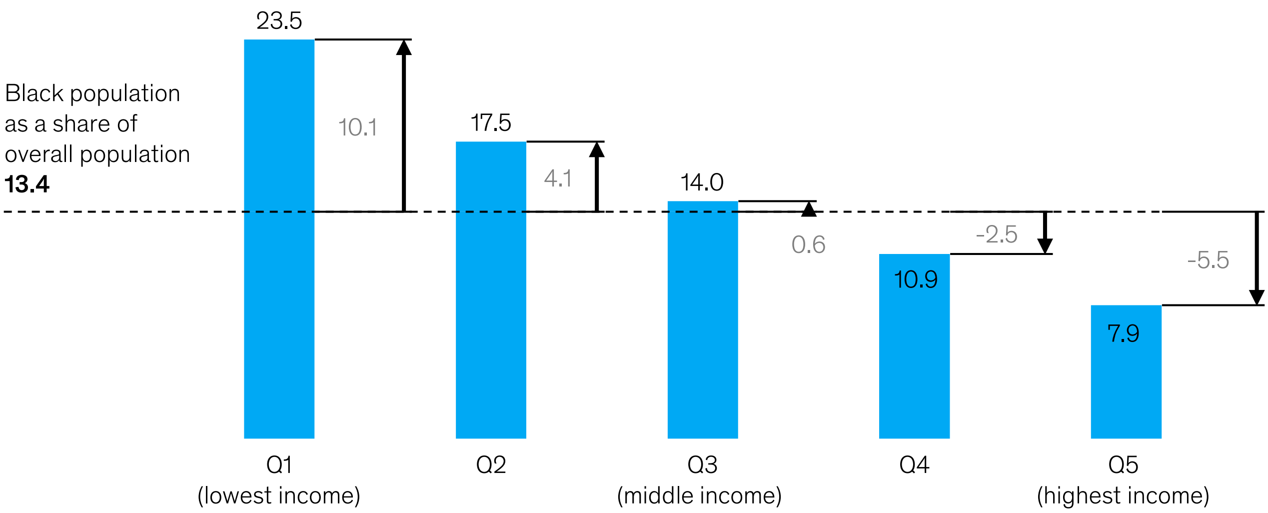
Exhibit E9

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

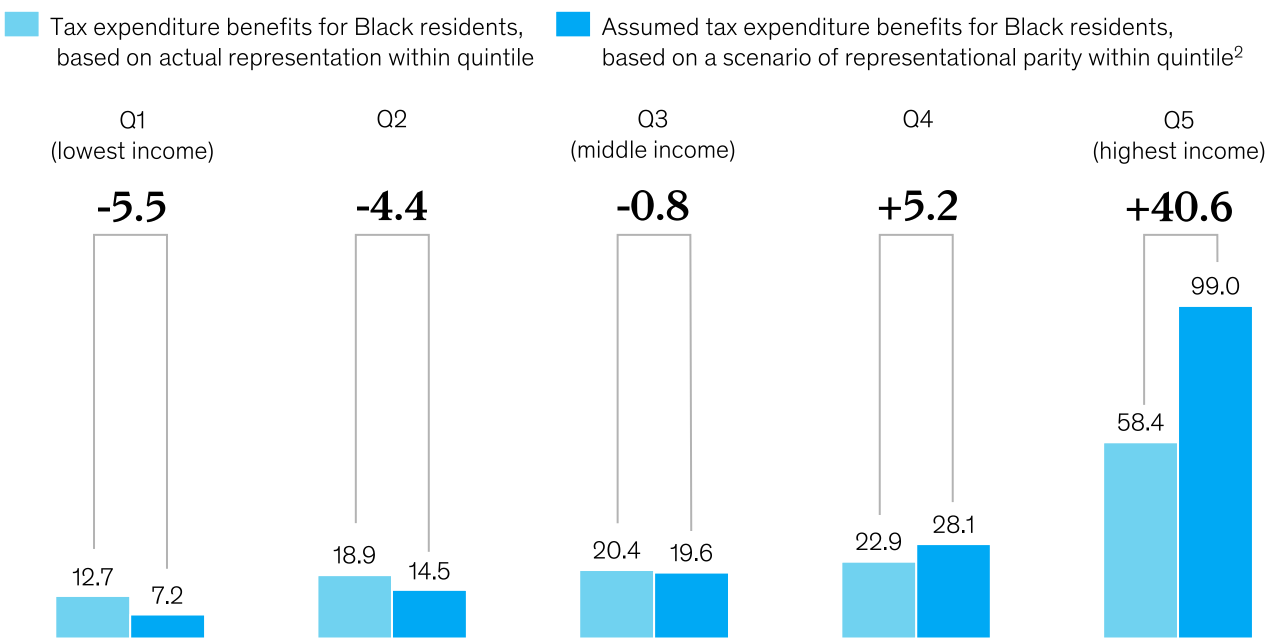
Federal tax expenditure by type, 2019,[1] $ billion



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.

1/3

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

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.

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

McKinsey Institute for Black Economic Mobility
McKinsey Global Institute
June 2021

Designed by the McKinsey Global Institute

www.mckinsey.com/mgi

@McKinsey_MGI
@McKinseyGlobalInstitute
@McKinseyGlobalInstitute

Subscribe to MGI's podcast,
Forward Thinking:
mck.co/forwardthinking