Quality Employment, Capital Ownership, and the Racial Wealth Gap: The Case of ESOP Employment

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Background

- The racial wealth gap is the largest and one of the most persistent economic differences between Blacks and whites in the U.S.

- Blacks holding one-sixth of the wealth of white Americans today.

- White-Black per capita wealth ratio converged from 60 to 1 in 1860 to 6 to 1 more recently

- Drivers of the racial wealth gap are historical:
    - historical institutions (e.g., slavery),
    - policies and other structural barriers that created unequal endowments (starting positions), and conditions for wealth accumulation (Darity Jr., Mullen, & Slaughter, 2022; Derenoncourt et al., 2022).

- Racial wealth gap persists despite education levels, accounting for savings behavior, and other common (cultural) explanations given for these differences (Darity Jr. et al., 2018).
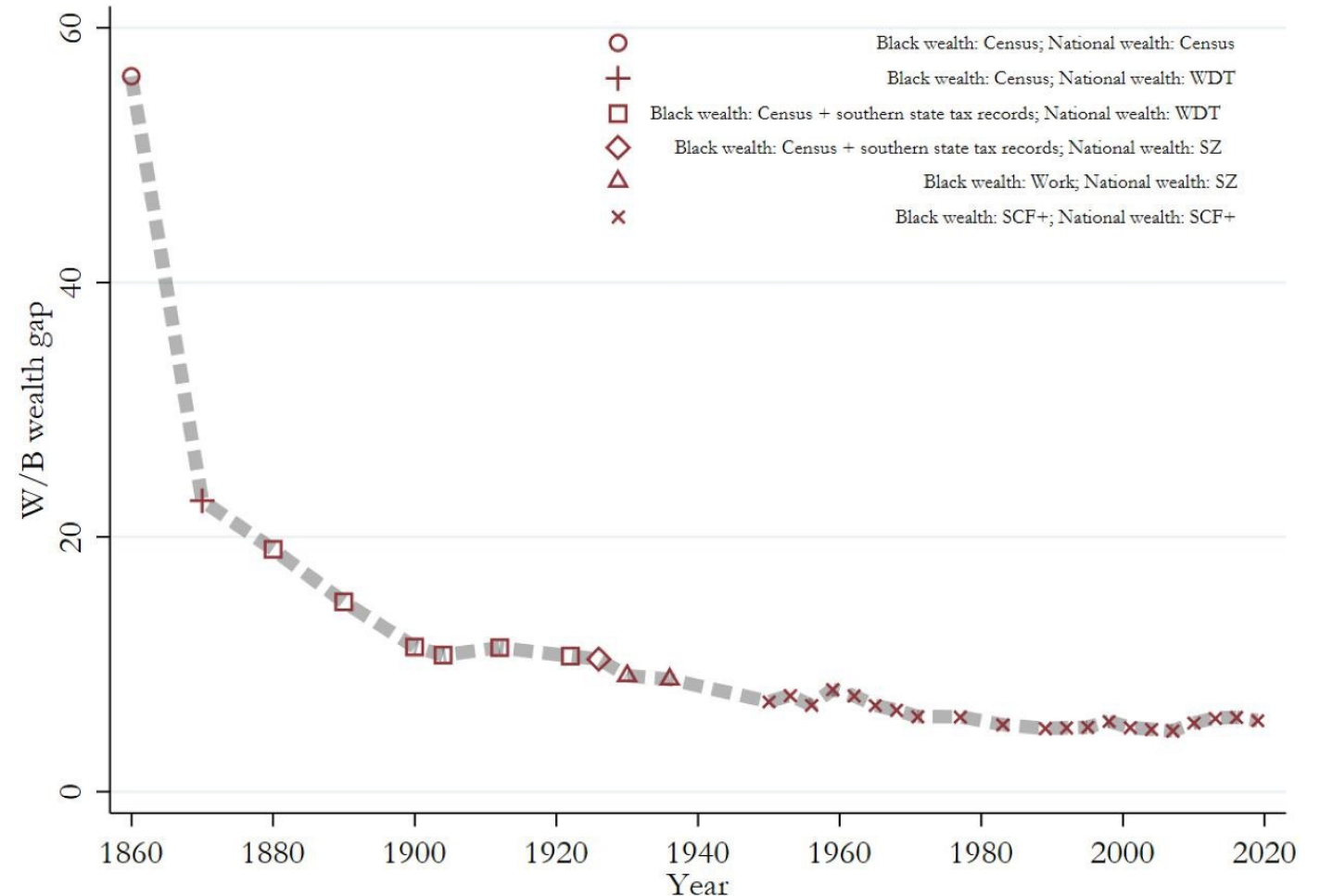

Figure by Derenoncourt et al. (2024)

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Research Questions and Conceptual Framework

- Using the 1997 National Longitudinal Survey of Youth we answer the following questions:
  - Are there differences in net worth by employee ownership status within and between race?
  - Does employment at employee-owned companies (as measured by profit sharing and employee stock ownership plans) help to close the racial wealth gap?
- Within race Effects
  - ESOPs increase assets through retirement savings (defined contribution plan)
  - "Good Job": tend to offer better pay and more generous non-wage compensation
  - Greater job stability
  - Hard and soft skills developed from being an employee owner may increase outside option, leading to employment at even better paying firms
  - => Increase income and wealth within race
- Between Race Effects
  - ESOPs may not impact the racial wealth and racial income gap
    - ESOPs may replicate social structure
    - Based on Derenoncourt et al (2024) it is unlikely that ESOPs will significantly impact convergence of the racial wealth gap (they find that only reparations will significantly close the gap), however, they may play an important role in maintaining closure of the gap.
- Threats to Identification
  - Selection bias. ESOP firms may be good at selecting workers, for example, with better cognitive ability
  - Identifying the effect of an ESOP: maybe it's not the ESOP but a bundle of benefits that lead to better outcomes

Cross-Sectional Analysis (2015 Wave): Net Worth

VARIABLES	1	2	3	4	5	6	7	8
Total Sample - 20	771.8184	764.0850	880.2889	-779.5608	-971.3971	-1,635.8229	-1,631.2383	-1,245.7359
	(2,095.2943)	(2,093.9622)	(2,107.8063)	(2,081.3073)	(2,091.2570)	(2,098.2307)	(2,095.7423)	(2,099.3978)
Black - 20	3,014.3668		3,143.6327	1,461.4332	1,712.7840	1,194.0259	1,216.0270	1,669.8624
	(3,006.8042)		(3,001.6826)	(3,027.3369)	(2,999.0491)	(3,013.0472)	(3,000.1405)	(3,056.9875)
White - 20	243.8031		357.3996	-1,244.2230	-1,503.4912	-2,210.1292	-2,184.0265	-1,888.7924
	(2,528.1806)		(2,549.7321)	(2,474.8871)	(2,468.1603)	(2,479.2035)	(2,475.5989)	(2,460.5164)
Total Sample - 25	8,280.8219***	8,261.6474***	8,197.6454***	6,420.7878**	6,499.0081**	3,551.3745	3,577.8123	3,767.2339
	(3,112.8421)	(3,109.1090)	(3,124.9292)	(3,144.7746)	(3,207.1100)	(3,246.8573)	(3,237.0562)	(3,332.1061)
Black - 25	8,367.8665**		7,667.6945*	5,773.3668	5,818.8453	3,607.1214	3,543.6033	4,358.1273
	(4,109.6415)		(4,097.0037)	(3,983.9545)	(4,075.9800)	(4,107.1072)	(4,120.3952)	(4,190.8193)
White - 25	8,236.9016**		8,293.3673**	6,657.1271*	6,712.4689*	3,555.4109	3,646.9735	3,649.1920
	(3,658.9329)		(3,675.8144)	(3,701.1382)	(3,758.5805)	(3,775.7695)	(3,744.4487)	(3,839.7812)
Race		X	X	X	X	X	X	X
Gender			X	X	X	X	X	X
Other Baseline Variables				X	X	X	X	X
Education					X	X	X	X
Total Income Salary Past Year						X	X	X
Marital Status							X	X
Other varialbes influenced by ESOP								X

Standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Net Worth cont.

VARIABLES	1	2	3	4	5	6	7	8
Total Sample - 30	12,225.6425***	12,172.0805***	12,322.0101***	11,852.5857***	12,053.3012***	2,585.2268	2,645.5530	3,359.7971
	(4,529.3556)	(4,519.0733)	(4,546.8567)	(4,511.8616)	(4,526.0806)	(4,443.2854)	(4,434.3425)	(4,525.8197)
Black - 30	12,172.0805***		12,322.0101***	11,852.5857***	12,053.3012***	2,585.2268	2,645.5530	3,359.7971
	(4,519.0733)		(4,546.8567)	(4,511.8616)	(4,526.0806)	(4,443.2854)	(4,434.3425)	(4,525.8197)
White - 30	12,705.8629**		12,964.1124**	13,242.3595**	13,614.3370**	2,948.4344	3,142.0009	3,633.9619
	(5,487.6887)		(5,508.0924)	(5,452.9642)	(5,443.7356)	(5,317.3988)	(5,297.9601)	(5,368.4878)
Total Sample - 35	17,105.2817***	17,006.2453***	15,092.3000**	13,042.6806**	13,977.9386**	-3,356.9682	-3,276.9319	-2,386.2497
	(5,998.9319)	(6,000.2130)	(6,048.4148)	(5,683.1921)	(5,640.5636)	(5,422.0423)	(5,385.4049)	(5,341.9588)
Black - 35	16,387.4818**		14,525.3282**	10,106.9842	9,593.2586	2,041.0199	1,858.0068	2,513.5456
	(6,820.1126)		(6,887.0952)	(6,868.8227)	(6,860.3605)	(6,562.6685)	(6,519.7062)	(6,537.0039)
White-35	17,147.2081**		15,237.7518**	15,204.0924**	16,569.6967**	-3,134.6028	-2,876.2145	-2,117.7014
	(7,227.9753)		(7,250.5722)	(6,801.5814)	(6,767.3398)	(6,538.0303)	(6,503.8858)	(6,412.3849)
Race		X	X	X	X	X	X	X
Gender			X	X	X	X	X	X
Other Baseline Variables			X	X	X	X	X	X
Education					X	X	X	X
Total Income Salary Past Year						X	X	X
Marital Status							X	X
Other varialbes influenced by ESOP								X

Standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Thank You!

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