

Federal Wealth Policies in Support of Jim Crow: Using an Anti-Racist Perspective to Inform Political Economy

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Abstract

Recognizing the specific ways that systemic racism has and continues to function in our society is essential to developing a political economy that effectively examines contemporary problems and issues, whatever they may be. To do so, this paper identifies key elements of an anti-racist perspective and uses them to illuminate critical aspects of our racial wealth gap. Given the nature of wealth – its inherent durability and transferability across generations – this paper demonstrates how the current racial wealth gap is the result of past wealth policies that privileged whites. Further, it demonstrates how our current wealth policies are not simply encouraging the concentration of wealth among the 1 percent, but also recreating a system of racial segmentation. In a time in which overtly racialized policies and laws are often illegal, our wealth policies now function as a modern version of past Jim Crow laws and norms.

This paper relies on the Survey of Consumer Finances and Joint Committee on Taxation data to document its claims.

JEL:

Keywords systemic racism, racial wealth gap, wealth privilege, intergenerational wealth transfers

Introduction

Our recent Presidential election revealed with stark clarity that we are two Americas, each responding in different ways to the modest achievements made by people of color over the past generation. In one America, we digest a steady diet of news reports, published findings, and statistics reminding us that systemic racial oppression is alive and well today. Each morning, we awake to fresh reports of vigilante or police violence against men and women of color. We read reports that show our schools treating even the youngest black and Latino youngsters dramatically differently in discipline (US Department of Education, 2014) and academic achievement (Bohrnstedt et al., 2015; Hemphill & Vanneman, 2011) than white kids. Powerfully persuasive books like Professor Alexander's *The New Jim Crow: Mass Incarceration in the Age of Color Blindness* (2010) reminds us of the depth and breadth of individual behaviors and institutional

practices that support a white supremacist system. We are inundated with an unending stream of statistics that show without fail how whites in this country continue to prosper while black, Latino, and Native peoples, in particular, continue to lag far behind.³ In this America, we understand why the words “Black Lives Matter” are a necessary admonishment given the current treatment of young people of color today.

In the other America, the contemporary realities of white supremacy are dismissed or simply ignored. Racial oppression is viewed as a relic of the past,

³ Such statistics are less prevalent for Native peoples than for black and Latinos. This is not because their circumstances are markedly better, but rather because they are often ignored as a separate category in the published statistics. It is argued that this lack of visibility is consistent with the treatment they have received from whites over five centuries.

largely banished by the triumphs of the Civil Rights movement a half century ago. Both the removal of past racial barriers as well as whatever progress experienced by people of color are heralded as evidence of this marked change. Indeed, the Supreme Court ruled 5-4 in *Shelby County v. Holder* (2013) that key enforcement provisions in the Voting Rights Act are no longer needed given current conditions. In this America, the modest progress gained by persons of color are viewed ambivalently as the rallying cry of “Make America Great Again” indicates a yearning for an era more racially oppressive than today.

Sorting through the various claims made by each of these narratives represent an important task for us ahead. As essential as these issues are, conventional economics is not well equipped to investigate them in much depth or with much dexterity. Instead, this paper argues that political economy infused with an anti-racist lens offers a far more capable vehicle for such analysis. Unlike the narrowly focused neo-classical economics, political economy studies “the social relations, particularly the power relations, that mutually constitute the production, distribution, and consumption of resources” (Mosco, p. 24, 2009). Adding an anti-racist lens can illuminate how racialized perceptions, behaviors, decisions, and policies influence the social relations and sustain the power hierarchies that promote white supremacy. This paper will use as its case example the circumstances that encourage wealth accumulation by households and how these conditions created and continue to promote the racial wealth gap. This focus on household wealth, itself a source of power, shows how we have created circumstances similar to those found during the Jim Crow era.

Key Facets of an Anti-Racist Analysis

Anti-Racism is a term used to describe a network of social activists, facilitators, educators, and scholars who are working in collaboration to dismantle systems of racial oppression and eliminate forms of unearned privileged based on racial identity. Although I have not seen a formal exposition of what constitutes an anti-racist analysis, both

personal experience and a review of the literature suggests the five following components:

1. ***Expanding awareness of the current consequences of our racialized past.*** There is a tendency, particularly among whites, to argue that our history, no matter how abhorrent, is sealed in the past and has little impact on current conditions. Having an anti-racist analysis requires one to uncover our past racialized policies, practices, and attitudes to discern how they inform the present. Further, a fuller understanding of our history brings the recognition that our systems of racial oppression have mutated over time. The abolition of slavery in the 19th century did not generate an unbending trend toward racial equity, but rather a reversion to the Jim Crow, prison labor, and debt peonage systems. Fifty years after the legal dismantling of Jim Crow structures, we remain far, far away from racial equity, particularly in the face of the current “whitelash”.
2. ***Recognizing the contemporary sources of organizational and systemic racism.*** While many view racism as an interpersonal issue - how I treat other people - much of the harm done by racism operates within organizations and across societal systems. Frequently, these sources of racism function covertly, in that they don’t result from overt racial prejudice. Having an anti-racism analysis requires one to become increasingly aware of these sources. Frequently, one must recognize and refute those social narratives that offer legitimacy for outcomes that generate clear racial disparities.
3. ***Acknowledging white supremacy as the obverse of racism.*** Of course, it is essential to acknowledge the various ways that racism harms the lived experiences of people of color. Equally important is to recognize how systems of racial oppression are in place to benefit, in this case, white people. Whether white people intentionally participate or not,

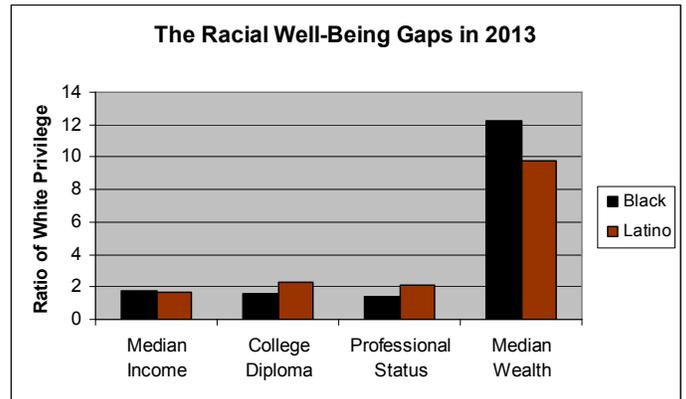
they are the beneficiaries of these systems of oppression. As consent is not required to benefit from unearned privilege, white people must decide whether and how they intend to use their privilege to dismantle the systems of white supremacy.

4. **Recognizing the role of intersectionality.** Not all white people benefit uniformly from the unearned privileges that result from racial oppression. Functioning along side of the system of racial oppression are other forms of oppression that coalesce around gender identity, sexual orientation, socioeconomic class, and religious affiliation, to name just a few. Our affiliation with these other parts of our identity certainly influences our receipt of unearned privilege. It is important to recognize the role played by these other forms of oppression, but not by obscuring our focus on race.
5. **Discerning required changes to achieve substantive (racial) equality.** With a detailed understanding of the structures, policies, practices, and beliefs that perpetuate racial disparities comes an understanding of what changes are required to work toward substantive (racial) equality. In contrast to the notion of simply assuring equal access, substantive equality acknowledges that past disparities may require additional resources for oppressed groups truly to gain equal opportunities.

A Rorschach Test

According to the 2013 Survey of Consumer Finances (SCF), white households continue to hold substantial advantages in various measures of household well-being. On measures of median household income, college graduation rates, and professional status, white households typically lead both black and Latino households by a two to one margin. However, when comparing median household wealth, white dominance increases to ten to twelve to one, as illustrated in the graph below. Though the extent of the racial wealth gap elicits

little disagreement, there exists considerable dispute on why it exists.



Given that inequality is endemic to most societies, most have a social narrative that explains why that inequality persists. Recall Aesop’s fable The Ants and the Grasshopper.⁴ Amidst the pleasant weather of summer, the dancing grasshopper asks the ants why they are toiling so hard carrying a piece of grain. They respond that winter is coming and advise the grasshopper to work now in preparation. Of course, the grasshopper fails to heed the ants’ advice and finds itself starving once winter’s snows cover the ground. Its desperate pleas for food generate smug responses among the well-supplied ants. Of course, the message is clear. Those who are wealthy earned their circumstances through foresight, discipline, and hard work that others lack. Many millennia later, this fable’s message still resonates today.

Most economists who study the racial wealth gap apply the Life Cycle Hypothesis (LCH) either explicitly (Altonji & Dorazelski, 2005; Blau & Graham, 1990; Hurst, Luoh, Stafford, & Gale, 1998; Juster, Smith, & Stafford, 1999; Menchick & Jianakoplos, 1997; Thompson & Suarez, 2015) or implicitly (Barsky, Bound, Charles, & Lupton, 2001; Gittleman & Wolff, 2000; Keister & Moller, 2000) at the core of their analysis. According to this view, households use wealth to maximize a constant level of consumption over their lifetime. This suggests an age profile to household wealth. As

⁴ My thanks to Hurst (2003) for recognizing the relevance of this fable.

households approach middle age, their wealth rises rapidly as they anticipate retirement. During their retirement, households spend down their wealth, ideally exhausting it just as death approaches. Like Aesop's fable, the LCH is essentially a household saving model. While the model does acknowledge both family inheritances and uncertain asset appreciation, it argues that both simply shift household consumption, thereby suggesting that wealth disparities should reflect differences in household income. The LCH further assumes that households experience a "summer" followed by "winter". Yet, chronic bouts of unemployment, low wages, and poor health may preclude some households from experiencing a summer period. Conversely, rich households may never suffer a winter, since much of their income is unaffected by their retirement. Various studies have concluded that the LCH has difficulties in predicting accurately household wealth at either end of the household income spectrum (Atkinson, 1971; Bernheim & Scholz, 1993; De Nardi, 2004; Huggett 1996; Wolff, 1981).

It takes a small leap of imagination to see how some have applied Aesop's moral view to the racial wealth gap. Plenty of stereotypes about black and Latino culture abound that might explain the racial wealth gap. Dalton Conley (1999) argues that some have forwarded a "culture of poverty" argument to explain the gap. Using the LCH framework, others have queried whether black households have saved less assiduously than whites (Gittleman & Wolff, 2000; Shin, 2010) while others have examined their asset portfolio choices (Gittleman & Wolff, 2000; Hurst et al., 1998; Menchik & Jianakoplos, 1997). Given the model ignores power differences, including the ways that wealth itself can serve as a source of power, it cannot offer nuanced explanations for the racial wealth gap. Instead, we must turn to political economy infused with an anti-racist lens to gain much perspective.

First, we should recognize the unique role played by household wealth. Different forms of wealth, whether real property or financial accounts, are valued because they tend to hold their value. Even as my vacant rental property generates no income, it

maintains its value as long as it retains its capacity to generate future rents. This makes different forms of wealth an excellent store of future consumption as the LCH suggests. This durability can transcend one's lifetime. While I cannot bequeath my son my educational attainment, my income, or my professional status, I can leave my wealth to him and his heirs. Its inherent durability and transferability across generations is one primary reason why the racial disparities in household wealth are so much greater than the gaps in education, income, and professional status.

More than simply a store of future consumption, wealth is a source of power. During bad times, wealth allows families to avoid making desperate decisions like selling their home or falling deeper into debt. Having a financial cushion allows households the opportunity to switch jobs and even locations as well as gain education and training to enter new careers. Buying a home can provide stability, secure a solid investment, and assure access to better schools for one's children. Through philanthropy, wealth can generate influence as donors are invited to serve on boards and given access to elected officials. Wealth can influence the future as parents can expand the opportunities of their children and grandchildren in a myriad of ways. While most households may simply aspire for a comfortable and secure lifestyle throughout their life as the LCH suggests, the affluent may seek additional wealth for its own sake and without limit.

Looking Back

Given the inherent capacity of various assets to hold their value as well as the transferability of wealth across generations, we must take serious the anti-racist advice to look toward the past to understand the present. Centuries past, control of the land represented an important and widely available source of wealth. Whether one wanted to hunt for pelts, lumber the forests, mine the ground or till the soil, having title to the land provided a source of independence and well-being. Land ownership gave white males voting rights and the option to gain elected office. Of course, arriving Europeans only gained possession of the land by forcibly removing and often killing the Native peoples already in

residence. This wholesale transformation of a continent represented a massive transfer of wealth from one peoples to another (Lui, Robles, Leondar-Wright, Brewer & Adamson, 2006). On a smaller scale, a substantial shift in land ownership occurred in the vast territory taken from Mexico as the spoils of war. Under the Treaty of Guadalupe Hidalgo, thousands of Mexican citizens lost their rights as the national border shifted south overnight. Census records show a substantial decline in land ownership by families with Latin surnames in the decade immediately following (Armott & Matthei, 1991).

The other important source of wealth was, of course, human chattel. The enslavement of Native peoples initially, and subsequently Africans, enabled the European plantation owners the cheap labor force needed to grow labor intensive crops like rice, tobacco, and cotton. The plantation economy not only enriched the owners, but also merchants, bankers, and shippers, both local and in the North. From these profits, white families could send their children to the best schools that opened doors to a variety of professions.

In contrast, states passed laws outlawing the education of enslaved persons, even teaching them to read and write. After emancipation, Jim Crow laws favored the education of whites over freedmen and their descendants. Other laws and practices curtailed professional opportunities while housing covenants limited where homebuyers of color could make their offers.

Much of this happened a long time ago, perhaps so long ago that these circumstances have little impact today. Yet, let us consider how family wealth can move from one generation to the next. Most parents share a uniform desire to give their children the best start they can; what distinguishes parents is their capacity to do so. Owning a homestead ranch or farm gave families some security and stability, often allowing them to give their children some added years of schooling. With increased education, some of the children could find better paying jobs in the local towns and cities. Earning a suitable income, they could afford to keep their own children in school, perhaps enabling them to acquire a high

school diploma. Some found the means to gain a college degree. With this education, they could compete for skilled jobs and professional opportunities. Eventually, families could afford to buy a home, offering even further security and stability. With each generation, parents could offer increased help to their children. In contrast, emancipation left virtually all freedmen largely penniless. Jim Crow laws and norms posed one barrier after another as families of color tried to offer their children opportunities for advancement. Given the way that wealth can cross from one generation to the next, it becomes clear how our current racial wealth disparities are echoes of our racialized past.

Over the 20th century, a college degree and home ownership replaced the homestead farm as the key avenue for financial well-being. The G.I. Bill provided an immeasurable boost to family fortunes as it offered returning veterans generous benefits to pay for schooling as well as low-cost loans to start a business or purchase a home. Its impact was massive as it helped 7.8 million veterans gain additional education, with 2.2 million of those attending colleges and universities (Olson, 1973, p. 602). Another 2.4 million veterans bought homes over the seven-year period after World War II (U.S. Department of Veterans Affairs, n.d.). With a college degree or title to land, these families gained entrance to middle class status and beyond.

The G.I. Bill's generosity did not extend to all veterans, despite its race neutral language.

Its implementation amidst a white supremacist society meant that veterans of color, particularly Black servicemen, benefited disproportionately less. While white veterans could apply their benefits to any college that found them academically qualified, black veterans received a publication called "Colleges for Negroes" that indicated where they could apply (Turner & Bound, 2003, p. 151). In the South, black veterans could enroll only in the poorly funded, historically black colleges and universities (HBCUs). Despite doubling their enrollments, these colleges still turned away over half of their applicants in both 1946 and 1947 (Olson, 1973, p. 74). In the North, some traditionally white

institutions enrolled black veterans, but always in small numbers. In 1946, the University of Pennsylvania registered 46 black students out of 9,000 (Herbold, 1994, p. 107). Other barriers limited black opportunities in vocational education. Jim Crow norms dictated that only black counselors could help black veterans. In Georgia and Alabama, only a dozen black counselors served the returning servicemen while the entire state of Mississippi had none (Onskt, 1998).

Circumstances were even worse when it came to homeownership. Under the G. I. Bill, veterans could buy a home with no down payment and low interest rates using a combination VA/FHA loan. However, FHA appraisal guidelines considered not only the borrower's credit worthiness and the property's condition, but also the demographics of the surrounding neighborhood. Neighborhoods that had older, often poorly maintained housing, and "an undesirable population or an infiltration of it" were colored red and deemed too risky to earn approval. (Hillier, p. 217).⁵ Fears that homebuyers of color would undermine property values caused developers, realtors, and bankers to limit which neighborhoods they could purchase a home. These restrictions prevented most veterans of color from benefiting from the generous VA loan terms. Despite these and other obstacles, black homeownership jumped substantially from 1940 to 1960, demonstrating their remarkable tenacity.

Contemporary Power Structures

History is not the only force driving the racial wealth gap; contemporary power structures contribute as well. As the LCH model allows, households accumulate wealth through family inheritances, household saving, and the appreciation of asset values. Contrary to the LCH model, households experience each of these pathways to wealth accumulation quite differently. Along each of the pathways, labeled Household Saving, Asset Appreciation, and Family Support, households with ample wealth encounter wealth accumulation as a virtuous cycle. Affluent households generally find it easier to save as their accumulated savings generate additional income thereby permitting ever-greater

savings. As households accumulate assets, they can lower risks through asset diversification, thereby enabling them to invest in higher-risk, higher-return assets. Lastly, wealthy families can offer their children a healthy head start through gifts and inheritances. As their children build their estate on these advantages, they can do the same and more for their own kids. Given our racialized past, far fewer black or Latino households have the wealth to benefit fully from these advantages.

Worse, asset-poor households, including the bulk of black or Latino households, experience these wealth-building pathways quite differently. Low salaries and unstable employment make household saving extremely difficult. Under these circumstances, households may be required to liquidate saved assets or increase their debt to supplement their meager earnings. Either course will make future saving even more difficult. While many households have no expectation of a family inheritance, some have families who will require assistance from them. In families with limited means, parents and grandparents may outlive their meager savings or incur overwhelming medical bills thereby requiring help from younger family members. Of course, providing such assistance diverts critical savings from their own retirement fund. Lastly, the Asset Appreciation pathway initially works against struggling families. As most household purchase furniture, appliances, and a car as their initial assets, these all suffer from depreciation, not appreciation. Only those households with sufficient means can invest in assets that reward their efforts. In these ways, each of the pathways creates headwinds against households struggling to expand their meager holdings. Largely due to the historical circumstances noted earlier, a disproportionate share of these households are black or Latino. In addition, their efforts are further hampered by the persistent, racial discrimination in education as well as in labor (Bertrand & Mullainathan, 2003), credit (Chiteji, 2010), and housing (Flippen, 2004) markets.

It is worth examining how these current power structures continue to limit progress made by black

⁵ This is the source of "red-lining" mortgage applications.

or Latino households while favoring white households. As illustrated in Table 1 below, over a quarter of white households report an inheritance as compared to ten and six percent for black and Latino households. Further, white households typically receive much larger gifts. Reflecting these two factors, white households account for 92 percent of all reported inheritances while black and Latino households only accounted for three and one percent respectively.⁶ Regarding the possibility of future gifts, white households are more than three times as optimistic as black or Latino households are. Clearly, white households remain the overwhelming beneficiaries of accumulated family wealth. While many white families do not benefit in this largesse, their family heritage does mean they are much less likely to be called upon to provide *distress gifts*, or financial help to senior members of their family.⁷

toward other sources of investment. While over three quarters of white households have crossed this threshold, a majority of black and Latino households have not. Table 2 offers evidence on two other milestones worth noting. As households open and make regular deposits to some kind of retirement account, they can hope for future asset growth. Similarly, homeownership offers the possibility of borrowing funds to leverage future capital gains in their home value. In both cases, black and Latino households lag far behind their white peers in their capacity to benefit from this wealth-building pathway.

	Past Inheritances and Gifts				
	Inherited	Median Gift	Share	Expect Gift	Distress Gift
Black	10%	\$46,816	3%	05%	10%
Latino	06%	\$25,281	1%	05%	11%
White	27%	\$70,225	92%	16%	05%

Table 1: Experience of the Family Support Pathway
Source: SCF 2013

Regarding the Assets Appreciation pathway, households cannot truly access the benefits of this pathway without some modest level of accumulated assets. After buying depreciating assets like cars and furniture, households generally place any additional savings in bank accounts. While these funds provide necessary liquidity in challenging times, they offer little opportunity for appreciation. Only as households meet their immediate precautionary savings needs, can households fully access this pathway. As shown in Table 2, there exists a clear racial divide. The first column lists the percentage of households that have at least \$5,000 in non-vehicle related net worth. Presumably, with such rainy day fund in hand, households can look

	Net Assets Threshold (%)	Has Retirement Fund (%)	Homeowner (%)
Black	49	34	44
Latino	47	25	44
White	79	56	73

Table 2: Experience of the Appreciating Asset Pathway
Source: SCF 2013

Turning to the Household Saving pathway, we find a similar pattern, though with a twist. According to the SCF, almost two thirds of households reported saving a portion of their income on a regular basis. As indicated in Table 3, habitual saving appears unrelated to one’s racialized group. At the same time, intentions don’t always yield the desired outcome as less than half of the households reported actually saving over the past year. No doubt, some unexpected expense or income loss produced this discrepancy. Both black and Latino households reported actual saving rates at about two thirds the rate of white households suggesting they experienced more unexpected challenges. As the remaining columns indicate, household income offers an important explanation of whether households were able to save or not. Due to their higher household income, white households can benefit more fully from this wealth-building pathway as well. It’s worth noting that the median income of both black and Latino savers exceeds that of white non-savers.

⁶ The numbers do not sum to 100 percent since we are ignoring households headed by persons of Asian or indigenous descent.

⁷ White households are far more likely to engage in *bequest giving*, or assistance to younger members of their family.

			Among Non- savers	Among Savers
	Save Regularly	Did Save	Median Income	Median Income
Black	64%	32%	\$29,421	\$43,625
Latino	57%	31%	31,450	44,639
White	61%	47%	45,654	86,235

Table 3: Experience of the Household Savings Pathway
Source: SCF 2013

Acknowledging White Supremacy

Since our nation’s beginning, the federal government has enacted policies that promote the prosperity of (white) American families, a legacy that continues today. One might expect that current government assistance would target those families in greatest need, particularly given the preferential treatment the wealth pathways offer affluent households. Yet, the reverse is the case. Indeed, our current policies share a disturbing similarity to past wealth-building policies. In the 19th century, federal wealth building coupled policies like the Indian Removal Act of 1830 with homesteading laws to repopulate the land with white immigrants. In the 20th century, implementation of laws like the G.I. Bill funneled most of their assistance to white families. Throughout our nation’s history, our wealth policies have targeted white households in their climb toward financial security. Our current policies simply follow this pattern.

Today, the federal wealth-building policies function primarily through our tax system. Two federal tax policies directly function to promote the flow of wealth from one generation to the next, thereby supporting the Family Support pathway. The stepped-up basis in family estates means that any unrealized capital gains in a deceased’s estate escapes direct taxation. Families can leave more for their offspring by simply holding until death any assets that have appreciated substantially. This permits more white-held wealth to avoid taxation as it passes from one generation to the next. In addition, the estate tax itself has been largely defanged. A generation ago, only estates smaller than \$600,000 were exempt from taxation. Since then, Congress has raised this threshold several times, even causing the tax to lapse in 2010. Today,

only estates larger than \$5.45 million trigger the tax. At the same time, the tax rate on the largest estates has fallen from 55 to 45 percent. These changes allow more wealth to transfer from the generation that may have earned it to one that clearly did not. As white households hold over 90 percent of household wealth, these policies ensure this dominance will continue.

Various tax policies assist households as they attempt to accumulate wealth through investment and asset appreciation. Arguably, the most important tax deduction is the exclusion on capital gains. Rather than treat any realized capital gains as normal income, the tax rate on gains from assets held over one year range from zero to 20 percent. As white households realized nearly 98 percent of the capital gains in 2013 (Williams, 2017), this deduction served their needs almost exclusively. Even more generous is the exclusion on home sales. Currently, a married couple can exclude up to \$1 million of home appreciation from their taxable income. In essence, homeowners keep whatever value they gain from homeownership. In this case, white households held only 85 percent of the unrealized capital gains in their homes (Ibid). Lastly, there is the exclusion of interest income from tax-exempt bonds. Only those in the highest tax brackets are attracted to this investment vehicle; consequently, white households hold 99 percent of these bonds and hence benefit accordingly from this deduction (Ibid).

Several tax policies encourage household saving, either directly or indirectly. Initially, households engage in precautionary saving as they build a “rainy day fund” to buffer any income losses. After meeting this need, households consider their life expectancy risk as they consider a variety of life insurance and pension plans. Federal tax policies focus almost exclusively on these savings vehicles. The exclusion on life insurance encourages participation in whole life plans since any interest on the invested funds receives deferred tax treatment. Similarly, deposits made to eligible pension plans are deductible while the invested funds of other plans receive tax deferral until the funds are withdrawn. Early withdrawal from these

funds will trigger substantial penalties, making them unattractive to many wealth-poor households. As white households account for over 90 percent of the invested funds in these accounts, they gain the preponderance of the tax benefits.

Two other tax exemptions lower tax liabilities and thereby allow greater saving indirectly. Homeowners can deduct the cost of their real property taxes from their taxable income while renters cannot despite bearing some portion of this burden. Recall that black and Latino households own homes at two-thirds the rate of white households. Further, employer payments of employee health insurance are considered a nontaxable fringe benefit. This exemption limits the tax liability of beneficiaries even as the health insurance helps reduce their out of pocket medical costs. As black and Latino households are less likely to gain employment that offers this fringe benefit, they benefit less from this exemption as well.

None of these policies is overtly “For Whites Only”. However, their structured intent to assist affluent households disproportionately means they offer the overwhelming bulk of their help to white households as illustrated in the graph below.⁸ In this way, these federal wealth policies do not simply cement the racial wealth disparities that stem from our racialized past, they reinforce and function to widen this gap into the future. They play an important role in a larger system that is simply perpetuating a system of white supremacy.

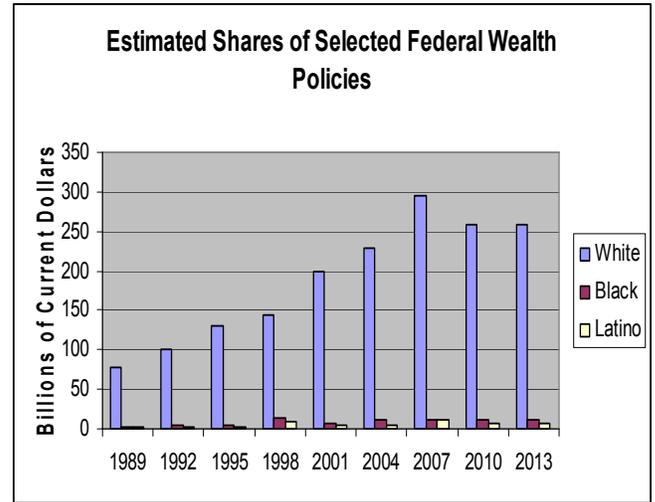


Figure 1 : Estimated Shares of Federal Wealth Policies
Source: Joint Tax Committee 2013, SCF 2013.

Recognizing Intersectionality

Clearly, the sources of privilege discussed previously do not assist all white households equally. Many of these sources of privilege refer to levels of affluence in addition to race thereby illuminating the important role played by socioeconomic class. This interconnection is illustrated in Table 4 below as one considers the wide gaps between mean and median levels of wealth. In addition, this table considers the role of gender as it compares single-headed households based on the gender of the household head. No surprise that female-headed households lag far behind their male counterparts regardless of which comparison one makes. Indeed, the differences are quite substantial. This table exhibits the complementary and interlocking way that race, class, and gender play in influencing household wealth.

	Female Headed Household		Male Headed Household	
	Mean Wealth	Median Wealth	Mean Wealth	Median Wealth
Black	\$65,085	\$6,850	\$124,981	\$16,200
Latino	36,908	5,310	136,415	18,950
White	247,824	64,400	821,977	173,500

Table 4: The Impact of Race, Class, and Gender on Household Wealth
Source: SCF 2013

⁸ These estimates assume a similar tax bracket for all eligible households. As white households earn incomes that elevate their tax brackets, these estimates underestimate the white shares of these policies and exaggerate the black and Latino shares.

Working Toward Substantive (Racial) Equality

Many white Americans believe that factors other than systemic discrimination, whether past or present, explain the remaining racial disparities. Polls consistently show that white Americans believe that black Americans have the same opportunities in education, employment, and housing (Cook, 2014). During the 2016 election, a Trump campaign coordinator expressed a view widely shared among whites when she said,

“If you’re black and you haven’t been successful in the last 50 years, it’s probably your own fault. You’ve had every opportunity, it was given to you. ... You’ve had the same schools that everybody else went to. You’ve had benefits to go to college that white kids didn’t have. You had all the advantages and didn’t take advantage of it. It’s not our fault, certainly.” (Stableford, 2016)

No doubt, many whites believe that fifty years after the dismantling of Jim Crow segregation, simply removing barriers to good jobs, housing, and education is sufficient to achieving a society in which a level playing field is accessible to people of all colors.

While the concept of the level playing field serves as a powerful and vivid metaphor in our society, it can be misleading. Even if all discriminatory barriers to housing, education, credit, and employment were removed, the previous analysis suggests that simply permitting access to opportunities is insufficient to produce true equity. The concept of *substantive equality* requires a higher standard. Merely making opportunities available does not make things equitable if certain groups don’t have the means to exploit those opportunities. Even in society in which white, black, and Latino households experienced similar college attainment rates and household incomes, we could not have true equality of opportunity as long as white households typically held ten times the wealth of black and Latino households. Given the unique qualities and role that household wealth plays in our society, one cannot envision achieving

substantive equality until we gain equalized household wealth across racial and ethnic lines.

The above analysis suggests ways that we might work toward this elusive goal.

First, we should recognize that some forms of privilege are not easily curtailed. Beyond making changes to our estate and gift taxes, curbing the desire among parents to help their children is certainly problematic. Nor should we encourage all households to take the same investment risks as the affluent can, given their deep and diversified pockets. With sources of privilege like these, it makes more sense to foster policies that allow increasing numbers of households to gain access to them.

At the same time, we should restore the efficacy of the estate and gift taxes. While household wealth created within one generation arguably is earned, its transfer to subsequent generations clearly makes it unearned. The thresholds on the estate tax, gift, and GST taxes should be returned to levels experienced a generation ago and made consistent with each other. Additionally, we should raise the marginal tax rates to ensure that the tax on this unearned income is higher than that paid on earned income.

Second, the analysis makes clear which privileges we should curtail. Rather than continue to shower hundreds of billions of dollars annually in tax exemptions that largely target the affluent, we should eliminate several of these exemptions and place limits on others. We should return to the wisdom of the Tax Reform Act of 1986 and eliminate the exclusion on capital gains. Two deductions, smaller in size, the home property tax deduction and the tax exempt status of certain state and local bonds should also be eliminated. Given the importance that homes play in providing retirement funding, it may make sense to retain the home sales exclusion, though with a much lower cap than its current level. Given the median homeowner had \$80,000 in home equity in 2013 lowering the cap to \$100,000 would meet the needs of most homeowners. By themselves, these reductions would save the U.S. Treasury annually

\$200 billion at a minimum (Joint Committee on Taxation, 2013).

Third, these savings could be used to fund programs that would target assistance to those households with the greatest need for help. Some advocates have urged the passage and full funding of the Financial Security Credit Act (Black & Schreur, 2014). This law would create tax credits for low and moderate-income households that would match their savings in a variety of special accounts. Such help would reflect the particular savings needs of low-wealth households as they save for future emergencies, college tuition, down payment on a home, or a business venture. Other scholars have proposed an even more generous and bold saving plan. Based on the United Kingdom's Child Trust Fund, they propose "baby bonds" in which each child in the U.S. receives a trust fund at adulthood that could be used for such asset-building endeavors like paying for college or buying a home (Aja, Bustillo, Darity, & Hamilton, 2014). Federal contributions to these accounts should reflect family wealth, not income to compensate more fully the current disparities. According to their proposal, children raised in low-wealth households could receive \$60,000, although the average fund would yield \$20,000 per child. Assuming these figures, they estimate the program would cost around \$80 billion a year (Tippett, Jones-DeWeever, Rockey Moore, Hamilton, & Darity, 2014). Implementing such a proposal would do much to offset current wealth disparities and offer more households a better shot at achieving financial security.

Lastly, our country should begin in earnest a conversation about reparations to redress the disparities that persist from past abuses. While our nation has offered modest compensation to the descendants of those Japanese-Americans who were forced to live in concentration camps during World War II, nothing similar has been done to compensate for the centuries of enslavement and expropriation suffered by other communities of color. Most proposals today regarding reparations do not envision simply making payments to the heirs of those abused in the past. Instead, they

propose ample funding of various trust funds (Darity, 2008) and institutions in the affected communities (Feagin, 2004) that would support wealth-building efforts. Without such an intentional and focused marshalling of resources, it is unlikely that we can overcome the wealth gap that's the product of our racially oppressive history.

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