“Federal Funding of White Supremacy: Past and Current”

Abstract:

Vast and deep racial disparities pervade American society. Arguably, at the core of these disparities stands the racial wealth gap. Today, the typical White household holds 15 times the wealth of the median Black household. More than any other single measure, this ratio demonstrates how power and opportunity remain stratified along racial lines. And the racial wealth gap continues to widen.

Much attention, all deserved, has been given to past, government policies that clearly favored White over Black Americans across centuries of enslavement, legalized apartheid, and public-sanctioned violence and theft. These policies manifest themselves today in the form of stored wealth that is easily passed across generations. What has received less attention is the role of current federal policies and their impact on expanding the racial wealth divide. Over the past generation, a dozen, federal tax expenditures have funneled trillions of dollars, mostly to the benefit of White households.

This paper examines the relative contributions of both family wealth transfers as well as the impact of these federal tax expenditures in funding the massive expansion of White household wealth since 1989. Using household wealth data collected by the Survey of Consumer Finances (SCF), it estimates the amount of family wealth transferred using two methods. Linking the SCF data with tax expenditure totals compiled by the Joint Committee on Taxation, the paper generates a comparable result on the contributions generated by these federal tax deductions.

To a shocking degree, these current policies are compounding past support of White (wealth) supremacy.

JEL Codes: Z13; D31; H24

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Introduction

To many Americans, the racial wealth gap is a complete mystery. In a recent poll, 71 percent of White respondents believed the racial wealth gap could be overcome by individuals changing their own circumstances rather than caused by systemic factors that overwhelmed individual efforts (Currie, 2022). Almost half (43%) of the Black respondents agreed with this assessment. Indeed, most Americans vastly underestimate the extent of the contemporary Black- White wealth divide. In a different survey, participants overwhelmingly expressed optimistic views regarding our nation's progress in reducing the racial wealth gap (Kraus, Rucker, & Richeson**,** 2017). When asked to estimate the current Black-White wealth gap, they typically estimated that Black households held $90 for every $100 held by White households. Interestingly, their estimates of the wealth gap a generation or two ago were much more realistic. However, these perceptions allowed them to hold the view that our nation's racial inequities, at one time awful, were now largely eradicated.

In the same vein, economic orthodoxy has largely found the modern racial wealth gap an enigma. Thanks to the innovative work of Federal Reserve officials who designed and implemented the 1962 Survey of Financial Characteristics of Consumers (1962 SFCC) to pierce the veil on household wealth in America, we have a good baseline of the racial wealth gap in the twilight years of Jim Crow. With the imminent enactment of the Civil Rights Act of 1964 that would sweep away the legal barriers to Black advancement in education, employment, occupation, business, and credit opportunities, economic orthodoxy would argue that the tide of market forces would generate new equilibria of rising Black outcomes and reduced racial disparities. Of course, the record over the past generations has corroborated the first prediction, but not the second. The primary model of wealth accumulation, the Life Cycle Hypothesis (LCH) would predict that any differences in generational wealth would dissipate over time (to reflect household income differentials) as White households simply would consume their wealth over their lifetimes. Assuming some White Americans retained racial antipathy after the end of de jure discrimination, the preferred discrimination model predicted that any "taste for discrimination" would inevitably melt in the crucible of competitive market pressures. Economic orthodoxy offered a compelling explanation for why the racial wealth gap should narrow substantially, if not become a historical artefact.

Regrettably, the actual historical record is starkly different. According to the 1962 SFCC survey results, the median White household possessed a net worth of $7,620 ($64,391 in 2019 dollars) while the typical Black household held only $295 ($2,493 in 2019 dollars).[1] Using the wealth rank measure, fully 78 percent of White households had more wealth than the typical Black household.[2] Almost one third of Black households had zero net worth or worse while less than a

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[1] I use the terms net worth and wealth interchangeably despite their differences. In this case, my definition of net worth includes real and financial assets minus debt. I follow the conventions of the SCF by excluding any defined benefit retirement funds and any claims to future Social Security benefits. I also exclude any vehicle assets and car debts.

[2] Reflective of the times, the survey's race questions offers the following choices: White, Non-White, or Not Ascertained. Like others, I assume that the Non-White category aligns with our current understanding of Black or African American (Aliprantis, Carroll, & Young, 2019).

fifth of White households suffered these circumstances. One striking result of the survey is that White households – on average – were expecting an inheritance currently held in probate of $208 ($1,758 in 2019) while the figure for Black households was $1 ($8 in 2019). Given the year of the survey, 1963, there's little surprise regarding these results and the size of the racial wealth gap. This snapshot offers a record while our nation is fully embedded in a system of de jure white supremacy.

Over the past sixty years of supposedly benign racial policies, the Black – White wealth gap appears remarkably unchanged. Black median wealth has increased to about $7,500 (get figure) similar to where White households were 60 years ago. At the same time, median White wealth has increased to nearly $140,000. Just as in 1962, 78 percent of White households have more wealth than do the median Black household. While this may suggest no progress, the actual circumstances are far worse. Whereas the typical Black household in 1962 had $60,000 less net worth than the median White household, the gap in 2019 has more than doubled. At the bottom of the wealth spectrum, Black households with no positive net worth now double the rate experienced by Whites. Rather than experiencing progress over the past two generations, Black households find themselves further behind. While the typical White households has the cash to purchase a modest home, Blacks have the means to purchase a used car.
Arguably, this disparity in household wealth functions to limit, if not undermine, any real racial progress the nation might enjoy. More dependable than income, wealth offers its holder a true source of power (Browne, 1993). Its accumulation brings financial security as it can insulate households from having to make difficult choices in the face of irregular earnings or unexpected expenses. Wealth allows households to take advantage of opportunities, whether its to finance needed education or training or fund business or investment opportunity. It enables parents the means to support their children's education and development and to offer them assistance as they make their way in the world as adults. As Raymond Franklin (1991, xviii) provocatively argues "Ownership carries with it domination; its absence leads to subordination." Given its central importance, it's crucial that we have a clear understanding of the extent of the current racial wealth gap as well as the key forces that are driving it.

To increase our understanding of these important issues, this paper examines two questions. How much of the current wealth gap can be ascribed to the centuries of public policies that favored Whites? Clearly, there has been much written on this subject but no specific attempt to measure this contribution. What has received scant attention is the potential contribution provided by *current* federal policies. To this end, I identify the thirteen tax expenditures that directly help households build wealth. I explain how their design targets their benefits to households who've *already* accumulated wealth thereby tilting their largesse to more affluent, White households. Additionally, I explain how these policies through their use of the federal tax system have achieved a level of stealth that keeps them under the radar. In both cases, I derive estimates that provide some measure of their potential contributions to the growing wealth divide.

Using the Lens of Stratification Economics

This paper uses the lens of stratification economics, an emerging sub-discipline, to frame the analysis. (Darity, 2005; 2022). In particular, it uses the Wealth Privilege (WP) model to understand how households accumulate wealth or not (Williams, 2016; 2017). Rather than simply view wealth as store of future consumption as does the LCH, the WP model

acknowledges wealth's unique position in functioning as a system of economic and racial stratification. Wealth's unique abilities as a source of power, durability, and transferability across generations enables parents to bestow more easily their position and power to their kids. Purchasing a home in select neighborhoods with well-resourced schools, parents can offer their children an important head start. Parental wealth expands the range of potential colleges and enables the possibility of graduation without student debt. As these graduates seek their own home, family wealth can provide the down payment needed to buy in highly selective neighborhoods. Labeled "transformative assets" by Thomas Shapiro (2004, 2), these gifts can cement the legacy of dynastic wealth that transcends generations. Families with vast wealth can use family trusts to avoid taxation and assure future generations certain help, *in perpetuity*. As Dalton Conley (1999, 25) has noted, "wealth has the particular attribute of tending to reproduce itself in a multiplicative fashion from generation to generation." In this way, household wealth provides the perfect medium by which privilege is transmitted across generations, thereby cementing a system of economic stratification.

The WP model offers corroborating arguments for household wealth can serve a dynastic function among families across generations (Craemer et al., 2020; Darity, 2022; Williams, 2016, 2017). It explains how the key avenues of wealth accumulation – household saving, family gifts and inheritances, and asset appreciation – present vastly different circumstances to households depending on their wealth status. Below certain wealth thresholds, households face severe head winds as they seek to get ahead. Low pay, limited hours, and irregular employment present many households with few opportunities to save. Most of their limited resources finance purchases of furniture, appliances, and cars – required assets that depreciate rather appreciate over time. Most come from wealth-poor families that can offer limited financial help and indeed require help on their own. Above the wealth thresholds, households face iteratively easier conditions to face wealth. Increased wealth offers households increased access to cheaper credit. Expanded financial portfolio offer increased diversification, thereby enabling households to invest in higher-risk and higher-return assets. Family or generational wealth allows parents to ensure their children gain the full measure of these advantages even as they enter the adult world. Each generation experiences a higher starting position allowing them to take greater advantage of the privileges of wealth status. In these ways, household wealth serves as the perfect vehicle for creating a system of economic stratification.

While the WP model operates without overt reference to racial status, it clearly has racialized implications. Whether we take 1962, 1989, or 2019, the evidence clearly shows that Black households have far less than wealth than White households. No matter the year, far more Black households than White have zero or negative net worth. For this reason alone, Black households will experience fewer of the privileges of wealth-holding. At the starting line of young adulthood, they will see the backsides of their White peers. Holding less wealth throughout their lives, they will be required to struggle harder to get ahead. *Twice as hard for half as much*. Over their lifetime, they will accumulate less wealth and therefore have less to offer their own kids as they start out their lives. And so it goes on. In a world in which racial preferences are barred by law, wealth provides the new means for maintaining a system of racial stratification.

In addition to the usual suspects, the WP model argues the existence of a fourth avenue by which households get ahead and build wealth. Form its outset, the federal government has assumed

major responsibility for improving the well-being of its citizens. From the Constitutional protections for private property to the homesteading laws to the G.I. Bill, the U.S. government has taken significant initiatives in support of wealth-building and attaining material prosperity. Of course, through most of this the federal generosity has been showered on a favored group, White Americans. Nonetheless, the explicit of inclusion of public policies as a source of household wealth acknowledges the fact that our racial wealth gap didn't just happen, it was made.

Federal Wealth -Building Policies

In recent years, there's been increased attention to our nation's sordid racial history. For over two centuries, slavery produced much of the nation's wealth to the sole benefit of Whites while the enslaved were provided no opportunity for self-advancement (America, 1998; Browne, 1972; Browne, 1990; Craemer et al., 2020; Darity & Mullen, 2020; Swinton, 1993). After Emancipation, the offer of "forty acres and a mule" was rescinded leaving the freedmen with nothing to make their way. Soon thereafter, White supremacy brazenly reasserted itself as de jure segregation, episodic White violence, and outright theft and expropriation of Black wealth (Darity & Frank, 2003; Darity & Nicholson, 2005; Darity & Mullen, 2020). Not just in the South, Blacks found themselves barred from schools, occupations and professions, neighborhoods, public accommodations, and voting booths. Already starting with nothing, these additional limitations placed severe obstacles to Black progress (Alexis, 1970).

White Americans did not simply benefit from the repressive policies placed on Black Americans. Since its very inception, the federal government has enacted policies designed to promote wealth accumulation – albeit solely among Whites (Liu et al., 2005; Williams, 2016, 2022). Several Constitutional provisions, including the fugitive slave and insurrection provisions, assured federal protection of White property in chattel slavery even where slavery was abolished. After forcibly removing the Native Peoples who'd resided on the land for countless generations, the federal government opened the land to White settlers through a series of homesteading laws. The often celebrated Homestead Act of 1862 offered 160 acres to White claimants at the very same time the federal government was rescinding its smaller offer to the freedmen. Over next 70 years, the federal government offered 246 million acres to 1.5 million homesteaders (Shanks, 2005). Title to the land provided these families opportunities to make a living, a source of independence from landlords and creditors, and sufficient wealth to leverage future opportunities. It's estimated that over 46 million Americans today can trace their heritage back to a homesteader, virtually all who were White.

As the country shifted from its agricultural roots to a more urban society, federal policy shifted its emphasis as well. In the 20th century, federal housing agencies offered low-cost, subsidized mortgages to prospective homebuyers who purchased homes in "White – only" neighborhoods while shunning those relegated to neighborhoods vulnerable to the influx of "undesirable populations" (Rothstein, 2017; Williams, 2016). Somewhat remarkably, the G.I. Bill was designed to offer race-neutral benefits to all returning veterans. However, Southern lawmakers required *local control* of disbursing the program benefits, thereby assuring that Jim Crow, not Washington, D.C. would control the benefits (Katznelson, 2005; Williams, 2016). Both the FHA mortgages and the G.I. Bill enabled millions of White households attain homeownership, earn a college degree, complete vocational training, or start a business or farm. (Conley, 1999; Darity &

Mullen, 2020; Hillier, 2005; Katznelson & Mettler, 2008**;** Olson, 1973; Rothstein, 2017; Williams, 2016, 2022) Redlining and the decision to allow states to control the GI benefits meant that few Black households were recipients of this federal help. These policies enabled millions of White families to secure land and homes, start farms and other businesses, and gain needed education – all critical steps in building wealth that could be passed along from one generation to the next.

Given the weight of these policies over the course of countless generations, the size of the racial wealth gap revealed by the 1962 SFCC should offer no surprise. Indeed, the greatest surprise is that the racial divide was not larger than it was. Two remarkable achievements despite the obstacles, the increase in Black land ownership over the last third of the 19th century and the expansion of Black homeownership in the two decades after the Great Depression, offer clear testimony to the extent of resolve and resiliency within the Black community.

While these past policies are widely known and their impact acknowledged, the current federal wealth policies remain much more obscure, *as intended*. As in the past, the federal wealth policies have adjusted with changing circumstances – in this case through designing exemptions to the tax code. An early foe of these tax expenditures, Assistant Treasury Secretary Stanley Surrey warned doggedly against their increasing use citing numerous dangers. While direct, public expenditures are measurable, generally transparent, and easily tracked, he argued that tax expenditures are opaque and neglected. Spending proposals carry a specific price tag and are considered along with other competing demands for scarce public dollars as part of annual budgeting. Program costs are pre-determined while fund disbursements are traceable. Program results and beneficiaries are easily monitored and generally reviewed by federal agencies and Congressional committees. In contrast, tax expenditures carry no price tag, but simply generate "lost revenues" to the Treasury causing some to think they have no cost (Wolfman, 1985). Funds are "disbursed" as taxpayers take advantage of the tax exemption making any tracing of funds extremely difficult. Generally, they're designed as entitlements which makes budgeting extremely tenuous. Once these tax exemptions are embedded in the tax code, now thousands of pages long, they get ignored and are allowed to lie undisturbed until Congress gathers sufficient motivation to engage in tax reform. It should offer no surprise why Secretary Surrey viewed these tax expenditures as the "back door" to the U.S Treasury (Surrey, 1968, p. 61) .

Using the tax code, particularly tax deductions as opposed to tax credits, to meet social goals generally means the wealthy and powerful will benefit disproportionately. Given progressive income tax rates, any deduction is far more valuable to those in higher tax brackets. Surrey argued that tax expenditures generated an "upside-down subsidy" that not only favored those earning higher incomes, but were exclusionary as well. Even using uniform tax credits would leave out those making too little to pay federal income taxes while "below the line" deductions are valuable only to affluent households that itemize their deductions. Their frequent design without benefit caps skew their largesse even further toward the wealthy.

Their innate lack of transparency worried Secretary Surrey for other reasons as well. Given their inscrutability, proposals that appeared reasonable could be enacted even if they had perverse consequences. Several years after leaving the Treasury, he offered an example. At that time, the elderly could deduct medical expenses only if they exceeded a 3 percent floor of their adjusted

gross income (AGI). During budgetary discussions, a proposal to eliminate this threshold was floated. At face value, it appears this might help lower-income seniors. According to (now) Professor Surrey, this provision would cost the federal government about $210 million, with almost half ($93 million) going to elderly households making more than $50,000 annually. A scant $8 million would aid elderly households earning less than $5,000 (Surrey, 1970a). Given that "(n)o direct assistance program would be structured in this upside-down and exclusionary fashion", he predicted that their obscurity would produce perverse outcomes (Surrey, 1976). Without careful and comprehensive accounting, he argued we can't know whether the tax expenditures function efficiently nor who benefits from them.

Combining their obscurity in the tax code, their lack of accountability, and their inherent bias toward the wealthy, tax expenditures offer the ultimate stealth weapon in the service of the powerful. Given the tight link between wealth status and race, they open another back door. While the Civil Rights Act of 1964 outlaws policies offering racial preferences, the existing racial wealth gap means that any policies that target existing wealth can function as if the tax expenditure is designated for "Whites Only".

In 1975, as now Professor Surrey continued to warn about the insidious nature of unexamined federal tax expenditures, the JCT reported the existence of nearly 60 such tax exemptions that aided individual taxpayers to the tune of $67 billion (JCT, 1975). Of those, 11 of them accounted for over two thirds of the total expense. These eleven tax expenditures, including some like the popular home mortgage interest deduction, the home sales exclusion, and tax deferrals of pension assets all offered individual households increased capacity to build wealth. Over the years the number of tax expenditures have proliferated as Professor Surrey would have predicted. In contrast, the number of wealth-building tax exemptions have only increased to 13 in number. But their cost to the Treasury has exploded over the period. These tax expenditures that at one time cost the U.S. taxpayer $46 billion in 1975 ($218 billion in 2019 dollars) has more than quadrupled in real terms to $1,053 billion in 2019. Even Professor Surrey could not have imagined how effective their stealth would serve them over the years. The full list of current tax expenditures is given in Table 2.

Table 1 Current Federal Wealth Assistance

1. Home Mortgage Interest Deduction
2. Home Property Tax Deduction
3. State & Local Tax Deduction
4. Charitable Contributions Deduction
5. Health Insurance Exclusion
6. Exclusion of Imputed Rental Income from Owner-Occupied Housing
7. Tax-Exempt Bond Income
8. Qualified Business Income Exclusion
9. Home Sales Exclusion
10. Capital Gains Exclusion
11. Life Insurance Deductions
12. Pension Asset Deductions
13. Estate Step-Up Basis Exclusion

These tax expenditures aid households accumulate wealth in a variety of ways. The first four allow households to deduct certain expenses from their federal tax liability, thereby providing more protected income that can be saved. Of course, the home mortgage interest and home property tax deductions require that households achieve homeownership on their own. Renters need not apply. Each of these four are below the line deductions making them valuable only to those who itemize.

The next two, exclusions on employer-funded health insurance and the imputed net rental income from owner-occupied housing, permit certain households to enjoy non-income benefits without paying any federal taxes. Employer-provided health insurance offers covered households protection against the vicissitudes of illness and injury while residing in their own home(s) allows households to enjoy the benefits without having to pay any taxes on that consumption.[3] Not all workers are provided health insurance through their work and only homeowners can take advantage of the net rental value exclusion. Both of these exclusions limit the household's tax bill thereby increasing after-tax income and enabling increased saving.

The next two expenditures, tax-exempt bond income and qualified business income exclusion, simply make certain forms of income tax-exempt. Tax-exempt bonds strictly appeal to households facing the highest federal tax brackets while business ownership is required to benefit from the business income exclusion. Similarly, the home sales and capital gains exclusion allow certain asset holders to keep a larger share of any earned capital gains. Once again, homeownership is required for the former and asset ownership for the latter, both marks of more affluent households. Further, certain life insurance and pension assets get specialized tax treatment. Any income earned by these assets gets deferred until the funds are removed, frequently when the household faces lower income tax rates. In the case of Roth IRAs, the tax deferral is without limit. These tax benefits support retirement savings, but provide no help to those households struggling to build more liquid savings.

The remaining tax expenditure is triggered by death of the property owner and the creation of their estate. Any assets that have unrealized capital gains are excluded from any taxation and are simply "stepped up" to the current market value. In this way, those with sizeable asset portfolios can simply avoid any taxation on capital gains by holding these assets until death. While this higher value of the estate is subject to any inheritance tax, this only applies to truly large estates as the current tax threshold is over $12 million, double that if both spouses agree.

These thirteen tax deductions are designed to target their assistance to those *already* wealthy. Only households who've attained homeownership, focused on retirement savings, or invested in other appreciating assets will benefit from this public generosity. In essence, households must demonstrate their deserving before they qualify for the benefits. Each of these tax expenditures is fabricated as a tax deduction rather than a tax credit and thereby funnels the assistance to those in

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[3] This is not an intuitive argument, but a simply example can explain the rationale. Consider two households that purchase two identical homes. Instead of living in their own homes, they each rent from the other. Both earn rental income from their purchased assets that then raises their income tax liability. By living instead in their own homes, they each avoid the additional tax liability while still enjoying the value of their homes.

the highest tax brackets. Further, all but four of the deductions have no limit to their charity.[4] Wealthier households can simply take greater advantage of these deductions without limit. Thus, we see another "virtuous cycle" in which the rich can take larger deductions and exclusions, enabling them to amass even greater fortunes. Of course, these rich beneficiaries also are overwhelmingly White.

Literature Review
Obviously, attempting to estimate the impact of past and present federal policies on current household wealth brings substantial conceptual and empirical challenges. This is particularly true when estimating the federal programs over the past two centuries given the enormous passage of time and the paucity of data. Interestingly, there exists past scholarship by those looking at this very issue – those interested in developing a reparations bill. In addition to this direct attempt to measure the impact, I argue that the White wealth advantage held in 1962 offers another indirect measure of this past federal help. This buildup of generational wealth and its subsequent transfer through intergenerational gifts and inheritances offers a second way to assess the impact of past policies. I'll then review some of the key inheritance literature to summarize its insights. Lastly, the stealth characteristic noted earlier has caused there to be little analysis of the role of the current wealth programs. Nonetheless, I'll share what exists.

In his 1969 Black Manifesto, civil rights activist James Forman triggered the modern discussion on reparations when he called for a down payment of $500 million to African Americans as compensation the involuntary and unpaid labor used in building "the most industrial country in the world", not to mention a past filled with violence and brutality (Forman, 1969). Soon thereafter, several economists respond by explaining how centuries of public policies that restricted the educational, occupational, and economic opportunities for blacks had created the existing racial wealth gap (Alexis, 1971; America, 1971; Browne, 1972). Quite perceptively, they all agreed that even closure of the racial income gap would not lead to a closure of the wealth gap. Only a substantial reparations payment could overcome the consequences of the past policies. According to America (1971), these consequences included the result that Whites continued to benefit from the past given their vast wealth holdings. Browne (1972) proposed paying for the reparations bill simply by ending the current raids on the U.S. Treasury on behalf of white wealth.

Their call for a reparations bill encouraged a later round of scholarship subsequently organized into a remarkable volume, Richard America's *The Wealth of Races* (1990). Using different methods and covering varied periods, three studies estimated how much wealth was taken from the enslaved to the benefit of Whites; their estimates suggested values that ranged from a low of $17 billion to a high of $4.7 trillion in 1983 (Marketti, 1990; Neal, 1990; Ransom & Sutch, 1990). Of course, none of these estimates include the decades of Jim Crow sanctioned discrimination. Filling this void, another study from this volume estimates White gains from employment, wage, and occupational discrimination of Blacks from 1929 to 1969 as totaling $638 billion in 1983 (Chachere & Udinsky, 1990). More recently, Darity and Mullen (2020)

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[4] Only the home mortgage deduction, home sales exclusion, and now the state and local tax deduction and the qualified business income deduction have limits on how much a given taxpayer can benefit.

estimate the wealth losses stemming from the federal government's reneging on its promise of "40 acres and a mule" at $2.6 trillion in current values, four times that if one recalls that Whites were getting 160 acres through the Homestead Act. Lastly, Craemer et at (2020) calculate the cost of enslavement to the enslaved based on free wage labor rates, using a conservative discount rate as $34.8 trillion today. However, as they acknowledge this estimate measures the losses to the enslaved rather than the value expropriated by the slaveholding society. As none of these studies attempt to capture the violence and brutality of enslavement and White terrorism, the theft of property and land, and the trauma of facing conditions that offer little hope for improvement, these figures must be considered lower-bound estimates.

Racial differences in generational wealth can offer an indirect estimate of the contribution made by past policies. The advantages gained by Whites during slavery and the Jim Crow era continue to generate benefits as they transfer wealth from generation to generation. Many who have examined the racial wealth gap emphasize the role that family wealth plays. Some conclude that family wealth transfers are the most important cause of the racial wealth gap's persistent expansion (Darity & Nicholson, 2005; Hamilton et al., 2015; Hamilton & Darity, 2017; Williams, 2017). Others have demonstrated its importance. Conley (1999) finds parental wealth the most significant predictor of household wealth while several studies agree that family transfers explain between 10 to 20 percent of the racial wealth gap (Avery & Rendall, 1997; Gittleman & Wolff, 2000; Menchik & Jianakoplos, 1997). Focusing on middle-income households, Chiteji & Hamilton (2002) find that family background explains 27 percent of the racial wealth gap. Focusing on a specific transfer, another study concludes that White homebuyers are four times more likely to get parental help on the down payment than Black homebuyers (Charles & Hurst, 2002).

More recently Feivenson and Sabelhaus (2018) estimate how much of current household wealth stems from past family transfers. Although they neglect to consider how race may impact their analysis, their methods offer considerable value to this study. Using the household survey data collected by the 2016 SCF, they track all of the reported wealth (cash and assets) including the value of the transfer at that time as well as year of the transfer. They update the past values to the present using both a 3 and 5 percent real rate of return on these gifts. Depending on which rate of return one selects, they find that between 26 and 51 percent of current household wealth can be traced back to these wealth transfers.[5] Moreover, their results show that past transfers comprise a smaller portion of current wealth among the top 10 percent wealth holders than the bottom half of households. This result disappears if one assumes that wealthier households earn higher rates of return than less affluent households.

In contrast, the literature on current government wealth-building programs is quite thin. In 2004, a study examined 13 federal tax expenditures that aided families in building wealth (Woo et al., 2004). The authors concluded that 84 percent of the $334 billion assistance went to households in the highest income quintile. Revisiting the issue, they found the tax expenditures now totaled over $400 billion and still funneled the vast amount of help to the most affluent households (Woo et al., 2011). More recently, the Congressional Budget Office (CBO) has conducted two studies although with a less focused eye. Rather than select tax expenditures designed to help households build wealth, they've focused their gaze on the largest ones. In their most recent

[5] The differences in these results demonstrate the importance of the chosen rate of return.

study, the selected the thirteen largest tax expenditures – nine of which are included in this study – totaled nearly $1 trillion in 2019 with half of the help going to the highest income quintile (CBO, 2019). None of the studies just cited examined the impact on wealth holders, although one can certainly infer by the skewing of benefits to higher income earners. One other study offers an engaging and insightful examination of how our tax system as currently designed functions to impoverish Black households (Brown, 2021).

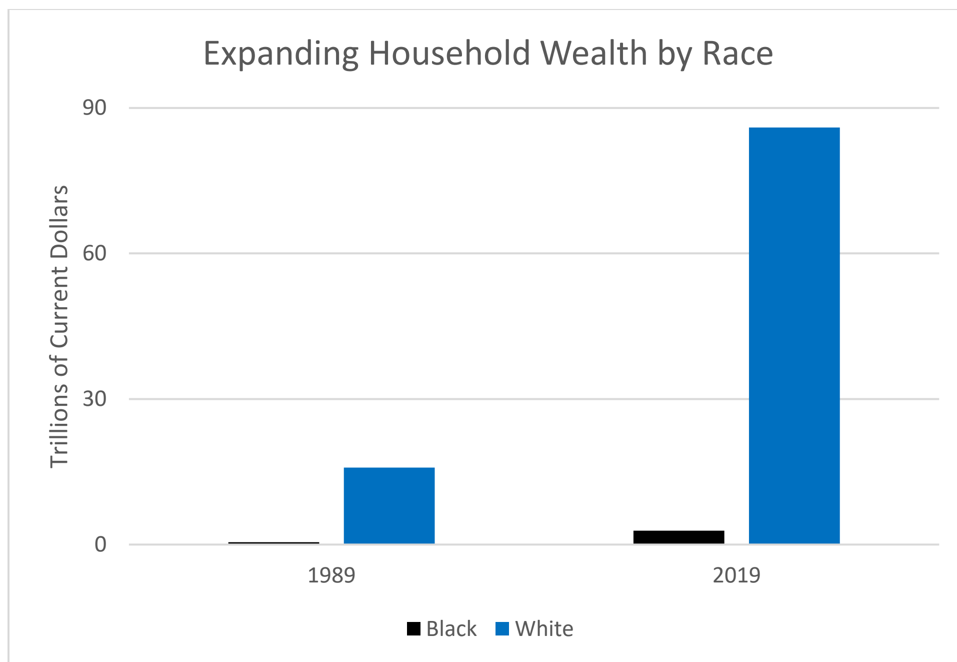
Data Sources

Undoubtedly, the underlying causes that are driving the racial wealth gap are complex and tangled in a complicated web. Sorting out their individual contributions is challenging under the best of circumstances. To do so, I rely heavily upon the Survey of Consumer Finances (SCF). Since 1989, it has provided a consistent, triennial snapshot of household balance sheets.

The SCF is a single-wave, cross-sectional survey that queries households about their assets, debt, and wealth transfers as its primary focus. As such, the range and depth of questions asked in the survey offer a unique and nuanced appreciation of the distribution of household wealth. Its sampling design allows it to overcome a thorny issue. Two thirds of the survey sample are randomly drawn while the remaining respondents are part of an oversample of very affluent households. As the wealthiest 3 percent of households hold nearly half of the nation's wealth – a group often reluctant to disclose their holdings -, this oversample offers assurance that this group is represented in the survey (Bricker et al., 2016). To be sure, its single-wave design limits its capacity to examine how households accumulate wealth over time, it's nonetheless considered the "gold standard of wealth data" (McKernan, Ratcliffe, Steurle, & Zhang, 2014, p. 5).

This paper will cover the period from 1989 to 2019 and estimate two key drivers of the growing racial wealth gap over that time. As you can see from Figure 2 below, White household wealth totaled just under $16 trillion while Black household wealth just topped $500 billion in 1989. By 2019, White household had grown to $86 trillion while Black wealth had increased to almost $3 trillion. To what extent is this massive increase in the absolute difference in wealth held by the two communities due to dynastic wealth and intergenerational giving? Or to what extent is it attributable to the growth of Federal help today? Each of these questions will be answered in the following sections.

Figure 2



Source: 1989 SCF; 2019 SCF.

To estimate the impact of current wealth building policies, I use the annual estimates of federal tax expenditures compiled by the Joint Committee on Taxation (JCT) as well as those compiled by the Treasury Department. In both cases, they estimate the revenue losses that result from the specific deduction or exemption; in neither case do they examine the dynamic effects that might result from behavioral responses to ending the specific tax expenditure. Although each agency uses slightly different methods for estimating the losses to the Treasury, their estimates largely align with each other. For the most part, the estimates provided in this paper rely upon the JCT's estimates, with one exception.[6] As described later, these annual estimates will be linked to key asset holdings among households to estimate the distribution of these tax expenditures. Their availability bears witness to the persistence and important influence of Secretary Surrey.

Estimating the Contribution of past Federal Programs

I propose to estimate the contemporary contribution of past federal wealth assistance in three ways. First, I suggest that racial wealth gap at it existed in 1962 reflects these past public policies and their contributing role to the current racial wealth gap. In that vein, I simply extrapolate the size of the wealth advantage held by Whites in 1962 and extrapolate that value into present terms. Second, I take advantage of the work done by those estimating the racial reparations bill. Their work represents the most direct way to measure past public policies and their impact on current wealth disparities. To be sure, the focus of these studies is to estimate the economic harm imposed on the enslaved and subsequently on their freed descendants. I suggest these estimates offer a lower bound measure of transferred wealth to White households and their descendants. I compare their estimates to the amount of wealth held by Whites in 1983. This allows me to examine their impact before the current federal tax expenditures have grown in size and substance. Of course, these efforts represent an incomplete accounting of these past programs.

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[6] The Treasury analysis includes the imputed net rental value of owner-occupied residences while the JCT does not.

Lastly, I will use the recent SCF surveys to examine the extent of dynastic wealth being transferred across generations. This reservoir of wealth ought to give some clue on the role of these past programs and their continuing effects on the racial wealth gap. Of course, these transfers of cash and assets offer an incomplete picture of this reservoir as it misses human capital investments and other less measurable source of wealth.

Extrapolating the 1962 Wealth Gap

According to the 1962 SFCC, White households held $1.06 trillion dollars of net worth while Black households held under $17 billion. Estimating its potential impact in the present depends largely and dramatically upon the chosen interest rate. Indeed, this choice has remained a major point of controversy within the literature (Feiveson & Sabelhaus, 2018). For the purposes of this paper, I select a conservative 3 percent real rate of return. Further, I assume that all federal estate and gift taxes over this period are paid by White households as parents die and pass along their wealth to their heirs. To account for this, I subtract the annual taxes from the growing fund. Even still, this fund would grow to $43 trillion in 2019, or 50 percent of the estimated $86 trillion held by Whites. Clearly, the wealth gap held by Whites at the twilight of de jure racial discrimination, would explain a major portion of the dynastic wealth held by White households today.

Using the Reparations Estimates

Conveniently, several of the reparations studies previously mentioned extrapolated their estimates to 1983. During this year, the Federal Reserve followed up its groundbreaking survey twenty years earlier with another that would bridge the regular surveys started in 1989. Further, the tax expenditures that comprise the contemporary efforts to help households accumulate wealth were not as extensive as they are currently. The table below captures the estimated value accruing to Whites as a result of slavery or the denied opportunities to freedmen immediately following Emancipation brought forward to 1983. Each is then added to the estimated transfers that occurred from the employment, wage, and occupational discrimination existing between 1929 and 1969 (Chachere & Udinsky, 1990). The totals of each are then calculated against the amount of White wealth estimated in 1983. As you can see, these estimates suggest that these past policies could account from between 16 and 44 percent of White wealth. Again, one should view these estimates as lower bound estimates. Using a similar 3 percent real rate of return and subtracting out federal taxes, the shares fall relative to White wealth in 2019. Nonetheless, they suggest that a substantial portion of current White wealth is the result of past federal policies that enabled racially exploitive outcomes.

Table 2 Potential Contribution Based on Reparations Studies

	Neal	*Marketti*	*Darity*
1983 Bill	*$1,400*	*$3,400*	*$1,550*
Jim Crow	*$689*	*$689*	*$689*
Total (billions)	*$2,089*	*$4,089*	*$2,239*
Share of Wealth (1983)	*23%*	*44%*	*24%*
Share of Wealth (2019)	*16%*	*33%*	*17%*

Dynastic Wealth and Family Transfers

Any attempt to measure accurately the size and significance of family gifts and inheritances is subject to numerous challenges. Any parental investments in their children's educational and cultural opportunities while they're 18 or younger are viewed simply as consumption expenditures. Generally, parental support of their children's college expenses gets included as well (Shapiro, 2004). All of these expenditures – actually investments in their children's human capital – serve as important sources of wealth transmission; yet, they rarely show up as such. Employment in the family business will appear as income, not wealth, until ownership is formally transferred. Taking advantage of the family's professional networks to land an enviable job will appear as the result of personal productivity, not a wealth transfer. Families may "loan" their children money for a down payment on a home, but never ask for repayment. All of these challenges argue why we should consider any estimate generated as a lower bound one.

Focusing simply on cash and asset transfers, the SCF uses three methods to capture the transmission of wealth across generations. First, First, when queried about their ownership of various assets, respondents are asked whether the assets were purchased, received as a gift, or inherited. They're asked both the year and the approximate price or value when the asset was obtained. Second, in the primary Gift and Inheritance module, households are asked whether they've received any inter vivo gifts or end of life bequests from others. Respondents can answer up to three occurrences in which they're asked both the value of the gift as well as the year it was received. If needed, households can respond to a fourth "mop-up" question that simply records the sum total of any remaining transfers received, without any date of receipt. In most cases, the answers given here are redundant to those offered in the asset sections of the survey. Lastly, in the Income module, respondents are asked whether they received (or gave) any income in the past year from family (other than mandated alimony or child support) in the past year. These transfers are included only after checking to be sure they're not already counted in the Gift and Inheritance module.

Of course, one needs to cautious when using survey data to estimate gifts and inheritances. Even with simple cash or asset transfers, respondents are likely to underreport their receipts (Brown & Weisbrenner, 2004). The passage of time may undermine clear recollection. Embarrassment may cause other respondents to under report the value of any gifts or neglect to see family help as a form of inheritance. Feivesen and Sabelhaus (2019) conclude that the SCF is better at capturing bequests than inter vivo gifts, particularly smaller ones. This gives further cause to view any estimates as lower bound figures.

The role of dynastic wealth is clearly important. According to the 2019 SCF, almost 30 percent of White households report receiving a past family transfer while 17 percent anticipate one in the future, nearly triple the rates that Black households report at 10 and 6 percent. On average, White households have received nearly $62,000, almost six times the $11,000 received by Black households. Similarly, White households expect to inherit an average of nearly $96,000, more than nine times the amount expected by Black households ($10,000). Given the capacity for wealth to grow and transcend generations, these disparities are the continuing echoes of past racial policies that continue to favor White households.

Yet, the disparities in intergenerational giving doesn't stop here. In 2019, fewer White households (13.5%) than Black households (16.4%) reported offering such help to family

members. These numbers don't simply reflect a greater sense of generosity among Black households, but also reflect the different circumstances under which giving occurs. When households household give assistance to siblings, parents, and grandparents, it's usually done to relieve economic distress within the family. Household giving to one's children and grandchildren is driven more by the desire to leave a legacy. With this distinction in mind, we see very different giving patterns. White financial help largely targets legacy giving which accounts for three quarters of all White assistance. In contrast, Black assistance targeted older family members accounting for nearly half (43%) of all Black household giving. This greater need to respond to economic distress within the Black community creates an additional drag on wealth accumulation, both present and future.

Given the way the SCF collects information on gifts and inheritances, there are two ways that one can estimate their importance (Feiveson & Sabelhaus, 2019). First, one can track all of the reported transfers reported in the Gifts and Inheritance module along with the year of that transfer. Using the 2019 SCF, White households collected gifts equal to $5.4 trillion while Black households received around $230 billion. As many of these transfers were received years, and even decades, ago, it makes sense to apply some rate of return since cash earns interest and assets gain value. The challenge is to determine which rate of return to apply. I offer two rates of return. First, I assume that the recipients can earn a 3 percent real rate of return. Second, I assume that the recipients placed their gift in an S&P 500 indexed fund the following January 1. I then calculate the value of these holdings based on the S&P 500 value on January 1, 2019. This requires only patience and self-discipline from the wealth recipients. Any values in the mop-up question are simply treated as is, offering another reason for why the estimate is a lower bound. The results are provided in the table below.

Rather than rely on a single cohort from one survey year, there's another method available that uses all of the SCF surveys from 1989 to 2019. From each survey, I include only the gifts and inheritances received in the three previous years since the prior survey.[7] I use these three-year totals to estimate annual averages. I then consider any "income" that was reported as a gift from family or inheritance, making sure that it is not a redundant answer. This gives me annual estimates from 1987 onward through 2019. Undoubtedly some of the households that received transfers years ago have now passed on. I assume that they passed along their stake to their heirs. I apply the same discounts to these transfers. One can compare the results in the table below.

Table 3 Contributions of Family Transfers		
Past Transfers 2019 Alone	White	Black
Unadjusted Value	$5.4 T	$0.23 T
3 Percent Real Adjustment	$14.9 T	$0.8 T
Share of Wealth	17%	29%
Three-Year Gifts		
Unadjusted Value	$8.1 T	$0.31 T
3 Percent Real Adjustment	$15.7 T	$0.7 T

[7] As the public version of the survey dates inheritances and gifts over five year intervals, I interpolate the estimates from these results.

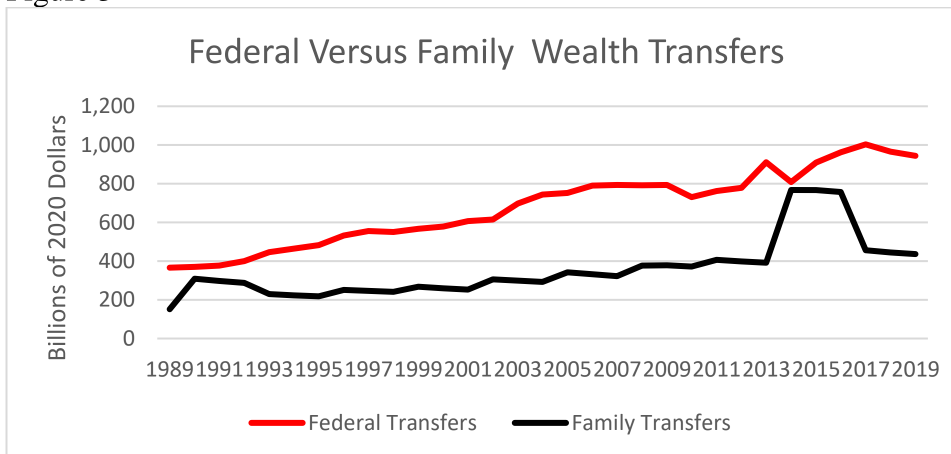
Share of Wealth	18%	23%

Some of the results in the above table are worth mentioning. While the first estimation method includes family gifts that date back to 1959, the second method considers only transfers since 1987. It's notable that the second method generates a higher estimate. It does suggest that this method limits the recall bias. While both methods generate comparable results, they clearly diverge from those found by Feinveson and Sabelhaus (2018). While they estimated that family transfers could account for one quarter of total household wealth, my estimates suggest it's only about one sixth, at best. There are two possible explanations, neither of which is fully satisfactory. First, as I'll illustrate shortly, the 2016 SCF survey reported unusually high amounts of family transfers. Second, rising asset values between the two surveys would disproportionately increase household wealth, the denominator in the ratios. Lastly, the differences between Black and White family transfers are striking, if not particularly surprising.

Estimating the Value of their Contribution

Thanks to Professor Surrey, the federal government is required by law to estimate how much the federal tax expenditures cost the U.S. Treasury. In doing so, one immediately is struck by their toll on the federal treasury. Although they account for a small number of the total tax expenditures, the thirteen account for the vast bulk of their cost. Figure 3 below compares the annual size of these wealth transfers with the yearly family transfers calculated previously. With only a few exceptions, the size of these federal wealth transfers is almost double the amount received from family members. Further, the overall growth of the federal transfers is much higher than those of family wealth transfers, particularly if one excludes the outlier years associated with the 2016 SCF. In 2017, the value of federal wealth transfers exceeded $1 trillion annually and is likely to exceed this figure in the years to come.

Figure 3



Source: SCF; JCT *Tax Expenditures*; U.S. Treasury *Tax Expenditures*

One can estimate the racial shares of these tax benefits by pairing the tax expenditure estimates with the household survey data provided by the SCF. For example, the SCF asks households the extent of their realized, capital gains over the previous year as well as whether any were from the sale of their primary residence. These figures indicate which households benefit from either the capital gains or home sale exclusions. Other questions establish how much households earned from tax exempt bonds or gained from family inheritances. These answers offer estimates of

which households likely benefited from the tax exempt bond exclusion or from the estates step up exclusion. Similarly, the survey queries households regarding the size of their pension and whole life insurance assets. These figures estimate how much each household benefits from these deductions as well. Figures on outstanding mortgage debt offer some idea on who benefits from the home mortgage deduction. Reported value of one's principal residence as well as household income are used to estimate the likely property tax liability as well as state and local income tax liability.[8] Lastly, the surveys queried which households were covered by private health insurance, indicating whether households were likely to benefit from the health insurance deduction.

To be sure, these estimates don't capture all of the nuances. For example, while one's outstanding mortgage gives some idea of the value of the home mortgage deduction, it does not measure precisely what their interest payments have been over the past year. Not all health insurance packages offer the same level of benefits and value. However, the estimates do capture whether the household itemized on their taxes as well as what tax bracket they're likely in.

Table 4 provides the estimates below. The first row simply sums all of the past federal assistance provided in the selected wealth-building tax exemptions. As before, I calculate the present value of these past transfers using a 3 percent real rate of return as well as using the S&P 500 stock index. These values are presented as well. Lastly, Table 3 estimates what share of current wealth held by both White and Black households these transfers may have contributed. These numbers suggest higher contributions to current wealth than we've seen previously. The current federal programs may account from anywhere from one third to 43% of current White wealth. The shares for Black households are even higher. However, recall that the WP model would predict that Black households will not earn the same return given their reduced wealth holdings. It may be more realistic to compare the lower return to Black households with the higher return to Whites.

Table 4 Current Federal Program Contributions		
Federal Wealth Transfers	White	Black
Unadjusted Value	$14.6 T	$0.8 T
3 Percent Real Adjustment	$27.8 T	$1.4 T
Share of Wealth	32%	48%

Conclusion

Over the arc of the Civil Rights and post-Civil Rights eras the racial wealth gap has continue to widen. Sure, since 1962 the median Black household wealth stood at under 4 percent of the typical wealth held by White households. In 2019, the share has increased to nearly 6 percent. Some might consider this evidence that the gap has narrowed. However, the real absolute difference between the typical White and Black household wealth has doubled from $60,000 to over $120,000. This growing wealth divide offers persuasive counterevidence to those who argue

[8] Unfortunately, the SCF does not provide geographical information on household residence. Vagaries in state and local tax rates would also impact the share of these two federal deductions. I assume that the geographical factors largely cancel each other. While Black and Latinx households tend to reside in states with both local property taxes and state or local income taxes, so are wealthy Whites.

we are nearing, if not arrived, at a post-racial society. Given the incredible power that wealth confers on its holder, one cannot reconcile these two positions.

Many have argued that overwhelming tilt and weight of our nation's ***past*** policies in favor of White wealth accumulation has created a momentum that cannot easily be restrained, even this long after de jure racial discrimination has been outlawed. They argue that the "initial conditions" generated by centuries of "Whites Only" wealth accumulation along with wealth's reproductive fertility and ease of transfer across generations enables a dynastic system. Different estimates all suggest that a substantial of share of current White wealth may have its origins in these past public policies. Recall that there are good reason to consider many of these estimates as lower- bound figures.

Yet, the paper identifies another culprit who appears equally at fault. Despite the warnings of Stanley Surrey, federal tax expenditures have increased faster than the more conventional government expenditures. Much of this increase is devoted to helping households build wealth just as past Homestead Acts and GI Bills were designed to do. As in the past, these policies have been designed to target their assistance more narrowly than simply the general citizenry. While past policies could use overt or covert language to ensure the benefits would funnel to White households, such nomenclature is no longer *legally* possible. Despite this obstacle, these current policies continue to funnel their aid to White households, disproportionately to their share of the population. Given the tight link between wealth and "Whiteness", these policies are able to pull their feat without violating the law or even evolving social norms. Wealth has become another Jim Crow.

No doubt the stealthy features that Surrey warned about fifty years ago have contributed to their growing presence. Their impact on the Treasury is hardly considered. Their perverse consequence of loading help on those who need none and neglecting those who could use much are easy to ignore and forget. With little fanfare, they now account for nearly half of the growth in White wealth over the past generation. Rather than work to offset the centuries of federal favoritism to White households, they function to exacerbate and deepen the past disparities and ensure their persistence far into the future.

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