Federal Wealth Policy and the Perpetuation of White Supremacy

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No matter which measure of well-being one selects, whether life expectancy, health outcomes, exposure to violence, educational attainment, or economic opportunities, substantial racial gaps persist. In the U.S., Whites experience far greater levels of success than do their Black and Latinx neighbors while facing far fewer challenges. These disparities are neither random nor coincidental. They are not caused by cultural differences that might produce different behaviors and choices, but rather by persistent, though evolving public policies. These disparities persist not simply due to our history of slavery, genocide, dispossession, and discrimination. While our history of racial oppression is important, it does not offer the full story. Since its inception, the federal government has promoted wealth creation policies that target White households, assuring them unmatched opportunities and power when compared to Black and Latinx households.[1] These policies contributed to the creation and perpetuation of White supremacy, both past and present. Although the policies themselves have evolved over time, they persist today to ensure our system of economic stratification continues into the future.[2]

Household wealth offers the perfect vehicle for creating a system of economic stratification.[3] Certainly, gaining a college diploma, finding a professional job, and earning an ample salary all provide access to financial security. Yet, household wealth, or net worth, provides families with a more enduring source of well-being.[4] Unemployment and recession may strike without warning causing household incomes to plummet precipitously. In contrast, household assets like bank accounts and real property retain their value more reliably. While household assets can suffer sudden loss through fire or theft, various forms of insurance offer protection. Wealth's intrinsic durability provides financial security as insulates households from the vagaries of employment income, the financial challenges of retirement, and the worry of uncertain life expectancy.

Beyond providing financial security, wealth brings power. Owning a car gives one wider employment opportunities. Household wealth can underwrite education that expands career opportunities or it can finance a business venture. Wealthy households can gain influence through their charitable giving or political contributions. In so many ways, wealth offers its holder a source of power as it expands choices, opportunities, and agency. As Raymond Franklin (1991, xviii) provocatively argues "Ownership carries with it domination; its absence leads to subordination."

Wealth's durability enables its transfer across generations. It serves as the currency by which parents can effectively bequeath their position and power to their children. When their kids are young, parents can provide activities and experiences that will nurture their talents. Buying a home in desired neighborhoods that offer well-resourced schools gives their children a further

[1] Many of these policies, some brazenly titled like the Indian Removal Act of 1830 and the Chinese Exclusion Act of 1882, favored Whites over Indigenous Peoples and Asians as well.
[2] The most recent example is the Tax Cuts and Jobs Act of 2017.
[3] See Darity (2005) for an excellent discussion of the sub-discipline, stratification economics.
[4] Technically, the terms "wealth" and "net worth" are not identical. While the former refers to assets, both financial and real, the latter also includes debt. However, I use these two terms interchangeably throughout this chapter. Using wealth this way, it can be negative if one's debts exceed one's assets.

head start. Family wealth expands the choice of potential colleges and can lead to graduation without the specter of student loans. As their adult children look to buy a home, family resources can finance the down payments in pricier neighborhoods with good schools, thereby extending the legacy of wealth another generation. These gifts, labeled "transformative assets" by Thomas Shapiro (2004, 2) can jumpstart the opportunities of subsequent generations. Families with immense wealth can assure the prospects of generations to come though the use of family trusts. Each generation can build from where they started, passing along even greater gifts to their descendants. 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.

Glancing Backward

Our system of White supremacy did not result from chance, but rather from a bevy of federal, state, and local laws traceable back to our nation's birth and the US. Constitution. On the one hand, the framers of the Constitution assured the sanctity of private wealth when they adopted the Fifth Amendment, which prohibits the taking of "property, without due process". Yet, upholding the rights of White slaveholders to their "property" meant withholding this protection from those enslaved to a most personal and profound source of wealth – the fruit's of one's labor and enterprise. Not only did the Constitution codify an abominable and immoral institution, it generated a huge transfer of wealth from the enslaved to their White holders. With each generation, White slaveholders could increase their wealth given the many opportunities available to them while the enslaved had little reason for hope. Further, constitutional prohibitions on "direct" taxes on wealth, whether real or personal, meant that any accumulated wealth would remain untaxed.[5] In this way, the Constitution guaranteed two distinct trajectories for White and Black households, with the results evident today.

Federal policies did more than merely encourage the growth of slavery to the benefit of White slaveholders. For most of our nation's history, people created wealth by capturing the land's natural riches. Whether from capturing animal pelts, harvesting trees, farming the land, or mining precious minerals, our country's wealth largely came from the land. Even those involved in commercial business owed their fortunes to the transport and sale of these products around the world. Whoever possessed the land had the means to seize its riches. Recognizing this treasure, federal land policies overturned land claims across the continent to the benefit of White Americans, thereby shaping our current wealth disparities.

In 1790, Native Americans occupied virtually all of the land that would become the United States, except for a narrow strip along the East Coast. Today, their tribal descendants hold mostly small parcels of land, much of it in the arid and unforgiving West. This wholesale displacement of a people from their ancestral lands occurred under the authority of the federal government. The first Congress adopted the Indian Trade and Intercourse Act of 1790, giving it exclusive authority to conduct treaties and land deals with the native tribes. Confronted with hordes of European immigrants hungry for land, the federal government ratified hundreds of treaties with various Indian Nations over the 19th century (Kappler, 1904). The aim of these

[5] This prohibition restricted taxes on income or wealth, as they are direct taxes on property. The 16th Amendment largely ended this limit on Congressional powers in 1913.

treaties was unabashedly named in one federal law, the Indian Removal Act of 1830. These treaties were imposed under the threat of local White violence, genocidal diseases, and the U.S. Army. Collectively, these treaties created a wholesale transfer of a continent, from Native American residency to White ownership.

Native peoples were not the only group that occupied land desired by White settlers. Following a brief, one-sided war with Mexico, the U.S. government imposed harsh terms under the Treaty of Guadalupe Hidalgo. Mexico lost over half of its territory, lands that subsequently formed the basis of 10 Southwestern states, from Texas to California. Overnight, tens of thousands of Mexican citizens awoke in a new country as the border moved south. Under Article X of the treaty, their citizenship and property claims were to be honored by their new country. However, this article was absent from the treaty version ratified by the U.S. Senate. Instead, Congress created land commission to settle any claims.

In California, the commission functioned according to the California Land Act of 1851. Claimants had two years to make their claims along with all of the necessary documentation. While the claimants spoke Spanish, none of the commissioners did. Not only were the proceedings conducted in English using American jurisprudence, but the burden of proof rested on the claimants, not the government. These foreign procedures required many landowners to hire rapacious lawyers; some required a fee of one quarter of the land under dispute (Clay & Troesken, 2005). Many cases were not settled for 15 years (Jelinek, 1998). Although most claims were upheld, the long process took its toll. Many landowners sold land to pay for their travel costs. Others experienced damaging squatting by White immigrants who refused to let the "defeated Mexicans" retain control over their land (Jelinek, 1998, p.235). Whereas over 60 percent of the Mexican households owned land in 1850, the figure had fallen to 29 per cent by 1860 (Armott & Matthei, 1991, p.73). Most of this "lost" land was claimed by Whites.

In the 20th century, federal action led to further dispossession of property. Prompted by hysteria triggered by the Japanese attack on Pearl Harbor, President Roosevelt signed Executive Order 9066 which relocated 110,000 persons of Japanese descent – the majority were U.S. citizens – into concentration camps. With little notice to settle their affairs and no information on when they might be released, most were forced to sell their homes, farms, or businesses unless they had trustworthy non-Japanese friends to oversee their possessions (Taylor, 1983). As many were selling assets at the same time, they received pennies on the dollar. Those who trusted government assurances to protect their personal possessions frequently found them destroyed or lost when they returned for them (IBID). Lastly, many who saved at Japanese-owned banks had their accounts frozen as financial authorities acted on fears that these banks would finance anti-American activities.

While the relocations were made on national security grounds, no less than the FBI argued that mass incarcerations were unnecessary and counterproductive.[6] Instead, decades of racial animus among the White community generated the response. At the time, Japanese farmers dominated the fresh produce markets, including virtually all of the local production of tomatoes, peppers, snap peas, and celery in the Los Angeles market (Krebs, 1995, p.48). Envy, more than fear,

[6] The FBI argued that selective relocations of persons that generated suspicions offered a more effective response. This was the response taken against German nationals.

motivated the mass incarcerations. Austin Anson, managing secretary of the Salinas Valley Grower-Shipper Vegetable Association, sums up this view:

> "We're charged with wanting to get rid of the Japs for selfish reasons. We might as well be honest. We do. It's a question of whether the white man lives on the Pacific Coast or the brown men. They came to this valley to work, and they stayed to take over. They offer higher land prices and rents than the white man can pay for the land. They undersell the white man in the markets. They can do this because they raise their own labor. They work their women and children while the white farmer has to pay wages for this help. If all of the Japs were removed tomorrow, we'd never miss them in two weeks, because the white farmers can take over and produce everything the Jap grows. And we don't want them back when the war ends, either" (IBID, p.49).

Each of these examples of wealth expropriation shares two important traits. First, constitutional protections against the loss of property without due process did not apply to persons of color. In each of these cases, the legal system failed to protect persons of color from the loss of their land, property, and even livelihood. In some cases, the U.S. Supreme Court led the charge. Second, these wealth transfer policies overwhelmingly benefited White Americans. Virtually all slaveholders were White as were the bankers, shippers, and merchants who benefited from the trade of cotton and enslaved persons. The flood of European immigrants and their White descendants claimed the land made available by the forced removal of Native peoples and the disputed land titles of the former citizens of Mexico. Mostly White buyers purchased the homes, businesses, and personal possessions of those Japanese forced to settle their affairs under duress.

Federal wealth policies did not simply target communities of color for dispossession of their wealth. In addition, the U.S. government enacted policies to help families build wealth, though with a "Whites Only" focus. Foremost among these policies is the revered Homestead Act of 1862. Forced removal of resident Native Americans now left vast lands ready for settlement. The Act offered 160 acres for free to those who would make improvements to the land and reside for five years. The lure of free land attracted a rush of claimants. In five years, one could construct a modest home, raise animals or crops, and retain title to the land. As children gained adulthood, they could make claims on adjacent lands, thereby expanding the family's holdings. Owning land not only provided independence and economic security, but also a ladder to upward mobility (Shanks, 2005). Property ownership conferred the rights to vote and hold elected office as well as brought social status. Emerging towns generated educational and commercial opportunities for their sons and daughters. Serving as a catalyst, the Homestead Act catapulted recipient families in their efforts to improve their economic standing over succeeding generations.

While one estimate suggests that 46 million Americans today are the beneficiaries of this federal largesse, virtually all of its benefits fell to Whites (IBID). While the Act offered free land to any citizen or person eligible for citizenship, only "free white persons ….. of good character" were eligible to become naturalized citizens under the law.[7] Even when the laws changed to include

[7] The Naturalization Act of 1790 determined who could become naturalized citizens. While the Naturalization Act of 1870 changed this to include persons of "African descent", it still excluded persons of Asian or Latin descent as well as Native Americans born on a reservation.

freedmen, other barriers limited their participation. Though the land was free, homesteaders needed money to be successful. They required cash to travel to the claim office, to pay for tools and seed, and purchase necessities until harvest. Such a stake, perhaps $600 to $1,000, was beyond the means of most emancipated blacks (Deverell, 1988). Further, most freedmen lived in the South while the open lands were in the Midwest. This distance imposed additional financial and informational costs upon the freedmen. No doubt the White land officers gave little encouragement, but rather offered evasion and hostility to interested freedmen. Despite these obstacles, thousands of freedmen and their families did migrate west, particularly to Kansas, Nebraska, and Oklahoma (Painter, 1992). Likely, they found the climate more forbidding and the challenges more unyielding than promised.

The dawning of the 20th century witnessed increasing urbanization across the U.S. raising education and homeownership as more important avenues to economic security. Simultaneously, the nation was erecting a bevy of Jim Crow laws and norms limiting access to education, employment, housing, voting, and public facilities to those not deemed as White. Much of Jim Crow was enacted by state and local governments; nonetheless, the federal government played more than simply a passive role. Not only did President Wilson require the segregation of all federal agencies, but laws and norms in D.C. made life there similar to what was found in the South. Worse, Supreme Court rulings simply sanctioned the legal stratification. While *Plessy v. Ferguson (1896)* famously ruled that “separate, but equal” was legal, a subsequent ruling *Cumming v. Richmond County (1899)* effectively undermined any concern for “equal”. In this case, the Court ruled unanimously that Richmond County was within its rights to offer only White students a high school education because the cause was limited economics, not racial animus. In another ruling, *Corrigan v. Buckley, (1926)*, the Court upheld the use of restrictive covenants that prevented the sale of homes to those who were not White, on the grounds that these agreements were between private parties. With these and other rulings, the Court sustained racial segregation for a half century, thereby endorsing those obstacles placed to limit the opportunities of households of color.

After World War II, the Servicemen’s Readjustment Act (better known as the G.I. Bill), boosted further the fortunes of millions of American households. The bill provided returning veterans with a number of generous benefits, including cash for college tuition and expenses, low-cost business or farm loans, and attractive mortgages. This largesse swelled college graduation and homeownership rates, fostered new businesses, and expanded the middle class. Over 2 million veterans attended college while another 5 million received some form training and education (Olson, 1973). The prospect of low-interest mortgages enabled over 2 million vets to purchase homes as well (U.S. Department of Veterans Affairs, n.d.). With both a college diploma and title to a home, millions of veterans found their way into the burgeoning middle class.

Despite the law’s race-neutral language, its generosity didn’t extend to all veterans nor assist all communities due to the realities of racial segregation. While White veterans could apply their education benefits to whatever college would accept them, Black veterans received a pamphlet entitled “Colleges for Negroes” that designated where they should apply (Turner & Bound, 2003). In the South, Black veterans could enroll only in the historically black colleges and universities (HBCUs), causing half of the applicants to be turned away due to lack of space (Olson, 1973, p. 74). While some traditionally White colleges enrolled Black applicants in the

North, the numbers were always small. As one example, the University of Pennsylvania enrolled only 46 Blacks among its 9,000 students (Herbold, 1994). Black veterans faced other restrictions when seeking vocational education. The G.I. Bill created regional counseling centers to help the returning soldiers navigate and exploit the available benefits and services. Under the norms of Jim Crow, such help could only be given using segregated facilities. Many of these centers lacked adequate numbers of Black counselors to serve veterans of color. Georgia and Alabama each had only a dozen Black counselors to serve the full state while none served in Mississippi (Onskt, 1998).

When it came to homeownership, veterans of color faced even greater obstacles. The G.I. Bill permitted veterans to buy a home without a down payment and with low interest rates using a combination VA/FHA loan. Such loans required a FHA appraisal, one that included not only the property's condition and the borrower's credit worthiness, but also the demographics of the surrounding neighborhood. To assess neighborhoods, the FHA created detailed maps of urban areas across the country. White neighborhoods earned a blue or green color that encouraged mortgage lending. Other neighborhoods with poorly maintained housing stock or had "an undesirable population or an infiltration of it" were colored red and deemed too risky to lend money (Hillier, 2005, p. 217).[8] Hewing to racial fears, these maps reflected the belief that if homeowners of color moved into previously White neighborhoods, property values would decline and threaten neighboring mortgages, despite evidence to the contrary (Rothstein, 2017). Due to this system, realtors, bankers, and regulators all had the incentive to keep neighborhoods strictly segregated. While Whites were allowed to purchase homes in the expanding suburbs with easy loans, homebuyers of color were limited to neighborhoods shunned by lenders.

While these racialized policies are part of our past, they have an inarguable impact today. The durability and easy transferability of household wealth across generations ensures this connection. Take the offer of free homesteads. Raising crops or animals on the fertile land enabled these White families obtain a measure of economic security. Parents could afford to let their children gain more schooling, making them eligible for jobs in the expanding towns and cities. Each generation could offer their own children increasing opportunities. Similarly, White veterans leveraged the G.I. Bill benefits into a college degree, homeownership, and business ventures. Many earned incomes that allowed them to help their own children pay for college. Although Black and Latinx parents aspired to assist their children in the same way, they rarely benefited from the federal government's help. Further, legal segregation hindered their efforts for upward mobility as they faced limited educational, occupational, and residential opportunities. Given these divergent paths, it is unsurprising that White households currently hold ten times the wealth of Black and Latinx households. Actually, it is a testimony to the flint and resiliency within these communities of color that the racial wealth gaps are not larger than they are.

The Wealth Privilege System

To understand the Wealth Privilege system is to acknowledge how the system of economic stratification persists today. Households accumulate wealth in three ways: we might inherit wealth from our families, save some portion of our current income, and invest those savings in assets that generate income or appreciate in value. To capture this process of wealth accumulation, economists have largely used various life-cycle models. In its simplest version,

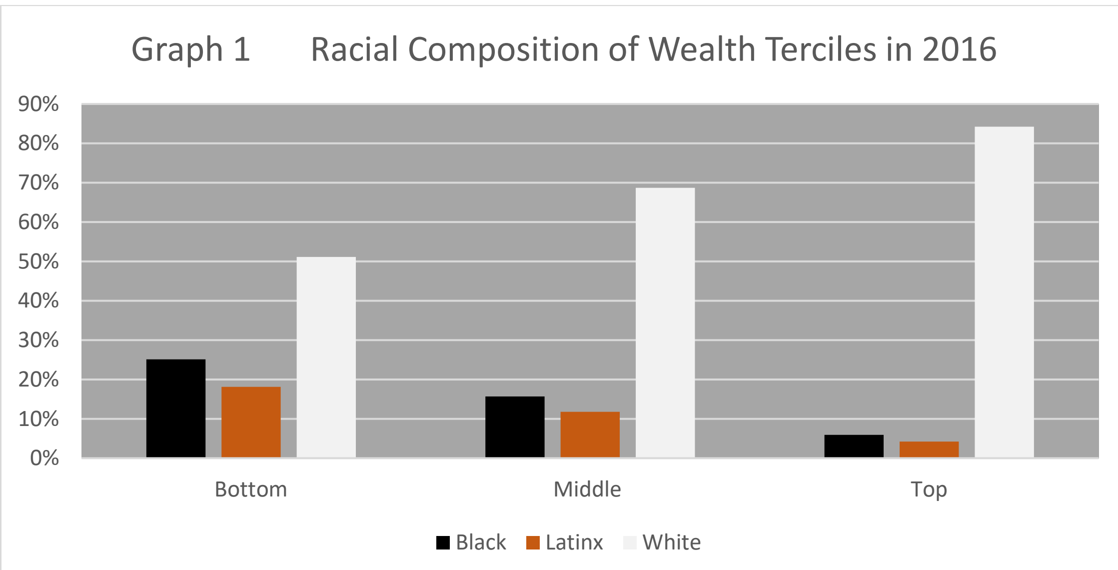
[8] This is the source of "red-lining" mortgage applications.

the Life-Cycle Hypothesis (LCH) posits that households maximize a constant level of consumption over their lifetime. As such, households are predicted to dissave when young to pay for human capital investments, save prodigiously during middle age, and liquidate their wealth during retirement as they approach death. Although this view appears to explain the experience of many households, it offers an incomplete understanding of the wealth accumulation process. In viewing wealth simply as a store of future consumption and not as a source of power, the LCH cannot explain why wealth is so much more concentrated than household income (Cagetti and De Nardi, 2008). Further, it causes the LCH to understate the importance of family gifts and to ignore the possibility of economic stratification. According to the model, any advantage that one may gain from their racial or family background will dissipate over time as the fortunate household will simply increase their consumption, offering no apparent advantage to the next generation.

In contrast, the Wealth Privilege (WP) model (Williams, 2017) demonstrates how household wealth provides advantages that are conveyed from generation to generation. Like the LCH, the WP model recognizes the key avenues of wealth accumulation – household saving, family gifts and inheritances, and asset appreciation. In contrast, the WP model recognizes the different circumstances facing households depending on their wealth and racial status. Along each pathway of wealth accumulation, there exists a threshold, beyond which households experience ever increasing ease in accumulating more wealth. As households are able to save and accumulate assets, these assets subsequently generate income, making future saving easier. More importantly, along the Asset Appreciation pathway, an expanded portfolio permits increased diversification, thereby allowing households to undertake increased investment risk. Investing in higher-risk assets that offer higher returns causes them to expand their portfolio further, allowing greater diversification and risk tolerance. The Family Support pathway functions similarly across generations. Affluent parents can provide their children with expanded opportunities thereby easing their access to financial security. As they build upon their inherited fortunes, they can pass along their advantages to their children in an expanding fashion. Given the potency of wealth to provide not only financial security for the current generation, but also to expand the opportunities of future offspring, families have every incentive to accumulate as much wealth as they can.

Below certain wealth thresholds, households face head winds, not tail winds, in their efforts to get ahead. Households with few assets to supplement their meager income find themselves forced to dissave to make ends meet. Either they must liquidate their modest assets or go deeper into debt to meet their current needs, even as they anticipate the bleaker prospects ahead. Either option makes future saving an even greater challenge. Wealth-poor households get little help from the Asset Appreciation pathway. Most households purchase furniture, appliances, and cars as their initial household assets. As each of these depreciate over time, they provide no easy assistance in getting ahead. Lastly, the Family Support pathway can retard the efforts of those who come from wealth-poor families. As parent and grandparents outlive their nest eggs or experience illness that produce unpaid medical bills, their offspring may face requests for financial help. Obviously, meeting these requests hinders their own efforts to gain financial security. Children from wealth-poor households not only receive less family help, but they experience a higher likelihood of having to *provide* help to family members. Both circumstances cause wealth disparities to accumulate over generations.

Although the WP model functions without overt reference to racial status, it clearly has substantial, racialized consequences. Given the weight of racialized policies enacted throughout our nation's history, Black and Latinx households find themselves disproportionately unable to leverage the privileges of wealth. Graph 1 illustrates the circumstances. In 2016, the least affluent third of American households held a net worth of $26,000 or less. Even at this level, the typical households could live on its savings for only about six months, if unemployed.[9] Further, at this level of wealth, households likely have little opportunity to leverage the privileges of wealth just discussed. The middle third of American households range from this level up to $240,000 of net worth. At this level, households are able to leverage some of the advantages of affluence. The wealthiest third of households, with a net worth above a quarter million dollars, are increasingly able to reap the favors of wealth. As the graph illustrates, White households comprise an increasing proportion of households as one moves up the wealth continuum. In contrast, the majority of Black and Latinx households find themselves in the Bottom Wealth Tercile where they experience the winds of wealth privilege blowing in their faces rather than at their backs.



Source: Survey of Consumer Finances, 2016.

Even in a post-racial world, the Wealth Privilege system would continue to retard the efforts of a majority of Black and Latinx households while propelling a majority of White households. Under these circumstances, we can only expect the racial wealth gaps to widen over time. Of course, there is substantial evidence that racial discrimination continues to persists, particularly in labor, credit, and housing markets, areas that are critical to getting ahead financially. Due to a variety of historical and contemporary causes, Black and Latinx households continue to lag behind Whites in their educational attainment. Even among those with comparable education, studies (Bertrand & Mullainathan, 2003; Pager 2003) demonstrate that White applicants are more likely to receive callbacks for potential jobs than Black applicants. In seeking credit to get ahead, two other studies conclude that Black and Latinx mortgage applicants are rejected at

[9] The median income in 2016 is $52,657.

higher rates than comparable White applicants (Charles & Hurst, 2002; Munnell et al., 1996). When they receive loans, Black borrowers pay higher interest on car loans, student loan debt, and mortgages (Chiteji, 2010). Prospective Black and Latinx homebuyers receive less information and fewer opportunities to view advertised homes (Turner, 2002). Given the persistence of residential segregation, some (Flippen, 2004; Oliver & Shapiro, 2006; Williams, 2017) conclude that White homeowners experience greater appreciation than do Black homeowners, although some have found the evidence mixed (Coate & Vanderhoff, 1993; Long & Caudill, 1992) or even reversed (Gittleman & Wolff, 2000). Restricted access to credit imperils the survival rates of Black-owned businesses (Bates, 1997; Blanchflower et al., 2003) as does the biased preferences of White customers (Borjas & Bronars, 1988). All of this demonstrates that White households continue to get preferential treatment relative to Black and Latinx households in their efforts to get ahead.

Current Policies Promoting White Supremacy

Preferential treatment toward White households does not end here. The federal government continues to help families build wealth, with the bulk of that assistance targeting White households. Just as in the past where the federal wealth policies morphed from enslavement and expropriation to “White Only” wealth-building help, today’s policies have taken on a new form. The primary way that the federal government assists household build wealth is through federal tax policy, with the bulk of the assistance in the form of federal tax exemptions. Through ten tax deductions, the federal government funnels hundreds of billions of dollars annually to American households. Included in this list are the very popular deductions for home mortgages, charitable contributions, and retirement assets. Given the vast disparities in wealth in this country, one might expect these policies would be designed to help those with the greatest need. Yet. all are designed to favor the rich. Since White households own the bulk of U.S household assets, these policies inevitably favor White households. At the same time, changes to the estate and gift taxes are permitting more wealth to transfer from one generation to the next. Just like the G.I. Bill, these tax policies make no overt mention to race; yet, they have clear racial consequences.

Table 1	Wealth-Building Tax Deductions	
Home Mortgage	Home Property Tax	Charitable Contributions
Local Tax Exclusion	Home Sales Exclusion	Tax-Exempt Bonds
Life Insurance Exclusion	Pension Exclusion	Capital Gains Exclusion
	Estates Step-Up Exclusion	

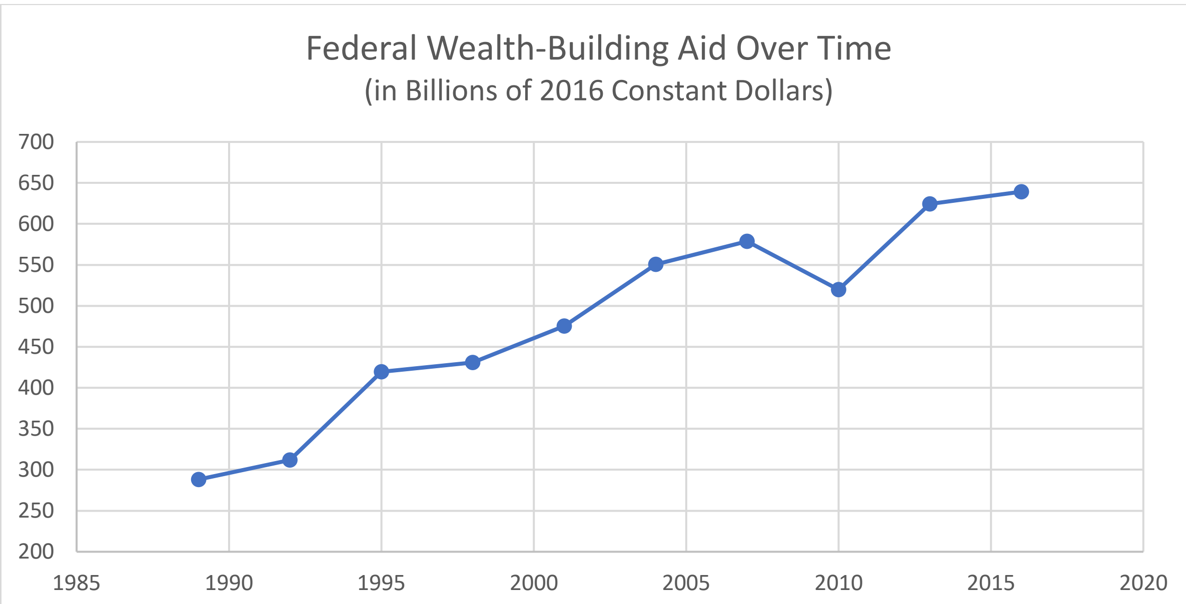
These ten tax deductions, listed in Table 1, help households accumulate wealth in several ways. The first four allow households to deduct certain expenses, including mortgage interest payments, local property taxes on one’s home, charitable contributions, and payments on local and state income taxes. In many cases, these expenditures can be substantial, providing households with protected income that can permit or increase household saving. The remaining deductions allow households special exemptions to keep more of their income or asset appreciation. The tax-exempt bond exclusion allows bondholders to keep all of income gained from these special bonds while the deduction on life insurance exempts any interest earned on the fund from federal taxation. The pension exclusions offer several different tax exemptions on funds held in various retirement accounts. In some cases, households deposit funds and any appreciation remains untaxed forever. In other cases, households can contribute pre-tax dollars into designated funds which remain untaxed during the life of the fund. The remaining three deductions all refer to assets whose appreciation is exempt, partially or wholly, from federal taxation. The capital gains exclusion largely exempts from federal taxation any gains from the sale of an asset that has increased in value. Rather than treat this gain as normal income at the time of the sale, the exclusion allows the recipient to pay a reduced tax rate, sometimes even zero. Similarly the home sales exclusion permits homeowners that experience a rise in their home value to keep all of the gain in value, up to a maximum of $500,000 (for married couples). Lastly the estates step-up exclusion allows any estates at the time of death to be counted at their current market value, not their purchased value. Any increase in asset values go into the estate untaxed, although this exemption does have consequences for the estate tax.

These ten tax deductions, which totaled almost $639 billion (Joint Committee on Taxation, 2013) assist households as they attempt to save our of their current income, reap rising asset values, and receive family inheritances. Given the huge disparities in wealth, one might expect that this federal largesse would target those households with the greatest need. In doing so, this federal assistance could assure all households have sufficient assets to overcome the wealth thresholds and access the privileges of wealth. Instead, these deductions are designed to target their assistance to the wealthy. Since White households own the bulk of U.S household assets, these policies inevitably favor them. Just like the G.I. Bill, these tax policies make no overt mention to race; yet, they have clear racial consequences.

Several design factors ensure that these deductions will promote White supremacy. First, each of these tax breaks is structured as a tax deduction rather than a tax credit. While tax credits offer similar benefits to all taxpayers[10], the actual value of a given tax deduction is determined by one's marginal tax rate. For example, a $1,000 tax deduction is worth $350 to someone who is in the 35 percent tax bracket while worth only $100 to someone in the 10 percent tax bracket. Taxpayers who select the standard deduction gain no benefit whatsoever from the deduction. Only more affluent households have an incentive to itemize their deductions. Second, most of the deductions require households attain some level of wealth or employment status to benefit. Three of the deductions are available only to homeowners: the home mortgage deduction, the property tax, and home sales exclusion. Renters need not apply. Not all jobs, particularly those with lower educational and skill requirements, come with employer sponsored retirement accounts. While these retirement accounts are tailored to the needs of the affluent, their restrictions make them less appealing to less wealthy households who savings needs require more flexibility. Only households capable of investing part of their savings into appreciating assets will benefit from the capital gains exclusion or the estates stepped-up exclusion. Third, all but three of these deductions have no limit to their generosity.[11] 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.

[10] This strictly applies only to fully refundable tax credits. These are tax credits that are awarded regardless of how much federal income tax one must pay. In that the tax credit exceeds one's federal tax liability, the taxpayer receives a credit for the difference from the government. Nonrefundable tax credits are awarded only to those who have a sufficient tax liability.
[11] Only the home mortgage deduction, home sales exclusion, and now the state and local tax deduction have limits on how much a given taxpayer can benefit.

While tax expenditures such as those discussed here, often escape notice, federal law requires the government to estimate their level of generosity. Using estimates from the Joint Committee on Taxation (JCT), one can track the importance of these ten deductions over the past generation. From 1989 to 2016, the value of these deductions more than doubled, even when adjusted for inflation. The most important cause of this dramatic rise in largesse is due to their absence of limits. Over this period, real household wealth has virtually doubled, a result that owes some debt to these deductions while simultaneously causing them to become more generous. In addition, recent program changes have increased their benefits. While the majority of these deductions have remained untouched by Congress, several like the capital gains exclusion have been made more generous over time. Their "sky's the limit" design along with the growth of wealth among the affluent offer the primary reasons for their substantial growth over the period.

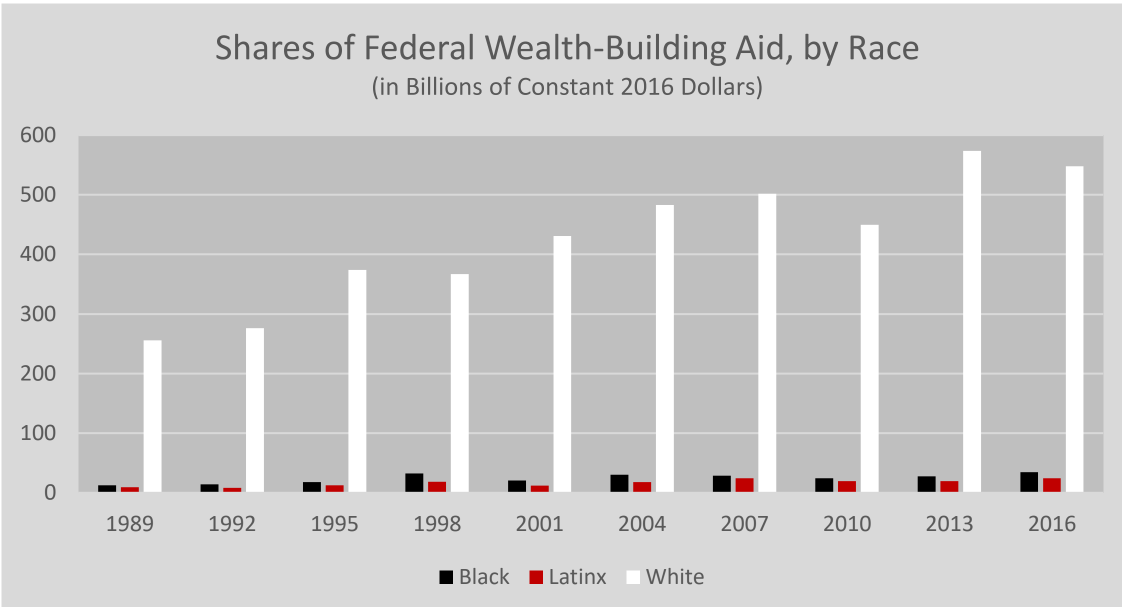


Source: Joint Committee on Taxation

One can estimate the racial shares of these tax benefits by pairing the JCT estimates with the triennial household survey data provided by the Survey of Consumer Finances (SCF). This survey is considered the "gold standard" among the household wealth surveys partially due to the depth and range of questions regarding household assets, debts, and inheritances. These questions allow one to discern which households benefit from each deduction and by how much. For example, the SCF asks households how much capital gains they realized over the previous year as well as whether any were from the sale of their primary residence. These figures indicate which households benefited from either the capital gains or home sales exclusions. 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.[12] To be

[12] 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

sure, these estimates offer us a ballpark understanding, since they can't capture certain 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. Further, the estimates do not consider whether the household actually itemized their federal tax deductions nor what marginal tax rate they paid. Consequently, these estimates treat all households uniformly despite the fact that wealthier households benefit more from potential deductions. As White households receive higher incomes and fall into higher marginal tax rates, the estimates below certainly understate the actual share of benefits they receive.



Source: SCF, JCT, author's calculations.

The evidence is sobering. In 1989, White households received over $250 billion in annual benefits from these deductions, far more that Black or Latinx households. Of course, a significant portion of this disparity results from the fact that White households comprise a large proportion of U.S. households. Nevertheless, this disparity in federal largesse, or the difference between how much White households benefited versus Black and Latinx households, virtually doubled to just around $500 billion annually. This doubling of the racial largesse gap occurred even as the White share of households has declined within the population. Even the modest amounts of help that do reach Black and Latinx households will largely fall to the most affluent members of these communities. The vast bulk of hardworking households who've been unable to acquire a home and other appreciating assets largely are ignored by these deductions.

It's important to recognize how this racial favoritism functions despite none of the deductions are overtly racial. Given current racial disparities in wealth, these policies, by targeting wealth status, have the same impact as if they were designated as "Whites Only". According to the SCF 2016, White households held 98 percent of the tax-exempt bonds, 89 percent of the realized

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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.

capital gains, 88 percent of the pension (and life insurance) wealth, and 89 percent of the inherited wealth. As such, virtually all of the assistance provided by these four deductions, together worth almost $400 billion in 2016, are funneled into White hands. While the remaining deductions are less tightly targeted, they each function in a similar, if less focused way. As White households experience higher homeownership rates and mortgage payments, they benefit overwhelmingly from these tax deductions. Able to keep more of their wealth, they can take greater advantage of the privileges of wealth, thereby accumulating even more wealth that allows them to benefit further from these tax advantages. It is a system perfectly designed to promote White wealth and strengthen White supremacy.

However, one problem remains. While the ten deductions promote White supremacy within a given generation, they do not provide unhindered transfer of that wealth from one generation to the next. Of course, wealthy households can do much to ensure their children have not only financial security, but also financial success. They can ensure their kids have access to the best schools and graduate from elite colleges without student debt. They can offer their children life experiences that allow them to be proficient and comfortable in rooms where powerful and influential people reside. They can provide them with social and professional contacts that will assure a variety of opportunities and ventures. They can employ them in family-owned businesses and ensure their rapid rise through the management ranks. Through well-designed trusts called Generation Skipping Trusts (GSTs), they can leave their estates to their grandchildren untaxed and allow their children to benefit from any interest generated. However, due to the federal estate and gift taxes, they could not simply give or leave their wealth to their children directly, without suffering some measure of taxation.

Enacted over 100 years ago, the estate tax (and later the gift tax) was created to limit the corrosive power of concentrated wealth. No less than Irving Fisher urged the adoption of the estate tax, warning against the emerging “danger of inherited plutocracy” (Fisher, 1916, 711). Together, the estate and gift taxes functioned to limit wealth transfers from one generation to the next, restricting the amount of “earned” wealth from one generation from becoming unearned wealth for the next. Together with the GST tax, these taxes provide the sole barrier from which wealth from one generation can be transferred to the next without impediment.

For 30 years after the World War II, the estate tax considered only those estates that were larger than $40,000 and levied a minimum tax of 3 percent that rose to 77 percent on estates above $10 million. Subsequent legislation raised the threshold and altered the tax rates. By 1989, only estates larger than $600,000 were taxed while the minimum and maximum tax rates ranged between 18 and 55 percent. Even these levels became too stringent for those in power. Over the next generation, the threshold has undergone repeated increases. In fact, legislation allowed the estate tax to expire completely during 2010. Although it was reinstated, the threshold has continue to rise. Indeed, the recently enacted Tax Cuts and Jobs Act of 2017 ensured that only estates larger than $11.2 (or $22.4 for a married couple) million will trigger a tax assessment.[13] Over the past generation, the estate tax and gift taxes have been largely emasculated to allow ever larger estates to pass from one generation without limit. Given the vast majorities of these

[13] This law did place a cap of $10,000 on the state and local tax deduction. This change appears motivated by the politics of high tax states versus low tax states. In addition, the law raised the standard deduction which will tilt the benefits of these deductions even further to the wealthy and to White households.

estates are held by Whites, these changes simply reinforce the system of economic stratification and ensure the perpetuation of White supremacy into the future.

Conclusion

Despite the rosy rhetoric about becoming a "post-racial" society, this chapter makes clear that, regrettably, White supremacy is alive and well. Since our nation's birth, U.S. government policies have fostered a system that assured Whites an unassailable position of power in American society. These laws ensured that the continent's vast natural riches would become the possession of White immigrants and their descendants. Subsequent policies gave preferential access to a variety of opportunities. As a result, White families have experienced a level of upward mobility unavailable to most Black and Latinx households. This multigenerational head start along with persistent advantages along the way have lead to our current racial wealth gap. There is every reason to think that it will continue to widen. Not only are White households exempt from the various forms of racial discrimination that continue to plague households of color, but their wealth enables them to take advantage more fully of the privileges of wealth. As if that is not enough, our current tax policies are tailored to the expansion of White wealth and its transfer to future generations. Our legacy of racialized policies, the realities of the contemporary wealth privilege system, and the White-centric tax policies all guarantee the perpetuation of White supremacy.

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