“The Reparations Bill: Adding Late Charges and Securing a Funding Source”

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Introduction

In recent years, the reparations debate, long smoldering due to dogged efforts of Rep. John Conyers and a sprinkling of academic papers, has ignited into a broader public debate. In 2014, Ta-Nehisi Coates, wrote a compelling and widely read essay that argues why the payment of reparations is necessary. In 2019, a Judiciary sub-committee held a captivating hearing in response to H.R. 40, which calls for a study commission to examine the need and substance of a reparations bill. Currently, several Democratic presidential candidates have sworn to support H.R. 40 as well as future efforts to compensate African-Americans whose ancestors suffered under enslavement and subsequent white oppression and terrorism. It’s difficult to recall a time in which there was this much discussion of the issue. Reparations scholar Dr. William F. “Sandy” Darity has stated, “To be blunt, I am more optimistic than I have ever been in my life about the prospect of the enactment of a reparations program that is comprehensive and transformative”[1].

This paper intends to extend the reparations discussion in two ways: 1) by acknowledging the need to add new charges to the current reparations bill, and 2) by offering an alternative source of funding that could preclude the need for a tax increase, a political long shot at best. I start by offering a brief review of the reparations literature.

Review of the Reparations Literature

In his 1969 Black Manifesto, civil rights activist James Forman argues for a payment of $500 million to African Americans, thereby triggering the current reparations discussion. He contends that this amount represents a down payment for the involuntary and unpaid labor used in building “the most industrial country in the world”[2], not to mention a past filled with violence and brutality. Shortly thereafter, Terrell (1971) examines the available evidence on the racial wealth gap. He concludes, even if black incomes matched white incomes, one can’t expect a closure of the wealth gap. Alexis (1971) explains how the existing wealth gap is the result of past policies that restricted educational and occupational opportunities for blacks over centuries. Like Terrell, he sees little hope that the wealth disparities will dissipate over time. Both Browne (1972) and America (1971) agree that only a massive transfer of wealth, a payment of reparations, could even begin to erode the wealth gap, itself the result of centuries of racialized policies. America argues that whites are the continuing beneficiaries of our nation’s racist past while Browne suggests that the reparations bill can be paid by simply ending current raids on the U.S. Treasury on behalf of white wealth.

More recent contributions have fleshed out further details. Browne (1972) details several reasons why reparations should be paid, including punishing whites for the sins of enslavement, compensating current descendants for the unpaid labor of their ancestors, and restoring the rightful shares of income and wealth to the black community. America (1998) offers key principles that should guide the design and implementation of any reparations payment. These include the recognition that white Americans continue to benefit from past unjust policies, levels

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[1] Stohlberg, S.G. At historic hearing, house panel explores reparations. New York Times, June 19, 2019.

[2] “Black Manifesto,” *The Church Awakens: African Americans and the Struggle for Justice*, accessed July 30, 2019, https://episcopalarchives.org/church-awakens/items/show/202.

of compensation should reflect past amounts of white enrichment, and compensation should be paid in ways that increase wealth across the black community. Any compensation should largely come from affluent whites and benefit primarily low-wealth black households. To limit any moral hazard problem, Darity and Frank (2003) suggest that compensation should be limited to those African Americans who can show some documentation to enslaved ancestors as well as have self-identified as black over the preceding ten years. Lastly, Swinton (1990) argues that as enslavement and state-sanctioned discrimination privileged whites while oppressing blacks, equalization of capital wealth represents a necessary condition to achieving racial equity.

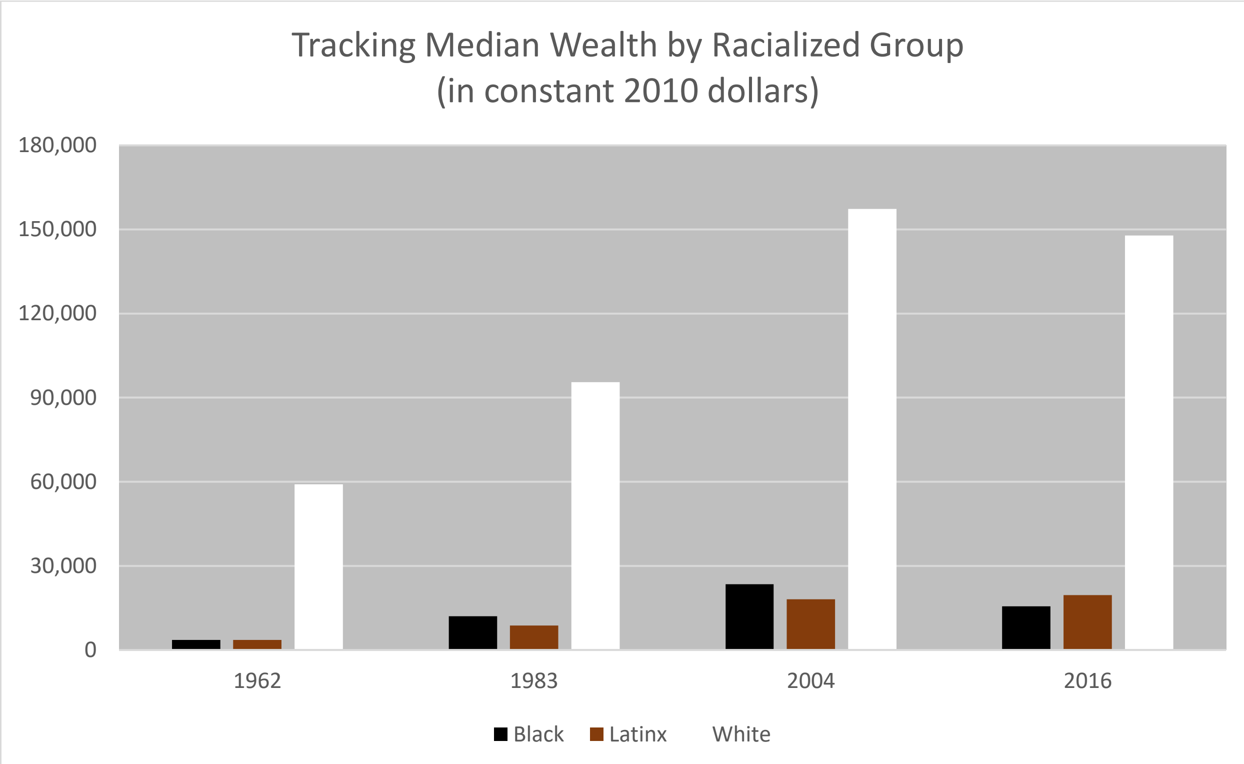
Other scholars provide estimates of this past enrichment. Ransom and Sutch (1990) estimate the profits taken from the slave system over the years 1806 to 1860; when compounded to 1983, this bill comes to $17 billion. Marketti (1990) uses slave prices from 1790 to 1860 to estimate how much wealth transferred to whites under enslavement, leading estimates that range from $2.1 to $4.7 trillion in 1983. Neal (1990) calculates the sum of lost wages minus any maintenance costs to estimate how much the system stole from the enslaved over the period of 1620 to 1840, with his estimate coming in at $1.4 trillion in 1983. Adjusting these figures to 2019, using a conservative five percent benchmark, would yield estimates that range from a low of $98 billion to Neal's $8.1 trillion to Marketti's 19.7 trillion.[3] In a forthcoming book, Darity and Mullin are estimating the lost wealth realized by the freedmen and their descendants due to the unkept promise of forty acres and a mule. Reportedly, they (Darity and Mullen, forthcoming) argue that this loss amounts to $2.6 trillion in today's terms.

Of course, none of these estimates include the vast period of Jim Crow in which state-sanctioned discrimination favored wealth accumulation among whites while blacks were systematically restricted from educational, occupational, and wealth-holding opportunities. Chachere and Udinsksy (1990) estimate the present value of these losses imposed on blacks over the period 1929 to 1969; they conclude a bill of $1.6 trillion. Adjusted to today's terms, this figure represents an additional charge of $8.4 trillion. Adding the charges from both eras, the estimated reparations bill ranges from a low figure of $8.5 to $28.1 trillion. As high as these figures sound, it's important to recognize all of what they don't 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. As such, these figures must be considered lower bound estimates.

Review of the Post Civil Rights Era

At best, one can argue that the Civil Rights legislation enacted during the 1960's ended the legal basis of Jim Crow segregation and sanctioned violence. Similar to what happened a century earlier during Reconstruction, federal laws like the Civil Rights Act and Fair Housing Act of 1968 outlawed any legal basis for unfair racial treatment, but certainly didn't end unfair treatment nor offer any restoration for past harm. Nonetheless, observers at that time likely expected these laws would unleash a new era now that the legal barriers to higher education, professional occupations, homeownership, and business ventures no longer limited the efforts, creativity, and ingenuity of African Americans. Indeed, neo-classical economics predicts that the elimination of these barriers would usher a new period in which the past racial disparities would slowly disappear. As the evidence suggests in the graph depicted below, the racial wealth gap has shown no such trend. Starting in 1962, a year still embedded in the Jim Crow era, the Federal Reserve has surveyed households, initially episodically and now regularly, about their wealth. As

[3] I use the midpoint of Marketti's ranges of estimates as my point estimate and throughout the paper.



Source: SFCC 1962, SCF 1983, SCF 2004, SCF 2016.

the graph illustrates, black households have increased their net worth modestly over the past two generations; however, they have done so at a pace that lags behind white households. As such, the absolute difference between the typical white and black household has more than doubled from $55,000 in 1962 to $132,000 in 2016. When comparing the differences in *average* net worth held by white and black households, one finds the gap has more than quadrupled over the period. Simply ending past forms of de jure discrimination hasn't eroded one important bastion of white supremacy.

Household wealth serves as the perfect vehicle for perpetuating a system of economic stratification.[4] Earning a college diploma, securing a professional job, and making 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.[5] 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 these assets can suffer sudden loss through fire or theft, various forms of insurance offer protection. Wealth's intrinsic durability provides financial security as it insulates households from the vagaries of employment income, the financial challenges of retirement, and the worry of uncertain life expectancy.

[4] See Darity (2005) for an excellent discussion of the sub-discipline, stratification economics.

[5] 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.

Beyond providing financial security, wealth brings power (Browne, 1972). 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 a desired neighborhood with well-resourced schools gives their children a further head start. Family wealth expands the choice of potential colleges and can lead to graduation without the specter of student debt. 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 through 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 encouraging a system of economic stratification.

This system of economic stratification is further cemented when one considers the different circumstances facing households as they strive to accumulate wealth. Households accumulate wealth in three ways: we might inherit wealth from our families, save some portion of our current income, and invest those savings or family gifts 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, 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 & 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.

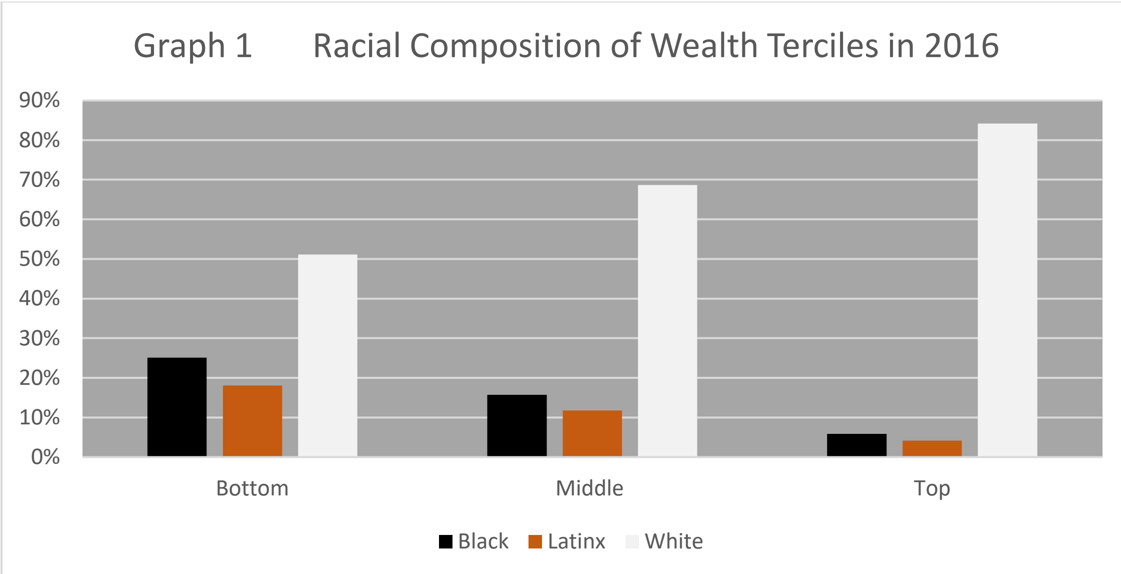
In contrast, the Wealth Privilege (WP) model (Williams, 2017) demonstrates how household wealth provides advantages that are conveyed from generation to generation. Like the LCH, the WP model recognizes the key avenues of wealth accumulation – household saving, family gifts and inheritances, and asset 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. For example, 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 enables them to expand their portfolio further, allowing greater diversification and further 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 extend these opportunities to 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 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 toward 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, racial consequences. Given our nation's racialized past, most black and Latinx households are unable to leverage any of the privileges of wealth. As such, the Civil Rights legislation that simply ended the legal basis for structural barriers did little to change their circumstances. Even today, most black households find themselves in the bottom third of net worth, as illustrated in Graph 1. In 2016, the least affluent third of American households held a net worth of $26,000 or less. Even at this upper limit, the typical households could live on its savings for only about six months, if unemployed.[6] At this level of wealth, households have few opportunities 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 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.

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



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 gap 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 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 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 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 households in their efforts to get ahead.

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. Today, 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 twelve tax deductions, the federal government funnels hundreds of billions of dollars annually to American households.[7] Included in this list are the very popular deductions for home mortgages, charitable contributions, and retirement assets. Importantly for this paper, these tax deductions offer a de jure means by which our recent policies continue to promote white supremacy at the expense of communities of color.

Table 1	Wealth-Building Tax Deductions	
1. Home Mortgage	2. Home Property Tax	3. Charitable Contributions
4. Local Tax Exclusion	5. Tax-Exempt Bonds	6. Life Insurance Exclusion
7. Pension Exclusion	8. Capital Gains Exclusion	9. Home Sales Exclusion
10. Estate Step-Up Exclusion	11. Health Insurance	12. Qualified Business Income

These twelve tax deductions, listed in Table 1, help households accumulate wealth in several ways. The first four deductions 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 next six deductions along with the newly created qualified business income deduction 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 newly created qualified business income exemption allows certain business owners to shield 20 percent of their business income from taxation. The deduction on life insurance exempts any earned dividends 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 next 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 to keep any capital gains from the sale of their house, up to a maximum of $500,000 (for married couples). The estate step-up exclusion allows any estates at the time of death to be counted at their current market value, not their purchased value. Thus, all unrealized capital gains go into the estate untaxed, although this exemption does have consequences for the estate tax. Lastly, employer-provided health insurance functions as an untaxed fringe benefit enabling those fortunate recipients to keep more of their income. More importantly, these policies frequently protect their holders from financially devastating medical bills and encourage healthier outcomes that improve employment earnings.

These tax deductions, which totaled almost $840 billion (Joint Committee on Taxation, 2018) assist households as they attempt to save some 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

[7] For years, eleven tax expenditures provided the means of assistance. The 2017 Tax Cut and Jobs Act added a twelfth, Qualified Business Income. This law also reduced several of the long-standing tax expenditures on this list.

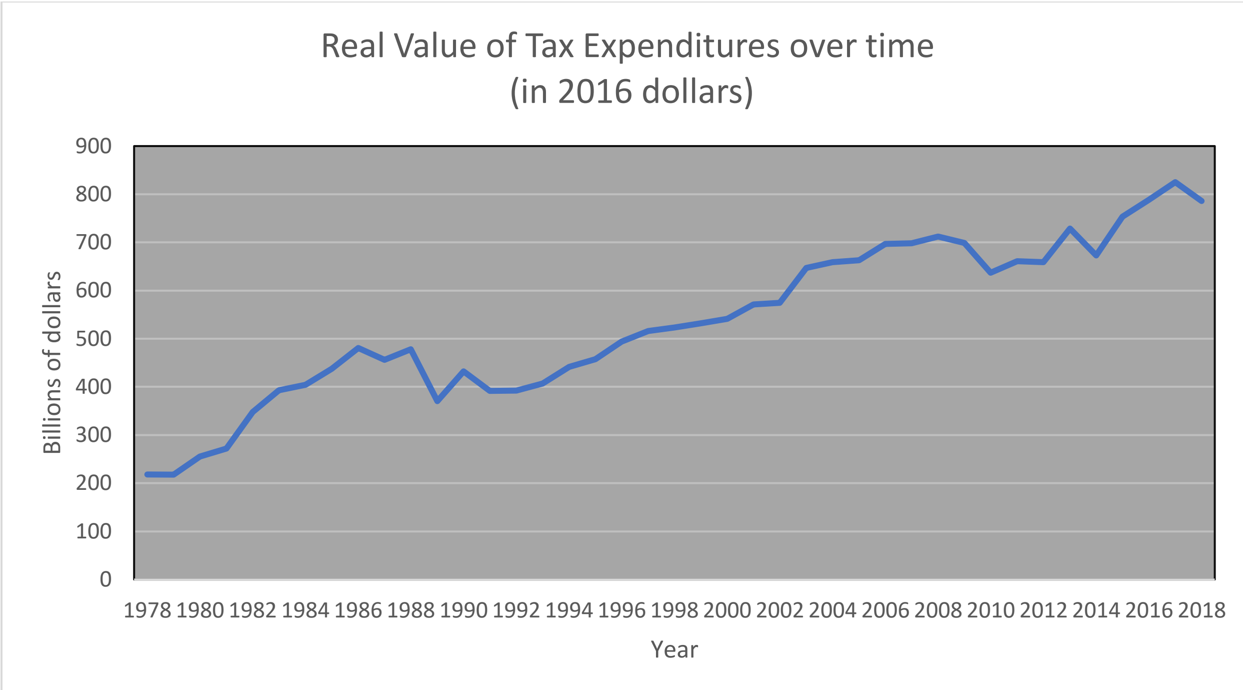
their assistance to the wealthy. Since white households own the bulk of U.S household assets, these policies inevitably favor them.

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[8], 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 or health insurance. 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 cap to their generosity.[9] 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.

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 deductions over the past generation. From 1978 to 2018, the value of these deductions has almost quadrupled, even when adjusted for inflation. The most important cause of this dramatic rise in largesse is due to their absence of limits. The doubling of real household wealth and its increasing concentration among the richest households enables these households to make ever-increasing use of these deductions. As the wealthy make greater use of these tax exemptions, they simply add more to their wealth. While most of these deductions have remained untouched by Congress, a few, like the capital gains exclusion have been made more generous over time.

[8] 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.

[9] 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.



Source: Joint Committee on Taxation

The Tax Cuts and Jobs Act of 2017 represents the most significant change on these wealth-building tax deductions in over a generation. Not only did the law create a new exemption – the qualified business income deduction – but also limited several existing deductions. First, the law capped the allowable deductions on either the home property tax or the state and local income tax deductions at $10,000 and effectively lumped the two deductions together. As a result, both of these deductions were severely reduced in 2019. Similarly, the law capped the home mortgage deduction to home debt not exceeding $750,000. More importantly, the law raised the standard deduction to $12,000 (single filers) and $24,000 (joint filers) causing far fewer households to itemize their deductions. According to the JCT estimates, these changes will likely reduce the benefits offered by the home mortgage deduction as well as the charitable gifts deduction. While the graph above depicts a decline in benefits in 2018, the year the law takes effect, it is unlikely that these changes will substantially impact the overall benefits generated by these deductions.[10]

The added significance of these federal wealth-building programs is that they represent intentional efforts by the federal government to assist households in their efforts to accumulate wealth and presumably achieve financial security. That they target households who've already attained homeownership status, secured professional employment, and accumulated significant wealth represents a crucial aspect of their design. Particularly since, black (and Latinx) households have been historically burdened in their efforts to achieve each of these elements of the American Dream, their disparate treatment in this manner warrants their consideration as part of the reparations bill.

[10] As I discuss subsequently, the law will likely impact benefits given in support of white supremacy.

Calculating the Late Charges

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 largely 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've realized over the previous year as well as whether any were from the sale of their primary residence.[11] These figures indicate which households benefited from either the capital gains or home sales exclusions. Other questions determine how much households earned from tax-exempt bonds or gained from family inheritances. These answers provide estimates on how much various households benefit from the tax-exempt bond exclusion or the estates step-up exclusion. Similarly, the survey queries households regarding the size of their pension and whole life insurance assets. These figures indicate how much each household gains from these deductions as well. Figures on outstanding mortgage debt offer an estimate 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] Whether households earn business income determines their likely gain from the newly created qualified business income deduction. Lastly, the surveys query which households are covered by private health insurance, indicating whether households are likely to benefit from the health insurance deduction.

To be 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. Not all health insurance packages offer the same level of benefits and value. Further, the estimates do not consider whether the household actually itemize their federal tax deductions nor what marginal tax rate they pay. Consequently, these estimates treat all households uniformly despite the fact that wealthier households benefit far 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.

The graph below illustrates these estimates. The evidence is sobering. In 1978, white households were receiving almost $200 billion dollars annually in tax benefits more than were black (and Latinx) households. By 2016, this gap had increased to $600 billion annually. Of course, some of this lopsidedness is due to the majority status of white households in our society, especially as we look toward the past. However, much of disproportionate share is due to white households holding a preponderant share of wealth that then enables them to benefit far more from these tax deductions. The vast proportion of hard working households, those unable to acquire a home or other appreciating assets are largely neglected by this windfall. Of course, black households comprise a disproportionate share of these households.

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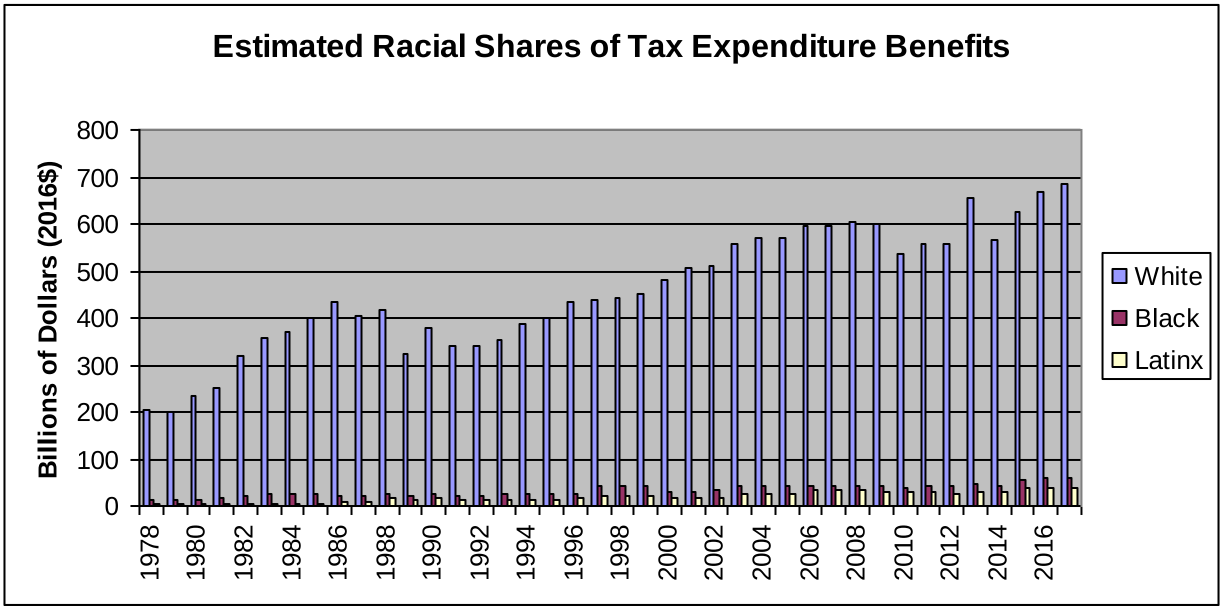
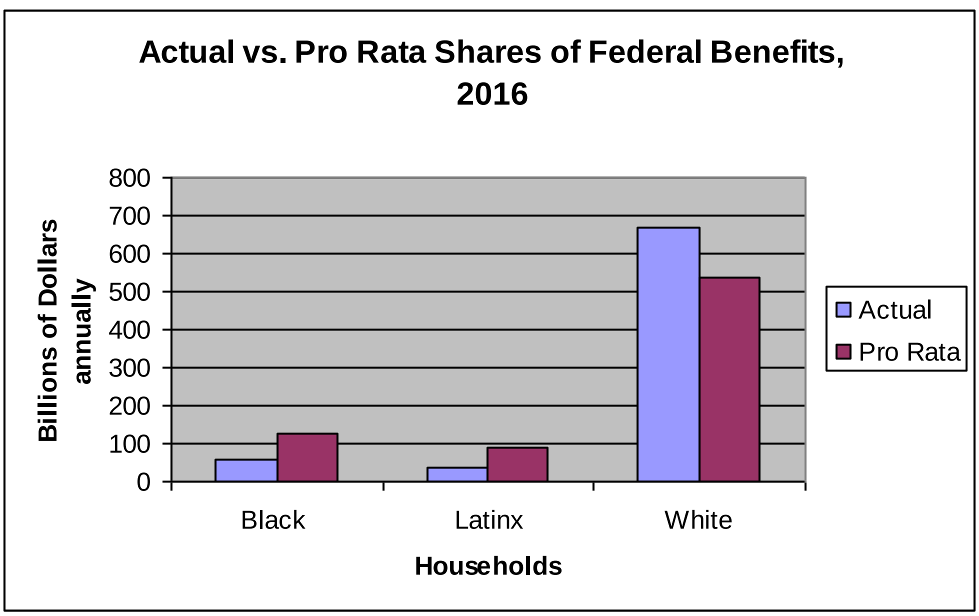
[11] Starting with the 1989 SCF, the survey questions have become reasonably uniform. Their predecessors, the 1983 and 1986 surveys asked some, but not all of the questions that became standard later.

[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 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.



Indeed, we can see how this plays out by looking at the next graph. This graph depicts the estimated shares for each group for 2016 alone. In this graph, the actual shares are compared to the shares that would result if the benefits were allocated simply on a pro rata basis. According to this graph, over 100 billion dollars in 2016 of these tax expenditure benefits were given to white households, at the expense of both black and Latinx households. At minimum, it is this disparity, one that is clearly linked to our country's sordid racial history, which requires acknowledgement by adding these charges to the reparations bill.



Source: SCF2016, JCT, author's calculations.

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 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 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.

To calculate the added charges to the reparations bill, I used the following computational method. From 1988 to 2017, I used each of the triennial SCF surveys to estimate the racial shares of the tax deductions for both the year preceding and following the survey. For the years 1978 to 1987, I used the survey answers that were closest in time. Given that wealth shares tend change little over time, this does not seem an unreasonable choice. I then compare the estimated actual shares with the pro rata shares of each year. Again, I use the most proximate survey to make this estimate of the survey population. I then calculate the difference between these two to estimate the unwarranted disparities. In the first instance, I simply add the annual disparities while adjusting them for inflation. Yet, this seems to be insufficient. Since a gift from the past can be saved and used to leverage future returns, I redo these sums by accounting for a riskless investment real rate of return (3 percent) followed by a stock market real rate of return (7 percent). I include all three estimates in the table below. One can argue that the systematic disparities created by current federal government policy has caused losses to the black community ranging from one a half trillion to nearly six trillion dollars with nearly 2.6 trillion dollars being the middle estimate.

Table 2	Estimating Value of Past Losses (Trillions of 2017 dollars)		
	Real Losses	3 Percent Adj.	7 Percent Adj.
Black	$1.5	$2.6	$5.9
Latinx	$0.98	$1.5	$2.9

Of course, the goal of these tax policies was not simply to expand household wealth in the current generation, but to facilitate its transfer from one generation to the next. In this way, the legacy of white supremacy is passed along into the future. Toward this end, there has been continual pressure to reduce the estate and gift taxes to allow more wealth to be transferred unhindered from one generation to the next. In 1976, only estates under $60,000 (about $270,000 in current dollars) were exempt from taxation. By 1978, the threshold was raised to $600,000 where it was subsequently raised to $1 million in 2002, $5 million in 2011, and currently stands at $11.2 million ($22.4 for a married couple). As such, the federal policy is clearly focused on assuring that the estates of the very wealthy are passed along to future generations, thereby cementing white supremacy.

Securing the Funding Source

Clearly, racial equity requires that these twelve tax deductions be eliminated or severely revamped. Otherwise, they will keep adding to the bill of reparations, that must be paid at some point and in some form. Yet, many of these tax expenditures also serve as a potential funding source for any reparations payment. As most of their benefits accrue to white households, using them as a funding source for reparations repayment would largely meet the required test payment criterion. By eliminating specific tax deductions and using the “saved” revenue to make reparations payments, they can serve as a more politically feasible source of funding. The table indicates the current cost to the US Treasury of each deduction as well as the estimate share of their benefits going to White households. However, given the recently enacted 2017 Jobs and Tax Cut, Table 3 offers two “current” estimates, one before and the other after the effects of the 2017 law are being realized.

Table 3 Assessing Each Tax Expenditure as a Funding Source			
Tax Expenditure	Est. White Share	2017 Benefits	2019 Benefits
Tax Exempt Bonds	98%	$27 B	$27 B
Capital Gains Exclusion	89%	135 B	132 B
Qualified Business Income	89%	NA	49 B
Pension Asset Exclusions	88%	200 B	263 B
Life Insurance Exclusions	88%	26 B	23 B
Charitable Giving	87%	53 B	51 B
Estate Step-Up Exclusion	86%	34 B	39 B
Home Sales Exclusion	81%	31 B	35 B
Home Property Tax	81%	35 B	0 *
State & Local Income Taxes	80%	69 B	22 B
Home Mortgage Deduction	76%	74 B	27 B
Health Insurance Exclusion	71%	158 B	172 B
Total ($)		842 B	840 B
* Aggregated with State and Local Income taxes after 2017 Jobs and Tax Cut			

Source: JCT, Author’s calculations

As Table 3 suggests, there appears to be a natural break point in these tax expenditures as one considers the estimated share going to white households. Listed in descending order, the top seven tax expenditures, conservatively estimated, each target more than 86 percent of their benefits to white households. Arguably, using these tax expenditures as a funding source for reparations would meet the requirement that mostly white households pay the bill. Collectively, these tax expenditures drain the U.S. Treasury of $475 billion annually in 2017 and an even larger estimate of $584 billion in 2019 . Over a decade, their elimination could free up nearly $5 to $6 trillion to make payments on the reparations bill. Since none of these deductions are limited by some cap, these decade estimates must be considered low-end estimates. By themselves, closing these loopholes could pay a substantial portion, if not the whole bill, depending on which charges are assessed. Further, paying the reparations bill by closing tax loopholes that most households don’t substantially benefit from is an easier lift than levying taxes that most households would fear.

The Tax Cuts and Jobs Act of 2017 did more than simply create a new tax deduction that targeted its help to white, affluent families. It affects the existing tax deductions in some important ways. The law caps the allowable deductions on either the Home Property Tax or the State and Local Income Tax deductions at $10,000 and effectively lumped the two deductions together. Consequently, both of these deductions were severely reduced in 2019. Similarly, the law caps the home mortgage deduction to home debt not exceeding $750,000. More importantly, the law raises the standard deduction to $12,000 (single filers) and $24,000 (joint filers) causing far fewer households to itemize their deductions. No doubt this accounts for the significant decline in the value of the Home Mortgage deduction and more modest decline in the Charitable Giving deduction as illustrated in Table 3. Interestingly, the deductions that experienced the largest reductions are those that targeted their benefits more widely across all households. As such, the law has the likely effect of concentrating its benefits toward white households even more than in the past.

If we added all of the charges discussed so far, from the estimated theft of wealth taken by enslavement or by the unkept promise of Reconstructions, from the state-sanctioned barriers imposed during Jim Crow, and the targeted wealth-building deductions that favor existing wealth, then we have a reparations bill that ranges from a low of $11 trillion up to $31.7 trillion. Simply relying upon the seven tax expenditures means that these bills could be paid anywhere from one generation (19 years) to two generations (53 years). While these repayment periods are long, particularly to a population whose patience has been long overtaxed, there is a certain realism and perhaps wisdom in extending the repayment period. The required development that is sorely needed in the black community, whether investment in human capital or business development cannot happen overnight, but requires some lengthy gestation period. Further, extending the repayment over decades limits the windfall nature that would make such payments susceptible to squandering. Nonetheless, some balance is needed to assure that some worthy recipients aren't neglected because they are unable to wait years. During the early years, it would make sense to target actual payments to the elderly and those in poverty to ensure some immediate improvement to their circumstances. Modest residuals during these early years could fund the longer term development projects and gain increased funding as the most desperate needs are met.

Conclusion

While one important argument for paying reparations to the descendants of enslaved African Americans is that it allows for the expiation of past sins, an even more compelling reason is the effect it would have on our nation's future. Declining numbers of white Americans today were alive during Jim Crow and none during our country's immoral period of slavery. Yet, white Americans continue to benefit from these periods in our nation's history in the form of increased education, better employment prospects, increased rates of homeownership and financial asset ownership, and certainly, greater wealth. Given the way that wealth begets more wealth, both within and across generations, there is no reason to anticipate the current racial wealth gap, itself an artifact of our country' racial history, won't continue to expand. Simply narrowing current disparities in educational attainment, professional status, and household income cannot overcome the momentum of widening gaps in wealth. Only a massive transfer of wealth from affluent whites to less prosperous blacks can undermine this prospect.

It is undeniable that our current federal wealth policies are contributing to the rising concentration of wealth. The design of these tax deductions favor households who already hold wealth, and most do so without limit. That these tax deductions funnel hundreds of billions of dollars annually to our wealthiest households clearly fuels the rising concentration of wealth. And as Darity and Myers (1998) note, interracial disparities follow intraracial disparities. Virtually all of the households whose wealth enable them to benefit so generously from these tax deductions are white. Acknowledging the racial consequences of these tax deductions is critical for two reasons. First, it is important to recognize their role in expanding the racial wealth gap to ensure that the reparations bill fully reflects the advantages given to whites. As these policies are not simply the functioning of the current economic system, but the intentional results of policymaking, it makes sense to add them to the reparations bill. Second, acknowledging their role is critical to efforts to end their current impact in expanding the racial wealth divide and promoting white supremacy. It makes no sense to discuss the issue of reparations and not recognize how these policies are worsening the problem in real time.

Garnering public support to pay reparations will be no easy task. Yet, using these tax deductions that funnel most of their benefits to a relatively modest number of households appears as an easier task than creating a dedicated tax. Broader concerns regarding the increasing concentration of intraracial wealth could be harnessed to repurpose these tax deductions to fund a stream of reparation payments. The Tax Cuts and Jobs Act of 2017 may make this effort more achievable. As this law has reduced the appeal of these tax breaks to a fewer number of households, this could increase the political leverage of using these funds to reduce the nation's racial wealth gap.

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