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Closing the racial wealth gap requires heavy, progressive taxation of wealth

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Summary

Centuries of discrimination and exploitation have left Black Americans much poorer than white Americans. The median white household has a net worth 10 times that of the median Black household. If Black households held a share of the national wealth in proportion to their share of the U.S. population, it would amount to \$12.68 trillion in household wealth, rather than the actual sum of \$2.54 trillion. The total racial wealth gap, therefore, is \$10.14 trillion.

There is a vital and vibrant conversation in America today about reparations programs and other expenditure-based approaches to close the racial wealth gap. These investments are a moral imperative and an urgent economic necessity.

But any program to close to racial wealth gap must grapple with the reality of wealth concentration in contemporary America. The 400 richest American billionaires have more total wealth than all 10 million Black American households combined. Black households have about 3% of all household wealth, while the 400 wealthiest billionaires have 3.5% of all household wealth in the United States. Because wealth in the United States is so highly concentrated, and because the wealthiest Americans are almost

exclusively white, the racial wealth gap is also concentrated among the wealthiest families. Indeed, if the wealth gap were completely eliminated for all but the richest 10% of households, the total racial wealth gap would still be more than \$8 trillion, *80% of the total wealth gap that exists today.*

“The 400 richest American billionaires have more total wealth than all 10 million Black American households combined.”

Any plan to eliminate the total racial wealth gap requires, in addition to a transformative national investment in Black households and communities, a program of heavy and highly progressive taxation aimed at the very wealthiest Americans. A comprehensive agenda to close the racial wealth gap would likely include reforms to income and estate taxation, plus new taxes on wealth and inheritance, buttressed by a substantial investment in enforcement.

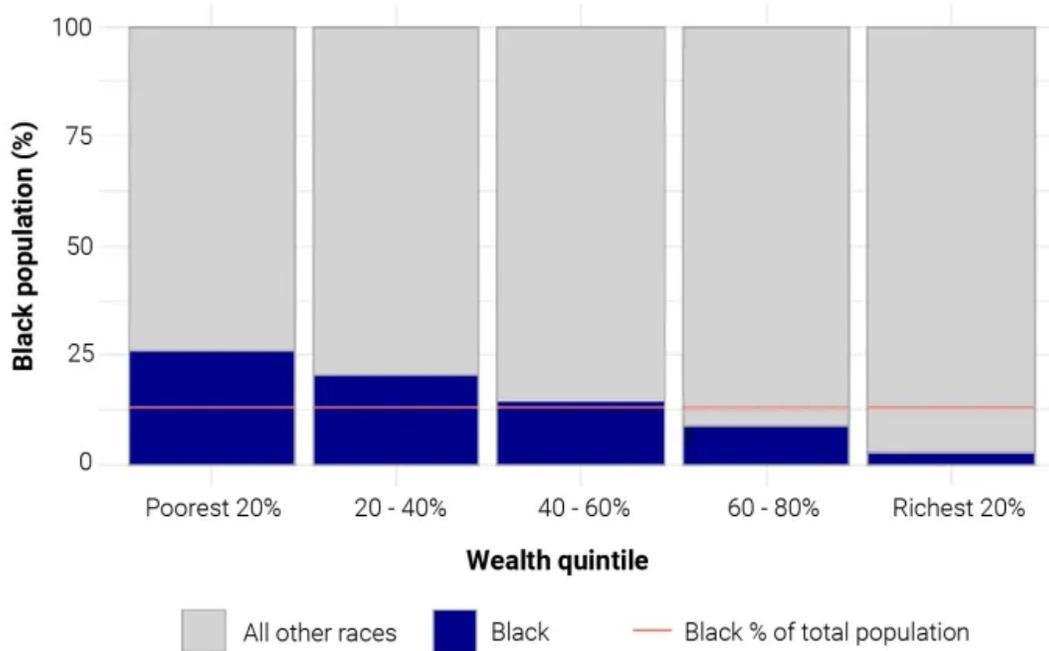
While these taxes would likely also raise substantial revenue, this is not their primary purpose. High and progressive taxation of extreme wealth is in itself a strategy for racial justice because it would directly reduce the portion of the racial wealth gap that exists at the top of the economic ladder.

This paper begins by describing the racial wealth gap, its origins and some of the recent spending proposals to reduce or eliminate it. I then examine how the racial wealth gap interacts with wealth concentration in America and demonstrate the vital role that taxation must play in closing the racial disparity in wealth.

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The racial wealth gap

There is an enormous disparity between the wealth of Black and white Americans. According to the 2016 Survey of Consumer Finances, the median white household has a net worth of \$171,000, 10 times the net worth of the median Black household, \$17,100. In other words, Black households are overrepresented among the poor and working class, and underrepresented among the upper-middle class and the wealthy (Figure 1). The poorest 20% of American households have a net worth of less than \$4,700; many of these households have a negative wealth due to debt. Of these households, 26% identify as Black. The richest 20% of American households have a net worth of more than about \$500,000; 3% of these households identify as Black.

Figure 1: U.S. Black population by wealth quintile

Source: 2016 Survey of Consumer Finances.

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Unfortunately, policymakers have often put the responsibility for fixing centuries of racial inequity back

on the shoulders of Black people. For decades, [elected officials argued](#) that personal choices explained racial disparities. These claims have been thoroughly debunked. As economists Trevon Logan and Darrick Hamilton

have demonstrated:

[G]reater educational attainment, harder work, better financial decisions, and other changes in habits and practices on the part of blacks ... are wholly inadequate to bridge the racial chasm in wealth.

Even when Black people have advanced degrees, own their home, have high paying jobs, and engage in other behaviors associated with asset building, their wealth is typically much lower than their white peers. Individual-level factors are simply not the explanation for the difference in the economic fortunes of Black and white people.

Instead, the racial wealth gap should be recognized as the consequence of discrimination, public and private, throughout American history and continuing to this day. Nearly 250 years of slavery were followed by a century of Jim Crow segregation and economic exploitation reinforced by state-sanctioned violence. Until the later 20th Century, Black people were

[excluded from public programs](#) to encourage homeownership and higher education. Racial inequality persists in our contemporary, putatively color-blind system; due to discrimination, Black people receive [lower valuations on their homes](#) and

[earn less money compared to white people](#) performing the same work. Biases in public investment and criminal justice leave Black communities simultaneously underserved and overpoliced, and these civil rights violations also have serious economic consequences.

Black people in America have been systematically stripped of the wealth they have produced. Only a transformative national agenda can address the racial wealth gap, because the disparity is the product of societal racism, compounded over generations.

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Addressing the racial wealth gap

It is impossible, of course, to design any policy agenda that would fully reverse the effects of centuries of racism. Justice this long delayed has meant justice denied to generations. But there is a crucial and vibrant conversation occurring today that envisions what reparations would look like.

The most straightforward approach is for the federal government to provide money to descendants of American slaves. In their book, "From Here to Equality," William A. Darity and A. Kirsten Mullen have proposed a detailed program that addresses eligibility, total outlay, payment mechanisms, and oversight of a potential reparations policy.

There are many other economic policies that are also commonly suggested to reduce the Black-white wealth gap. Rashawn Ray and Andre Perry outline some of those proposals in their essay, "[Why We Need Reparations for Black America](#)." In addition to direct payments to descendants of slaves, Ray and Perry look to a variety of programs to fund college education,

[forgive student loans](#), and promote homeownership and entrepreneurship in the Black community. Darrick Hamilton and William Darity have proposed a

system of “baby bonds” that would provide American children with a nest-egg at birth; targeting larger bonds to children of lower-income families would substantially reduce the median racial wealth gap over a generation.

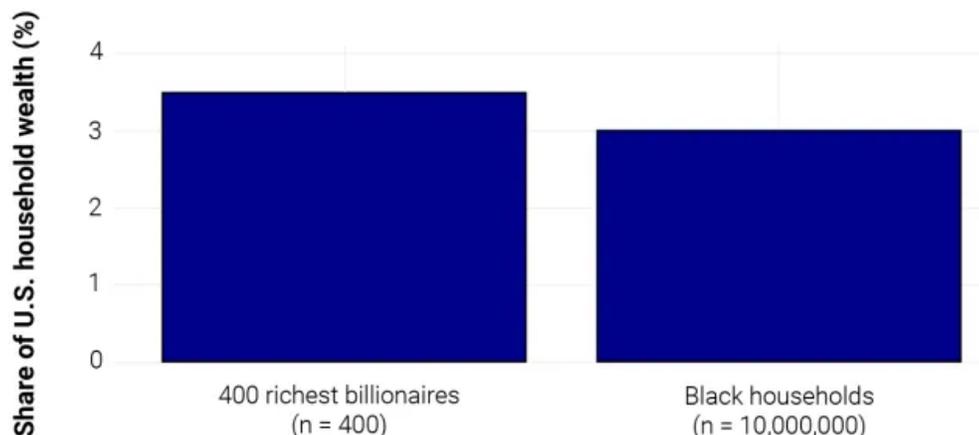
“A spending-based program of reparations is a moral imperative. It is also an urgent economic necessity.”

A spending-based program of reparations is a moral imperative. It is also an urgent economic necessity.

A serious reparations investment would provide enormous economic stimulus to the economy as a whole and would infuse urgently needed funds in households and communities that have suffered from chronic underinvestment. But taxation—and particularly, heavy and progressive taxation of wealth—also has a critical role to play in achieving racial equality. To understand why, we must look at the relationship between the racial wealth gap and overall wealth concentration.

Understanding the racial wealth gap in the context of extreme wealth concentration

It is a striking fact that the 400 richest American billionaires have more total wealth than all 10 million Black American households combined. Black households have about 3% of all household wealth, while the 400 wealthiest billionaires have 3.5% of all household wealth (Figure 2).^[1]

Figure 2: Shares of U.S. household wealth, Forbes 400 and Black households

Source: Saez and Zucman 2019; Darity and Mullen 2020.

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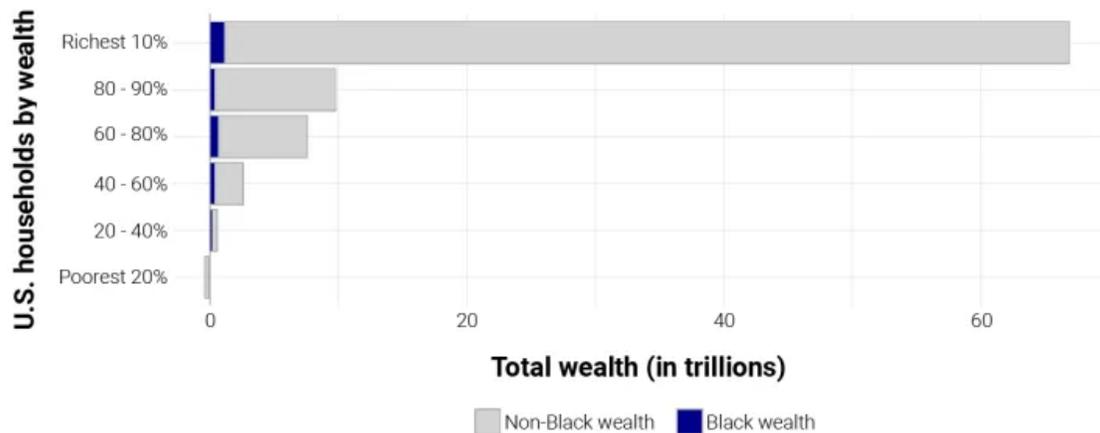
This startling statistic illustrates two broader economic realities with immense policy implications for racial justice in America.

First, it suggests the scope of the *total racial wealth gap*—not the median gap between typical households, but the full disparity between the fraction of wealth held by Black people and their percentage of the U.S. population. Using data from the Federal Reserve’s 2016 Survey of Consumer Finances,^[2] if Black households held a share of the national wealth in proportion to their share of the U.S. population, it would amount to \$12.68 trillion in household wealth, rather than the actual sum, \$2.54 trillion. The total racial wealth gap is over \$10.14 trillion.^[3]

Second, the rough wealth parity between 400 billionaires and 10 million Black households also indicates the extreme and extremely racialized wealth concentration that exists in the contemporary United States. A small fraction of Americans holds most American wealth, and they are almost exclusively white. So, although white households are on average wealthier than Black households at every income level, the vast majority of the total racial wealth gap, in dollar terms, is at the top.

“At the top of the wealth spectrum, there is a lot more money and a lot fewer Black people.”

Figure 3 shows both of these phenomena in a single graph. The figure reports the proportion of total wealth held by Black and non-Black households at each level of household wealth. The dark blue bars indicate the fraction of wealth held by Black families in each wealth quantile; as noted above, Black households have only a small fraction of national household wealth, and this holds at every wealth level. At the same time, the chart shows how highly wealth is concentrated. The richest 10% of American households hold more than three-quarters of all U.S. household wealth.^[4] Finally, the graph demonstrates the interplay between the racial wealth gap and wealth concentration. Among the richest 10% of households, only 1.9% of these households are Black. In short: At the top of the wealth spectrum, there is a lot more money and a lot fewer Black people.

Figure 3: Household wealth by race and wealth quintile

Source: 2016 Survey of Consumer Finances.

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In fact, the chart does not fully indicate how concentrated wealth is by both class and race. Half of the wealth held in the top 10%, about two-fifths of all American household wealth, is held by the [top 1% of](#)

[households](#). Within the top 1% of households, [less than 1%](#) identify as Black.

less

Even the wealthiest Black households, moreover, are less wealthy than the wealthiest white households. According to the Forbes 2020 list, the 571 white billionaires, who make up 93% of all billionaires, have about \$2.8 trillion dollars in personal net worth. This is 96% of all billionaire-held wealth and more than 3% of the total household wealth of the United States. The five Black billionaires, who make up 0.8% of all billionaires, have \$14 billion dollars, less than 0.5% of all billionaire-held wealth. Were Black people represented among billionaires in accordance with their portion of the U.S. population, there would be 80 Black billionaires, and they would hold not \$14 billion dollars, but \$383 billion dollars. In other words, the racial wealth gap *among billionaires* is \$369 billion dollars.

The point is not that billionaires need more billions, or that America needs more billionaires. On the contrary. The point is that closing the total racial wealth gap is exceptionally difficult without reducing the concentration of wealth among a small class of almost exclusively white people. Even equality of total wealth would not be real parity, moreover, if white people continued to be immensely over-represented among the very rich, whose economic and political power is both quantitatively and qualitatively different from that held by most Americans.

The problem is clearly illustrated if we imagine the wealth gap between Black and white households were completely eliminated for all but the richest 10% of households. This would be an extraordinary achievement of public policy: total wealth parity between all the Black and white households that have less than \$1.2 million in net worth. Nonetheless, because so much of American wealth is held by so few, the total racial wealth gap would still be \$8.3 trillion dollars, *more than 80% of the total wealth gap that exists today*.^[5]

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Racial justice requires heavy taxes on wealth

Most analyses of the racial wealth gap, and most policy agendas to close the disparity,

[focus on the median household](#). And for good reason: The median captures the experience of the typical person, for whom housing and education costs are major factors in wealth accumulation. But as the data above demonstrate, closing the *median* racial disparity in wealth is not the whole task. Darity and Mullen use the total racial wealth gap as their measure of the contemporary economic disparity between Black and white Americans that has resulted from centuries of discrimination and exploitation. Taking into account the distribution of the total racial wealth gap, it is clear that racial justice requires progressive taxation.

A first step would be to reverse the slide toward regressivity that has characterized the American tax code in recent decades. Top marginal income tax rates have fallen from a peak of 92% in the early 1950s to 37% today.^[6] The income tax rewards wealth over work by taxing income from ownership at much lower rates than income from salaries and wages. State and local taxes, moreover, are

[generally regressive](#). In sum, the

[tax code is only somewhat progressive](#) for those between the poor and the upper-middle class, and tax rates actually go down for the very rich.

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Additionally, though nominally color-blind, the U.S. tax code is not race-neutral in its effects. As

[political scientist Chris Faricy notes](#), tax

expenditures [disproportionately help upper-middle-class whites](#). Tax advantages for home ownership amount to a “

[racial subsidy for white families](#),” while local property tax assessments are [systematically biased](#) against Black homeowners.^[7] Legal scholar Dorothy Brown notes that Black families are more likely to pay a marriage penalty.^[8] In addition, there are tax-privileged workplace [retirement plans](#), which fewer Black people have access to, and tax benefits for [the elderly](#), which fewer Black people receive due to shorter life expectancy. Low-income

people of color are also [targeted for audits](#), and states have come to increasingly rely on fees and fines which are

[extremely regressive and linked to discriminatory policing](#). In other words, tax policies compound the discrimination and exploitation that Black people experience in hiring, housing, education, health, and other aspects of life.

Reversing these policies and top-heavy tax cuts like the

[2017 Tax Cuts and Jobs Act](#) would help ensure that the tax code does not exacerbate racial inequity. But to close the total racial wealth gap requires more than just the undoing of the tax code’s most regressive and racially biased aspects. It demands taxation at levels high enough to reduce the extreme wealth-hoarding that characterizes the contemporary American economy.

Tax policies that would substantially reduce the total racial wealth gap must be highly progressive and very heavy. The first point is obvious; progressive taxes hit those at the top of the economic spectrum, where the bulk of the racial wealth gap resides. The second point—that progressive taxes need to be high to be meaningful—is also an obvious truth, though more rarely acknowledged. Progressivity measures only the relative impact of a tax, not its total effect. For example, a tax of \$1 on billionaires and \$0 on everyone else is highly progressive, but it is far too low to affect the distribution of wealth.

There are [an array of tax policies](#) that could fit these basic criteria. Taxes on estates [or inheritance](#) are especially promising because intra-generational

transfers account for [fully half of total wealth](#) in the

United States as well as “[more of the racial wealth gap than any other demographic and socioeconomic indicators](#) including education, income and household structure.” Higher top marginal tax rates on income, while not exactly correlated with wealth,

[reduce income inequality](#) both pre- and post-tax. Both of these approaches are tried and true. As economists

[Emmanuel Saez and Gabriel Zucman](#) explain, the “development of progressive income and estate taxation” in the mid-20th century “made it difficult to accumulate and pass on large fortunes.” When these policies were reversed in the late 20th century, the economic elite found they could amass and transfer to their heirs a larger and larger share of wealth.

Perhaps the most efficient route is the newly popular proposal of a tax directly on wealth. Legal scholar Beverly Moran has discussed the potential of a wealth tax in the context of a reparations program.^[9]

Using data from Saez and Zucman on [the distributional effects of the wealth tax plans](#), we can estimate the potential impact of such a policy on the racial wealth gap. The most aggressive plan considered by Saez and Zucman, proposed by Thomas Piketty in his 2019 book, "Capital and Ideology," would impose a 90% marginal tax rate on billionaires, which would in essence limit fortunes to \$1 billion dollars.^[10] Though Piketty's proposed tax would touch barely 600 households, it would immediately reduce racial wealth inequality by \$294 billion. Applying a similar policy at a lower threshold, \$110 million in wealth, would reach about 16,000 households and would reduce racial wealth inequality by about a remarkable \$500 billion.

Note that this impact comes prior to any allocation of the revenue raised by these taxes, which would

amount to [trillions of dollars](#). These revenues could also be allocated to reduce the racial wealth gap. But the tax *alone* results in an increase in racial equity of several hundred billion dollars simply by reducing the fortunes of the extremely wealthy, who are disproportionately white.

If such a narrowly targeted tax can have a measurable impact on the racial wealth gap, a more comprehensive tax strategy to reduce wealth concentration could easily have even more substantial effects. Assessing the impact on the total racial wealth gap should become a standard practice in the analysis of tax proposals' distributional effects. While technically complicated, depending on the

measure and [given the lack of race-specific data gathered by the IRS](#), such calculations provide vital information about the economic implications of tax proposals. What is already clear, however, is that heavy progressive taxation can and should reverse racial inequity at the economic levels left unaddressed by expenditure-based racial justice policies.

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Conclusion

Because wealth in the United States is so highly concentrated, and because the extremely wealthy are almost exclusively white people, high and progressive taxation is a critical component of any plan to close the racial wealth gap.

It is important to note that *the racial justice effect of heavy progressive taxation precedes the spending of the resulting revenue*, and is, in fact, independent of the revenue raised. The direct economic effects

of taxation are often underappreciated; there is a tendency to focus on how the money raised will be spent. But taxes have their own economic impact, separate from the use of revenue. Heavy progressive taxation directly reduces the racial disparity of wealth because it reduces the highly concentrated wealth that is held almost exclusively by white people.

Of course, public revenues can and should be used to advance racial equity. The tax proposals discussed here could raise immense amounts of revenue, and the effect of progressive taxation on the racial wealth gap could easily be multiplied by devoting its revenues to programs that would increase economic equality. But the purpose of the proposal here is not to develop a revenue stream for racial justice investments, particularly if the amount of revenue were to be misrepresented as a ceiling for the size of a such expenditures. High and progressive taxation of extreme wealth is in itself a strategy for racial justice, a complement to spending-based approaches and not a budget offset.

It is worth considering why it is rare to see calculations of the racial justice effects of progressive taxation. Some of the reasons are technical; there are many assumptions involved in assessing the impact of taxes on the wealth distribution. Moreover, the tendency to use the median as the measure of the racial wealth gap, while useful for capturing the typical experience, disguises the implications of extreme wealth concentration.

“[T]he difference between Black wealth and white wealth in America is not only the result of exclusion, it is the result of exploitation.”

But there is, I believe, another reason taxation is sometimes sidelined in our consideration of race and the economy. It is common in policy circles to describe the racial wealth gap as the result of the exclusion of Black people from opportunity. And this is certainly accurate. But the difference between Black wealth and white wealth in America is not only the result of exclusion, it is the result of *exploitation*.

Fundamental to U.S. economy has always been the transmogrification of Black labor and talent into white wealth. We can, in our longer-standing institutions, sometimes track wealth's lineage directly to that exploitation: universities that preserved themselves by

[selling human chattel](#); newspapers that

[published enslavers' advertisements](#); states that

[profited from convict leasing](#); banks that enriched

themselves by [defrauding Black homeowners](#). Each story is another entry in a centuries-long ledger that many people would prefer not to examine in its entirety.

The case for reparations lays bare the reality that the distribution of American wealth is not an innocent consequence of individual fortune or effort. I am convinced that chattel slavery and apartheid, like genocide, are crimes of such magnitude that they place upon a nation an unassailable moral claim for restitution. But accepting that reparations are owed to Black America does not preclude other moral claims for economic reform and redistribution. And so it is profoundly uncomfortable for the holders of American property to consider its origins. We are, in the words of William Blackstone, so pleased with our right of property that “we seem afraid to look back to the means by which it was acquired, as if fearful of some defect in our title.”

Squeamishness is no excuse for policy inaction. Today, American wealth has consolidated in a very small number of hands, hands that are almost exclusively white. Any agenda to close the racial wealth gap should include heavy taxation of extreme wealth.

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