CHAPTER 13 The Wealth Gap

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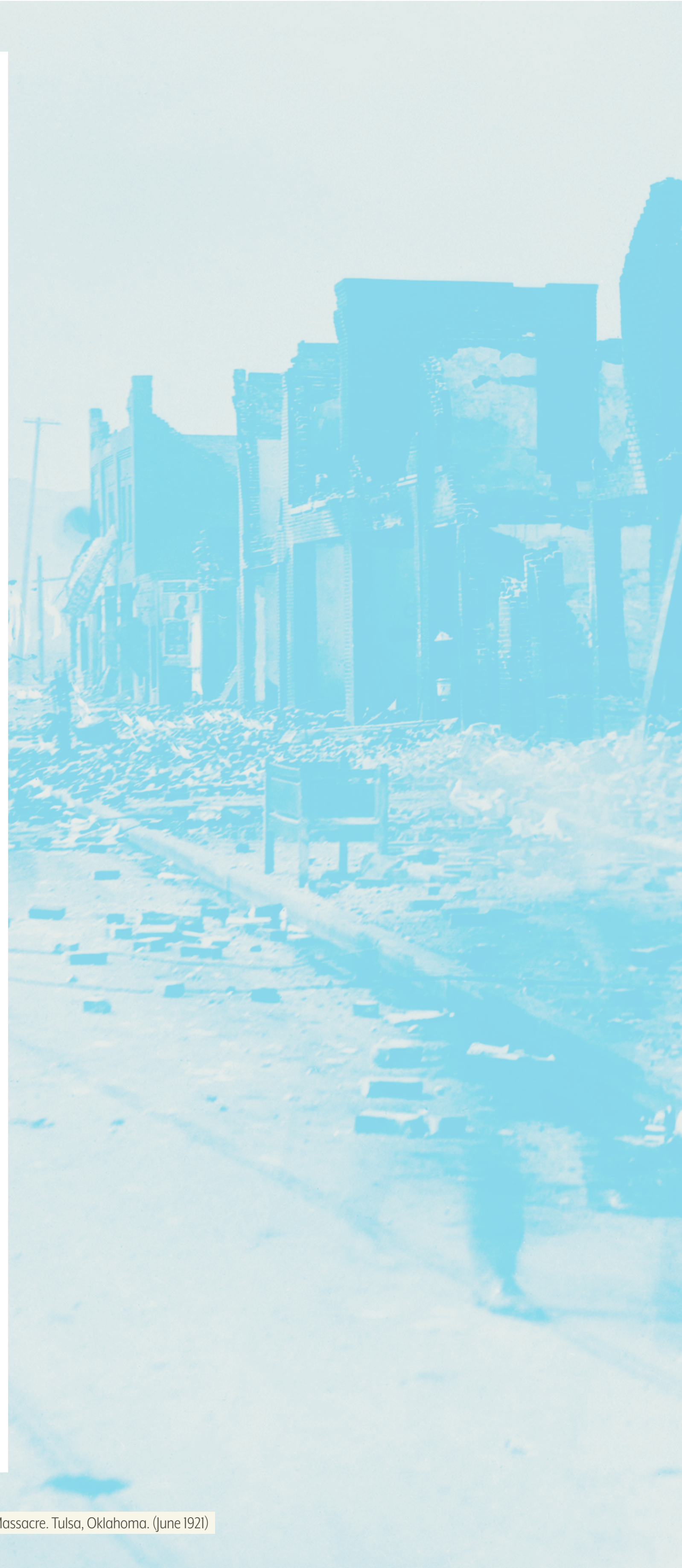


Burnt residences and businesses following the Tulsa Race Massacre. Tulsa, Oklahoma. (June 1921)

I. Introduction

Wealth—what you own minus what you owe—is the key to economic security.[1] It is what enables families to build a better future.[2] Wealth functions in many ways. It provides economic stability during lean times. It opens doors to improving quality of life. It is a dam against the floodwaters of economic catastrophes. It provides access to political power and it allows us to live and retire with dignity.

Wealth can also be passed down through generations, allowing children to live better lives than their parents and grandparents. It allows parents to pay for their children's college education. It allows grandparents to help a young family buy their first home. Throughout American history, government policies at all levels have helped white families collect these tools while preventing or undermining African American families' ability to do the same.

As a result, the wealth gap between African American and white Americans is enormous and roughly the same today as it had been two years before the Civil Rights Act was passed in 1964.[3] In 2019, the median African American household had a net worth of $24,100, less than 13 percent of the median net worth of white households at $188,200.[4]

This wealth gap persists regardless of education level and family structure.[5] For example, at the median, single African American women over the age of 60 with a college degree— at $11,000—have less than three percent of the wealth of single white women over the age of 60 with a college degree— at $384,000.[6] Single white parents have more than double the wealth ($35,000), at the median, than married African American parents ($16,000).[7]

The wealth gap is present across all income levels. In 2016, estimates drawn from the Survey of Consumer Finances indicate the median white household in the bottom fifth of incomes, or the poorest "quintile" of white households, had a net worth of $21,700, which is greater than the median net worth of $18,601 for *all* Black households.[8] Black households in the bottom fifth of incomes had a median net worth of $2,700, less than one eighth as much as the poorest quintile of white households.[9]

The trend is the same across social classes. In 2019, the median white working-class household had a net worth of $114,270, while the median African American professional-managerial household had a net worth of $38,800. In the same year, white professional-managerial households—at $276,000—had a median net worth that was eight times the median African American professional-managerial household and *19 times* the median African American working-class household.[10]

This wealth gap is the result of the discrimination that African Americans experience, as described in the previous chapters.[11] The American government at the federal, state, and local levels has systematically prevented African American communities from building, maintaining, and passing on wealth. These harms cascade over a lifetime and compound over generations.

The wealth gap was roughly the same in 2016 as it was in 1962.

The historical causes of the wealth gap is based in enslavement and legal segregation and continues through ongoing racial inequality and racism today. They include direct government creation of white wealth and destruction of African American wealth through the support of racial terror, disenfranchisement, land theft, mass incarceration, exclusion of African Americans from government benefits, and banking discrimination. Unequal homeownership, fewer assets, and lower business ownership continue to drive the wealth gap today. This has resulted in racial differences in the capacity of African Americans to transmit resources across generations, lower financial resilience during crises, and homelessness.

Section II discusses estimates of the contemporary racial wealth gap for the nation as whole, for California, by gender, and for descendants of Africans enslaved in the United States. Section III describes historical causes of the racial wealth gap during enslavement and post-enslavement, including racial terror, land theft, mass incarceration, and discrimination in government benefits, the labor market, and banking. Section IV discusses the drivers of the contemporary wealth gap today include unequal homeownership, fewer assets, and lower business ownership. Section V discusses the harmful effects of the wealth gap, which has resulted in racial differences in the capacity of African Americans to transmit resources across generations, lower financial resilience during crisis, and increased homelessness.

II. The Contemporary Racial Wealth Gap

National and California Estimates

Significant research demonstrate that white Americans have long had a higher net worth than African Americans. The gap has changed little since 1989, when the median white household wealth was $143,000, and the median African American household wealth was $9,000, approximately 94 percent less than white household wealth.[12] The wealth gap was roughly the same in 2016 as it was in 1962,[13] two years before the Civil Rights Act. Preliminary research suggests that, despite rapid accumulation of wealth by African Americans in the decades after slavery and a narrowing of the racial wealth gap during World War II and the Civil Rights era, this progress halted by the mid-20th century with the racial wealth gap widening over the last several decades.[14] From 2005 to 2019, an interval that captures much of the impact of the Great Recession, median household wealth —all assets minus all debt—among African Americans fell 53 percent, compared with a drop of 16 percent among white Americans.[15]

An asset is anything you own that adds financial value, as opposed to a liability, which is money you owe.[16] Examples of personal assets include: a home or other property, such as a rental house or commercial property; a checking or savings account; cars; financial and retirement accounts; gold, jewelry, and coins; collectibles and art; and life insurance policies.[17]

Wealth estimates can be demonstrated in median and mean figures, both of which are provided in this chapter. A median figure shows the worth of the middle household in each community.[18] A mean figure shows the worth of the average household in the community.[19] Some researchers suggest that the median is a more useful measure for estimating differences in wealth between African American and white people because it is not affected by exceptions like the few extremely rich individuals who would skew the average higher than is representative.[20] However, researchers also suggest that the mean is the appropriate target measure for calculating the sum required to eliminate the racial wealth gap.[21]

Policymakers have usually focused on the median gap in wealth, which some researchers argue is not representative of what is happening to the average African American or white person in reality.[22] Comparing African American and white wealth at the mean—for the average household in each community—shows a far larger wealth gap.[23]

Today, white American households continue to be far more likely to hold assets, and the types of assets they hold are worth, on average, more than that of African American households.[24] In 2019, the most recent year for which data is available, the total financial assets of white households is nine times higher than African American households.[25] The median African American household wealth was approximately $24,100, while the median white household wealth was approximately $188,200—a difference of $164,100.[26] The mean for African American household wealth is $142,300, while the mean for white household wealth is close to $1 million at $983,400—a difference of $840,900.[27]

In 2019, white households owned 9x MORE assets than African American households

This wealth disparity cannot be explained by lack of personal motivation and effort, lack of financial literacy, family instability, lack of education, lack of homeownership, or lack of entrepreneurship on the part of African Americans.[28] For instance, there is very little, if any, evidence to support the claim that African American saving behavior is the source of the enormous racial wealth gap.[29] There is no significant difference in savings between African American and white families with similar income levels, nor a difference in rates of return on their personal investments.[30] In fact, in some income categories, African American people display a higher rate of savings.[31] And though African Americans have more family obligations on their income than white Americans because their relatives are more likely to need help than white Americans, the savings rate among African American people is comparable to the savings rate at each level of household income among white people.[32]

Differences in family structure also do not explain the racial wealth gap.[33] Single white women with children have a higher median net worth than African American women with no children.[34] At the median, single white parents have more than two times the wealth ($35,000) than married African American parents ($16,000).[35]

> **This wealth disparity cannot be explained by lack of personal motivation and effort, family instability, or lack of education. For example, in 2019, black professional-managerial households had a net worth of $38,800, while white professional-managerial households had a net worth of $276,000. Single white parents had more than two times the wealth— at $35,000 —of married black parents— at $16,000.**

Nor does effort or education. For comparable levels of family socioeconomic status, Black youth obtain more years of schooling and credentials, including college degrees, than white youth.[36] And the wealth gap exists between African American and white women regardless of whether or not they have a bachelor's degree.[37]

Although the wealth gap and its causes in California and the nation is an under-studied area, preliminary studies suggest that the racial wealth gap in California is the same or worse than it is at the national level.

Some studies extrapolate California's racial wealth gap from national estimates.[38] Direct California estimates of the racial wealth gap are only available for a single metropolitan area: Los Angeles.[39] In 2016, while the median net worth of white Angelino households (assets minus debts) was $355,000, median net worth of native-born African American Angelino households was $4,000.[40] The average African American household in Los Angeles had only just had one percent of the median wealth of the average white household, far worse than the national average of 10 to 15 percent.[41]

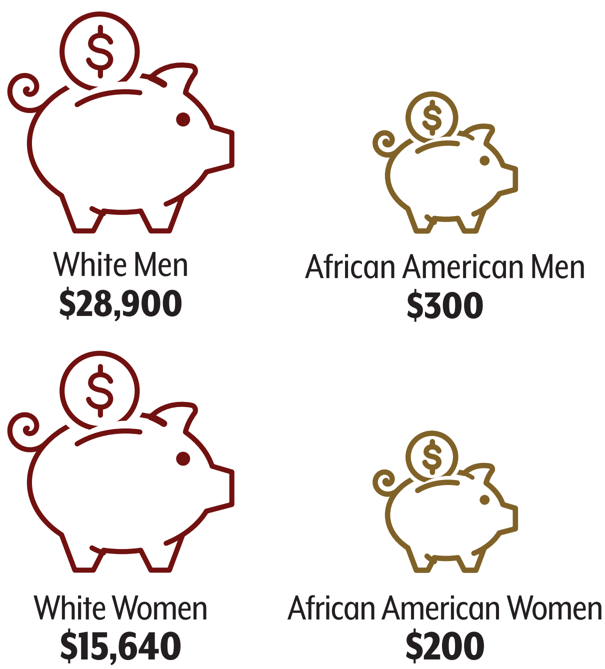
Gender-Specific Issues

The wealth gap between African American men and African American women, which is small,[42] functions differently than the wealth gap between white men and white women, which is much larger. African American men and women have similarly low wealth, although for slightly different reasons.[43]

The wealth gap between white men and women is largely because white men have traditionally had access to jobs that provide retirement accounts and other benefits available to careers not available to women.[44] This difference in access does not exist between African American men and women, as African Americans of all genders historically have been excluded from these benefits due labor discrimination, as discussed in Chapter 10, Stolen Labor and Hindered Opportunity.

The median wealth for single African American women is $200, while the median wealth of single African American men is $300.[45] Studies that show a greater wealth gap between Black women and men do not appear to take into account incarcerated Black men, who are deprived of their ability to build wealth for themselves and their family during a prison sentence.[46]

2015 MEDIAN WEALTH FOR SINGLES



Federal statistical agencies, including the U.S. Census Bureau, collect little information about people who are incarcerated, and they are excluded from household samples in national surveys.[47] As a result, these individuals are invisible to most mainstream social institutions, lawmakers, and nearly all social science research not directly related to crime or criminal justice.[48] And since African Americans are six times more likely to be incarcerated than white Americans, this has the effect of making it appear that African Americans are better off financially than they really are.[49] As discussed below in section III, criminal convictions also create numerous barriers to wealth building even after the sentence ends.

Still, African American women face barriers to wealth building due to the combination of racism and sexism. As a result, there are vast differences in wealth between African American women and both white men and white women.[50] One study reports that, in 2019, single Black women's median net wealth was $7,000, while median net wealth for white women was $85,000 and $92,000 for single white men.[51] While white men's median wealth was $28,900 in 2015, African American women's median wealth was $200, less than one cent on every dollar of white men's median wealth.[52]

The large wealth gap faced by single Black women is particularly important because Black women are more and increasingly likely to be single and breadwinners.[53] The marriage rate of Americans aged 25 to 54 has declined since the early 1960s across all groups, but especially for Black women for whom it has halved to less than 40 percent.[54] One-third of Black women aged 25 to 54 are single with children in the household.[55] Among Black mothers, more than 80 percent are breadwinners compared to 50 percent of white mothers.[56] At least half of unmarried Black women have zero or negative assets.[57] On average, Black women do not accumulate net worth approaching retirement; they have no financial assets at age 50 and do not accumulate any more as they age.[58]

African American men also face a stark wealth gap with white women and men. One study reports that, in 2015, median net wealth for African American men was 15 percent of the median net wealth for white men and 16 percent of the wealth of white women.[59] While white men's median wealth was $28,900 in 2015, African American men's median was $300, about one cent on every dollar of white men's wealth.[60]

There does not appear to be extensive research on wealth gap estimates for African American LGBTQ populations.

Estimates Based on Immigration and Migration Patterns

Today, approximately 41.1 million African American people live in the United States, according to the 2020 census.[61] Of those 41.1 million African American individuals, experts differ on how many are the descendants of African American people enslaved in the United States.

About 12 percent of Black people in America were born in a foreign country.[62] Nine percent of African Americans have at least one foreign-born parent.[63] By 2060, the Black foreign-born population is projected to make up about one-third of the U.S. Black population.[64] Fifty-eight percent of Black immigrants arrived in the United

States after 2000.[65] Of the current 2.8 million African American Californians, 244,969 are foreign born, according to the U.S. Census Bureau.[66]

Every U.S. census conducted since 1970 has found that African American immigrants from the English speaking Caribbean earn more, are more likely to be employed than U.S.-born African Americans, are more likely to hold more financial assets,[67] are more likely to own their home,[68] and most are more likely to be healthy than U.S.-born African Americans.[69]

There appears to be no data at the national and state level and limited scholarship at the city level describing the wealth gap between descendants of African American people enslaved in the United States, recent African American immigrants, and white Americans.[70] Very few of the city level studies present findings on the wealth gap that disaggregates the racial category of African American by national origin.[71] Some scholars argue that the effects of systemic racism have uniquely harmed African American descendants of slavery when compared to African American immigrants who do not have the same experience of systemic racial discrimination in the United States.[72]

One study, "*The Color of Wealth in Los Angeles*," included separate data for U.S. born African Americans and recent immigrants from Africa.[73] National origin and race were both self-reported in this study. [74] On average, white Angelinos were far more likely to hold assets in stocks, mutual funds, and investment trusts than both U.S.-born and African Black Angelinos.[75]

But, African Black Angelinos were likely to hold more assets than U.S.-born Black Angelinos. For example, 87 percent of African Black Angelinos owned liquid assets versus 62 percent of Black Angelinos born in the United States.[76] Eighty percent of African Black Angelinos had a checking account versus 68 percent of U.S.-born African Americans.[77] Eighty percent of African Black Angelinos had a savings account versus 56 percent of U.S.-born Black Angelinos.[78] Such studies in other cities reflect comparable wealth gaps between U.S.-born African Americans and recent immigrants.[79]

III. Historical Causes of the Racial Wealth Gap

The modern racial wealth gap between African Americans and other racial groups began with enslavement. But scholars debate whether enslavement should be the basis for reparations given that today's wealth gap is the cumulative effects of racism over centuries.[80] This section describes historical causes of the racial wealth gap during and post-slavery, including racial terror, land theft, mass incarceration, and discrimination in government benefits, the labor market, and banking.

Enslavement

Several scholars have estimated the slavery bill for reparations.[81] Most of these estimates require a calculation in today's dollars for unpaid wages, the purchase prices of the human property, or the land promised to the formerly enslaved.[82] These estimates are generated by multiplying earlier values by a compounding interest rate.[83] For example, Thomas Craemer's calculations for unpaid wages owed to enslaved people amounts to $19.4 trillion in today's dollars.[84] He arrives at this number by multiplying the prevailing average market wage by the number of hours worked for each 24-hour day by those enslaved over the interval of 1776 to 1865 and applies a three percent interest rate.[85] Merely doubling the interest rate to the more realistic six percent would increase the total estimate to $6.6 quadrillion in 2019 dollars.[86]

Similar to Craemer's estimates is James Marketti's bill using the idea of income diverted from enslaved persons, arriving at a figure of $2.1 trillion as of 1983.[87] Using a six percent interest rate; the 2018 value amounts to $17.1 trillion.[88] Other estimates are reached by calculating the value in today's dollars of the wealth held in enslaved

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White homesteaders in El Monte. The federal government essentially gave land away for free to mostly white families through the Homestead Act. (1936)

people as property. For example, Judah P. Benjamin, a critical member of Jefferson Davis's Confederate Cabinet proclaimed the value of enslaved persons in 1860 to be four billion dollars, which compounds to $42.2 trillion by 2019 at a six percent interest rate.[89] Other scholars argue that these large sums are underestimates because they do not account for the physical and emotional harms of enslavement, the coercive nature of the system, the denial of the ability to acquire property, or the deprivation of autonomy.[90]

Post-Enslavement

The case for reparation extends beyond slavery to the near-century-long era of legal segregation, violence and terror, and the atrocities that continue today: mass incarceration; police killings of unarmed African Americans; sustained credit, housing, employment discrimination; and the immense Black-white wealth disparity.[91] Scholars have divided post-slavery American history into five overlapping phases of federal government policies, which created the modern racial wealth gap. They involve white wealth creation through government land grants and mortgage subsidies and African American wealth destruction through racial terror, eminent domain, and mass incarceration.

Between 1868 and 1934, the federal government gave 246 million acres of land essentially for free to mostly white Americans—an area close to the size of California and Texas combined. More than 1.5 million white families received land patents, and today as many as 46 million of their living descendants reap the wealth benefits, approximately one-quarter of the adult population of the United States.

White Wealth Creation through Government Land Grants

From 1862 to 1976, the federal government transferred massive amounts of land mostly to white families. Some scholars have named this phase the Wagon Train phase, after the covered-wagon caravans romanticized by 1950s television shows, which carried white families to seek their fortunes in the West.[92]

In 1862, the federal government established the Homestead Act, which distributed land until about 1980, although more occasionally after the 1920s.[93] The Homestead Act encouraged western migration by providing American citizens—and immigrants soon to be citizens—up to 160 acres of public lands, which was increased to 320 acres in 1909—for $0 if they continuously lived on the property for five years and paid a small $10 filing fee.[94]

Homesteaders also had the option of paying $1.25 per acre if they lived on the property for six months.[95] While the language of the act did not exclude people based on race, African Americans were unable to secure land allocations under the act for four years until the Civil Rights Act of 1866 clarified that they were citizens.[96] California's homestead laws similarly excluded African Americans before 1900 because they required a homesteader to be a white citizen.[97]

Though African American homesteaders were able to secure land allocations under the Act after 1866, they were few in comparison to the multitudes of white settlers and had to settle for the least desirable land.[98] Between 1868 and 1934, the federal government gave 246 million acres of land essentially for free to mostly white, native-born and immigrant Americans—an area close to the size of California and Texas combined.[99] More than 1.5 million white families received land patents, and today as many as 46 million of their living descendants reap the wealth benefits, approximately one-quarter of the adult population of the United States.[100] In comparison and as an example, approximately 3,500 African American claimants succeeded in obtaining their patents from the General Land Office in the Great Plains, granting them ownership of approximately 650,000 acres of prairie land.[101]

The federal government undermined other efforts to allocate land to the formerly enslaved. Another estimate of reparations to African Americans can be made by calculating the value in today's dollars of the unfulfilled land distribution of "forty acres and a mule" promised to the formerly enslaved beginning in 1865.[102] On January 16, 1865, upon seizing the coastline from Charleston, South Carolina to St. John's River, Florida,[103] General Sherman issued Special Field Orders No. 15 that established the provision "of not more than (40) forty acres of tillable ground" designated "for the settlement of the negroes now made free by the acts of war and the proclamation of the President of the United States."[104]

The order carved out 400,000 acres of land confiscated or abandoned by Confederates. Each family of formerly enslaved African American people would get up to 40 acres.[105] The Army would lend them mules no longer in use.[106] Further, the Freedmen's Bureau Act of March 3, 1865, had an explicit racial land redistribution provision that specified that "not more than 40 acres" of land was to be provided to refugee or freed male citizens at three years' annual rent not exceeding six percent of the value of the land based on appraisal of the state tax authorities in 1860. [107] At the end of three years of occupying the land, they could purchase it and receive title.[108] Similar provisions were included in the postwar Southern Homestead Act of 1866. Freedmen were to receive land in the southern states at a price of $5 for 80 acres.[109]

General William Tecumseh Sherman's famous 40 acres and a mule field order, given in 1865, amounts to $1.3 trillion at six percent interest, in today's dollars.

President Andrew Johnson intensely opposed these acts and neither were effectively implemented on behalf of the formerly enslaved.[110] By the end of 1865, Johnson also had ordered the removal of thousands of formerly enslaved persons from the lands they had settled under Sherman's Special Field Orders No. 15,[111] which were ultimately given back to former enslavers.[112] With the exception of a small number who had legal land titles, freed African American people were removed from the land as a result of President Johnson's "restoration" program.[113]

If four million enslaved persons had gained emancipation by 1865, and the land allocation rule meant that roughly 40 acres would go to families of four, each formerly enslaved individual would have been allocated about 10 acres. This implies a total distribution of at least 40 million acres of land.

Using a conservative estimate of $10 per acre, the total value of the projected distribution of land to the freedmen would have been $400 million in 1865.[114] The value in today's dollars at a six percent interest rate would be $1.3 trillion. This number would be much higher if the conditions of the Southern Homestead Act, which provided for 80 acres of land to be sold to freedman at $5 total were treated as a debt to be paid to the descendants of the formerly enslaved.[115] If, as some scholars interpret, *each* freedman was eligible to receive 40 acres of land, it would have led to a much higher total value of the land to be distributed to freedmen after the war—amounting to $1.6 billion in 1865 and compounding to $12.6 trillion at a six percent interest rate in 2019.[116]

African American Wealth Destruction through Racial Terror

From 1865 to the present, federal, state and local government actors refused to protect African Americans as they faced violence and land theft. Sometimes, government actors joined, led, or supported the violence.[117] As detailed in Chapter 3, Racial Terror, white federal, state, and local government officials, working jointly with private citizens, terrorized African Americans to prevent them from accumulating political and economic power.

White mobs destroyed thriving African American communities in racial massacres nationwide in Louisiana, North Carolina, Michigan, Delaware, Nebraska, Florida, Illinois, Oklahoma, Texas, and elsewhere.[118] The most well-known was the destruction of the Greenwood district in Tulsa, Oklahoma. The Greenwood district was known popularly as "Black Wall Street."[119] Scholars estimate that the present value of destroyed African American property in Tulsa is at least $100 million.[120] The 1919 massacre in Elaine, Arkansas destroyed $10 million of African American wealth.[121]

Evidence exists that murders of African Americans continue to be driven by underlying economic incentives.[122] Police killings of unarmed African Americans frequently occur in neighborhoods undergoing white gentrification.[123]

White Wealth Creation through Mortgage Subsidies

In the 19th century, federal, state, and local governments passed laws and implemented practices that heavily subsidized the creation of the white middle class while substantively crippling the ability of African American people to do the same. [124] Federal policies, implemented by private citizens, focused on helping mostly white Americans buy single-family homes.[125] As discussed in Chapter 5, The Root of Many Evils: Housing Segregation, the Veterans Administration, the Federal Housing Administration, and the Home Owner's Loan Corporation helped white families buy single family homes in the suburbs while preventing African American families from doing the same.[126]

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Beginning in the 1930s and 1940s, the federal government created programs that subsidized low-cost loans and opened up home ownership to millions of average Americans for the first time.[127] At the same time, government underwriters introduced a national appraisal system, tying property value and loan eligibility in part to neighborhood racial composition, which designated predominantly nonwhite neighborhoods as hazardous and coloring these areas red—a process known as redlining.[128]

Funded by the federal government, state and local officials used eminent domain to destroy countless thriving Black communities in the name of highway and park construction, and urban renewal, erasing generations of accumulated Black wealth. African American business districts were cleaved, and never recovered.

White communities received the highest ratings and benefited from low-cost, government backed loans. Minority and mixed neighborhoods—and especially African American neighborhoods—received the lowest ratings and were denied these loans.[129] This functionally concentrated African Americans into impoverished neighborhoods in America's urban centers.[130] Of the $120 billion worth of new housing subsidized between 1934 and 1962, less than two percent went to nonwhite families—virtually locking them out of homeownership.[131]

Today, approximately three in four neighborhoods—74 percent—that the federal government deemed "hazardous" in the 1930s remain low- to moderate-income, and more than 60 percent are predominantly nonwhite.[132]

<2% of subsidized new housing
went to nonwhite families
from 1934 – 1962

African American Wealth Destruction through Disenfranchisement and Land Theft

As described in Chapter 5, Housing Segregation, the federal government passed the National Highway Act of 1956 and urban renewal legislation.[133] Funded by the federal government, state and local officials used eminent domain to destroy thriving African American communities in the name of highway construction and urban renewal, erasing generations of accumulated African American wealth.[134] African American business districts were cleaved by the highways, and never recovered.[135]

In the mid-20th century, the United States Department of Agriculture's (USDA) policies discriminated against and displaced African Americans.[136] During the civil rights era, federal anti-discrimination statutes that applied to the USDA were diluted by the time they reached the local level, and did not provide protection for African American farmers.[137] White USDA administrators gave millions of dollars in funding to all-white Southern local agricultural committees.[138] These powerful committees were county arms of the USDA and did not want African American farmers on their boards, so they would prevent their election by splitting the African American vote or through voter intimidation tactics.[139] These boards made decisions on loan recipients, acreage allotments, appropriate crop yields, hardship adjustments, and preferred farming methods benefitting white farmers.[140]

The Farmers Home Administration was another agency that discriminated against and displaced African American farmers.[141] The agency offered loans and credit to poor farmers for home construction and improvement.[142] But instead of going to badly-needed rural housing in the South, these loans went to segregated swimming pools, picnic areas, tennis courts, and golf courses in white communities.[143] Loan requirements were stringent and often subjective, such as whether an applicant was a good citizen.[144] Loans went to the white and wealthy while African American farmers were turned down.[145] Even if an African American farmer received a loan, agency administrators would seek to get rid of them by luring them into debt and then foreclosing and auctioning off their machinery.[146]

As a result, African American farmers were pushed off their land.[147] Lawrence Lucas, President Emeritus of the United States Department of Agriculture Coalition of Minority Employees testified that the USDA's programs continue to discriminate against African American

LAND OWNERSHIP
AFRICAN AMERICAN FARMERS

In 1910 African American farmers owned **16 million acres** of land. In 2007, they owned **3.2 million acres**, an

80% loss.

farmers and that "a culture of systemic racism at the USDA that denies Black farmers their dignity, that denies Black farmers a right to farm, denies Black farmers the right to the same programs and services that white farmers get in this country" is still present today."[148]

In 1910, Black farmers owned 16 million acres of land. In 2007, they owned 3.2 million acres, an 80% loss.[149] In 1999, Black farmers filed a class action lawsuit against the USDA for unlawful discrimination against them in denying their farm loan applications.[150] The lawsuit, *Pigford v. Glickman*, ultimately settled for money damages, but no policy changes at the USDA.[151] While many claims have been paid, the USDA nonetheless has been slow to pay out all the claims, and has spent extensive resources in fighting claims.[152] In the 2021 coronavirus relief bill, $4 billion was set aside for debt relief for socially disadvantaged farmers, including African American farmers, but payments have been stopped do to an ongoing lawsuit alleging it is reverse-racism and a "windfall" for some farmers.[153]

African American Wealth Destruction through Mass Incarceration

In the late 1980s mass incarceration and the war on drugs continued the American government's historical criminalization of African Americans.[154] As discussed in Chapter 11, An Unjust Legal System, African Americans have experienced marginalization, physical harm, and death, at the hands of the American criminal justice system at both the federal and state level beginning in slavery and continuing today.[155]

During the slavery era, federal and state governments criminalized African Americans as a method of establishing, maintaining, and socially controlling African Americans as a lower class of human being than white Americans.[156] Today, mass incarceration continue to separate families and dehumanize the descendants of enslaved African American people.[157] In the 156 years since slavery was abolished, African American people in the United States have gone from being considered less than human under the law to being treated as less than human by a criminal justice system that punishes them more harshly than white people.[158]

Until the 1940s, state laws and the U.S. Constitution allowed private entities to force African Americans into doing the same work, on the same land, and even for the same people as during slavery in a system called convict leasing.[159] People who were "leased" were treated even more brutally than enslaved people because plantation owners had a financial incentive to keep enslaved people alive.[160] Working and living conditions for incarcerated people were dangerous, unhealthy, and violent.[161] Most incarcerated people who were leased for labor did not survive to complete 10-year sentences.[162] Until the mid-1950s, states routinely forced chain gangs of imprisoned people to do public works projects while wearing chains weighing as much as 20 pounds.[163]

American politicians ran on "law and order" or "tough on crime" platforms and passed laws and policies that punished African Americans more than white Americans, often for similar crimes.[164] This has contributed to mass incarceration and overrepresentation of African Americans in the criminal justice system to present day, nationwide and in California.[165] Nearly 70 percent of young Black men will be imprisoned at some point in their lives, and poor Black men with low levels of education make up a disproportionate share of incarcerated Americans.[166]

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African Americans, who have lower family wealth than white Americans,[168] are especially vulnerable to incarceration.[169] Growing up with less family wealth means living in poorer neighborhoods with lower-quality education and a greater exposure to high "street" crime and high imprisonment areas. Sixty-two percent of African Americans live in highly segregated, inner-city neighborhoods where socioeconomic vulnerabilities contribute to higher rates of violent crime,[170] while the majority of white Americans live in "highly advantaged" neighborhoods where there is little violent crime.[171]

Mass incarceration has been catastrophic to the ability of African American families to build and maintain wealth by reducing household assets and income, and lowering homeownership rates. As discussed in detail in Chapter 11, An Unjust Legal System, the criminalization of African Americans has contributed to racial disparities at every step of the criminal justice system.

In 2019, African Americans comprised 26 percent of all arrests yet they only made up 13.4 percent of the population.[172] According to a recent large-scale analysis of racial disparities in over 60 million state patrol police stops in 20 states, including California, researchers found that police officers stop African Americans more often than white drivers relative to their share of the driving-age population.[173] Further, these researchers found that, after controlling for age, gender, time, and location, police are more likely to ticket, search, and arrest African American drivers than white Americans.[174] Thus in practice, the bar for searching African American drivers is lower than for searching white Americans.[175]

Low family wealth can also mean being unable to afford additional education and delaying entering the labor market, leading to higher risks of incarceration.[176]

Once released, criminal convictions make it harder for returning citizens to find and maintain jobs, find leases, and be approved for mortgages.

Once a person is a criminal defendant, low family wealth makes it hard to post bond or to hire lawyers to help navigate the criminal justice system, making incarceration more likely.[177]

In 2009, African Americans made up less than 13 percent of the U.S. population, but comprised over a third of all the people in prison.[178] As explained in Chapter 11, An Unjust Legal System, African Americans are also more likely to be convicted and experience lengthy prison sentences.[179]

Involvement in the criminal justice system increases legal debt.[180] Incarceration means loss of income and may lead to missed mortgage payments and other debts.[181] This increases interest obligations and penalties, which in turn can send an incarcerated individual's credit score plummeting.[182] Incarceration also means household instability, placing an additional barrier to building wealth.[183]

As Chapter 11 explains, federal and state prisons continue to exploit the labor of predominantly African American incarcerated people.[184] While convict leasing as an official practice has ended, underpaid or unpaid prison labor continues today as incarcerated people are not protected by labor laws.[185]

For example, in-house prison labor, the most common type of prison labor, typically refers to jobs within and related to the prison including kitchen duty, cleaning, or grounds keeping.[186] Workers can be punished and sent to solitary confinement for taking a sick day, including in the eight states where the labor is unpaid.[187] In states where prison labor is paid, the average rates across the U.S. range from 14 to 63 cents per hour. These are the rates before wage garnishment, which can account for up to half of one's earnings, although some advocates argue that wage garnishment serves as appropriate sources for victims' restitution.[188]

In addition to jobs within the prison, incarcerated people also provide underpaid and unprotected industry labor unrelated to maintaining the prison, like phone banking, packaging, and textile work.[189] Participating private companies must pay minimum wage, which the prison garnishes for the incarcerated person's room and board in prison cells.[190] The garnishment only applies to basic room and board, and the incarcerated person must pay additionally for stamps, paper, toiletries, supplementary food, or phone calls.[191] Advocates argue that such costs are not fairly calculated and that the American criminal justice system is filled with fees that shift the costs of incarceration not only to the incarcerated, but also to their families.[192]

Scholars argue that work programs in incarceration are not beneficial to incarcerated people when they seek work after their incarceration.[193] Once released from incarceration, criminal convictions make it harder to find and maintain jobs, find leases, and be approved for mortgages.[194] A record of previous incarceration also has wide-ranging immediate and future consequences that act as a barrier to employment, thus lowering earnings.[195] A criminal conviction makes it difficult to build wealth because of stigmatization and lack of access to supportive social institutions and credit.[196]

Exclusion and Discrimination in Government Benefits

African Americans have consistently been excluded from numerous major categories of government benefits, which have generally benefited white Americans. Government benefits refer to assistance programs that provide either cash assistance or in-kind benefits to individuals and families from a governmental entity. There are two major types of government benefit programs: social welfare programs and social insurance programs.

Benefits received from social welfare programs are usually based on low income. Benefits received from social insurance programs are usually based on other criteria, such as age, employment status, or being a veteran. Some of the major federal, state, and local social insurance programs are Social Security, veteran's benefits, unemployment insurance compensation, and workers' compensation.

Social insurance programs can provide important support in times of crisis. Unemployment insurance, a state level program, helps protect against unexpected drops in income by paying cash benefits to unemployed workers who have lost jobs through no fault of their own.[197] The federal Supplemental Nutrition Assistance Program (SNAP), also known as food stamps, gives money to low-income families to buy food, and expands to provide important support when people lose their jobs.[198] Recipients have improved food security, health, and reduced healthcare expenses.[199]

Historically, federal policy decisions dealing with welfare, work, and war in the 1930s and 1940s excluded or discriminated against the vast majority of African Americans.[200] The exclusion and discrimination continued due to the Congressional representatives elected from southern states that created barriers to African Americans voting.[201]

Among other things, southern legislators prevented Congress from including anti-discrimination provisions in an expansive range of social welfare programs, such as community health services, school lunches, and hospital construction grants—all the programs that distributed funds to the South.[202] As a result, when federal policies provided most white Americans with valuable tools to build wealth—insure their old age, get good jobs, acquire economic security, build assets, and gain middle-class status—most African Americans were left out.[203]

Social Security, passed and signed by President Roosevelt in 1935, left out most African Americans for the first quarter century of its existence.[204] Southern congressional representatives heavily influenced the Social Security Act with devastating results.[205] The federal government gave the power to control benefit levels, eligibility, and administration of such programs to the states and excluded occupations mostly held by African Americans.[206] At the time, sixty-five percent of African Americans fell outside of eligibility for the Social Security program—and between 70 and 80 percent fell outside eligibility requirements in different parts of the South.[207]

Historically, federal policy decisions dealing with welfare, work, and war excluded or discriminated against the vast majority of African Americans.

For example, in 1940, the year Social Security payments for seniors began, the Social Security Board identified nearly 2.3 million African American workers as eligible for old age insurance, but the majority of those identified were disqualified because they were farm or domestic workers.[208] These exclusions continued until 1954, when the occupational exclusions were eliminated.[209]

This exclusion also left most African American workers out of unemployment insurance under the act.[210] When African American workers qualified by working in eligible industrial and commercial jobs, they often were left out because they lacked a history of regular, stable employment.[211] When they received benefits, the benefits tended to be smaller than those received by white workers.[212]

Another example of federal government discrimination in benefits are the mortgage subsidies, which not only intensified residential segregation as discussed in detail in Chapter 5, Housing Segregation, but also helped white families build wealth and enter the middle class. The federal government supported the creation and maintenance of the white middle class through other programs as well. The New Deal was a collection of government programs with the goal of lifting America out of the Great Depression.[213]

One example of a New Deal policy was the Serviceman's Readjustment Act of 1944, also known as the GI Bill, which was reinforced in 1948 with the Integration of the Armed Forces Act. Through these laws, the federal government aimed to offer unprecedented benefits to veterans including mortgages to buy homes, job placement services, money for vocational and university education, and loans for small businesses.[214] However, these programs were administered by the states, which discriminated against southern African American veterans.[215] While white World War II veterans sent themselves and their children to college and obtained housing and small business grants, African American veterans were not able to do so in the same way.[216]

Social Security, passed and signed by President Roosevelt in 1935, left out most African Americans and scholars have argued that it was characterized "by a form of policy apartheid" for the first quarter century of its existence.

Part of this stemmed from discrimination in the military. African American soldiers were more likely to be issued neutral and dishonorable discharges, sometimes used to exclude African American veterans from GI Bill benefits.[217] Ira Katznelson argues that severe discrimination in the GI Bill administration system prevented African American veterans from obtaining home mortgages, small business and farm loans.[218]

Chapter 10, Stolen Labor and Hindered Opportunity, discusses how other New Deal programs excluded African Americans in detail.

Today, African American families continue to have trouble accessing government benefits. Because welfare programs are often administered at the state and local levels, state and especially local governments have been able to introduce racial bias into welfare administration contributing to racially disparate outcomes.[219] States have been significantly more likely to both adopt and impose welfare sanctions if they have higher proportions of nonwhite welfare recipients.[220] States with higher African American populations—generally in the South—tend to provide fewer unemployment payments for a shorter time.[221] Additionally, in many places, part-time workers—who are disproportionately African American—are not eligible for unemployment payments.[222]

Despite having higher unemployment rates in general, African American workers receive unemployment benefits at lower rates than white Americans.[223] A report by the Government Accountability Office found that 73 percent of African American unemployment applicants received unemployment payments during the pandemic versus 80.2 percent of white applicants.[224] Although governments have waived work requirements for some SNAP recipients during certain national crises like the COVID-19 pandemic, studies have found that work requirements disproportionately cut off African American adults from SNAP benefits, which may be partially due to discrimination in the labor market making the job search more difficult for African American people.[225]

COURTESY OF WALLY MCNAMEE/CORBIS/CORBIS VIA GETTY IMAGES

Protesters at the landmark civil rights demonstration, the March on Washington. (1963)

During the COVID-19 pandemic, most households received several stimulus checks from the federal government. Studies have found that these payments were "likely crucial" to help households that lost jobs that pay their expenses.[226] The federal government supplemented state unemployment payments with up to $600/week for unemployed workers, extended the duration of benefits, and gave benefits to workers traditionally left out of unemployment insurance programs.[227] The federal government also instituted the Paycheck Protection Program to provide loans that enable businesses suffering from COVID-19's economic shocks to pay their employees and other costs.[228]

During the pandemic, even though African Americans were more likely to hold the types of jobs most severely impacted by the pandemic, white households received their COVID-19 stimulus checks faster than African American households.[229]

This was likely due to the Internal Revenue Service focused structure of the program, which made receiving the payment more complicated for unbanked families and families who did not file taxes. African American people are more likely to be among both groups.[230]

Studies of pandemic-era federal loans have found that 29 percent of Black applicants were successful in obtaining loans for their businesses versus 60 percent of white applicants.[231] Businesses in majority-Black neighborhoods were also more likely to receive federal loans later than businesses in majority-white neighborhoods.[232] Federal money was paid out through large banks, which historically excluded Black businesses.[233] African American business owners may have been less likely to obtain them, despite being more likely than white business owners to have at risk or distressed businesses even before the pandemic.[234]

Education Segregation and Debt

Higher education for African Americans can have a positive effect on their income, but does not translate into a reduction in the wealth gap.[235] College degrees do little to close the racial wealth gap.[236] For example, college-educated African American households have 30 to 33 percent less wealth at the median than non-college educated white households. Average wealth for white Americans in this category is $180,500, while the African American average is $23,400.[237] As Rucker C. Johnson testified before the Reparations Task Force, affluent African American households with incomes above $75,000 still live in more under-resourced neighborhoods with under-resourced school than their white counterparts, which disadvantages African American students from the start of childhood.[238]

College degrees do little to close the racial wealth gap. For example, college-educated African American households have 30 to 33 percent less wealth at the median than non-college educated white households. Average wealth for white Americans in this category is $180,500, while the African American average is $23,400.

Black students carry more student loan debt because they receive a higher interest on their student loans and they borrow more because their families are less wealthy than white students.[239] For example, 20 to 29-year-old single white women who have completed college have a median net worth of $3,400. Single African American women of a similar age and level of education have a median net worth of *negative* $11,000.[240]

Labor Market Discrimination

Income is different from wealth. Income represents how much a person earns in a lifetime, both from work and from a yearly return on their investments.[241] Wealth represents a person's total net worth calculated from assets minus debts.[242] While income plays a modest role in the ability to generate wealth, as lower income translates to reduced capacity for savings or investments, income does not explain massive Black-white wealth disparities in the United States. Without savings or wealth of some form, which can be passed from generation to generation, economic stability quickly falls apart when income is cut or disrupted through job loss, reduced work hours or reduced wages, or if families suffer from an unexpected health emergency.[243] In fact, the intergenerational transfer and impact of wealth is one of the reasons why racial wealth inequities have become entrenched.[244]

As detailed in Chapter 10, Stolen Labor and Hindered Opportunity, labor market discrimination significantly contributes to the wealth gap.[245] Some scholars have based their estimates for reparations on more recent economic injustices such as labor market discrimination.[246] Bernadette Chachere and Gerald Udinsky estimated the monetary benefits that white workers gained from employment discrimination between 1929 and 1969.[247] They concluded that by the mid-1980s, white workers gained in $1.6 trillion from employment discrimination at the expense of African American workers, assuming that 40 percent of the Black-white income gap was because of labor market discrimination.[248]

David Swinton concludes that even if one subtracted the total cost of government benefits programs including Social Security, Medicare, Medicaid, unemployment insurance, and other welfare programs—which are often argued to be reparations—over the same time span from the Chachere and Udinsky estimate, there would be still be a $500 billion net benefit to white people from labor market discrimination by the mid-1980s.[249]

But, income alone cannot explain the racial wealth gap. A reduction in racial differences in income would leave as much as three-fourths of the wealth gap unaddressed.[250]

Similar achievements do not lead to similar wealth for African Americans in comparison to white Americans.[251] For example, between 1984 and 2009, every dollar increase in average income for white households added $5.19 in wealth. The same increase in average incomes for African American households added only $0.69 in wealth.[252]

Scholars estimate that 40 percent of the Black-white income gap is due to labor discrimination. As a result, by the mid-1980s, white workers gained in $1.6 trillion at the expense of Black workers.

In fact, the racial wealth gap increases as income increases. The wealth gap between African Americans and whites in the bottom fifth of income levels is $7,400, but the wealth gap between comparable African Americans and whites in the top fifth of income levels is $264,700.[253] And, while white households have five to 10 times the net worth of African American households, they only earn twice as much as African American households.[254] Within the same income brackets, African American wealth is less than one-half that of white people.[255] White people in the bottom fifth of the income distribution have more than 10 times the median wealth of African Americans in the bottom fifth.[256]

Lower incomes for African Americans because of labor market discrimination affect wealth only to the extent that it reduces capacity for savings that can be passed across generations. There is no evidence that African Americans have a lower savings rate than white Americans once household income is taken into account.[257] One study found that once income is taken into account, if anything, African American families actually have a slightly higher savings rate than their white counterparts.[258] In fact, white households spend 1.3 times as much as African American households with similar incomes.[259]

At high income levels, African Americans save more than white people who tend to invest.[260] In addition to savings from income or "active savings," a family's wealth can also increase because of "passive savings" or when the value of a family's assets rises or appreciates. Data collected before the predatory subprime mortgage market crisis shows that there is no significant racial advantage in "passive savings" for white families with positive assets after family income is taken into account.[261]

Discrimination in Banking

African Americans have historically faced systemic discrimination in banking which has impacted their ability to accumulate wealth. Banks established by the federal government discriminated against African Americans and deprived them of wealth. The Freedmen's Fund, Free Labor and Union Army Military Banks, and the Freedman's Bank were three banking institutions established by the federal government in the early to mid-1860s, which provided recently emancipated African Americans with the means to save the money they earned.[262] But racist paternalistic attitudes by government officials prevented African Americans from investing their own money and accumulating wealth.[263]Bank employees improperly invested client savings and lost approximately $2.9 million, or $63 million in 2017 dollars, harming freedmen and their descendants for generations to come.[264]

In another example, Union army chaplain John Eaton created the Freedmen's Fund in 1862, to hold the wages of formerly enslaved African Americans who fled to Union or who worked for Union troops.[265] These freedmen had no access to their individual wages or savings, nor did they have any say in how their own wages or the money that was donated for their benefit would be used.[266] Instead, Eaton pooled the wages in the fund to collectively provide food, shelter, and other needs, essentially treating freedmen as contract laborers.[267]

Eaton also stole all their wealth. Soldiers confiscated horses, wagons, money, and other valuables that self-emancipated African Americans brought with them to the Union lines.[268] Eaton took anything that the soldiers and quartermasters did not steal for themselves.[269] By 1864, he had formalized his contract labor system to negotiate contracts for and hired out Black workers on abandoned plantations that the federal government had leased to northerners and to some southerners who supported the Union.[270] Any profits from the cash crops that Black workers grew and harvested were placed in the Freedmen's Fund.[271] Eaton also used the fund for other expenses.[272] In one year alone, Eaton stole $103,000 or $1.6 million in 2017 dollars from Black depositors to pay for the Union Army's incidental expenses; $5,000 in medical expenses; the salaries of all hospital stewards and medical assistants.[273] The Free Labor and Union Army Military Banks first established in 1864, was another Bank that used an exploitative model of contracting African American people's labor similar to Eaton's freedmen's fund.

In 1865, Congress created the Freedman's Bank and Trust Company, also known as the Freedman's Savings Bank, seeding the bank with unclaimed deposits from the free labor and military banks.[274] The initial charter designated an all-white board of trustees with broad discretion to oversee the bank, and intended to hold only the deposits of the survivors of enslavement and their descendants.[275] Despite this nominal limitation, the bank welcomed customers of all races and regardless of whether they were formerly enslaved, though formerly enslaved people made up the vast majority of bank customers.[276] And though the charter made clear that its purpose was to invest the deposits in low-risk treasury notes and conservative U.S. securities, it vaguely stated that a third of the deposits, called "available funds," could be invested anywhere, leaving an opening for abuse.[277]

The Freedman's Bank used a number of aggressive methods and tactics to solicit deposits and to convince African American patrons that their money was safe and that they could grow wealth.[278] Passbooks and other bank literature contained numerous slogans and poems on the ways of thrift and savings.[279] Bank advertisements often included the names of prominent government officials, such as Abraham Lincoln and Oliver Otis Howard, misleading customers and the public into believing that the federal government protected and guaranteed their deposits.[280] Depositors were reminded during public meetings and other bank-sponsored gatherings that the bank was under Congressional charter, and thus under its complete protection.[281]

With such assurances that their deposits were safe, African Americans from a wide variety of backgrounds and occupations, many excited to be receiving a wage for their services for the first time in their lives, opened accounts with the Freedman's Bank between 1868 and 1874 at an extraordinary rate. Within 10 years, 75,000 depositors—who were virtually all African Americans—trusted the bank by depositing more than $75 million, approximately $1.5 billion in today's dollars.[282] Most of these deposits were being saved to buy land and other productive goods such as tools or agricultural supplies as depositors were told to do.[283]

But the bank turned quickly from a savings bank to a risky private investment bank controlled by a small minority of trustees.[284] Against the bank's original Congressional charter and without the knowledge of the African American customers, who were largely unable to secure loans from the bank, the bank invested the money in risky railroad and real estate holdings to benefit white businessmen and bank managers.[285] When, on June 29, 1874, the bank failed and closed due to fraud, 61,131 mostly African American depositors lost about $2.9 million or $63 million in 2017 dollars..[286] One study estimated the average amount owed to depositors across 71 bank failures of federally chartered banks between 1865 to 1933,[287] and the Freedman's Savings Bank ranked third for the largest amount owed to depositors at the time of bank failure.[288]

Because the bank had represented much more than just a place to store money, the African Americans who lost their money also lost their trust in the federal government and in banks in general.[289]

State and private banks following emancipation refused to serve the credit needs of freedmen during the late 19th century, which meant that they had to rely on more expensive and exploitive credit systems.[290] General stores became an important means of accessing short-term credit.[291] Prices were at the discretion of the merchant.[292] One price for goods purchased with cash and a higher price (often by 25 percent) for goods purchased with credit.[293] Goods purchased on credit were charged interest of eight to 15 percent, as determined by the personal judgment of the merchant, based on the creditworthiness of the borrower.[294]

Bank officials at the government charterd Freedmen's Bank improperly invested the savings of newly freed enslaved people, leading to the loss of approximately $2.9 million or $63 million in 2017 dollars. This loss of wealth devastated newly freed enslaved people and their descendants for generations.

Black-owned banks were established to provide banking services to Black communities.[295] Approximately 130 Black-owned banks were established between 1900 and 1934. Fifty savings and loans and credit unions were also established during this period. Only eight banks survived the Great Depression out of 130 Black-owned banks.[296] Today, there are only 21 Black-owned banks nationwide, and 32 Black-owned financial institutions overall, including credit unions.[297]

The federal government prevented the success of Black-owned banks by excluding them from full participation in the banking market.[298] African American bank deposits were smaller and were more frequently withdrawn than white bank deposits, which made them more risky.[299] Most African American depositors had no wealth to invest in the bank and were just depositing money from their wages while keeping small amounts to live on.[300] They put their money into Black-owned banks not only for safe-keeping, but also as rainy-day funds during bad times that came often.[301]

Because their deposits experienced high risk, Black-owned banks had to keep more cash as reserves or invest in other more liquid assets such as government securities, which were safer than loans.[302] They needed to make sure they always had enough cash at the bank to pay out to depositors. Black-owned banks also held very high capital ratios to offset this risk.[303] For example, in 1920, the mean capital ratio for white banks was 18 percent, while African American banks had an average capital ratio of 32.9 percent.[304] This meant that the African American bank owners invested more of their own money and earnings in the bank to keep it secure, but this severely lessened their ability to make a profit or lend money.[305]

Another source of vulnerability for African American banks was their assets or loan portfolios.[306] The fate of African American banks was tied up with the fate of African American businesses, which meant that African American banks lacked the diversified investments needed for safe, and profitable banking.[307] Most thriving banks hold a mix of commercial and real estate loans, but Black-owned banks made almost exclusively home loans because the vast majority of African American businesses were small service operations with no need for bank financing.[308]

As described in Chapter 5, Housing Segregation, the federal government generally labeled African American homeowners and African American neighborhoods as being at higher risk of default, and white-owned banks generally refused to issue mortgages to African American homeowners. Black-owned banks often met the need and provided home loans to African American homebuyers.[309]

Before the Great Depression, there were 130 Black-owned Banks. Today there are only 21 Black-owned banks.

Since homes owned by African Americans were undervalued due to government redlining, the property held for collateral during the term of the loan immediately diminished in value, upholding the perception that these loans were inherently risky investments.[310] Therefore, there was no market for mortgages held by African Americans because of the devaluation of property owned by African Americans and the assumption that loans held by African Americans were inherently risky.[311] This in turn meant that it was difficult for Black-owned banks to earn a profit from an investment portfolio that was largely composed of home loans to African American homebuyers.[312]

COURTESY OF JASON ARMOND / LOS ANGELES TIMES VIA GETTY IMAGES

Incarcerated firefighters from Eel River Conservation Camp continue to tackle the Caldor Fire as the fire's footprint continues to expand southwest of the Lake Tahoe Basin. (Aug. 27, 2021)

California

In California, Black homesteaders can be traced back to 1900, when agricultural settlements were promoted at various times after the turn of the century in Yolo, San Bernardino, Tulare, and Fresno counties.[313] At least two different efforts at colonization occurred in San Bernardino County between 1900 and 1910, including solicitation of families to homestead government land in the Sidewinder Valley, desert land near Victorville.[314] Black homesteaders also established an agricultural settlement in 1908 in the town of Allensworth in Tulare County, which ultimately was depleted of a water supply necessary to sustain the settlement.[315]

The racial climate around African American colonies ranged from welcoming or neutral to hostile, although none have been reported to experience the kind of everyday violence and intimidation African Americans regularly experienced in the South.[316]

Incarcerated people in California produces myriad products such as clothing, furniture, cleaning products and food.[317] They also perform a wide range of duties in areas such as laundry, kitchen, and general maintenance.[318] The California Department of Forestry and Fire Protection employed around 1,600 incarcerated individuals to fight forest fires in May 2021.[319] Some are paid as little as $1.45 a day.[320] As discussed in Chapter 10, An Unjust Legal System, advocates argue that this is exploitive and does not necessarily help the incarcerated firefighters to be find jobs once they are released.[321]

The costs of higher education are a larger burden for African American Californians.[322] Generally, white Americans are twice as likely as African Americans to receive financial assistance from their families for higher education.[323] Only 16 percent of very low-income African American Californian students receive a CalGrant award.[324] The state financial aid African Americans do receive is often insufficient, especially with respect to housing.[325] Fifteen percent of white households in Los Angeles had student loan debt, in contrast with 20.5 percent of households headed by African Americans.[326]

Structural racial disparities regarding access to unemployment insurance, food stamps, and COVID-19 federal loans in a crisis, and benefits for businesses also exist in California. From March through June 2020, 84.9 percent of California's African American labor force filed for unemployment benefits, compared to 39.1 percent of the state's white labor force.[327] African American Californians who received unemployment insurance during the pandemic received $293.90, the smallest median weekly benefit of any racial group, versus white claimants who received $394.90.[328]

Generally, white students are twice as likely as Black students to receive financial help from their family for higher education. Only 16 percent of very low-income Black Californian students receive a CalGrant award.

California's version of food stamps, CalFresh, generally maintains the same work requirements that disproportionately cut African American adults off from food assistance at the federal level.[329] In 2016, California enrolled only 72 percent of eligible residents in CalFresh, the fifth lowest rate in the nation.[330] It is also one of 10 states that manage food assistance programs at the county level, which tends to be more expensive and variable than administering the program at the state level.[331] African American Californians make up 6.5 percent of the state's population,[332] but 14.7 percent of participating CalFresh households.[333] During the pandemic, one survey found that 20.2 percent of Black households with children sometimes or often did not have enough to eat in a four week period spanning June and July, compared to 8.8 percent of white households with children.[334]

CALIFORNIA
UNEMPLOYMENT INSURANCE MARCH TO JUNE 2020

Weekly benefit amount

In California, an analysis of the distribution of federal loans found disparate distribution by race: African American neighborhoods received $445 per resident, while white neighborhoods received $666 per resident, partially due to lower concentration of small businesses or small business employees in African American neighborhoods.[335] However, another analysis revealed that in most major metro areas in the country—including Los Angeles, San Francisco, and San Diego—businesses in majority-white areas also received federal loans at a greater rate than businesses in majority-African American areas.[336]

Proposition 209 (Prop 209) has also disadvantaged Black-owned businesses in the state seeking public contracts with the State of California and local governments. Passed in November 1996, Proposition 209 caused state and local governments to end race-conscious contracting programs, resulting in a loss of $1 billion to $1.1 billion every year for minority and women-owned businesses.[337] The biggest contract loss for minority and women-owned businesses was with the State of California where $823 million has been lost each year since Prop 209.[338] Before Prop 209 passed, in fiscal year 1994-1995, $519 million was contracted to minority and women-owned businesses or about $823 million in October 2014 dollars. When California ended its program for minority and women-owned businesses, only a few got back their contracts with the state and some never recovered.[339] There was only an insignificant increase in Small Business Enterprise procurement with the state after Prop 209, which is the main way that state contracts would be available for many of these businesses.[340] The City and County of San Francisco lost about

$200 million per year in minority and women-owned business contracts.[341] Some of this loss emerged immediately after Prop 209. More losses followed the 2004 Coral Construction case, which ultimately ended San Francisco's race-conscious procurement program. Prop 209 also resulted in the loss of about $30 million per year in minority and women-owned business contracts with the City of Oakland. It also resulted in an estimated $20 million loss per year in such contracts with the City of San Jose after the 2000 Hi-Voltage Wire Works case, which ultimately ended San Jose's race-conscious contracting program.[342]

IV. Drivers of the Wealth Gap Today

Unequal Homeownership

Homes are one of the most important wealth assets that households can possess.[343] People who own homes can use them to borrow money to pay for expenses or pay off high-interest debt in times of crisis.[344] Homeowners are able to generate wealth through home equity, so long as their home increases or appreciates in value. Homeownership is also believed to be more beneficial than renting because owners build equity, and obtain additional tax benefits.[345] Homeowners may also face less housing instability than renters—partially because they tend to be more well-off in general—especially during a crisis, and may therefore be less likely to lose their housing.[346] Housing affordability problems—where an occupant must pay more than 30 percent of gross income for housing costs, including utilities[347]—are more than twice as common among renters than homeowners.[348]

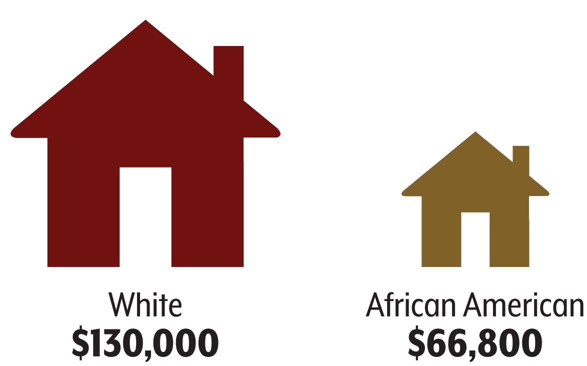
Nationally, In 2019, 42.8 percent of African Americans owned homes versus 73.3 percent of white Americans. Only 33 percent of Black Californians owned homes.

As discussed in Chapter 5, Housing Segregation, and above, government discrimination made it difficult for African Americans to buy real estate, gain wealth through real estate, and transfer that wealth to successive generations.[349] Widespread homeownership in the United States was created through government action, starting with New Deal legislation.[350] The New Deal created relatively safe long-term mortgage markets and reduced down payment requirements for homeownership. This transformed the housing landscape, allowing many working-class households to move from the rental lifestyle to owning a home.[351] Yet, as described above and in Chapter 5, Housing Segregation, the path to homeownership has been riddled with entrenched racism.[352]

Today, African Americans are in a worse position than white Americans to have homes as assets to aid them in a crisis. The racial homeownership gap was 19 percent in 1940, and grew to 28 percent in 2009. As of the second quarter of 2020, out of $30.8 trillion in real estate assets in the U.S., Black households held five percent and white households held 78 percent.[353] In 2019, 42.8 percent of African Americans owned homes versus 73.3 percent of white Americans, and are more likely to face affordability issues in securing capital to purchase and sustain housing at 30 percent of their gross income, including utilities.[354] In the same year, researchers for the National Bureau of Economic Research also found that African American mortgage borrowers were charged higher interest rates than white borrowers were and were denied mortgages that would have been approved for white applicants.[355]

African Americans who own homes have a greater reliance on the house as a source of wealth than white households.[356] In 2014, home equity accounted for 92 percent of African Americans' net worth.[357] There is a gap between the appreciation of a home owned by a white family and the appreciation of a similar home owned by an African American family.[358] When African Americans do own homes, they tend to be appraised for less than comparable white homes, limiting the amount of money that can be taken out of their home equity. Race affects the rate of return on home asset.[359] African American

2019 U.S. HOME VALUES
MEDIAN EQUITY BY RACE



homeowners had a median home equity of $66,800 in 2019.[360] White homeowners had a median home equity of $130,000 in the same year.[361]

Residential segregation contributes to the undervaluing of houses in African American neighborhoods.[362] African American homeowners tend to own homes appraised for less in neighborhoods deemed less valuable,[363] which decreases their available equity relative to white homeowners.[364] Even controlling for factors like neighborhood or home quality, a study has found systemic undervaluation of homes in African American neighborhoods attributable to anti-Black bias.[365] Major companies offering real estate insurance have been accused of targeting inner city neighborhoods where Black families live by denying claims as fraudulent.[366] All of this limits African Americans' access to the benefits of home equity in a crisis.[367]

African Americans also experience significant housing cost burdens.[368] Without sufficient wealth in the first place, African American households have limited means to invest in homeownership.[369]

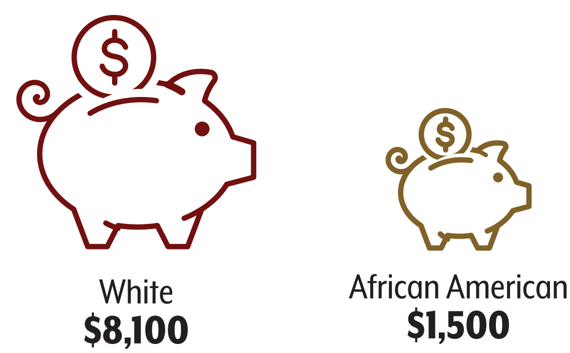
In 2019, 43 percent of African American households spent more than 30 percent of their income on housing—compared with 25 percent of white households.[370] Discrimination in mortgage lending may also make it more difficult for Black homeowners to access their home equity through cash-out refinancing,[371] a means of accessing home equity that has been increasingly popular during the pandemic.[372] Between April 2020 and January 2021, less than a quarter of African American homeowners who could have saved $200 a month by refinancing did so, compared to 40 percent of similarly situated white homeowners.[373]

But closing the homeownership gap alone will not close the racial wealth gap; the homeownership gap alone does not explain the racial wealth gap. [374] Among African American and white American households who do not own a home, white households still have 31 times more wealth than African American households.[375]

Fewer Assets

African American households hold less assets than white households overall, but African American households hold a higher proportion of assets in their cars and homes, and less in net liquid and net business assets.[376] African American households are also generally less likely to hold financial assets.[377] African Americans have substantially fewer assets than white people at every income level, including bank deposits, stocks, bonds, and loans.[378] African Americans tend to have fewer investments. Some studies argue that African American investment patterns generally show risk aversion and lack of education on stocks and investments.[379] They argue that wealthier African Americans tend to save more and invest less[380] compared to wealthier white Americans, and that white Americans are more likely than African Americans to invest in high-risk, high-reward assets.[381] For example, in 2004, African American families were less likely than white families to have investment accounts and retirement accounts. Only 44 percent of African Americans have retirement savings accounts, with a typical balance of around $20,000, compared to 65 percent of white Americans, who have an average balance of $50,000, according to the Federal Reserve.[382] And only 34 percent of African Americans own any stocks or mutual funds, compared to more than half of white people.[383] Some studies claim that this can be attributed to familial influence—Black families are less likely to have investment accounts if their parents didn't have any.[384] Other studies argue that African Americans are not significantly more risk averse or less financially literate than white people with similar levels of income and wealth. Further, African Americans engage in entrepreneurship, which presents inherent risk, at higher rates than white Americans with similar levels of income and wealth. Low wealth, lack of financial inclusion, and financial constraints on choice often forces Black borrowers to use predatory and abusive alternative financial services rather than financial illiteracy.[385]

2019 LIQUID ASSETS
AMOUNT BY RACE



African Americans have less liquid assets. Liquid assets accessible as cash in times of crisis include cash savings, checking accounts, savings accounts, money market funds, certificates of deposit, and government bonds.[386] Access to liquid assets is important in a crisis, as it enables people to continue to pay bills in the event of a sudden loss of income, or pay for emergency expenses such as medical costs. Lack of access to liquid assets can heighten the impact of crises by making it harder to afford basic necessities.[387] People may also turn to family for economic support in times of hardship.[388] In addition, access to government aid such as unemployment insurance, nutrition subsidies, and crisis-specific programs, such as stimulus checks and small business loans, help people and their businesses stay afloat.[389] These resources are vital for surviving economic crises. For example, liquid assets such as cash savings help people pay bills in the event of a job loss or weather emergency expenses like a medical emergency.[390] Similarly, people who have homes, stocks, or retirement funds may leverage their home value for a loan,[391] liquidate stocks, or borrow from or against their retirement accounts to pay for expenses during difficult economic times.[392]

African American households tend to disproportionately lack access to many of these resources, often due to the persistence of historical disparities and racism that continues today.[393] In 2019, while 96.8 percent of African American families had some kind of liquid asset—such as a checking account, savings account, or pre-paid card—typical African American families with liquid assets had $1,500 in liquid savings, compared to $8,100 for white families with liquid assets.[394] Racism in the banking system today still create barriers to liquid assets for African American customers. African American customers are sometimes profiled,[395] viewed with suspicion just for entering a bank,[396] and questioned[397] over the most basic transactions.[398]

African Americans have less non-liquid assets. In general, non-liquid assets such as homes, stocks, and retirement funds can support financial security by increasing resources necessary to weather a crisis or invest in wealth-generating assets for the future.[399] As discussed above, African Americans experience myriad barriers to homeownership and the mortgage market. Stocks and mutual funds, which can be sold, and retirement funds, which can be liquidated or borrowed against, also provide potential sources of aid in a crisis.[400] African Americans are also less likely to own stocks than white Americans, and African Americans who own stocks have less equity than white Americans do.[401] While 61 percent of white households own any form of stocks, only 33.5 percent of African American households do.[402] Among families who own stocks, the typical white family has access to $50,600 they could tap in an emergency, compared to $14,400 for the typical African American family.[403]

While African Americans are more likely to have access to retirement accounts than homes or other types of stocks, they are still less likely than white Americans to have them.[404] Around 55 percent of African American working-age families have access to an employer-sponsored retirement plan, and 45 percent participate.[405] Seventy percent of white working-age families have access to an employer-sponsored retirement plan, and 60 percent of them participate.[406] Among working-age white families with balances in such accounts, the typical white family has approximately $50,000 saved, whereas the comparable African American family has approximately $20,000 saved.[407] During the pandemic, a survey found that African American households with retirement accounts were much more likely to report that they planned on withdrawing from or borrowing against them (48 percent and 45 percent) than white households (29 percent and 29 percent) due to relative lack of other assets.[408] However, withdrawing money from retirement accounts can incur tax and other penalties.[409]

African American business owners typically start their businesses with half the capital of white business owners despite the fact that they demonstrate a greater need for start-up financing. The median loan amount for African American business owners who are approved for credit is less than half of the loan amounts extended to their white counterparts.

Lower Business Ownership

Business ownership allows African Americans to participate in local, regional, and global markets from which they have historically been excluded due to systemic racism and discrimination.[410] Equity in a business is among one of the types of assets that are more unequally distributed by race.[411] Lower wealth for African Americans leads to lower business ownership and self-employment.[412] Studies have demonstrated the substantial wealth advantages to self-employment and have shown that those who become self-employed show much stronger gains in wealth compared to individuals who never become self-employed.[413]

UNITED STATES
2004 BUSINESS OWNERSHIP BY RACE

This is especially true for Black business owners given that the median net worth for Black business owners is 12 times higher than Black non-business owners.[414] Further, Black business ownership is a viable path to creating wealth not only for Black business owners, but also for Black communities at large.[415] Most small businesses tend to hire from the community, which tends to create job opportunities for community residents.[416] Therefore, the success of Black-owned businesses is a critical path for economic empowerment in Black communities.[417]

The Center for Financial Household Stability and the Federal Reserve Board of St. Louis have documented that, compared to white individuals, African Americans own fewer of their assets in the form of business assets.[418] In terms of market share, Black-owned businesses are significantly underrepresented in comparison to white and other minority-owned businesses.[419] In 2017, only 3.5 percent of all United States businesses were Black-owned compared to 81 percent white-owned.[420] Although Black business ownership has been steadily increasing in the United States, growth has been tremendously slow.[421] Several factors contribute to the racial disparity in American business ownership such as systemic barriers to securing start-up capital and the relatively small size of Black businesses.[422]

African Americans face many systemic barriers when seeking the social and financial capital necessary to start their own businesses that make it increasingly difficult for African American entrepreneurs to secure the financial capital necessary to launch or grow their own businesses.[423] As a result, African American business owners typically start their businesses with half the capital of white business owners despite the fact that they demonstrate a greater need for start-up financing.[424] According to Pepperdine's Private Capital Access Index report, approximately 80 percent of African American businesses sought financing for planned business growth or expansions compared to only 55 percent of all respondents.[425] Although African American businesses demonstrate a greater desire and need to secure financing, due to discriminatory lending practices, African American business owners receive lower loan amounts, and with less frequency than white business owners.[426] For example, the median loan amount for African American business owners who are approved for credit is less than half of the loan amounts extended to their white counterparts.[427]

Another barrier to the growth and development of African American businesses is the fact that, on average, the businesses owned by African Americans are smaller than those owned by white Americans.[428] A key factor for measuring the size of a business is whether the business has employees and statistics show that Black-owned businesses are much less likely to have employees than white-owned businesses.[429] In 2012, for example, 23.9 percent of businesses owned by white men had employees whereas only six percent of businesses owned by African American men had employees.[430] Although the size of a business has a significant influence on the profitability of a business, even Black-owned businesses with employees tend to be much less profitable than white-owned businesses with employees.[431] In 2014, 63.4 percent of white-owned businesses with employees indicated that they were profitable compared to the reported profitability of only 45.6 percent of Black-owned businesses with employees.[432] In addition, the top 100 Black-owned businesses combined earned less than $30 billion in 2014. Walmart earned $482 billion, or sixteen times that.[433]

The challenges faced by African American business owners were further exacerbated by the economic hardships

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First Black Owned Aamco Transmission Franchise (c. 1970) caused by the COVID-19 pandemic.[434] The Federal Reserve Bank of New York reports that about 58 percent of Black-owned businesses were at risk of financial distress before the pandemic, compared to approximately 27 percent of white-owned businesses.[435] The financial instability experienced by Black-owned businesses made these businesses particularly vulnerable at the onset of the pandemic.[436] According to a report by the House Committee on Small Business, Black business ownership declined approximately 40 percent, more than any other racial group, during the first few months of the pandemic.[437] Black business owners such as Richard Anderson, the owner of Kinfolk Brass Band and Music Group, experienced significant economic distress as a result of the pandemic.[438] Before the pandemic, Kinfolk Brass Band was one of the most popular bands in New Orleans and frequently performed at weddings and music festivals around the world.[439] However, lockdown measures enacted to reduce the spread of COVID-19 forced all large events and gatherings to cease.[440] Without any events to perform at, Kinfolk Brass Band and its band members, including owner Richard Anderson, suffered a significant loss of income in 2020.[441]

During the housing crisis of the 2000s, California had the country's highest foreclosure rates, with Los Angeles leading the state. African American household foreclosure rates were 1.9 times that of white Americans, due to discriminatory banking practices.

California

African American Californians are much more likely to be renters and much more likely to be housing cost-burdened. For instance, 58.4 percent of African American Californians are renters versus 34.1 percent for white Californians.[442] African American Californians less likely to have access to the credit and housing stability that owning a home can provide in a crisis.[443] Homeownership for African American Californians lags behind the nationwide African American homeownership rate—33.3 percent versus 44 percent nationally in 2019.[444]

63 percent of white Californians own their homes, while only 33 percent of African American Californians do.[445] Homeownership rates for African American households have fallen every decade for the last 30 years, both unconditionally and after controlling for income and demographics.[446] African American Californians face higher priced loans, more predatory lending, and more risk.[447] During the housing crisis of the 2000s, California had the country's highest foreclosure rates, with Los Angeles leading the state.[448] African American household foreclosure rates were 1.9 times that of white Americans, likely due to increased targeting of minority communities for predatory lending as discussed above.[449]

African American Californians have less non-liquid assets. African Americans in Los Angeles own fewer stocks, mutual funds, investment trusts, individual retirement account and/or private annuity than white Angelinos.[450] Eighteen percent of U.S.-born Black households in Los Angeles do not have a car, the lowest of all reported ethnicities.[451] While Californians, in general, face long commute times, African American Californians in Los Angeles, on average, have a 7.5 percent longer commute.[452]

In Los Angeles, 11.7 percent of white households own a business versus 3.1 percent of African American households.[453]

V. Effects of Wealth Gap

The harmful effects of the wealth gap, which cascade across generations, have resulted in racial differences in the capacity of African Americans to transmit resources across generations and lower financial resilience during crisis, and discriminatory tax structures.

Fewer Intergenerational Wealth Transfers

Lower assets of African Americans means that intergenerational wealth transfers are less likely and tend to be smaller. Inheritance, intergenerational wealth transfers, or parental wealth are primary sources of the capacity for sustained wealth building.[454] Wealth, more than income, can be used to invest in appreciating assets for children, such as a college education, an unpaid internship in a high rent city, a new business, a property in a better residential neighborhood, or a job in the family firm.[455] Without wealth transfers, regardless of income, these assets are harder to attain.[456]

The fewer resources the older generation has to transfer to the next, the lower the wealth position attained by the younger generation.[457] At least 26 percent of an adult's wealth position is directly due to inheritance or gift money—a conservative estimate. The true effect could be as high as 50 percent.[458] Greater familial assistance contributes to white families' greater ability to buy better housing and get better deals on mortgages earlier in life, further compounding the homeownership and wealth gap and giving white families better security in crisis.[459] An Urban Institute study estimates that the shortfall in large gifts and inheritances accounts for 12 percent of the Black-white wealth gap.[460]

Between 26-50 percent of an adult's wealth position is directly due to inheritance or gift money. Larger family contributions earlier in life help white families buy better houses and get better mortgages, and create better financial security to combat a crisis.

The impact of fewer intergenerational transfers is reflected in the wealth gap between African American and white American millennials. While the typical white millennial family has about $88,000 in wealth, the typical African American millennial family has only about $5,000 in wealth. White millennial families made huge strides between 2016 and 2019, and they now lag previous generations of white families by only about five percent.[461] Between 2007 and 2019, however, African American millennials fell further and further behind—not just compared with white millennials, but compared with previous generations of African Americans.[462] While white millennials trail the wealth of previous generations of white Americans by only five percent, African American millennials trail previous generations of African Americans by 52 percent.[463] The typical African American millennial has $5,700 less in net worth than counterparts in previous generations.[464]

There are several reasons for these deep disparities between African American and white millennials.[465] First,

In 2019, 71.9 percent of white families expected that they could get $3,000 from friends or family during a crisis, versus less than 40.9 percent of African American families. Lack of access to liquid assets can also force people into financially risky options during a crisis, such as taking out predatory payday loans or high-interest credit card debt.

white millennials are more likely to benefit from having wealthy parents. Greater familial assistance contributes to white families' greater ability to buy better housing and get better deals on mortgages earlier in life, further compounding the homeownership and wealth gap and giving white families better security in crisis.[466] Their parents have more resources, for example, to help them with down payments on their first house or to help them pay off their student loans.[467] About 80 percent of African American millennials with at least a bachelor's degree still have student loan debt, compared with about half of white millennials. White millennials are also more likely to own assets like stocks and homes, which have ballooned in value in recent years.[468] While about two-thirds of white millennials own homes, less than a third of African American millennials own homes.[469]

Lower Financial Resilience during Crisis

Support from family networks can provide a "private safety net" to aid with cash transfers, housing, or childcare in times of material hardship.[470] Cash transfers can provide additional income, multigenerational housing can provide shelter, and family-provided childcare can permit a parent to work and earn income as well as avoid childcare expenses.[471] For example, during the COVID-19 pandemic, almost a quarter of renters borrowed money from friends or family.[472]

While African Americans receive assistance from family members at high rates, their overall tendency to lack resources may reduce the available quantity of such assistance, and may result in economic harm to the giver.[473] African American families are more likely than white families to have high-poverty family networks and more likely to make repeated cash transfers, which hinders their ability to accumulate wealth.[474]

For example, in 2019, 71.9 percent of white families expected that they could get $3,000 from friends or family during a crisis, versus less than 40.9 percent of African American families.[475] While new African American mothers are more likely to live in a relative's home, host a family member, and give or receive money than white mothers, helping family members in poverty may have negative consequences for struggling families.[476]

A pre-pandemic study found that while 31.7 percent of white households are liquid-asset poor (meaning that they could not use their savings to live for three months at the federal poverty rate), 62.7 percent of African American households are.[477] And a 2020 study found that 36 percent of white families had enough savings to cover six months of expenses, versus 14 percent of African American families.[478] In one February 2021 survey of "disadvantaged workers," 42 percent of white households reported that they could not pay for a $400 emergency expense without taking on additional debt, drawing down retirement accounts, or selling items, compared to 59 percent of African American households.[479]

African Americans are more likely to suffer from economic crises such as the COVID-19 pandemic. For example, a June 2020 survey found that while only 27 percent of white households had experienced financial hardship as a result of the pandemic, 40 percent of African American households had.[480] In addition, lack of access to liquid assets can also force people into financially risky options during a crisis, such as taking out predatory payday loans or high-interest credit card debt.[481] Lack of access to liquid assets can also make it harder to afford food and rent.[482] June 2020 census data showed that, among households where a job was lost during the COVID-19 pandemic, 31 percent of African American households lacked sufficient food in the prior week, compared to 12 percent of white households.[483] The data also showed that, compared to white renters, African American renters were less likely to have paid their rent in the previous month and more likely to predict that they would not be able to make their next rent payment.[484] In a May 2020 survey, African American respondents were more than twice as likely as white respondents to report missing a credit card, utility, internet, rent, mortgage, or other "important payment" since the beginning of the pandemic.[485] African American families with liquid assets also use them up more rapidly than white families during a crisis.[486] African American families with emergency savings at the start of the pandemic were twice as likely as white households to have needed to use them by May, and more than twice as likely to have already spent at least a quarter of their savings.[487]

Discriminatory Tax Structures

More than 50 years after the passage of the Civil Rights Act, many wealth-building policies still continue to heavily favor households that do not need help building wealth—mostly wealthy, predominantly white households—while doing little or nothing for low-wealth African American households, among other households of color.[488] The largest and most powerful of these programs operate through the U.S. tax code.[489]

These federal tax programs overwhelmingly favor building the wealth of the wealthy, and has contributed to the extreme rise in overall wealth inequality over the past several decades.[490] Tax policies have drastically different impacts on African American and white families and many were created during a time when African American families paid into the system without having the same legal rights to live, work, marry, vote, or receive an education as their white peers.[491]

The modern income tax system traces its roots to the Revenue Act of 1913, which instituted a progressive income tax system where tax rates increase as income increases but did not envision African Americans as taxpayers at all.[492] Even as African Americans eventually paid into the tax system after amendments and several new laws, they were unable to reap its benefits.[493] Today, African Americans are paying more in taxes than their white peers because U.S. tax laws were designed with white Americans in mind.[494]

The federal government has spent more than $8 trillion in the past twenty years on tax programs to help families build long-term wealth through saving for retirement, buying a home, starting a business, or accessing higher education.[495] This spending has resulted in the typical millionaire receiving about $145,000 in public tax benefits to grow their wealth, while working families get a total average of $174.[496]

Although the Internal Revenue Service does not collect race or ethnicity data, recent research indicates that the overwhelming amount of the federal tax benefits goes to white households at all income levels.

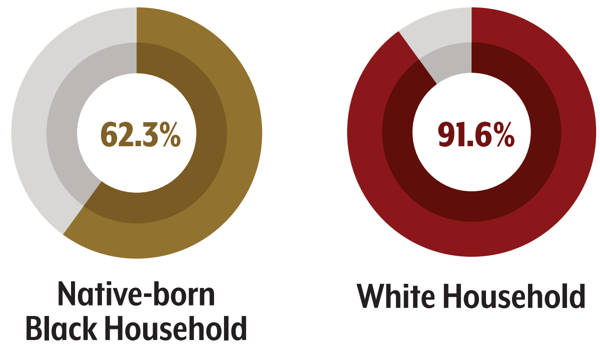
Although the Internal Revenue Service does not collect race or ethnicity data, recent research indicates that overwhelming amount of the spending the federal government does through the tax code goes to white households at all income levels.[497] Examining individuals earning $103,466 or more reveals that white people accounted for 79 percent of those respective filers, while African American people accounted for only six percent.[498] These individuals also took greater advantage of high-value tax benefits, which cost the government hundreds of billions of dollars each year. For example, in 2012, white people made up 83 percent of the residents in the ZIP codes with the highest percentage of tax returns reporting capital gains and mortgage interest deductions.[499] But, African Americans made up just three percent of residents in the ZIP codes reporting the highest rates of capital gains income and six percent of residents in ZIP codes reporting the highest rates of mortgage interest deductions. These two tax programs together cost the federal government more than $100 billion during that year.[500]

California

In California, Los Angeles provides a stark version of nationwide racial disparities in liquid assets accessible during a crisis.[501] A 2014 study of the Los Angeles metro area found that the median value of liquid assets for U.S.-African American households was $200, compared to $110,000 for white households.[502]

While 91.6 percent of white households had some kind of liquid asset, only 62.3 percent of U.S.-born African American households did. Further, 90.1 percent of white households had a checking account, versus 68.1 percent of U.S.-born African American households.[503] In addition, 71.9 percent of white households had a savings account, versus 55.5 percent of U.S.-born African American households.[504] While 40.7 percent of white households had stocks, mutual funds, or investment trusts, only 21.5 percent of U.S.-born African American households did.[505] Finally, 63.6 percent of white households had an individual retirement account or private annuity, versus 37.9 percent of U.S.-born African American households.[506]

Percent of households in Los Angeles that hold some type of liquid asset (2014)



In California, many current state tax policies benefit Californians with higher incomes and wealth—predominantly white and Asian Californians—and give little to no benefits to other Californians, including African American Californians.[507] For example, many tax benefits are only available to those who opt to itemize their tax deductions, and people who itemize tend to have higher incomes. California's four largest personal income tax deductions provide most benefits to families with incomes over $100,000, while providing nearly no benefits to those with incomes below $20,000.[508] African American Californians are more likely to have low incomes, so they are less likely to benefit from these tax breaks.[509]

California's several tax benefits for homeowners, including the deductions for mortgage interest and property taxes, are also unlikely to benefit African American Californians who have been blocked from homeownership through racist policies and practices, often lack funds for a down payment, and have lower value homes due to residential segregation and racist appraisal practices.[510]

VI. Conclusion

The legacy of slavery continues to reach into the lives of African Americans today. For hundreds of years, the American government at the federal, state, and local levels has systematically prevented African American communities from building, maintaining, and passing on wealth due to the racial hierarchy established to maintain enslavement.

Segregation, racial terror, harmful racist neglect, and other atrocities in nearly every sector of civil society have inflicted harms, which cascade over a lifetime and compound over generations. As a result, African Americans today experience a large and persistent wealth gap when compared to white Americans. Addressing this persistent racial wealth gap means undoing long-standing institutional arrangements that have kept African American households from building and growing wealth at the same rate as white households to the present day.

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