

“Generational Wealth and Contemporary Entitlements:  
Assessing their Impacts on the Racial Wealth Gaps”

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*Abstract*

Many acknowledge the role of generational wealth – itself the product of centuries of White supremacist policies – in creating the contemporary racial wealth gaps among Whites, Black, and Latinx households. What is less recognized is the impact of current federal entitlements – those buried in the vast tax code.

This paper reveals the consequential effects of these 12 tax deductions that function like entitlements. Unlike other entitlements, half of these have no limit on their benefits. Most have an asset requirement in that they require recipients own specific assets like a home or retirement account. In 2024 alone, these tax entitlements showered over \$1.2 billion to mostly White and wealthy households, placing them only slightly behind Social Security.

This paper examines the role of generational wealth and these tax entitlements in widening the racial wealth gaps over the past 33 years. It does so by using evidence taken from the Survey of Consumer Finances and merging it with Joint Committee on Taxation estimates of federal tax expenditures. Consistent with the literature, family intergenerational transfers are estimated using two different methods. The distributional benefits of the dozen tax entitlements are estimated using household balance sheets.

Preliminary analysis indicates that intergenerational family transfers averaged from \$244 to \$284 billion annually depending on which method used while the entitlement benefits averaged around \$589 billion annually. Further the entitlement benefits have grown more quickly than the increase in family transfers. To be sure, the estimates of family transfers represent a lower bound to the role played by generational wealth.

## ***Introduction***

To many American, the racial wealth gap is a complete mystery. In a recent poll, 71 percent of White respondents believe the racial wealth gap is the result of individuals making poor choices rather than systemic factors (Currie, 2022). Almost half of all respondents (43%) agreed with this assessment. Moreover, most Americans vastly underestimate the extent of the wealth divide. In a different survey, respondents overwhelmingly expressed optimism regarding progress in reducing the racial wealth gap (Kraus, Rucker, & Richeson, 2017). When asked about the current wealth gap, they typically estimated that Black households hold \$90 for every \$100 held by White households. Interestingly, their estimates of the gap two generations back were more realistic. However, these perceptions allowed them to hold the view that our nation's racial inequities, at one time awful, were now largely eradicated.

Similarly, the economic orthodoxy has largely found the modern racial wealth gap an enigma. Thanks to the 1962 Survey of Financial Characteristics of Consumers (1962 SFCC) which pierced the veil on household wealth in America, we have a baseline of the racial gap in the twilight of Jim Crow. Two years later, the Civil Rights Act of 1964 would outlaw de jure barriers to non-White advancement in education, employment, occupation, business, and credit opportunities. Absent these barriers, economic orthodoxy would argue that market forces would generate new equilibria of rising non-White outcomes and disappearing racial disparities. Over the past two generations, the record has corroborated the first prediction, but not the second. The orthodoxy's model of wealth accumulation, the Life Cycle Hypothesis (LCH) predicts that differences in generational wealth should dissipate over time (to reflect income differentials) as White households simply consume their wealth over their lifetimes. Even racial animus should disappear. The orthodoxy's preferred discrimination model predicts that any "taste for discrimination" will inevitably melt in the crucible of competitive market pressures. Similar to the American public, the economic orthodoxy offers compelling explanations for why the racial wealth gap should become an historical artefact.

Regrettably, the actual record is starkly different. According to the 1962 SFCC, the typical White household possessed a net worth of \$7,620 (\$73,701 in 2022 dollars) while the typical Black household held only \$295 (\$2,853 in 2022 dollars).<sup>1</sup> Using the wealth rank measure, fully 78 percent of White households had more wealth than the typical Black household.<sup>2</sup> Almost one third of Black households reported zero net worth or worse while less than one fifth of White households suffered similarly. One striking result of the survey is that White households – on average – were expecting an inheritance (actually in probate) of \$208 versus \$1 for Black households.<sup>3</sup> This snapshot is unsurprising given its placement within the era of Jim Crow and its system of legalized segregation, discrimination, and exclusion.

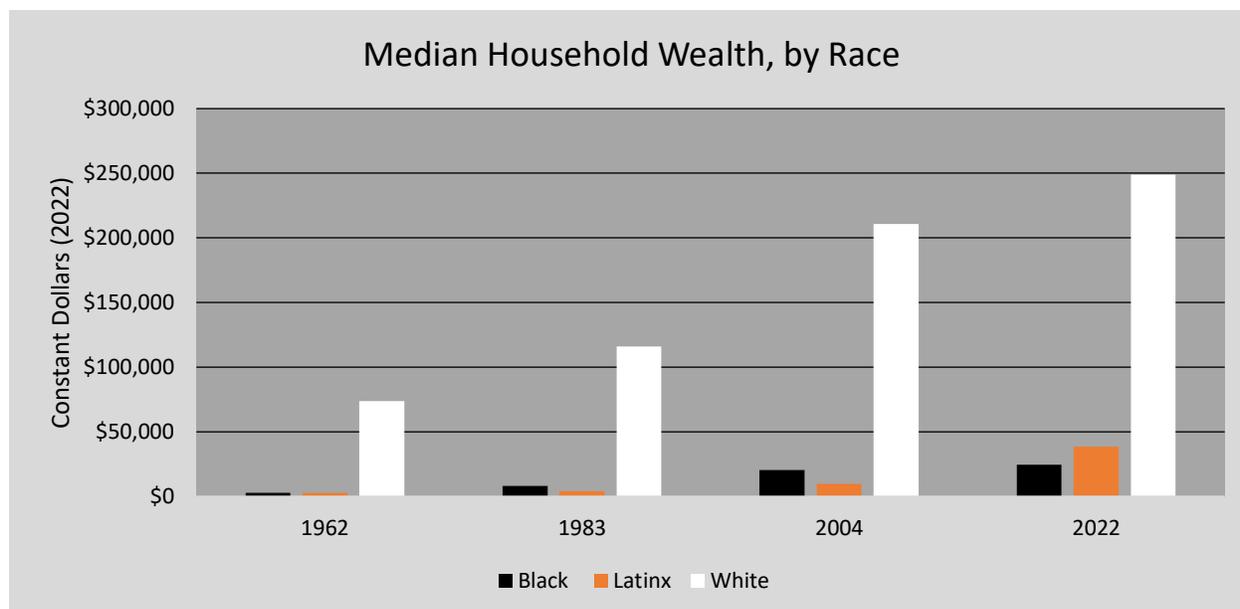
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<sup>1</sup> Reflective of the times, the survey's race questions offer the following choices: White, Non-White, or Not Ascertained. Like others, I assume that the Non-White category aligns with our current understanding of Black or African American (Aliprantis, Carroll, & Young, 2019). In the graph, I use the same figure for both Black and Latinx households for 1962. Later surveys did identify Latinx-headed households separately, although some changes to the questions have been made in subsequent surveys.

<sup>2</sup> I use the terms net worth and wealth interchangeably despite their differences. In this case, my definition of net worth includes real and financial assets minus debt. I follow the conventions of the SCF by excluding any defined benefit retirement funds and any claims to future Social Security benefits. I exclude vehicle assets as they are non-appreciating.

<sup>3</sup> In 2022 dollars, these figures are \$2,012 versus \$10.

Over the past sixty years of supposedly benign racial policies, the racial wealth gaps have widened as illustrated in Figure 1. Median household wealth across all groups has increased



Source: SFCC; SCF.

over the period. However, the absolute difference between White and both Black and Latinx households has increased as well. In 1962, the typical White household held a wealth advantage of \$70,000 (in 2022 dollars) that has almost tripled to \$200,000 in 2022. Among Black and Latinx households, the percent of households who report nonpositive net worth has declined slightly to 28 and 24 percent respectively; both are at least twice as high as the rate among White households. Even today, sixty years later, it remains unchanged that 78 percent of White households report higher net worth than the typical Black household.

These immutable disparities in household wealth function to limit, if not undermine, any real racial progress the nation might enjoy. More dependable than income, wealth offers its holder a true source of power (Browne, 1993). Its accumulation brings financial security as it insulates households from the difficult choices that result from irregular earnings or unanticipated expenses. Wealth allows households to take advantage of opportunities, whether it's to finance needed education or training or fund an investment or business opportunity. It provides parents the means to support their children's development and education as well as offer assistance as they make their way in the world as adults. As Raymond Franklin (1991, xviii) provocatively argues "Ownership carries with it domination; its absence leads to subordination." Given its central importance, we must understand not only the extent of the current racial wealth gap but also the key forces that are driving it.

To this end, this paper examines two questions. How much of the current racial wealth gaps are simply the result of the inherited advantage Whites hold largely as a result of centuries of public policies that favored them? To what extent has the generational wealth advantage held by Whites in 1962 and beyond simply been able to snowball sufficiently to continually widen the wealth

gaps? Much has been written on this issue although no definitive answer has resulted. What has received scant attention is the contribution provided by current federal policies. What has been their contribution to the expansion of the racial wealth gaps? To answer this question, this paper examines twelve tax expenditures that directly help households build wealth. I explain how their design effectively targets their benefits to households who've *already* accumulated wealth thereby tilting their largesse to the affluent. Given the structure of wealth just discussed, this means their generosity largely falls to White households. Because these tax expenditures are buried deep into a federal tax code that runs thousands of pages, they operate as stealth entitlements to wealthy, and mostly White households. To answer both questions, I derive estimates that indicate their contributions to the growing wealth divide.

### ***Using the Lens of Stratification Economics***

This paper uses the lens of stratification economics, an emerging sub-discipline, to frame its analysis (Darity, 2005; 2022). In particular, it utilizes the Wealth Privilege (WP) model to understand the various avenues and barriers households face as they accumulate wealth (Williams, 2016; 2017). In contrast to the LCH model, the WP model doesn't simply view wealth as a store of future consumption, but also recognizes its unique role in a system of economic and racial stratification. As a source of power, wealth's durability and transferability across generations makes it an effective vehicle by which status and power can be transmitted from parents to their children. Household wealth enables parents to purchase a home in select neighborhoods with well-resourced schools that offers their children an important head start. Generational wealth expands the range of potential colleges and allows one's kids to graduate from college without student loan debt. Later, family wealth can help the children buy their first home and even afford one in a highly selective neighborhood, thereby closing the loop. Labeled "transformative assets" by Thomas Shapiro (2004, p.2), these gifts can cement the legacy of generational wealth that transcends generations. The very rich can now use family trusts to avoid taxation and assure future generations of guaranteed help, *in perpetuity* (Williams, 2025). As Dalton Conley (1999, p. 25) has noted, "wealth has the particular attribute of tending to reproduce itself in a multiplicative fashion from generation to generation." As he suggests, wealth functions as the means by which privilege is transmitted across generations.

The WP model explains how economic stratification operates within a given generation. The key avenues of wealth accumulation – household saving, family gifts and bequests, and asset appreciation – present vastly different circumstances to households based on their wealth status. Below certain wealth thresholds, households face severe head winds as they seek to get ahead. Low pay, limited hours, and irregular employment limit any saving opportunities households might pursue. Their asset purchases are largely restricted to furniture, appliances, or cars – required assets that depreciate over time. Frequently raised in wealth-poor families, any success they experience can attract family members in need of help for themselves. Above certain wealth thresholds, households experience iteratively easier conditions to attain financial security. Increased wealth offers households greater access to cheaper credit. An expanding financial portfolio offers increased diversification, thereby enabling greater latitude to invest in higher-risk and higher-return assets. Generational wealth allows parents the assurance that their children will gain the full measure of these advantages even as they enter the adult world. Each generation experiences a higher starting point and allows them to take increased advantage of the privileges

of wealth status. In these ways, household wealth serves as the perfect vehicle for cementing a system of economic stratification both within and across generations.

While the WP model operates without overt reference to racial status, it clearly has racialized implications. Whatever year we take, 1962, 1983, 2004, or 2022, the evidence clearly shows that Black and Latinx households hold far less wealth than Whites. Far fewer Black and Latinx households will experience the benefits of wealth-holding described above and far more will face severe headwinds as they strive for financial security. At the starting line of young adulthood, they will largely glimpse the backside of their White peers. Holding less wealth throughout their lives, they'll need to struggle harder to get ahead. *Twice as hard for half as much*. Over their lifetime, they will typically accumulate less wealth and therefore have less to offer their own kids. And so, it goes. In a world in which racial preferences are barred by law, wealth provides the new means for maintaining a system of racial stratification.

In addition to the usual suspects, the WP model acknowledges the existence of a fourth avenue by which households get ahead and build wealth. From its outset, the federal government has assumed major responsibility for improving the well-being of its citizens. From Constitutional protections for private property that included enslaved persons to homesteading laws to the G.I. Bill, the federal government has enacted major policies in support of private wealth-building. Of course, virtually all of this assistance has been showered on a favored group, White Americans (Lui et al., 2006). Acknowledging this role of past public policies leads to the conclusion that our racial wealth gap didn't just happen, but it was made.

### ***Literature Review***

There is a substantial literature that tries to explain the pervasiveness and breadth of the racial wealth gaps. Much of this literature has relied exclusively upon the LCH model as its conceptual framework (Krivo & Kaufman, 2004) despite its inability to explain the major trends illustrated in Figure 1.<sup>4</sup> Because the LCH model is essentially a model of savings behavior, many have tried to find a cultural explanation on why Whites save more than other groups. Some have argued that different attitudes toward time preference (Krusell & Smith, 1998), in leaving bequests to one's children (Heer, 2001; Laitner, 2001), or the likelihood of family support (Shin, 2010) can explain the wealth disparities. Others posit that Black households may save less due to a greater emphasis on matching their peers' standard of living (Burlew et al., 1992; Gutter & Fontes, 2006; Yao, Gutter & Hanna, 2005). Another argument is that Black households have less risk tolerance thereby causing the wealth disparities (Yao, Gutter & Hanna, 2005). In large part due to the narrow focus of the LCH model on household saving, many have turned to cultural arguments that might explain different saving behaviors.

While cultural differences could explain different saving behaviors across various groups, so might simply differences in circumstances. Various studies, conducted by economists who represent the spectrum of economic thinking – ranging from Milton Friedman to Marcus Alexis – have concluded that Black households save slightly more than their White counterparts (Darity

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<sup>4</sup> Readers who want an expanded discussion of the role and limitations of the LCH model should see Williams (2017).

et al., 2018).<sup>5</sup> Such studies require the inclusion of key controls like household income (Hamilton & Chiteji, 2013). More recently, researchers have queried whether reduced access to credit, retail desertification in Black neighborhoods, and customer discrimination might depress Black spending significantly. They conclude that White households outspent their Black peers by 30 percent when controlling for income and other variables (Charron-Chénier, Fink, & Keister, 2017). Yet, the canard persists that Black households simply don't save enough to close the wealth gap.

Many observe that Black and Latinx households typically hold a less diversified, financial portfolio that is tilted toward home equity and less toward higher-return assets like stocks and business equity. There's broad agreement that these differences in asset portfolios explain some portion of the wealth gaps (Gittleman & Wolff, 2000; Boshara et al., 2015; Williams, 2016). There's disagreement on whether these choices result from differences in risk avoidance (Yao, Gutter & Hanna, 2005), financial literacy (Boshara, Emmons, & Noeth, 2015), or simply – again – the reality of economic circumstances imposing limited options (Hamilton & Darity, 2017).

In contrast to the LCH model, the WP model predicts a widening racial wealth gap, even in a post-racial world. Of course, no such world currently exists in the US. Not only do Black households comprise a grossly disproportionate of households unable to access the privileges of wealth, based on their net worth, they face substantial challenges in labor markets (Bertrand & Mullainathan, 2003; Darity & Mason, 1998; Darity & Myers, 1998; Pager 2003; Rodgers, 2019; Spriggs & Williams, 2000), credit markets (Ards et al., 2015; Charles & Hurst, 2002; Chiteji, 2010; Krivo & Kaufman, 2004; Munnell et al., 1996; Williams, Nesiba & McConnell, 2005), and self-employment (Bates, 1997; Blanchflower et al., 2001; Borjas & Bronars, 1989; Fairlie, 1999; Fairlie & Meyer, 2000; Henderson et al., 2015) based on their race. Clearly, our nation's history of enslavement, genocide, and expropriation of property explains why black households receive far less financial help from their families (Conley, 2010; Darity & Nicholson, 2005; Robles, 2006; Oliver & Shapiro, 2006; Williams, 2016). Along with the WP Model, these various forms of pervasive racial discrimination offer compelling reasons for why the racial wealth gaps are widening.

One would expect that family inheritances may contribute to this growing gap. Plenty of evidence demonstrates that White households receive far more help in gifts and inheritances than do Black and Latinx households (Charles & Hurst, 2002; Herring & Henderson, 2016; Williams, 2016). Looking directly at the Black White wealth gap, two studies use conventional Oaxaca-Blinder-Kitagawa (O-B-K) decomposition and conclude that gifts and inheritances account from between 11 and 20 percent of the wealth gap at the mean (Menchik & Jianakoplos, 1997; Avery & Rendall, 1997). Looking over a ten-year period, Gittleman & Wolff (2000) develop a counterfactual model and estimate slightly lower figures of 7 to 11 percent.<sup>6</sup> Barsky et al. (2002) argue the O-B-K decomposition suffers from several drawbacks including its assumption of linearity and its application only at the mean which is unduly influenced by outliers. Since that time new studies using semi-parametric techniques pioneered by DiNardo, Fortin, and Lemieux

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<sup>5</sup> Among some of the studies are Alexis, 1962; Friedman, 1957; Galenson, 1972; Gittleman & Wolff, 2004; Hamilton & Chiteji, 2013.

<sup>6</sup> They use PSID data which is less likely to capture the very wealthy households where the largest inheritances are received. They also limited their study to ten years of gifts and inheritances.

(1996) and Barsky et al. (2002). Using these developed reweighting techniques, a number of recent studies all share similar results; they find that share of the racial wealth gap caused by family gifts and inheritances is in the single digits (Thompson & Suarez, 2019; Sabelhaus & Thompson, 2023; Petach & Tavani, 2022; Toney, Addo, & Hamilton, 2023).<sup>7</sup> Maroto (2016) finds a much greater role -potentially – for family inheritances although this variable is included in a broader category that includes both home and stock ownership.

Regarding the role of federal policies in either creating or contributing to the racial wealth gaps, there has been much attention given to the past. For two centuries, seventy of those years under the federal government, slavery produced much of the nation’s wealth to the sole benefit of White Americans (America, 1998; Browne, 1972; Browne, 1990; Craemer et al., 2020; Darity & Mullen, 2020; Swinton, 1993). 19<sup>th</sup> century land policies forcibly removed Native Peoples only to offer the vacated land to Whites in various homesteading laws (Liu et al., 2005; Shanks, 2005; Williams, 2016, 2022).<sup>8</sup> After a brief respite following Emancipation, White supremacy brazenly reasserted itself as de jure segregation, episodic White violence, and outright theft and expropriation of Black wealth (Darity & Francis, 2003; Darity & Nicholson, 2005; Darity & Mullen, 2020). Not just in the South, Blacks found themselves barred from schools, occupations and professions, neighborhoods, public accommodations, and voting booths. In the 20<sup>th</sup> century, New Deal housing policies funneled credit into “White – only” neighborhoods while shunning those vulnerable to an influx of “undesirable populations” (Rothstein, 2017; Williams, 2016). The remarkably generous G.I. Bill along with FHA mortgages enabled millions of White households attain homeownership, earn a college degree, complete vocational training, or start a business or farm. (Conley, 2010; Darity & Mullen, 2020; Hillier, 2005; Katznelson & Mettler, 2008; Olson, 1973; Rothstein, 2017; Williams, 2016, 2022). Each of these policies provided exclusive opportunities for White Americans to secure land and homes, start farms and other businesses, and gain needed education – all critical steps in building wealth that could be passed along from one generation to the next.

What has been largely ignored is how this legacy of exclusive help from the federal government has continued to the present. Williams (2022; 2025) offers an excellent analysis of how tax policies have worked throughout the 20<sup>th</sup> century to the benefit of White households at the expense of Black households. Two Corporation for a Competitive Economy studies examine 13 tax breaks and found that as much as 84 percent of their benefits went to the top 20 percent of taxpayers (Woo et al., 2004; Woo et al., 2011). More recent studies by the Tax Policy Center (2013) and the Congressional Budget Office (CBO, 2019) examined tax deductions that encouraged asset-building and found similar results. All of these studies focused on household income with only Williams examining the impact along racial lines. In contrast, Williams (2016; 2025) examine a dozen tax expenditures and finds they disproportionately benefits wealthy and White Americans. Of course, the reality is that policies that target household income and especially wealth, effectively work to serve “Whites Only”.

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<sup>7</sup> The first three studies look at both the White Black and White Latinx wealth gaps. The fourth study looks only at the White Black gap.

<sup>8</sup> After the Treaty of Guadalupe Hidalgo, former Mexican landowners had much of their lands stolen by White Americans as well.

### ***Stealth Entitlements for the Rich***

Over fifty years ago, Assistant Treasury Secretary Stanley Surrey warned against the increasing use of tax expenditures as a source of federal policy. In contrast to direct, public expenditures which are measurable, generally transparent, and easily tracked, he contended that tax expenditures are opaque and easily ignored. Spending proposals carry a specific price tag and are considered among other competing demands for scarce dollars in the annual budgeting process. Program costs are pre-determined and funding disbursements are traceable. Program results and beneficiaries are easily monitored and reviewable by federal agencies and Congressional committees. In contrast, tax expenditures carry no price tag, but simply generate “lost revenues” to the Treasury causing some to think they carry no cost (Wolfman, 1985). Funds are “disbursed” as taxpayers take advantage of the tax exemption leaving little to trace. Their design as an entitlement, often without any limits, makes budgeting extremely tenuous. Once embedded in a tax code that runs thousands of pages, they are allowed to lie undisturbed until Congress gathers sufficient motivation to engage in tax reform. For these reasons, Secretary Surrey viewed these tax expenditures as the “back door” to the U.S Treasury (Surrey, 1968, p. 61).

Using the tax code, particularly tax deductions as opposed to tax credits, to meet social goals generally means the wealthy will benefit disproportionately. Given progressive income tax rates, any deduction is far more valuable to those in higher tax brackets thereby creating what Surrey called an “upside down subsidy”. Even using tax credits could leave out those making too little to pay federal income taxes while “below the line” deductions are valuable only to the affluent who itemize their deductions. Frequently designed without any caps on benefits simply skews their largesse even further toward the wealthy. While the Civil Rights Act of 1964 prohibits policies offering racial preferences, the existing racial wealth gap causes policies that favor the wealthy to function as if they’re designated for “Whites Only”.

The twelve wealth-building expenditures that are examined in this paper are given in Table 1 below. What is similar across all twelve is their design to meet the circumstances and needs of those who’ve already acquired some wealth. They differ in how they help households accumulate wealth. The first three allow households to deduct certain expenses from their tax liability thereby providing more protected income that can be saved.<sup>9</sup> Both the home mortgage interest deduction and the property tax portion of the SALT deduction require homeownership, meaning renters need not apply. All three are below-the-line deductions so they require taxpayers to itemize their deductions.

Table 1 Wealth-Building Tax Expenditures

1. Home Mortgage Interest Deduction
2. State and Local Tax (SALT) Deduction
3. Charitable Contributions Deduction
4. Health Insurance Exclusion
5. Imputed Net Rental Exclusion
6. Tax-Exempt Interest Exclusion
7. Qualified Business Income Exclusion
8. Home Sales Exclusion

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<sup>9</sup> In most cases, these are cash expenses that are protected which limits somewhat the value of the deduction. However, the possibility of non-cash charitable contributions can offer substantial tax savings to the donor.

9. Capital Gains Exclusion
10. Life Insurance Exclusion
11. Pension Exclusion
12. Estate Step-Up Exclusion

The next two, exclusions on employer-funded health insurance and the imputed net rental income from owner-occupied housing, permit favored households the opportunity to enjoy non-income benefits without paying federal taxes on those benefits. Employer-provided health insurance offers protection against the financial costs of illness and injury while residing in one's owned home(s) provides consumption benefits that go untaxed.<sup>10</sup> Not all workers are provided health insurance through employment and only homeowners can take advantage of the net rental value exclusion. Each limit the household's tax bill thereby increasing after-tax income and enabling greater saving.

The next two tax expenditures, tax-exempt bond income and qualified business income exclusion, simply make certain forms of income exempt from taxation. Tax-exempt bonds strictly appeal only to households in the highest federal tax brackets causing this exclusion to be among the most exclusive of the group. To benefit from the qualified business income exclusion, not only is one required to own a business, but in such ventures that generally carry significant capital requirements. Mom and pop business owners need not apply here. Similarly, the home sales and capital gains exclusions allow certain asset holders to keep a larger share of any realized capital gains. Once again, homeownership is required for the former and asset ownership for the latter, both marks of more affluent households. Further, certain life insurance and pension assets get specialized tax treatment. Any income earned by these assets gets deferred until the funds are removed, frequently when the household faces lower income tax rates. In the case of Roth IRAs, the tax deferral is without limit. These tax benefits support retirement savings, but provide no help to those households struggling to build more liquid savings.

The remaining tax expenditure is triggered by death of the property owner and the creation of their estate. Any assets that have unrealized capital gains are excluded from any taxation and are simply "stepped up" to the current market value. In this way, those with sizeable asset portfolios can simply avoid any taxation on capital gains by holding these assets until death. While this higher value of the estate is subject to any inheritance tax, this only applies to truly large estates as the current tax threshold is nearly \$14 million, double that if both spouses agree.

These twelve tax expenditures are clearly designed to target their assistance to those *already* wealthy. Only households who have attained homeownership, focused on retirement savings, or invested in other appreciating assets will benefit from this public generosity. In essence, households must demonstrate their deserving nature *before* they qualify for the benefits. Each of these tax expenditures is fabricated as a tax deduction rather than a tax credit and thereby funnels the assistance to those in the highest tax brackets. Further, all but four of the deductions have no

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<sup>10</sup> This is not an intuitive argument, but a simple example can explain the rationale. Consider two households that purchase two identical homes. Instead of living in their own homes, they each rent from the other. Both earn rental income from their purchased assets that then raises their income tax liability. By living instead in their own homes, they each avoid the additional tax liability while still enjoying the value of their homes.

limit to their charity.<sup>11</sup> Wealthier households can simply take greater advantage of these deductions without limit. This creates a “virtuous cycle” in which the rich can take larger deductions and exclusions, enabling them to amass even greater fortunes all the while viewing these benefits as earned. Of course, these rich beneficiaries also are overwhelmingly White.

### ***Data Sources***

To conduct this study, this paper relies upon the following sources of data. Thanks largely to the efforts of Secretary Surrey, the Congressional Budget Act of 1974 requires the government to offer an accounting of the lost revenues that result from current tax expenditures. Consequently, both the Treasury Department and the Joint Committee on Taxation (JCT) provide annual estimates of the future costs assuming the prevailing economic circumstances and current tax laws. Although they use slightly different methods, their estimates roughly align with each other. In this study, I make primary use of the JCT’s estimates while adding the Treasury’s estimates for the imputed net rental value of owner-occupied housing.<sup>12</sup> Both sources provide annual amounts for the listed tax expenditures starting in the mid 1970’s and continuing with projections through the end of this decade. For the purposes of this study, I use 1987 through 2022.

Additionally, I use the Survey of Consumer Finances (SCF) which is the modern antecedent of the SFCC mentioned earlier. The SCF is a single-wave, cross-sectional survey conducted every three years that queries households about their assets, debt and wealth transfers as its primary focus. This emphasis enables a range and depth of questions that allow the survey to provide a unique and nuanced appreciation of the distribution of household wealth. Its sampling design allows it to overcome a thorny issue. Two thirds of the survey sample are randomly drawn while the remaining respondents are part of an oversample of very affluent households. As the wealthiest three percent of households hold nearly half of the nation’s wealth – a group often reluctant to disclose their holdings -, this oversample offers increased assurance that the very wealthy are represented in the survey (Bricker et al., 2016). While its single-wave design limits its value in examining wealth accumulation over time, it’s nonetheless considered the “gold standard of wealth data” (McKernan et al., 2014, p. 5).

### ***The Growth in Aggregate Household Wealth***

The first step is to examine the growth in aggregate household wealth by race from 1989 to 2022.<sup>13</sup> As you can see in Figure 2, the absolute difference between White and either Black or Latinx households’ aggregate wealth more than tripled, from about \$36 Trillion to \$116 Trillion in 2022. This offers a sobering illustration of how much the racial wealth gaps have widened over the past generation. While some may point out that the growth in aggregate wealth within the Latinx community was higher than among Whites, this is simply the result of Latino households taking a much larger share of the survey population over the period. As concerning as this evidence is, our goal in this paper is to understand how much family inheritances and current federal tax policies have contributed to these trends.

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<sup>11</sup> Only the home mortgage deduction, home sales exclusion, and now the state and local tax deduction and the qualified business income deduction have limits on how much a given taxpayer can benefit.

<sup>12</sup> Since about 2005, Treasury has recognized this tax expenditure while the OMB does not.

<sup>13</sup> Although the SCF can trace its origins back to 1983, it established its current format in the 1989 version.

	Black	Latinx	White
1989	\$1.1 T	\$0.8 T	\$37.1 T
2022	\$3.2 T	\$2.8 T	\$119.5 T
Annual Growth	3.2%	4.0%	3.6%
Survey Population	28%	67%	26%

Source: SCF 1989; 2022.

### ***Estimating the Impact of Family Transfers***

To capture the role of family transfers, the SCF employs several different lines of questions. Relatively late in the survey, respondents are asked whether they have ever received any gifts, inheritances, or substantial assets in a trust or some other form. If yes, they are offered three opportunities, if needed, to provide both the year and approximate value of the transfer. A final follow-up questions asks them to simply add any additional gifts and their value without any date listed. This represents the primary, but not sole module regarding family transfers. Earlier in the survey, when asked about various real assets, like real estate and business equity, respondents are asked whether the asset was acquired as a gift or inheritance rather than being purchased. While most of these inherited assets get included in the later gift module, some seem to get missed. These are included as well. Additionally, in the income module of the survey, respondents are asked whether they have received any gifts or inheritances within the last year. Finally, respondents are queried whether they *have given* money to other family members in the past year, including children, grandchildren, siblings, parents, and grandparents. Although important, this latter flow of funds is not part of this study.

Let's start with some basic information on who gives and who receives as shown in Figure 3. Whites report having received a family gift or inheritance at three to four times the rate of Black and Latinx households. Moreover, they expect a future inheritance at two to three times the rate of their peers. Given the wealth divide, one might consider these disparities to be narrower than expected. Even more surprising is the reported giving behavior. Legacy gifts are those that have been made in the past year to their children, grandchildren, or nieces and nephews. These intergenerational transfers have a clear legacy motive. Distress Gifts are those that go to their

	Black	Latinx	White	All
Have Inherited	8%	6%	28%	22%
Exp. to Inherit	8%	5%	17%	14%
Legacy Gift	10%	4%	8%	8%
Distress Gift	13%	11%	6%	8%

Source: SCF 2022.

parents, grandparents, uncles, and siblings. These would suggest a different motive. Here, Black households are more likely to make both kinds of gifts than either White or Latinx household. All of this suggests that intergenerational giving is far more complicated than most of us think.

Next, let's turn to the recipients of past gifts and inheritances. Figure 4 provides results that are conditional on receiving a past gift. White wealth transfers, whether at the mean or median, are two to three times those received by Black or Latinx households. This difference along with the disparities in receipt just discussed demonstrate that wealth transfers are highly connected to race. Having received a past gift appears to have a stronger impact among Black and Latinx households on the importance of leaving a legacy as well the likelihood of doing so. Although the sample is small, it is particularly striking how many of the Latinx recipients have given a legacy gift themselves.

Figure 4				
	Black	Latinx	White	All
Mean Inheritance	\$122,376	\$151,401	\$388,982	\$366,449
Median Inheritance	\$60,000	\$60,000	\$110,000	\$107,000
Legacy Important	79%	67%	58%	59%
Legacy Likely	70%	86%	71%	71%
Legacy Gift	7%	20%	12%	12%

Source: SCF 2022.

Following the methods used in Feiveson and Sabelhaus (2019), I use two methods to estimate the value of family transfers. First, I take the most recent SCF 2022 and simply estimate all of the transfers reported in the inheritance and asset modules. As I have both the year and the approximate value of the gift at that time, I bring them up to present values in the following way. I assume the recipient invests the gift in a market index fund the following January 1<sup>st</sup>. Using the S&P 500 Stock Price Index, I then calculate the change in value from that date until July 1<sup>st</sup> 2022, the midpoint of the survey year. Since the chosen rate of return can have a substantial impact on the present value, I think this represents a fairly balanced way to handle this issue. Investing in a stock index fund requires no special expertise. It simply requires discipline and patience. Moreover, this index does allow for some consumption of the inherited asset as any past dividends are paid directly to the stockholders and not included in subsequent price evaluations. In those cases, in which transfers are reported without a reference to the year of receipt, I assume the year of the first reported gift. It is suggested that this is the largest of the reported transfers which likely makes it one of the more recent ones. I add to this any recent income that is reported as a family gift or inheritance.

One concern with the previous method is the problem of recall bias as the passage of time dims recollection of the receipt, year, or value of long-ago gifts. A second way of estimating past transfers is to take all 11 surveys from 1989 to 2022 and estimate the reported transfers in the three previous years. In this case, only the most recent transfers are included. One challenge is that the SCF reports past transfers in the public data set only in 5-year periods in order to protect respondent confidentiality. To remedy this problem, I assume that the gifts are evenly spread over a given 5-year period and simply interpolate based on that.

The results are presented in Figure 5 below. The two methods estimate that somewhere between \$8.7 and \$10.2 trillion dollars were transferred across generations over the period. If one adjusts these flows to reflect modest investment returns, these numbers range from \$33.2 to \$37.1 trillion in current wealth. Due to the challenges of recall bias, it's unsurprising that the single survey estimates are below those generated by the 3-Year Recall method. One can also see how

Figure 5		Inherited Wealth by Race, 1987 – 2022 (in billions)			
		Black	Latinx	White	All
Recall from SCF 2022	Raw	\$96	\$81	\$8,086	\$8,650
	S&P 500	\$274	\$261	\$30,915	\$33,247
	Share	1%	1%	93%	
3-Year Recall	Raw	\$331	\$207	\$9,138	\$10,215
	S&P 500	\$1,342	\$593	\$33,884	\$37,185
	Share	4%	2%	91%	
Total Household Wealth		\$3,198	\$2,796	\$119,459	\$134,883
Inheritance Share		42%	21%	28%	28%

Source: SCF1989 – SCF2022.

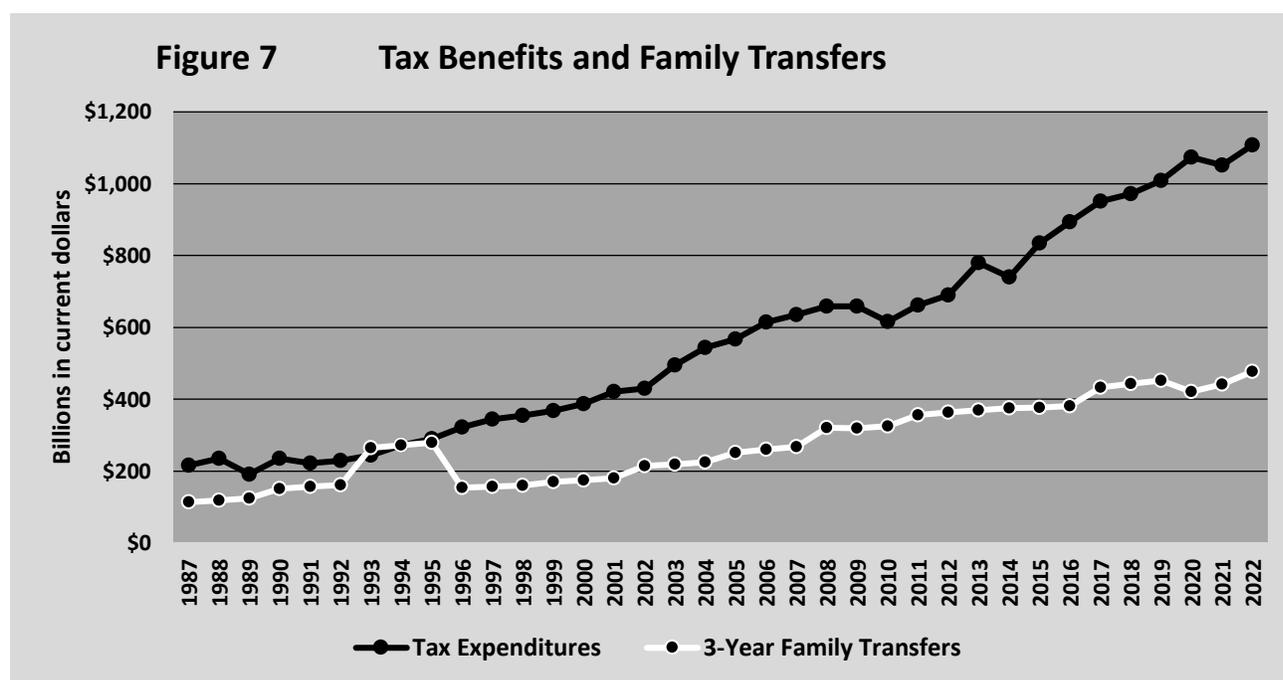
the inheritances and transfers are distributed across the three groups. Black and Latinx households receive much less wealth in the form of gifts and inheritances than do White households, by a large margin.

The results in Figure 5 raise an interesting question: do intergenerational gifts and inheritances exacerbate or mitigate the racial wealth gap? The evidence above indicates that White households receive between 91 and 93 percent of all transfers depending on which estimate you consider. Given Whites held about 88 percent of total household wealth in 2022, this would suggest that these transfers exacerbate the racial wealth gaps. This would make sense since wealthy households have the means as well as the motive to transfer wealth to the next generation. On the other hand, Black household, in particular, experience their inherited wealth comprising a much larger share of their total wealth, 42 percent. According to Edward Wolff (2017) perhaps the most accomplished wealth scholar of our generation, this would indicate that inheritances lead to a narrowing of at least the Black White wealth gap. He argues this point on the fact that the share of wealth that is inherited is higher among less wealthy households (like Black households in this case) than in more affluent households (like White households). While his argument considers how such transfers might affect the saving behaviors of both donors and recipients, he neglects to consider how inheritances might impact the recipient's investment opportunities. There's plenty of evidence to show that Black investments either in human capital or business ventures rarely generate the same returns as compared to their White peers. It is difficult for this observer not to conclude that the massive inheritance gap enjoyed by White households has not contributed to the widening of the racial wealth gaps noted in Figure 2.

### ***Estimating the Impact of the Federal Tax Expenditures***

Thanks to Secretary Surrey, the federal government is required by law to estimate how much the federal tax expenditures cost the U.S. Treasury. While the twelve tax expenditures of interest

here represent a small portion of the total number<sup>14</sup>, they represent the vast share of their cost to the treasury. Figure 7 compares the annual cost of these annual transfers with the inherited wealth discussed previously. As you can see, the value of annual gifts and inheritances were comparable to the value of the federal tax expenditures early in the period. Since that time, the growth in the value of the tax expenditures has far outstripped the increase in family transfers. It's worth noting that over this period the federal estate and gift taxes have been virtually dismantled; this eliminates one possible explanation for the growing gap in Figure 7. The more likely causes are the absence of benefit caps along with Congressional tinkering over the years to make these tax deductions ever more generous (Williams, 2016; 2025). Currently, these twelve federal tax expenditures supplement the wealth of households at twice as much as is transferred from one generation to the next. In 2022, these twelve tax expenditures contributed more than \$1.1 trillion to American households.



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

One can estimate how these federal tax benefits are distributed across households by pairing the tax expenditure estimates with the household survey data provided by the SCF. For example, the SCF asks households the extent of their realized, capital gains over the previous year as well as whether any resulted from the sale of their primary residence. These figures indicate which households could benefit from either the capital gains or home sale exclusions. Other questions establish household earnings from tax-exempt bonds or self-employment; each offers insight into which households likely benefited from the tax-exempt interest or qualified business income exclusions. Further questions regarding the size of pensions and whole life insurance assets indicate how much households benefit from these deductions as well. The reported value of one's principal residence as well as their household income are used to estimate the likely

<sup>14</sup> The Joint Committee on Taxation estimates 164 tax expenditures that target individual taxpayers while the U.S. Treasury estimates there are 171.

property tax as well as the state and local income tax liability.<sup>15</sup> Figures on outstanding mortgage debt offer insight on who benefits from the home mortgage deduction while estimates of unrealized capital gains suggest who will gain from the estate step up in basis exclusion. Lastly, the surveys queried which households were covered by private health insurance, indicating whether households were likely to benefit from the health insurance deduction.

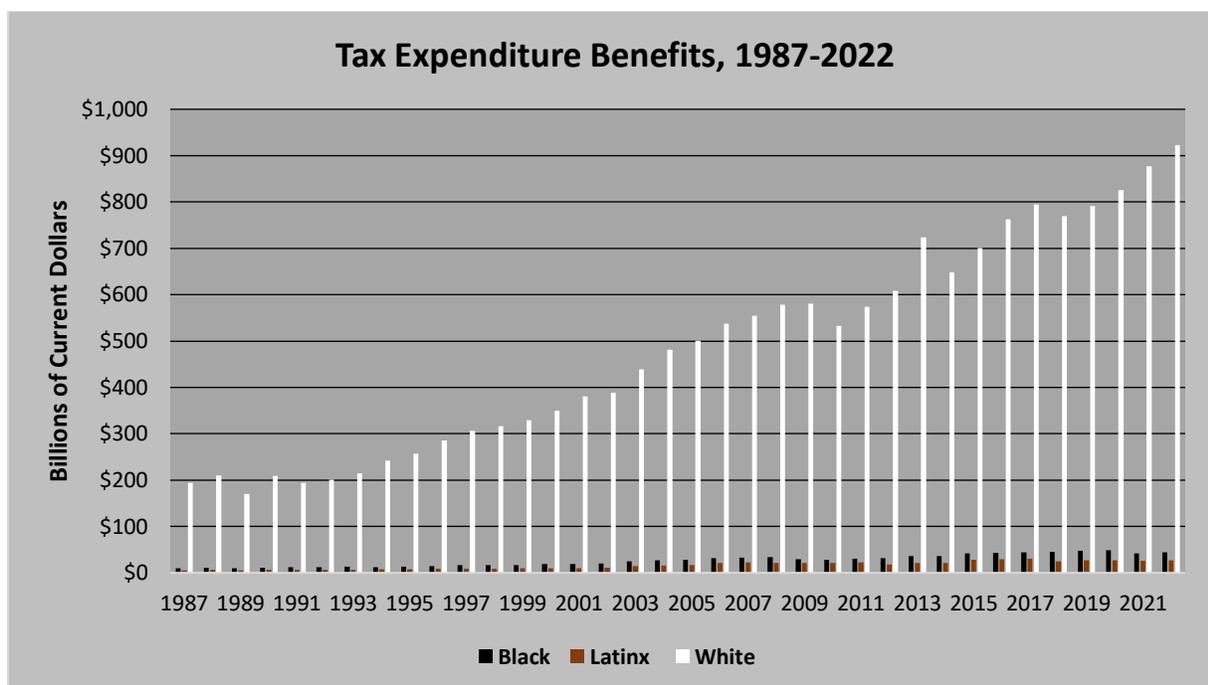
Clearly, these estimates don't capture all the nuances. One's outstanding mortgage debt gives some idea of the value of the home mortgage deduction, but it does not measure precisely what interest payments they made over the previous year. Not all health insurance packages offer the same level of benefits or value. Not all self-employment income qualifies for the business income exclusion. The absence of any geographical information means that any differences in state and local tax policies are neglected in the SALT deduction. Nonetheless, knowing the specific balance sheets of households provides a realistic estimate of who benefits from these tax expenditures.

Moreover, many of the estimates are subject to further adjustments. Those tax expenditures with benefit caps – like the home sales exclusion and mortgage interest deduction – have their benefits adjusted accordingly. Adjustments are made to the below-the-line deductions if the households report choosing not to itemize their deductions. Further modifications are made to reflect the Pease Limitation that affected several deductions from the early 1990's to 2017. Lastly, I estimate the likely tax bracket based on their household income to determine the actual value of the deduction.

Determining the relative shares received by households of different race / ethnicities results in some alarming results. They are illustrated in Figure 8 below. The rising growth in benefits showered on White households is not particularly surprising given the results just discussed. What is surprising is the paltry shares that are distributed to Black and Latinx households as well as the growing gap in those shares when compared to their White peers. Whereas White households as a group received a bounty of around \$200 billion annually in the late 1980's, that amount has more than quadrupled today. Sure, inflation has contributed to this gap, albeit modestly. What Figure 8 does not fully convey is the current impact of the help offered several decades back as households have had the opportunity to save and invest the generous tax benefits. Nor does it fully reveal the future impact of the current disparities as today's recipients have the opportunity to save and invest the current bounty.

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<sup>15</sup> Unfortunately, the SCF does not provide geographical information on household residence. Vagaries in state and local tax rates would also impact the share of these two federal deductions. I assume that the geographical factors largely cancel each other. While Black and Latinx households tend to reside in states with both local property taxes and state or local income taxes, so are wealthy Whites.



Source: SCF; JCT Tax Expenditures; Department of Treasury, Tax Expenditures.

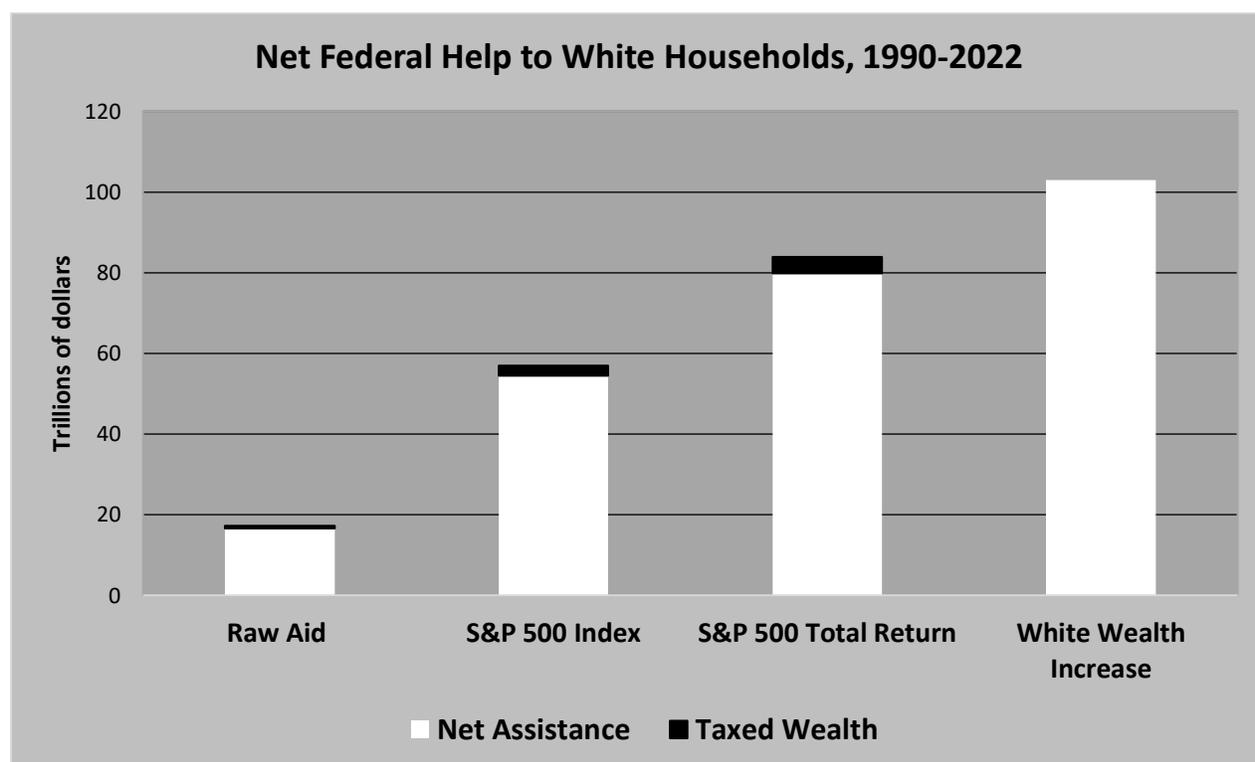
One can better appreciate the overall impact of this federal generosity by looking at the aggregated evidence. This is presented in Figure 9 below. The first row simply aggregates the annual shares over the 36-year period. During this period, the twelve tax deductions doled out a total of over \$20 trillion to households, with the overwhelming share going to White households. This outcome is clearly deliberate. The precision in which these twelve deductions target the circumstances and needs of the wealthy will mean the bounty will redound primarily to White households. As large as this figure is, it understates the actual impact of these tax expenditures. Assuming these annual payments are saved and invested by the recipient households means their impact is likely much larger. Again, applying the S&P 500 adjustment, these funds could easily yield nearly \$69 trillion of current wealth, more than half of the accumulated wealth over the period.

	Black	Latinx	White	All
Raw Assistance	\$958	\$583	\$17,449	\$20,320
S&P 500 Adjusted	\$3,309	\$1,966	\$60,165	\$68,772
Share of Benefits	5%	3%	87%	

Some might argue along the lines of Edward Wolff's thesis that these tax benefits would serve as a modest mitigating influence on the racial wealth gap given their share of benefits. Again, I disagree with this argument. Affluent households have far greater opportunities to save these benefits as well as to invest in higher-yielding assets.

As a last step, I present some estimates on the possible contribution that these federal tax expenditures have had on the growth of White household wealth over the period. They are given

in Figure 10 below. The first column offers the raw sum of the White share of benefits from these tax expenditures with a modest adjustment.<sup>16</sup> Although barely discernible, I have added all of the annual estate and gift tax paid and subtracted this amount from the total. Since IRS data is not reported along racial lines, I assume that White households pay the full amount. The next column examines the value of those benefits using the S&P 500 Price Index adjustment discussed earlier. Again, I subtract the annual gift and estate taxes and make the S&P 500 adjustment on these figures as well. Next, I follow the same methods but instead use the S&P Total Return Index. Recall that this includes the reinvestment of any dividends earned over the period. Given the evidence, one can argue that the federal tax expenditures could be contributing between 50 and 80 percent of the growth in White household wealth. This is nothing short of stunning.



Source: SCF 1989, 2022; JCT *Tax Expenditures*; US Treasury *Tax Expenditures*.

### **Conclusion**

This paper argues that the unique role of household wealth as a source of power places the racial wealth gap at the center of Myrdahl called the American Dilemma. Not only has the sixty years since the end of Jim Crow de jure racial discrimination not brought a reduction of the racial wealth gaps, but they have only widened significantly. It is inconceivable to believe that our country will ever attain a ‘post-racial future’ while these wealth gaps persist, much less expand. Worse, their continued expansion will threaten what little progress has been made in other areas like access to health, educational attainment, and widening occupational opportunities.

<sup>16</sup> In this case, I include the estimated benefits starting in 1990 and through 2022 since any earlier year benefits would have been included in the 1989 estimate of White household wealth.

As the paper discusses, household wealth lends itself to being an effective vehicle for economic stratification. The WP model argues how the accumulation of wealth to attain financial security is so dependent upon the circumstances that households find themselves. A variety of headwinds buffet low-wealth households in their efforts to gain financial security while affluent households experience a number of tailwinds that they scarcely notice. This dynamic creates an unparalleled system of stratification. Moreover, wealth's durability and transferability assure this system of stratification will extend from generation to generation.

Much attention has been given to role of family transfers and generation wealth as a source of this ongoing expansion of the racial wealth gaps. What has remained obscured are the stealth policies denounced by Secretary Surrey two generations ago. Yet their impact has grown far larger than that of family gifts and inheritances. Currently, they provide annual benefits of nearly \$1.4 trillion each year, levels that rival the outlays of Social Security and Medicare. As White households received the overwhelming share of their generous benefits, one can only expect that they will continue to exacerbate the racial wealth gaps. And their unrivaled growth year over year, means this trend will only increase as well.

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