

PIKETTY'S R IS GREATER THAN G THESIS ADDITIONAL MATERIALS

SAM THOMPSON

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I. Thomas Piketty's "Capital in the Twenty-first Century" explained, Oct 6, 2014

<https://ideas.ted.com/thomas-pikettyps-capital-in-the-twenty-first-century-explained/#:~:text=The%20rate%20of%20return%20on%20capital%20is%20the,value%20of%20wealth%20over%20time.&text=So%2C%20when%20we%20say%20%E2%80%9C,of%20an%20economy's%20overall%20productivity.>

Oct 6, 2014 / Mike Llewellyn

A. INTRODUCTION

When Thomas Piketty's "[Capital in the Twenty-first Century](#)" was published earlier this year, it was something of a sensation. That's no small feat for a chart-heavy doorstop on "the dismal science" of economics.

A fair portion of the book's notoriety was due to its subject matter: wealth distribution, an intensely political topic if ever there was one. (Watch Piketty's TED Talk: [New thoughts on capital in the twenty-first century](#).)

What makes this French economist's conclusions worth global notice? The short answer is that Piketty and his research team amassed a mountain of data, much of it going back centuries, suggesting that the concentration of wealth in ever-fewer hands is not an anomaly or a recent development. Check out the infographic below for a longer explanation:

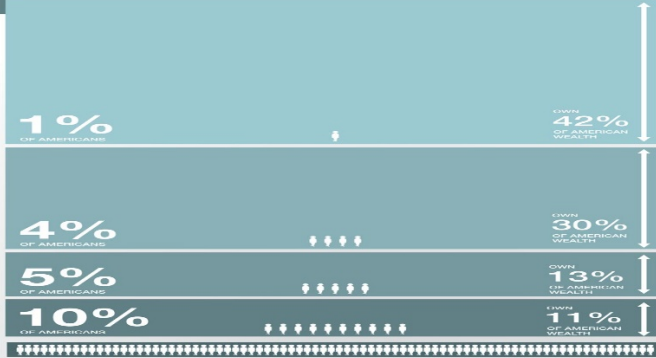
As the data visualization above suggests, this is simply how capitalism works. Without a significant force

CAPITAL
in the Twenty-First Century
THOMAS PIKETTY

TO UNDERSTAND

CAPITAL IN THE 21ST CENTURY

START WITH THIS:



WEALTH DISTRIBUTION IN THE U.S.

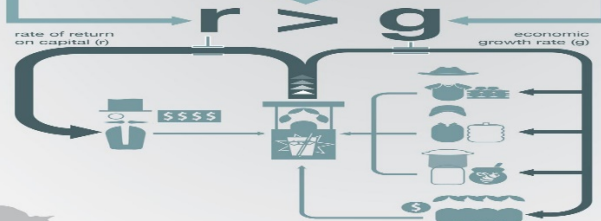
80%
OF AMERICANS
OWN **5%** OF AMERICAN WEALTH

© Richard N. Wolff, "The Abolition of Man: Wealth and the Wealth of the World," *Classical Studies*, 2012. *Wolff's* represents a synthesis of his own research and the work of others.

IN THE UNITED STATES, WEALTH INEQUALITY TODAY MATCHES WEALTH INEQUALITY DURING THE GREAT DEPRESSION

THE BIGGEST REASON WHY

WEALTH
GROWS FASTER THAN
THE ECONOMY



The rate of return on capital (r) almost always exceeds the economy's growth rate (g).

This tends to concentrate wealth in a small portion of the population by making it easier to grow and perpetuate large fortunes.

$r > g$ was less pronounced during the mid-20th century

BECAUSE TWO WORLD WARS SHOCKED THE ECONOMY.

This led to a period of unprecedented economic growth



1945-1975
THAT'S NOW OVER

TODAY, 64% OF EUROPEAN WEALTH BELONGS TO 10% OF EUROPEANS...

AND 72% OF AMERICAN WEALTH BELONGS TO 10% OF AMERICANS

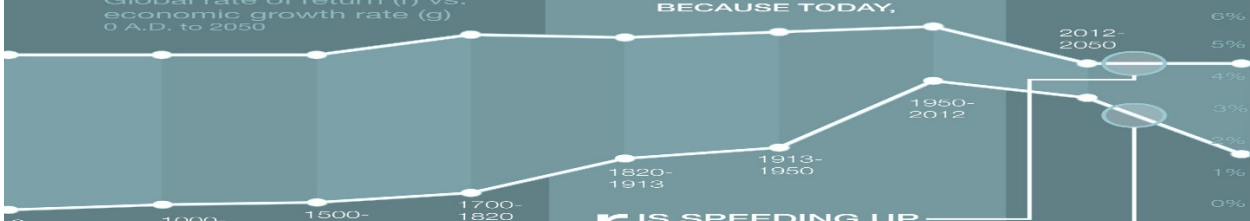
90%

90%

WEALTH INEQUALITY IS LIKELY TO CONTINUE INCREASING

BECAUSE TODAY,

Global rate of return (r) vs. economic growth rate (g) 0 A.D. to 2050



IS SPEEDING UP

to counterbalance rising wealth inequality, the research indicates, a capitalist economy will drift predictably toward oligarchy.

During the last century, however, Piketty shows that a sufficient counterbalance to wealth inequality did emerge. It came in the form of two world wars. The conflicts that engulfed the early twentieth century destroyed capital, rearranged the global balance of power, then ushered in an age of unprecedented growth and technological progress in the developed West. But the underlying structure of the economy, the way fortunes are made and grown, remained largely unchanged since the Industrial Revolution and the Gilded Age.

With the end of World War II now 70 years in the past, it's easier to view the general prosperity of the mid-20th century in the context of a larger sweep of history. What the data now show is that this period, which has been called "the long peace" and the "Pax Americana," may not be a validation of western capitalism after all. It may, in fact, be an outlier.

This is why Piketty's book has ignited such a powerful reaction. If he is right, it would mean that the global economy is accelerating toward a future that's incompatible with democracy. It would also mean that we've been on this course for centuries.

B. EXPLANATION OF $r > g$

"Capital in the 21st Century" is an effort to demonstrate not only that the data bear out these conclusions, but also to demonstrate the mechanism at work that's making it happen:

$$r > g$$

The mechanism, it turns out, is as simple as three characters.

$$r > g$$

This straightforward equation expresses a key phenomenon — that the rate of return on capital ("r") almost always exceeds the rate of economic growth ("g").

To understand why this creates and magnifies wealth inequality, let's first define some terms.

Capital

Capital means different things depending on the context, but here "capital" can simply stand for "wealth" in all its various forms: stocks, real estate, gold, etc.

Rate of return

The rate of return on capital is the change in value of wealth over time. If you buy one share of a company's stock for \$100, and a year later it's worth \$105, you've enjoyed a 5% annual rate of return on your purchase.

So, when we say “ $r > g$,” we can understand “ r ” as the speed at which wealth (capital) increases in value.

Economic growth

Economic growth is the change in value of an economy’s overall productivity. Generally speaking, if an economy produces 5% more (or more-valuable) goods and services this year than last, its growth rate is 5%. If it produces 5% less, its growth rate is -5%.

So, $r > g$ is really just another way of saying this:

Wealth grows faster than the economy.

Piketty’s research shows that the average rate of return on capital has held at around 4% to 5% for most of human history. It rose above 5% during the Industrial Revolution, then fell back below 5% during the middle of the 20th century.

The global economic growth rate, for its part, hovered just above 0% from 1 A.D. until the industrial revolution, when it began to climb toward 2%. Global economic growth spiked to just shy of 4% in the middle of last century, after which it began dropping—slowly at first, then faster—for the first time since the fall of the Roman Empire. And as the gap between r and g widens, the concentration of wealth speeds up.

It’s a bleak picture: Global economic growth is slowing down while wealth inequality is accelerating. Not only that, but the more wealth a person or institution owns, the faster that wealth grows. For instance, from 1987 to 2013, the global rate of return on the wealth owned by the average adult was 2.1%. During that same period, the rate of return on wealth owned by the average billionaire was more than 6.5%.

The results of that difference are pronounced. In the U.S., for example, the richest .1% of American people own almost a quarter of all American wealth. That’s like a four-story hotel with one guy on the top floor and 999 people sharing the other three (800 of whom are on the first floor).

Given all this, democratic ideals like social mobility, the American Dream, and shared prosperity recede from plausibility. The numbers just don’t add up. So the question then becomes whether anything can be done to counterbalance the trend before it becomes too destabilizing.

Featured image via iStock.

ABOUT THE AUTHOR

***Mike Llewellyn** is a writer in Philadelphia and the founder of Sycamore Creative.*

II. Why Economists Disagree With Piketty's "r - g" Hypothesis On Wealth Inequality, Forbes, Oct. 17, 2014

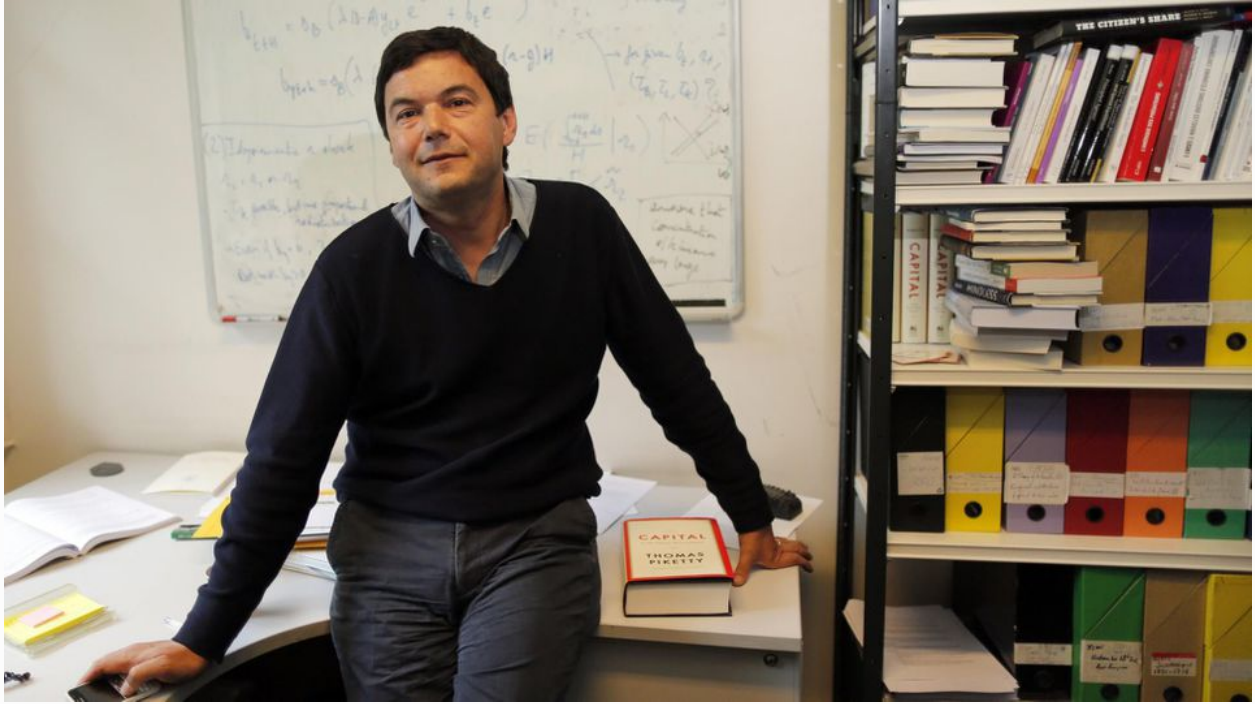
Jon Hartley Contributor

Opinion

This article is more than 6 years old.

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-
-

Justin Wolfers at the *New York Times* has written an insightful new [article](#) reporting the recent University of Chicago Institute on Global Markets survey finding that a majority of economists surveyed (over 81%) disagree with Thomas Piketty's "r > g" hypothesis on wealth inequality (the idea that a gap between the after-tax return on capital "r" and the economic growth rate "g" has been the most powerful force pushing towards greater wealth inequality in the US since the 1970s). The discussion surrounding the arguments in Piketty's recent bestseller *Capital in the Twenty-First Century* reached a climax earlier this year with a "Pikettymania" [Bloomberg Businessweek cover article](#) and countless economists and journalists weighing in on the book which has stirred much debate over the origins and measurement of inequality.



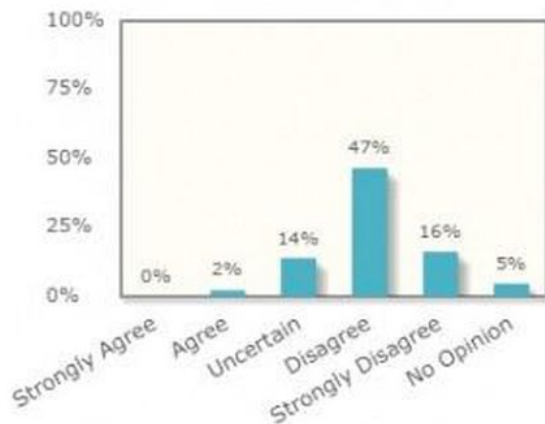
Thomas Piketty, author of Capital in the Twenty-First Century and Paris School of Economics Professor (Photo credit: Charles Platiau/Reuters/Landov).

University of Chicago Initiative on Global Markets Survey of Economists

Piketty on Inequality

The most powerful force pushing towards greater wealth inequality in the US since the 1970s is the gap between the after-tax return on capital and the economic growth rate.

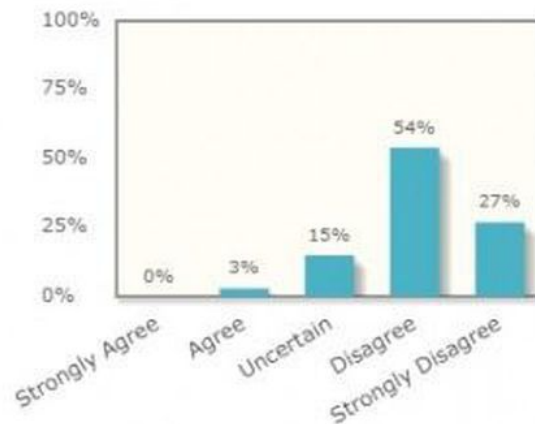
Responses



© 2014, Initiative on Global Markets.

Source: IGM Economic Experts Panel
www.igmchicago.org/igm-economic-experts-panel

Responses weighted by each expert's confidence



© 2014, Initiative on Global Markets.

Source: IGM Economic Experts Panel
www.igmchicago.org/igm-economic-experts-panel

Wealth inequality versus income inequality

It is important to note a few things before getting into further details. First, the debate around “ $r > g$ ” is about *wealth* inequality and not so much about labor *income* inequality (which is a much better documented issue). Second, what’s really important to highlight is how scarce data on *wealth* really is. We don’t have wealth data for European countries beyond the U.K., France and Sweden, yet Piketty and others are already making sweeping statements about European wealth inequality as a whole compared to the U.S. Third, very little of the inequality analysis presented by Piketty and others includes data on the wealth or incomes of developing countries (it is almost entirely limited to measuring the dispersion of wealth and incomes in Europe and the US). Including such developing world data in a global analysis tells a different story (that income inequality is falling globally).

Economic theory and empirics suggest that returns to capital will decrease over time contrary to the $r > g$ hypothesis

Going back to basic economic modelling, Matt Rognlie, an MIT graduate student, made this extensive argument back in June that Piketty's analysis erroneously predicts the rise in capital's share of income and the rising gap between $r - g$ by neglecting the reality of diminishing returns of capital accumulation. Furthermore, he points out that Piketty's prediction of the return on capital to exceed the GDP growth rate in the long-run, this assumes the elasticity between capital and labor must be greater than one. However, standard empirical estimates of the elasticity between capital and labor are well below 1, thwarting the argument that owners of capital will own an increasingly disproportionate amount of wealth as noted by Obama economic advisors Larry Summers and Jason Furman.

Matt also points out how home price dynamics play a dominant role in recent wealth and income inequality trends, which have vastly different underlying mechanisms than the $r > g$ mechanics laid out in *Capital in the 21st Century*.

Bill Gates suggests adopting consumption taxes in the U.S. and moving away from high income taxes rather than a tax on capital

Bill Gates offers this [excellent critique](#) of the French economist's recent bestseller at his blog:

"More important, I believe Piketty's $r > g$ analysis doesn't account for powerful forces that counteract the accumulation of wealth from one generation to the next. I fully agree that we don't want to live in an aristocratic society in which already-wealthy families get richer simply by sitting on their laurels and collecting what Piketty calls "rentier income"—that is, the returns people earn when they let others use their money, land, or other property. But I don't think America is anything close to that.

Take a look at the [Forbes 400 list](#) of the wealthiest Americans. About half the people on the list are entrepreneurs whose companies did very well (thanks to hard work as well as a lot of luck). Contrary to Piketty's rentier hypothesis, I don't see anyone on the list whose ancestors bought a great parcel of land in 1780 and have been accumulating family wealth by collecting rents ever since. In America, that old money is long gone—through instability, inflation, taxes, philanthropy, and spending.”

Slate offers a self-defeating response article to Wolfers and Gates stating that even Piketty would disagree with the tenet that the gap between r and g is the driving force of income and wealth inequality. In responding to *Slate*, Piketty said yesterday:

“I think the book makes pretty clear that the powerful force behind rising income and wealth inequality in the US since the 1970s is the rise of the inequality of labor earnings, itself due to a mixture of rising inequality in access to skills and higher education, and of exploding top managerial compensation (itself probably stimulated by large cuts in top tax rates), So this indeed has little to do with $r > g$.”

For those who have actually read *Capital in the Twenty-First Century*, they know how central the $r - g > 0$ hypothesis is to the theory of capital accumulation that inspires the namesake of the book. It is the backbone behind the tax on capital (the wealth tax) proposed in Part IV of *Capital*. Bill Gates interestingly proposes rather than adopt a wealth tax as Piketty suggests, that the U.S. should adopt greater consumption taxes and move away from high income taxes:

I agree that taxation should shift away from taxing labor. It doesn't make any sense that labor in the United States is taxed so heavily relative to capital. It will make even less sense in the coming years, as robots and other forms of automation come to perform more and more of the skills that human laborers do today.

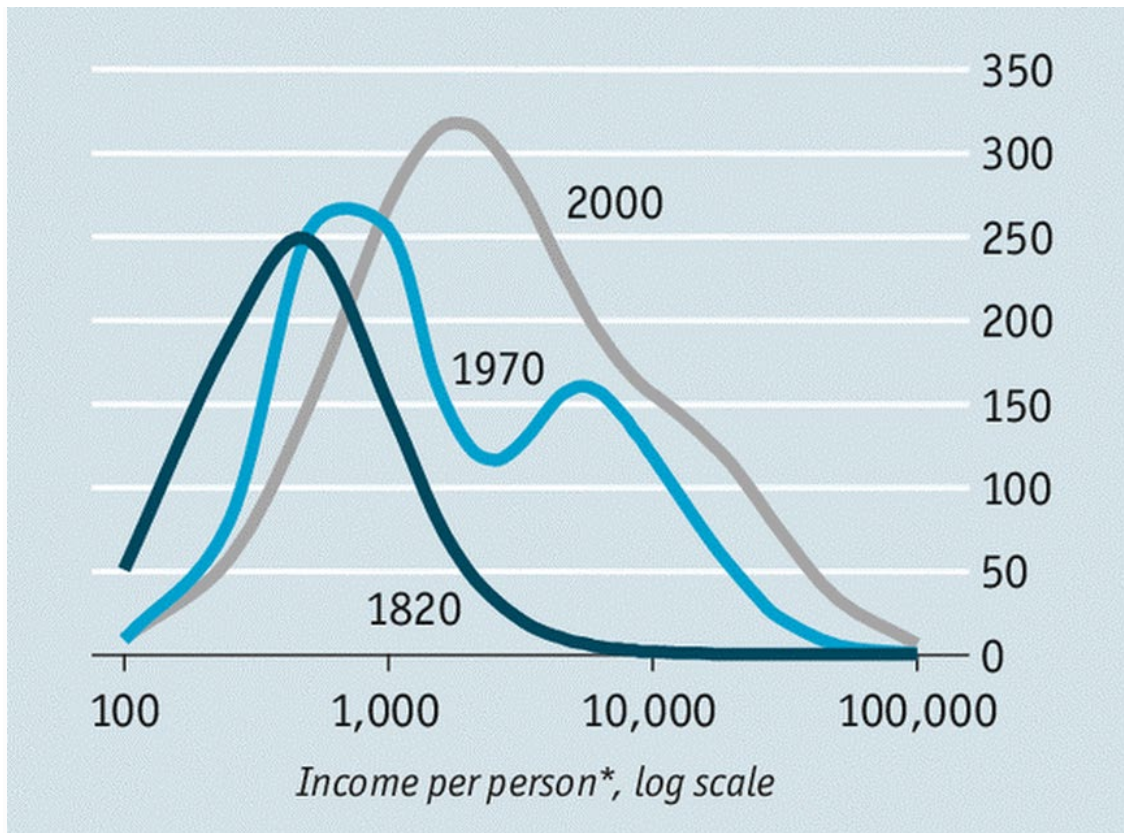
But rather than move to a progressive tax on capital, as Piketty would like, I think we'd be best off with a progressive tax on consumption. Think about the three wealthy people I described earlier: One investing in companies, one in philanthropy, and one in a lavish

lifestyle. There's nothing wrong with the last guy, but I think he should pay more taxes than the others. As Piketty pointed out when we spoke, it's hard to measure consumption (for example, should political donations count?). But then, almost every tax system—including a wealth tax—has similar challenges.

Income Inequality Is Falling Globally When Including Data From Developing Countries

Piketty examines rising inequality within individual countries and limits almost all of its analysis to developed countries included in the [World Top Incomes Database \(WTID\)](#). *When you include incomes from the developing world, as Tyler Cowen notes at the *New York Times*, the data tells a much different story, one of falling global income inequality.* *The Economist* provides an [excellent graphic](#) using data from the OECD, primarily drawn from the work of the great economic historian Angus Maddison:

Global Income Distribution (number of people at each level of income)



**Income per person is measured in 1990 \$ at purchasing-power parity*

Source: The Economist, OECD

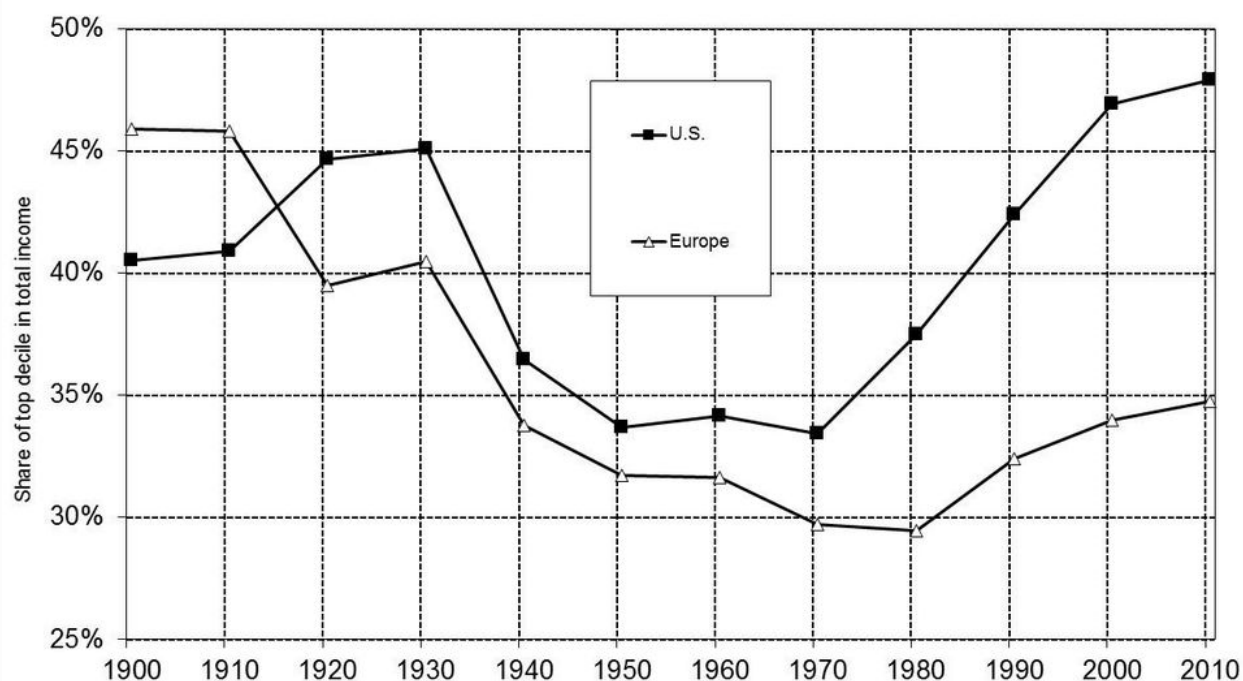
Piketty's Income and Wealth Inequality Data

Piketty deserves much credit and praise for starting a rich discussion about inequality. The data on income inequality is far more comprehensive and much to Piketty's credit, we have the largest database of household incomes (the WTID), thanks to him and many other researchers.

This data also, by in large, points to rising *income* inequality within many developed countries over the recent period. This fact is almost impossible to refute. Harvard economist Greg Mankiw in a recent paper offers a somewhat optimistic view that rising income inequality in developed countries is a

consequence of massive innovation, which ultimately benefits society. Liberal economists like Nobel Laureate Joseph Stiglitz argue that income inequality is a result of “our policies and our politics” which should be corrected.

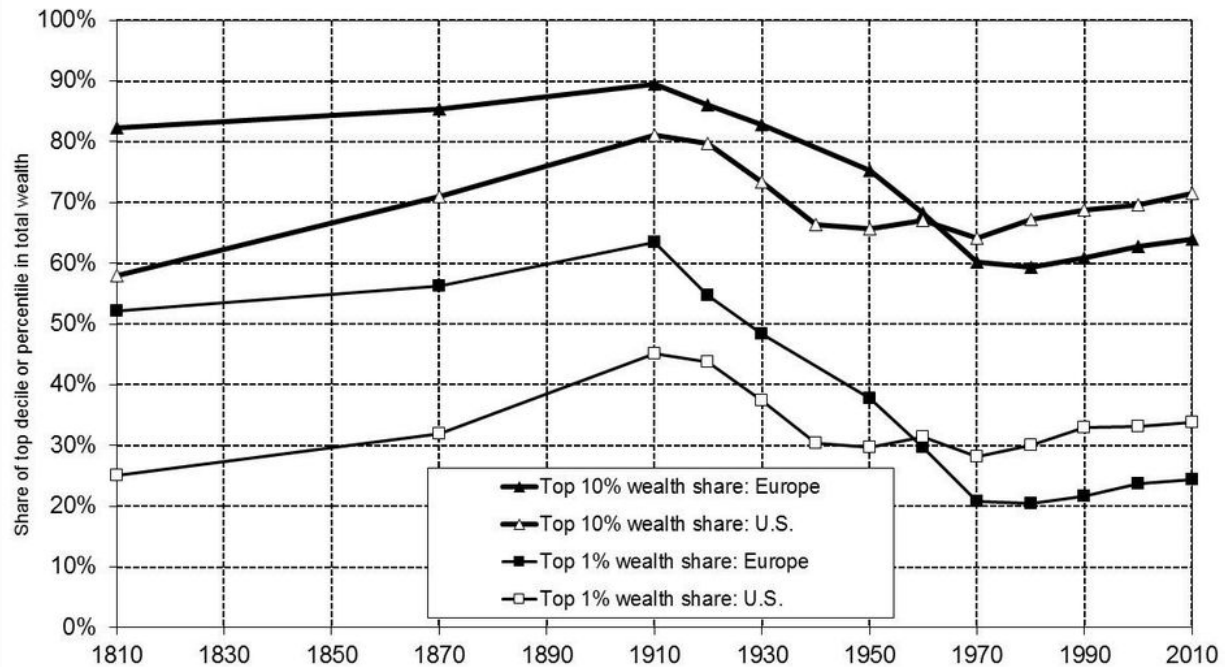
Income Inequality: Top 10% Income Shares In Europe and the U.S. (1900-2010)



Source: *Capital in the 21st Century* (Figure 9.8)

With respect to *wealth* inequality, which has not demonstrably risen over the same period, is it possible that we live in a world where wealth rises at a much slower pace than incomes? What if the wealth of high earners are decayed through inflation, taxes, divorces, giving to charities, political campaigns, and consumption as Glen Weyl and Eric Posner suggest in their article at *The New Republic*? Such a dynamic runs against the Piketty’s rentier hypothesis of capital accumulating to the top.

Wealth Inequality: Top 1% and Top 10% Wealth Shares In Europe and the U.S. (1810-2010)



Source: *Capital in the 21st Century* (Figure 10.6)

The fact is we are only beginning to scratch the surface of wealth and income dynamics. The vast amount of theory and evidence so far accumulated do not support the Piketty $r > g$ hypothesis.

Jon Hartley

I write about macroeconomics, markets and economic policy. I previously worked as a client portfolio management senior analyst at Goldman Sachs Asset Management in

III. CLOSING THE RACIAL WEALTH GAP REQUIRES HEAVY, PROGRESSIVE

TAXATION OF WEALTH, BROOKINGS, DEC 9, 2020

[Vanessa Williamson](#) Wednesday, December 9, 2020

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 - [Policy recommendations](#)
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-

A. SUMMARY



B. Vanessa Williamson

1. Senior Fellow - Governance Studies
2. Senior Fellow - Urban-Brookings Tax Policy Center

[v_williamson](#)

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

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

But any program to close the racial wealth gap must grapple with the reality of wealth concentration in contemporary America. The 400 richest American billionaires have more total wealth than all 10 million Black American households combined. Black households have about 3% of all household wealth, while the 400 wealthiest billionaires have 3.5% of all household wealth in the United States. Because wealth in the United States is so highly concentrated, and because the wealthiest Americans are almost exclusively white, the racial wealth gap is also concentrated among the wealthiest families. Indeed, if the wealth gap were completely eliminated for all but the richest 10% of households, the total racial wealth gap would still be more than \$8 trillion, *80% of the total wealth gap that exists today.*

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

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

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

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

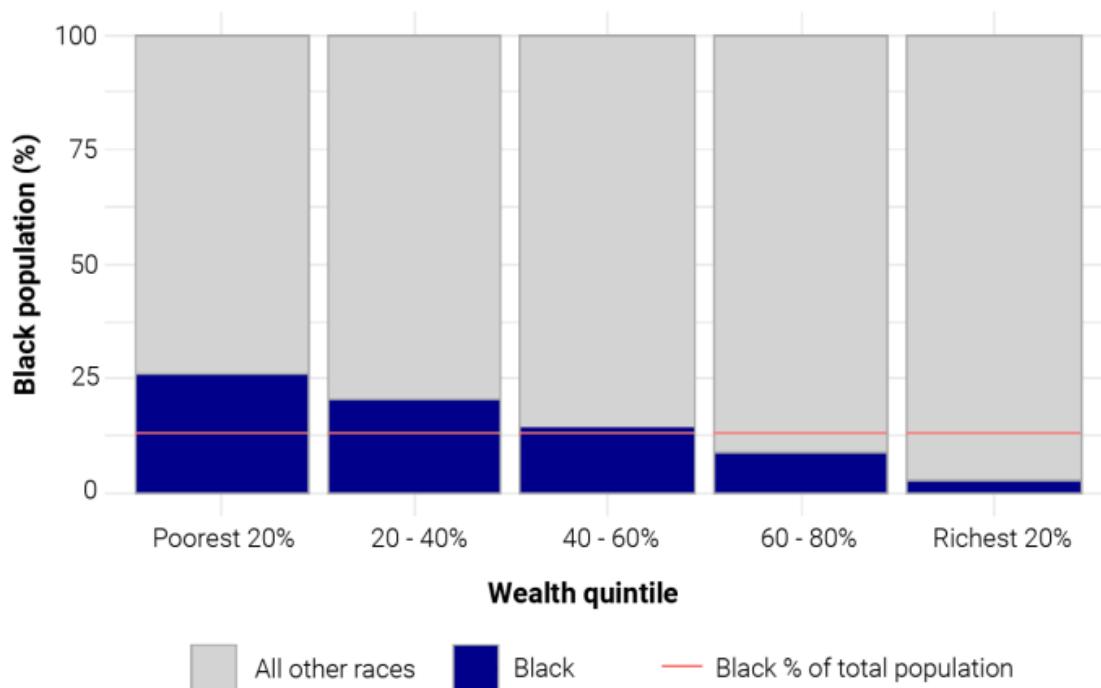
C. CHALLENGE

1.

The racial wealth gap

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

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



Source: 2016 Survey of Consumer Finances.

BROOKINGS

Unfortunately, policymakers have often put the responsibility for fixing centuries of racial inequity back on the shoulders of Black people. For decades, **elected**

officials argued that personal choices explained racial disparities. These claims have been thoroughly debunked. As economists Trevon Logan and Darrick Hamilton **have demonstrated**:

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

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

Instead, the racial wealth gap should be recognized as the consequence of discrimination, public and private, throughout American history and continuing to this day. Nearly 250 years of slavery were followed by a century of Jim Crow segregation and economic exploitation reinforced by state-sanctioned violence. Until the later 20th Century, Black people were **excluded from public programs** to encourage homeownership and higher education. Racial inequality persists in our contemporary, putatively color-blind system; due to discrimination, Black people receive **lower valuations on their homes** and **earn less money compared to white people** performing the same work. Biases in public investment and criminal justice leave Black communities simultaneously underserved and overpoliced, and these civil rights violations also have serious economic consequences.

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

D. LIMITS OF HISTORIC AND EXISTING POLICIES

1.

Addressing the racial wealth gap

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

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

There are many other economic policies that are also commonly suggested to reduce the Black-white wealth gap. Rashawn Ray and Andre Perry outline some of those proposals in their essay, “[Why We Need Reparations for Black America](#).” In addition to direct payments to descendants of slaves, Ray and Perry look to a variety of programs to fund college education, [forgive student loans](#), and promote homeownership and entrepreneurship in the Black community. Darrick Hamilton and William Darity have proposed a system of “[baby bonds](#)” that would provide American children with a nest-egg at birth; targeting larger bonds to children of lower-income families would substantially reduce the median racial wealth gap over a generation.

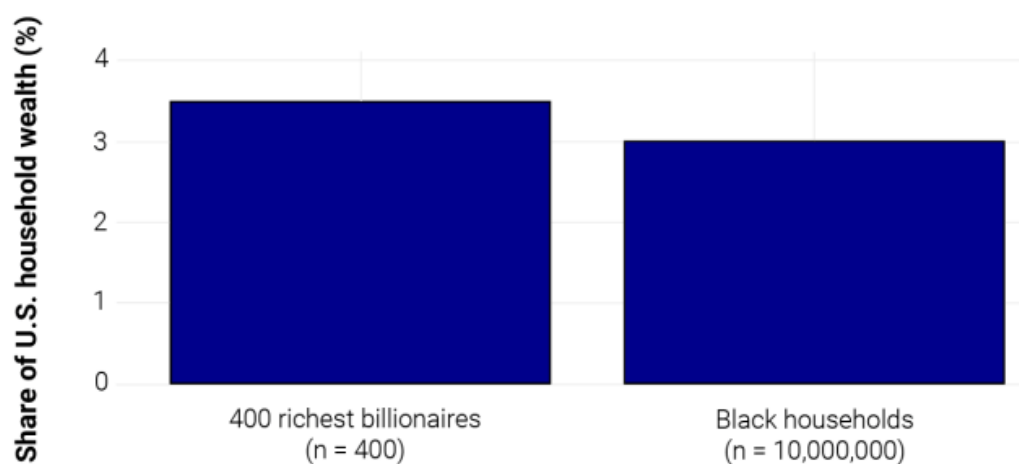
“A spending-based program of reparations is a moral imperative. It is also an urgent economic necessity.”

A spending-based program of reparations is a moral imperative. It is also an urgent economic necessity. A serious reparations investment would provide [enormous economic stimulus](#) to the economy as a whole and would infuse urgently needed funds in households and communities that have suffered from chronic underinvestment. But taxation—and particularly, heavy and progressive taxation of wealth—also has a critical role to play in achieving racial equality. To understand why, we must look at the relationship between the racial wealth gap and overall wealth concentration.

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

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

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



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

BROOKINGS

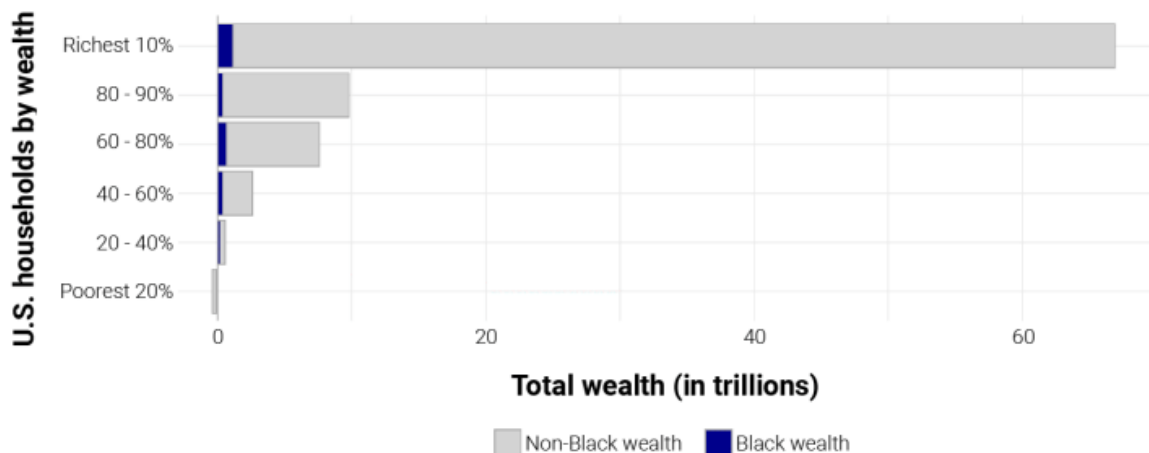
This startling statistic illustrates two broader economic realities with immense policy implications for racial justice in America.

First, it suggests the scope of the *total racial wealth gap*—not the median gap between typical households, but the full disparity between the fraction of wealth held by Black people and their percentage of the U.S. population. Using data from the Federal Reserve’s 2016 Survey of Consumer Finances,^[2] if Black households held a share of the national wealth in proportion to their share of the U.S. population, it would amount to \$12.68 trillion in household wealth, rather than the actual sum, \$2.54 trillion. The total racial wealth gap is over \$10.14 trillion.^[3] Second, the rough wealth parity between 400 billionaires and 10 million Black households also indicates the extreme and extremely racialized wealth concentration that exists in the contemporary United States. A small fraction of Americans holds most American wealth, and they are almost exclusively white. So, although white households are on average wealthier than Black households at every income level, the vast majority of the total racial wealth gap, in dollar terms, is at the top.

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

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

Figure 3: Household wealth by race and wealth quintile



Source: 2016 Survey of Consumer Finances.

BROOKINGS

In fact, the chart does not fully indicate how concentrated wealth is by both class and race. Half of the wealth held in the top 10%, about two-fifths of all American household wealth, is held by the **top 1% of households**. Within the top 1% of households, **less than 1%** identify as Black.

Even the wealthiest Black households, moreover, are less wealthy than the wealthiest white households. According to the Forbes 2020 list, the 571 white billionaires, who make up 93% of all billionaires, have about \$2.8 trillion dollars in personal net worth. This is 96% of all billionaire-held wealth and more than 3% of the total household wealth of the United States. The five Black billionaires, who make up 0.8% of all billionaires, have \$14 billion dollars, less than 0.5% of all billionaire-held wealth. Were Black people represented among billionaires in accordance with their portion of the U.S. population, there would be 80 Black billionaires, and they would hold not \$14 billion dollars, but \$383 billion dollars. In other words, the racial wealth gap *among billionaires* is \$369 billion dollars. The point is not that billionaires need more billions, or that America needs more billionaires. On the contrary. The point is that closing the total racial wealth gap is exceptionally difficult without reducing the concentration of wealth among a small class of almost exclusively white people. Even equality of total wealth would not be real parity, moreover, if white people continued to be immensely over-represented among the very rich, whose economic and political power is both quantitatively and qualitatively different from that held by most Americans.

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

E. POLICY RECOMMENDATIONS

1.

Racial justice requires heavy taxes on wealth

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

A first step would be to reverse the slide toward regressivity that has characterized the American tax code in recent decades. Top marginal income tax rates have fallen from a peak of 92% in the early 1950s to 37% today.^[6] The income tax rewards wealth over work by taxing income from ownership at much lower rates than income from salaries and wages. State and local taxes, moreover, are **generally regressive**. In sum, the **tax code is only somewhat progressive** for those between the poor and the upper-middle class, and tax rates actually go down for the very rich.

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Additionally, though nominally color-blind, the U.S. tax code is not race-neutral in its effects. As **political scientist Chris Faricy notes**, tax expenditures **disproportionately help upper-middle-class whites**. Tax advantages for home ownership amount to a **“racial subsidy for white families,”** while local property tax assessments are **systematically biased** against Black homeowners.^[7] Legal scholar Dorothy Brown notes that Black families are more likely to pay a marriage penalty.^[8] In addition, there are tax-privileged workplace **retirement plans**, which fewer Black people have access to, and tax benefits for **the elderly**, which fewer Black people receive due to shorter life expectancy. Low-income people of color are also **targeted for audits**, and states have come to increasingly rely on fees and fines which are **extremely regressive and linked to discriminatory policing**. In other words, tax policies compound the discrimination and exploitation that Black people experience in hiring, housing, education, health, and other aspects of life.

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

Tax policies that would substantially reduce the total racial wealth gap must be highly progressive and very heavy. The first point is obvious; progressive taxes hit those at the top of the economic spectrum, where the bulk of the racial wealth gap resides. The second point—that progressive taxes need to be high to be meaningful—is also an obvious truth, though more rarely acknowledged.

Progressivity measures only the relative impact of a tax, not its total effect. For

example, a tax of \$1 on billionaires and \$0 on everyone else is highly progressive, but it is far too low to affect the distribution of wealth.

There are **an array of tax policies** that could fit these basic criteria. Taxes on estates **or inheritance** are especially promising because intra-generational transfers account for **fully half of total wealth** in the United States as well as **“more of the racial wealth gap than any other demographic and socioeconomic indicators** including education, income and household structure.” Higher top marginal tax rates on income, while not exactly correlated with wealth, **reduce income inequality** both pre- and post-tax. Both of these approaches are tried and true. As economists **Emmanuel Saez and Gabriel Zucman** explain, the “development of progressive income and estate taxation” in the mid-20th century “made it difficult to accumulate and pass on large fortunes.” When these policies were reversed in the late 20th century, the economic elite found they could amass and transfer to their heirs a larger and larger share of wealth.

Perhaps the most efficient route is the newly popular proposal of a tax directly on wealth. Legal scholar Beverly Moran has discussed the potential of a wealth tax in the context of a reparations program.^[9] Using data from Saez and Zucman on **the distributional effects of the wealth tax plans**, we can estimate the potential impact of such a policy on the racial wealth gap. The most aggressive plan considered by Saez and Zucman, proposed by Thomas Piketty in his 2019 book, “Capital and Ideology,” would impose a 90% marginal tax rate on billionaires, which would in essence limit fortunes to \$1 billion dollars.^[10] Though Piketty’s proposed tax would touch barely 600 households, it would immediately reduce racial wealth inequality by \$294 billion. Applying a similar policy at a lower threshold, \$110 million in wealth, would reach about 16,000 households and would reduce racial wealth inequality by about a remarkable \$500 billion.

Note that this impact comes prior to any allocation of the revenue raised by these taxes, which would amount to **trillions of dollars**. These revenues could also be allocated to reduce the racial wealth gap. But the tax *alone* results in an increase in racial equity of several hundred billion dollars simply by reducing the fortunes of the extremely wealthy, who are disproportionately white.

If such a narrowly targeted tax can have a measurable impact on the racial wealth gap, a more comprehensive tax strategy to reduce wealth concentration could easily have even more substantial effects. Assessing the impact on the total racial wealth gap should become a standard practice in the analysis of tax proposals’ distributional effects. While technically complicated, depending on the measure and **given the lack of race-specific data gathered by the IRS**, such calculations provide vital information about the economic implications of tax proposals. What is already clear, however, is that heavy progressive taxation can

and should reverse racial inequity at the economic levels left unaddressed by expenditure-based racial justice policies.

F. CONCLUSION

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

It is important to note that *the racial justice effect of heavy progressive taxation precedes the spending of the resulting revenue*, and is, in fact, independent of the revenue raised. The direct economic effects of taxation are often underappreciated; there is a tendency to focus on how the money raised will be spent. But taxes have their own economic impact, separate from the use of revenue. Heavy progressive taxation directly reduces the racial disparity of wealth because it reduces the highly concentrated wealth that is held almost exclusively by white people.

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

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

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

Fundamental to U.S. economy has always been the transmogrification of Black labor and talent into white wealth. We can, in our longer-standing institutions, sometimes track wealth's lineage directly to that exploitation: universities that preserved themselves by **selling human chattel**; newspapers that **published enslavers' advertisements**; states that **profited from convict leasing**; banks that enriched themselves by **defrauding Black homeowners**. Each story is another entry in a centuries-long ledger that many people would prefer not to examine in its entirety.

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

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

1. FOOTNOTES

1. The Forbes 400 were estimated to hold 3.5% of national household wealth in 2018. Emanuel Saez and Gabriel Zucman, Brookings Papers on Economic Activity, September 5-6th, 2019. Conference draft. https://www.brookings.edu/wp-content/uploads/2019/09/Saez-Zucman_conference-draft.pdf

Darity and Mullen 2020 estimate that in 2018, the 10 million Black households held “as an upper bound” 3% of national wealth. p.264. My estimates based on the 2016 Federal Reserve survey put Black wealth at 2.9% of U.S. household wealth.

2. **2**Thank you to Emily Moss, senior research assistant at Brookings’s Hamilton Project, for sharing this dataset.
3. **3**A similar sum is calculated in Darity and Mullen 2020, which they use as the basis for the amount of reparations that are due to American descendants of slaves.
4. **4**There are active debates about how to calculate total U.S. household wealth and its distribution. The distribution calculated here is similar to Saez and Zucman 2016. **Saez, Emmanuel, and Gabriel Zucman. "Wealth inequality in the United States since 1913: Evidence from capitalized income tax data." *The Quarterly Journal of Economics* 131.2 (2016): 519-578.**
5. **5**Though the stimulative effect of closing the racial wealth gap for the bottom 90% would be enormous, the resulting economic growth would not, under any plausible set of assumptions, close the total racial wealth gap much further. If the bottom 90% of households achieved racial wealth parity and *also* doubled their total wealth, while the top 10% of households saw no change, the racial wealth gap would barely drop below 80% of its current level.
6. **6**Since their peak in the mid-20th century, the lowest top marginal tax rate was 28% in the late 1980s.
7. **7**In a separate paper for this series, my colleague Jenny Schuetz considers the potential and pitfalls of pro-homeownership tax expenditures to reduce the racial wealth gap.
8. **8**Brown, Dorothy A. "Racial Equality in the Twenty-first Century: What's Tax Policy Got to do With It." *UALR L. Rev.* 21 (1998): 759.
9. **9**Moran, Beverly. "Wealth Redistribution and the Income Tax." *Howard LJ* 53 (2009): 319.
10. **10**For an analysis of the tax avoidance and other issues, see Saez and Zucman 2019.