

Introduction, hypotheses, and research questions

The racial wealth gap is the largest of the economic gaps between Black and white Americans, with a ratio of white-to-Black average wealth of 10 to 1 in 2020. Further, the gap has been remarkably stable over the late 20th century. Although there is a large literature focusing on the wealth gap in the contemporary period, little is known about the historical evolution of the racial wealth gap prior to 1968. In this project, we use historical Census data, the Census of Agriculture, state level tax records from the late 19th and early 20th centuries, the historical and modern Survey of Consumer Finances (“SCF”), and additional data sources to document the racial wealth gap from 1850 onwards. A key contribution of this work will be a harmonized series of Black and white wealth in the US from 1850 to 2020. Our dataset, which we plan to make public, will allow us to analyze the full evolution of the wealth gap from emancipation to the present in order to inform policy discussions around reparations and the reduction of Black-white economic disparities.

Our project asks the following specific questions: What has been the long-run evolution of the racial wealth gap? What historical factors have shaped the gap? And finally, under what counterfactual policy scenarios would the wealth gap have converged by 2020, 2050 or 2100?

Initial patterns in our data suggest that despite sharp episodes of income convergence in the 20th century (WWII and the Civil Rights Era), racial wealth convergence stalled by the 1920s. We hypothesize that vastly different starting conditions, the end of Reconstruction, and diverging wealth-to-income ratios have contributed to persistent racial wealth inequality. Our project will explore the causes of wealth-to-income ratio divergence and consider the efficacy of policies such as a wealth tax versus reparations in accelerating convergence.

Background and motivation

The limited availability of wealth data for Black and white individuals before 1968 has restricted the scope of empirical analysis on the racial wealth gap, and this is particularly true for the period following the Civil War through the early 20th century. The few empirical studies that have been conducted rely on tax assessment data for available Southern states to investigate trends in and causes of Black and white wealth disparities in the late 19th and early 20th centuries.

Foundational work in this area was conducted by Robert Margo and Robert Higgs. Higgs (1982) used race-specific data from W. E. B. Du Bois (1901) and the Comptroller-General of Georgia to illustrate a substantial increase in the total assessed value of Black wealth in that state over the period 1874-1915. Margo (1983) built on this work by incorporating property tax data with race identifiers from the additional states of Louisiana, North Carolina, Virginia, and Kentucky. Margo also found sustained increases in aggregate Black wealth over this same period and declines in the per capita wealth gap in all states but Louisiana.

A study by Canaday (2008) focused on the Black-White wealth gap in one South Carolina county during the 1910s. Though South Carolina’s tax records did not tabulate Black and white wealth separately, Canaday linked individuals in the tax records to the complete count US

censuses from 1910 and 1920 to obtain information on race and found that both Black men and women experienced faster wealth accumulation than white men and women over the decade.

A related literature focuses on racial inequality in housing. We draw inspiration from the work of Collins and Margo (2011), who traced the evolution of the racial homeownership gap from 1870 to 2007. The gap narrows in the 1870 to 1920 period but shows remarkable stability thereafter. These data do not incorporate information on the value of homes, however, which is only available starting in 1930 and for which complete count census data do not exist after 1940 (the full count 1950 census will not be declassified until 2022). A study by Akbar et al. (2019) documented how neighborhood racial transition in 10 northern cities during the first Great Migration led to changes in rental and house prices that eroded the value of Black homes and thus posed a barrier to Black wealth accumulation by 1940.

In prior work of two of this current project's coauthors, Kuhn, Schularick, and Steins (2020) harmonized the historical and modern files of the SCF creating a new dataset of household level wealth and income information for the US from 1949 to 2016. Although primarily focused on the role of asset prices and portfolio composition in wealth dynamics in the postwar period, the authors also provide a brief analysis of the racial wealth gap confirming stability and persistence in this large gap over the postwar period.

Methods and data

Our project will provide the first comprehensive picture of the racial wealth gap from the Civil War through the present. A key contribution will be a harmonized series of Black and white wealth per capita created by drawing on a number of previously underutilized data sources. First, the 1850-1870 Censuses of population elicited household wealth information, the Census of Agriculture provides land ownership and land values by race in 1900, and the Census of population elicits home values in 1930 and 1940. Second, we re-digitize the tax records of several states used in Margo (1983), where wealth was assessed separately by race and often by county for the late 19th and early 20th century. We draw on work by W. E. B. Du Bois compiling information from Georgia's tax records, and we bring in previously underutilized estimates of aggregate Black wealth from Monroe Nathan Work's *Negro Year Book* series for the early 20th century. We collect additional data on the total deposits of Black banks from 1900-1932. Finally, we will connect this completed pre-WWII series to Kuhn, Schularick, and Steins' (2020) harmonized historical SCF from 1949 to 2016 with information on race and a variety of other household characteristics.

We have already digitized the tax records of states used in Margo (1983), which tabulate assessed wealth separately by race. The first graph charts aggregate Black wealth in Southern states with the available data, and the second tracks the per capita Black-white wealth ratio. Both figures also incorporate data from Work (1914, 1917) and the latter figure from Saez and Zucman (2016) as well, from which we impute white wealth as the difference between total wealth and aggregate Black wealth from Work. Population data used to convert these figures to per capita measures are drawn from Census.

The bulk of our data collection work for which we are seeking support from the Russell Sage Foundation is the digitization of individual-level pre-WWII tax records from additional southern states for linking to the historical Census, where we observe racial identity. This extends the method of Canaday (2008)—who linked individuals from a single county in South Carolina—to all counties in all states where records are available. Funding will support retrieval of microfilm records for Virginia, Texas, and Tennessee and digitization of these plus Mississippi's, which are available as pdfs online. We have already begun the process for Orleans Parish, LA. We plan to hire research assistants to digitize names and addresses for automatic record linking to Census.

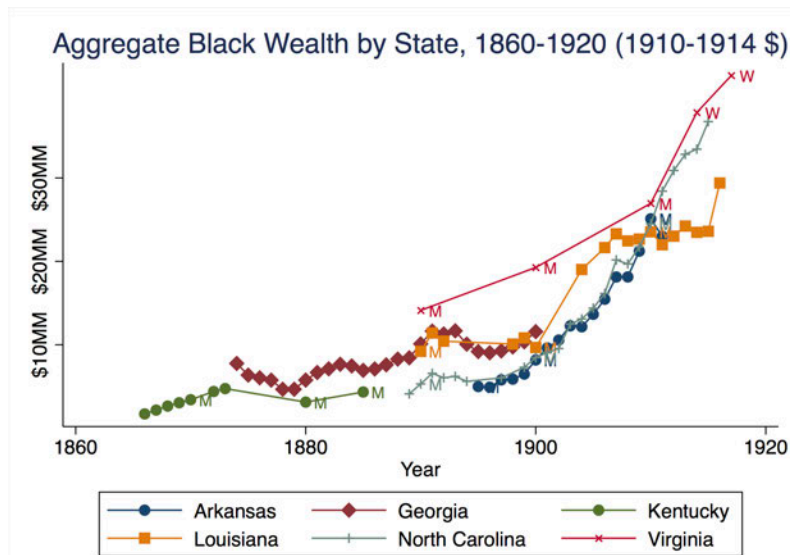


Figure 1: This figure plots our aggregate Black wealth series from 1866-1917 using data we digitized from state tax records, supplemented with Virginia data from Margo (1983) and Work (1914, 1917-18).

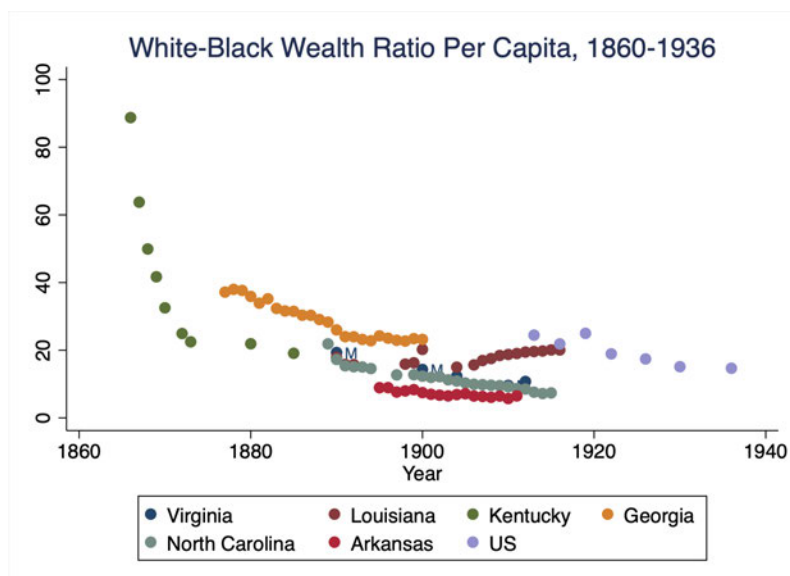


Figure 2: This figure plots our white-to-Black per capita wealth ratio series from 1866-1936 using data we digitized from state tax records, supplemented with data on Virginia from Margo (1983) and Work (1913-1936) and Saez and Zucman (2016), whose figures on aggregate wealth we use to construct white wealth measures (by subtracting aggregate Black wealth) for 1913-1936.

Relationship to RSF's core interests

This proposal responds directly to RSF's current interest in research focused on systemic racial inequality in the US. Wealth determines a plethora of intergenerational outcomes, limits or expands scope for educational investment, provides a buffer against financial shocks, and secures access to capital for personal, professional, and entrepreneurial development. The starkness of the racial wealth gap and the notion of reparations to address it was reinvigorated in the public discourse with the publication of Ta-Nehisi Coates's 2014 *Atlantic* essay "The Case for Reparations" and Darity and Mullen's 2020 book *From Here to Equality*. Despite countless articles, policy pieces, books, and essays, there is no work that provides a complete series of the racial wealth gap from emancipation to the present. We believe that this work will contribute to our understanding of which policies have historically reduced the wealth gap and which have led to its stagnation. Understanding the forces that have shaped the wealth gap over the last 170 years can help inform the design of policies that can successfully eliminate it.

Qualifications and responsibilities of key investigators

Ellora Derenoncourt is an assistant professor at UC Berkeley Department of Economics and Goldman School of Public Policy whose specialization is the long-run evolution of US racial inequality. Recently, she examined the impact of northern backlash against the Great Migration on Black upward mobility and the role of minimum wage policy on racial earnings convergence. Her work on the latter subject was recently published in *The Quarterly Journal of Economics*.

Moritz Kuhn is a Professor of Economics at the University of Bonn. His work on the postwar evolution of American wealth and income inequality was recently published in the *Journal of Political Economy*.

Moritz Schularick is a Professor of Economics at the University of Bonn. His work on the postwar evolution of American wealth and income inequality was recently published in the *Journal of Political Economy*.

Chi Hyun Kim is a PhD candidate at Free University of Berlin who works on empirical macro-finance with a focus on micro-level data analysis.

Budget

We anticipate hiring up to 10 undergraduate RAs for three semesters of part-time digitization work at UC Berkeley. We estimate costs of about [REDACTED] per semester per RA (hourly rate of \$20 X 10 hours per week X 10 weeks per semester), totaling about [REDACTED]. We will also use the funding to hire a full-time research assistant at UC Berkeley to supervise the undergraduate RAs and assist with database management, data cleaning, and analysis. The salary and benefits for the RA total [REDACTED]. Indirect costs will be 15% of total costs. Thus, our total budget is [REDACTED].

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