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PUBLIC FINANCE AND RACISM

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ABSTRACT

Mainstream public finance research has largely ignored racial issues. This paper calls on public finance economists to explore racial issues more extensively. The obvious reasons are to understand the effects of inequitable and inefficient policies, help develop remedies, and ensure that public finance is addressing the issues most salient to society. The less obvious reason is that public finance has tools and frameworks that can provide useful insights into the economics of racism. As economists search for issues that are both amenable to analysis and important for society, the pervasive effects of racism stand out in both regards.

I. INTRODUCTION

The murder of George Floyd in spring 2020 sparked a national reckoning and renewed attention to issues of racial equity and justice.[1] This long-overdue awakening led me to read extensively about racism and to think about interactions between race and tax policy. To be clear, I do not claim to be an expert on racism. I studied tax policy for over 30 years without ever focusing on connections between race and tax issues. I am only now beginning to understand the full extent of the connections between them.

Three results, however, are abundantly clear. First, widespread, long-standing, and continuing racial discrimination in the US has had enormous, lasting deleterious economic effects on Black households. Second, tax policies and other public policies have contributed materially to this problem. Third, policy can help ameliorate the effects of racism, but because of the history and its lasting effects, addressing racism should be thought of as a "second-best policy" problem,[2] taking into account preexisting conditions and policies. Race-blind policies are typically not race neutral or race fair, because they cement the status quo by accepting the ills of past and continuing racism.

This report addresses links between public finance and racism. Mainstream public finance analysis has proceeded for decades with virtually no attention to racial issues.[3] The legal literature has focused more directly on race and taxes; for just two notable examples of many, see Moran and Whitford (1996) and Brown (2021). Nevertheless, my basic thesis is that the discipline of public finance has tools and frameworks that can provide useful insights into the economics of racism and can constructively analyze ways to address the problems racism creates.

In the next section, What Makes a Policy Racist?, I examine the definition of a racist policy. No definition would correctly characterize every policy, but the presence of preexisting conditions and policies should shape this discussion. The lack of a universally agreed upon definition, however, should not deter researchers from examining how past, current, and alternative policies, institutions, and behaviors affect racial outcomes.

In Designing an Analysis, I highlight that many of the same underlying conceptual issues that arise in public finance also arise in analysis of racism and policy. Which policies and markets are included in the analysis? What is the baseline against which to compare policy reforms? What is the best way to measure fairness? And how do we measure the full effects, or the incidence, of a policy?

Then, in Parallel Topics, I bring out a perhaps surprising correspondence between some of the main topics in each field. Institutional racism, which is a key driver of racist policies but is poorly understood by economists because it does not involve individuals actively discriminating, is sometimes the result of unintended effects—a "bread-and-butter" part of standard public finance analysis. Likewise, analysis of the general equilibrium effects of policies shares important similarities with analyses of systemic (or structural) racism. Second-best policy analysis, which I have always found to be one of the driest, most technical aspects of public economics, can be used to help understand the notion of antiracism, perhaps the most controversial topic I explore here. Analyses showing the role of relative income in people's utility are analogous in certain ways to views set forth in stratification economics, which focuses on the relative status of groups.

I end with some concluding comments, emphasizing that the challenges to incorporating race-related considerations into public finance are easily surmountable and the opportunities are enormous.

Several caveats are in order. First, in showing connections between two research areas that have largely grown separately, my goal is not to appropriate the topics or to somehow claim that economics is the only way to analyze racism. Rather, I suggest that public finance economists and scholars studying race issues can learn from each other and that economics can complement other approaches. Second, to keep the report focused, I concentrate on developing conceptual matters rather than introducing or evaluating empirical work or analyzing policy issues. Third, I focus on racism directed at Black people, but similar issues arise regarding racism against other groups as well as other forms of discrimination. Fourth, alas, this report raises more issues than it resolves.

My hope is that the ideas presented in this report will encourage public finance economists to address racial issues directly and extensively. One obvious reason is that as scholars, we aim to identify and understand the effects of inequitable and inefficient policies and help develop remedies. More bluntly, studying race will make the discipline of public finance more salient for key issues in society and the economy. The less obvious reason is that the standard tools of public finance can help address these issues. As economists search for issues that are both amenable to analysis and important for our society, the pervasive effects of racism stand out in both regards.

II. WHAT MAKES A POLICY RACIST?

The first question that intrigued me was how to determine whether a policy is racist. The answer, it turns out, is less rigorous than one might like. Almost any definition will create either Type I or Type II errors when applied to the real world.

A. Definitions

Some policies are clearly racist. One definition of a racist policy is one that is motivated by racial animus or that explicitly hurts Black people by distinguishing based on race.

Redlining, discussed later, is one such example. But this definition relies on disparate treatment and is therefore too limited: a policy can be racist even if it is not explicitly motivated by animus or does not mention race. Note also that this definition is not symmetric across race: it excludes affirmative action and similar programs as well as slavery-related reparations to Black people. The long history of systemic discrimination (discussed in Parallel Topics) justifies this asymmetry.

Kendi (2019, 18) offers a much broader definition: "A racist policy is any measure that produces or sustains racial inequity between racial groups." This definition focuses on outcomes, rather than treatments. By doing so, it implies (correctly) that neither racial animus nor individual acts of discrimination is necessary for a policy to be racist. Further, the definition appropriately identifies the effects of a policy in producing or sustaining racial inequity as an important policy criterion.

But the definition is not complete, because racial "inequity" is not defined. If inequity means something other than unequal outcomes by race, it needs to be defined in concrete terms in order to make the definition of "racist" operational.[4]

If "inequity" refers to disparate outcomes by race, then many current policies or proposals are racist, given that racial groups currently differ in important economic respects. For example, universal health care, which many people consider a "race neutral" policy, would still generate disparate racial outcomes if in Black communities had fewer or lower quality health care providers and facilities or if Black patients were reluctant to take advantage of universal health care for any reason, such as past mistreatment and discrimination. But those disparate outcomes still might not qualify a universal healthcare program as racist—I believe policies can have disparate racial outcomes without being racist, as the term is commonly understood.[5]

A broader interpretation of Kendi's definition is that, rather than blurring the difference between inequity and inequality, it highlights that difference. In particular, to avoid being racist under his definition, a new or existing policy should be accompanied by whatever other changes are needed to ensure that everyone can use the policy on equal terms. This is the crux of equity approaches: the policy should include whatever is necessary to bring the less advantaged population to the same place as the advantaged population. This would not only make the policy fairer, it would also make it more effective in reaching its goals. In the universal health care example, this would mean addressing the causes of disparate outcomes under universal health care in addition to actually providing universal health care. (And to be clear, those causes should be addressed even if universal healthcare were not enacted.)

Any criterion used to define a policy as racist that falls between "racial animus" and "unequal outcomes" is by nature subjective and thus hard to characterize. "You know it when you see it" may well be how people feel, but different people can see the same situation and come away with vastly different conclusions.

Thus, I do not have a conclusive definition of a racist policy, but several points apply. First, this does not mean that racist policies do not exist—they certainly do. Second, just as racial animus is not necessary for a policy to be racist, the absence of racial animus does not guarantee that a policy is not racist. Third, people do not have to agree on a common definition of racism to believe that racial issues are important and should be the subject of study. Fourth, as I will discuss, whether a given policy is racist depends significantly on the presence of other policies and economic conditions and their causes.

B. Race-Neutral Policies and Preexisting Conditions and Policies

The notion of a "race-neutral" policy is popular. But given the existence of previous or current conditions and policies, policies that are race-neutral in treatment are almost never race-neutral in outcomes.

For example, let's say policy 1 states "every child who signs up for a public library card gets a free book." Clearly, this policy does not distinguish on the basis of race and on the surface, it may seem race neutral.

But policy 1 may not generate race-neutral outcomes, either because of preexisting conditions that differentiate between Black and white households or because of other policies. Regarding conditions, Black children may face more difficulty than white children in getting to libraries, because Black families might live in "library deserts," or Black families, who have lower average incomes than white families, may be less likely to own cars or computers with internet access. Likewise, libraries in communities that have a higher share of Black households may have fewer resources and a more limited selection of books. All these factors could lead to a greater share of white children being more likely to be obtain a free book than Black children or to white children getting "better" books than Black children. Let's assume that these conditions can be traced to previous racial discrimination, such as in housing, labor, or education markets.

Regarding preexisting policy, suppose a separate law already exists, policy 0: *only white children can get library cards*. Policy 0 is clearly racist.

The question is whether policy 1, which looked race neutral at first glance, is racist. As I have shown, the answer depends on both previous conditions and on previous and concurrent policies.

If (a) policy 0 cannot be repealed and (b) the prior conditions cannot be undone, then policy 1, without further adjustments, is racist. Policy 1, under the assumptions above, would provide benefits only to white children. It is wrong because it would build on and exacerbate racial inequality *that was caused in the first place by racial discrimination and public policies*, without providing any benefits to Black children.

If policy 0 were repealed, but the underlying conditions differentiating Black and white households remained in place, the answer is more subtle. Policy 1 would help some share of Black children but would help a greater share of white children. Policy 1 still clearly exacerbates racial inequity. Whether the policy is still wrong under those circumstances is a more difficult question, because racial inequity is only one of many factors that society might consider when assessing a policy. This is an area where a traditional public finance analysis that emphasizes efficiency, which sees a Pareto optimal change, and an analysis of racism, which sees a widening gulf, will draw different conclusions. It is also an area where the broad interpretation of Kendi (2019) discussed earlier matters tremendously. If policy 1 were accompanied by additional interventions that overcame the preexisting differences in conditions between Black and white households and ensured that Black children could take advantage of the free book to the same extent that white children could, then the combined policy would not be racist: it would feature disparate treatment but equal outcomes.

If policy 0 were repealed and the underlying conditions that differentiated Black households and white households were removed, policy 1 would clearly not be racist: it would be race-neutral in both treatment and outcome.

C. Real-World Examples

If an offer of free books for children can evolve so quickly into discussions of racial discrimination, it should not be surprising that careful analysis will find these issues to be ubiquitous. For virtually any policy, one can find preexisting conditions or prior policies that imply that race-neutral treatment does not imply race-neutral outcomes. I mention two examples below. I leave it as an exercise for the reader to come up with other examples.

Like the free book in the library card example, the mortgage interest deduction does not appear at first glance to have racial implications: Anyone with enough mortgage interest payments is entitled to itemize their deductions (policy 1). Now add preexisting policies (policy 0). Between 1934 and 1968, redlining practices, which cordoned Black families into communities with low real estate values, made it virtually impossible for Black households to own homes that were valuable enough to generate high enough interest payments on a mortgage to take advantage of the mortgage interest deduction.[6] Redlining remains one of the clearest examples of legally sanctioned racial discrimination (Rothstein 2017). Although it was formally outlawed by the Fair Housing Act of 1968, its effects live on today.[7] In addition, discrimination continues to affect housing markets for Black renters and owners (Hanson and Hawley 2011; Perry, Rothwell, and Harshbarger 2018). Given those preexisting policies and conditions, the effect of the mortgage interest deduction is to exacerbate racial inequality that was originally caused by racial discrimination.

As a second example, the GI Bill is often put forward as a model program that provided veterans with federally funded housing and education benefits. In practice, the Veterans Administration, which controlled the distribution of funds and mortgages, adopted many of the Federal Housing Administration's racially exclusionary policies and reinforced critical barriers to Black buyers in the housing market (Katznelson 2005; McKenna 2008; Rothstein 2017). Thus, the GI Bill, although race-neutral on its face, had racially disparate effects given how it was administered.

D. Critical Race Theory

The practice of examining the effects of policies in the context of the conditions or existing policies that surrounds them should be an obvious approach to economists. But such practice is not new: It reflects a central tenet of critical race theory, which holds that past policies were built to sustain a racial hierarchy and that because of this racist structure shaping American society, new race-neutral policies uphold racism rather than ignoring it (see, for example, Crenshaw et al. 1996; Crenshaw 2011). Many of the other aspects of critical race theory, such as the idea that racism can be (and is) sustained by institutions rather than just individuals, also reflect ideas I explore later in this report. In a vast literature, critical race theorists have been discussing exactly these issues (largely in legal studies, but increasingly in other disciplines as well) for over 50 years.

III. DESIGNING AN ANALYSIS

Policy analyses typically face a similar set of design questions: which policies to consider; how to specify a baseline or counterfactual; which notion of equity to employ; and how far to extend analysis of tax (or policy) incidence.[8]

A. Which Policies to Examine?

An analysis of race or a conventional public finance study might focus on a particular tax provision, on the entire income tax, or on the overall federal tax system. Still broader analyses could include taxes at other levels of government or other government activities (spending, regulations, or laws). There is no correct level; the right level depends on the question being asked, and asking questions at different policy levels may yield different answers.

For example, an analysis of current housing spending alone might suggest that low-income residents and people of color benefit disproportionately. More than 80 percent of federal spending on low-income housing assistance goes to households in the bottom quintile (Jaffee and Quigley 2007). About 43 percent of recipients of low-income housing assistance are Black, while 33 percent are white (US Department of Housing and Urban Development 2020). In contrast, an analysis of the tax treatment of owner-occupied housing (including the MID) would emphasize the very significant benefits that high-income (and disproportionately white) taxpayers gain from federal housing policy.[9] An analysis of the evolution of housing policy would combine these effects and consider additional issues, such as redlining.

A related issue is that analysis should account for the actual or potential uses of the revenue raised by a tax (or the financing required for a subsidy). For example, a value-added tax is well known to be regressive relative to current income, but when that tax finances universal health care (Burman 2014), wage credits (Burman 2019), or universal basic income,[10] the net policy can be strongly progressive.

But theres is an important difference between consideration of race and progressivity. What matters for distributional analysis is the progressivity of the overall system: individual provisions can be regressive as long as the overall system is progressive. If racially disparate outcomes are "just" racially disparate outcomes and not racism, then the same idea applies. That is, particular policies can have disparate racial outcomes as long as the overall system reaches a racially equitable solution. In the other extreme, though, if every racially disparate outcome is evidence of racism, then it is presumably not acceptable to focus just on the overall system, and every policy would have to be constrained to avoid racially disparate outcomes.

B. Compared with What?

Specification of the baseline, the counterfactual scenario, or the control group is a crucial step in many economic analyses. In analysis of racism, this is a particularly difficult topic in at least two ways: the policy baseline and the historical baseline.

Regarding policy, the issue is that the overall tax and transfer system is strongly progressive (with perhaps exceptions at the very top and depending on how income is defined) and thus presumably imposes higher average burdens on white taxpayers relative to Black taxpayers, because white households on average have higher incomes. Many analyses regard a broad-based progressive system as the baseline and analyze deviations from it, showing that particular tax or spending rules may be regressive or may disproportionately hurt people of color (Brown 2018; Haneman 2019; Lipman, Mirkay, and Strand 2020; Moran and Whitford 1996; Martinez 2017; Brown 2021; Neubig 2021). The point here is not to object to the particular baseline chosen, just to note that the choice of baseline has higher average tax burdens for white households "baked into the cake" (and thus ignored in the analysis), while deviations from that baseline that hurt Black households are emphasized.

Regarding history, Darity and Mullen (2020), Ta-Nehisi Coates,[11] and others who make the scholarly case for reparations to descendants of enslaved people compare what the world looks like now to what it would have looked like without slavery, without Jim Crow Laws, and without other past and current discrimination.[12] Building a credible model that could measure the effects of removing these phenomena would be virtually impossible.[13] To compensate for this, Ray and Perry (2020) and Darity and Mullen calculate potential reparations using a variety of approaches, including the amount needed to close the racial wealth gap.[14]

C. Equity Criteria

Consider a policy that benefits Black households but benefits white households even more (this could be defined in terms of dollar amounts, proportional income changes, utility, etc.) Is this policy good because it makes everyone better off or bad because it exacerbates racial differences in wealth? As mentioned, conventional economics would consider this Pareto-improving policy to be a positive development.

But if prior racial discrimination has caused differences in economic status, and the Pareto-improving policy exacerbates those differences, it is not obvious whether the change is appropriate. Moran and Whitford (1996) view policies that help white taxpayers more than Black ones as unfair because they widen gaps between racial groups even if they help Black taxpayers in absolute terms. Favorable treatment of employer benefits, for example, increases Black incomes and benefits. However, because Black people in the US are less likely to be employed than white people and, for those with jobs, less likely to have comprehensive benefits, Black taxpayers can take less advantage of tax breaks for employer benefits than white taxpayers can.

Brown (2021) uses a different example to make the same point. Preferential tax treatment of family transfers certainly helps Black families make gifts and leave inheritances. White people, however, are more likely to use transfers to build wealth as inheritances and real estate, while Black families often make transfers in the opposite direction to support older generations and daily expenses. The tax-free status of almost all family transfers does support Black survival and some wealth building, but it supports white wealth building more. Brown argues that this distinction makes a repeal of the estate tax unfair because it helps white taxpayers more than Black taxpayers and exacerbates the racial wealth gap.

Robert L. Johnson, founder of Black Entertainment Television, along with National Black Chamber of Commerce president Harry C. Alford, take a different position. They argue that the estate tax prevents Black entrepreneurs, who have more opportunities to build up wealth now than ever, from keeping that wealth and passing it on to their families.[15] The fact that the vast, disproportionate share of people who face the estate tax are white, and that repeal of the estate tax would help white taxpayers more than Black taxpayers, does not matter. Because estate tax repeal would help some Black people, both see it as a necessary policy even though it helps wealthy white Americans more.

D. Rethinking Tax Incidence

Incidence analysis is shorthand for tracing the full effects of a policy. What one considers the "full effects" of a policy, though, may change when racial effects are considered. The corporate tax offers one example. The long and storied history of analysis of corporate tax incidence focuses on how the burden is allocated across all workers, all capital owners, or shareholders. Race has rarely entered the discussion. But a disproportionate share of all capital and of corporate equity is white-owned, and white Americans tend to have higher wages than Black Americans. When these facts are considered, the analysis of the corporate tax has significant racial implications and is presumably borne disproportionately by white people. Relative to conventional economic analysis, this approach provides a new way to think about the 2017 corporate tax cuts (Sullivan 2021).[16]

The deduction for charitable contributions may offer another relevant example. Looking at the deduction as just a tax issue, high-income households (who are predominantly white) are the primary beneficiaries, and eliminating the deduction would make taxes more progressive and reduce racial disparities in the tax code. But an account that includes the racial dimensions of the deduction would need to include analysis of the beneficiaries of tax-induced charitable contributions made by those taking the deduction. Similar issues arise with respect to the itemized deduction for state and local income and property taxes. The issue is not just who takes the deduction—another important factor is who benefits from the donations that are spurred by the deduction.

IV. PARALLEL TOPICS

Although it may not be surprising that key components of analysis share commonalities across disciplines, I was surprised by some parallels between major topics in analysis of racism and standard public finance concepts. As a quick summary, institutional racism and structural racism are models of how racism propagates and becomes embedded in the economy across sectors and over time. They relate to "bread-and-butter" concepts of how the economy operates, such as the unintended effects of policies and general equilibrium interactions. Antiracism is essentially a proposed policy response to existing and past discrimination and relates to second-best policy choices. Stratification economics posits that groups care about their relative status and shares some features with the relative income hypothesis.

A. Institutional Racism

Economist Donna Ginther argues that economics has a "bias against bias."[17] Her comment was made in the context of gender bias, but it applies equally well to racism issues. For example, economics requires that those who want to argue for the presence of discrimination identify an actor doing the discriminating. Becker (1957) analyzed taste-based discrimination. Arrow (1973) and Phelps (1972) wrote about statistical discrimination. Bertrand, Chugh, and Mullainathan (2005) explore implicit bias. Basu (2015) considers active discrimination as a coordination device (essentially, the idea that one person discriminates because other people do).

In contrast, sociologists and other social scientists consider patterns of discrimination that do not require any individual to take a discriminatory action. Small and Pager (2020), for example, note that discrimination can occur through rules, customs, and institutions. One example is hiring practices. A company telling its current employees to spread the word about a new job opening will tend to replicate the racial composition of its workforce in its new applications, even if no one intends to exclude applicants who belong to underrepresented groups. This is not simply an academic example—many organizations have recognized this problem and made significant strides in recent years to make their hiring procedures more inclusive. Other labor market practices, such as layoffs based on seniority, can also discriminate unintentionally. Because people of color and women have advanced through the workforce only in more recent years, they are often the first employees to be laid off.

These practices, which may first appear unrelated to race, nonetheless carry unintentionally racist effects. Note, also, the long-lasting effects of such policies. People who face periods of unemployment or get laid off (in either case, for no reasons relating to their underlying productivity) can experience significant negative long-term effects on their career wages as well as homeownership (Cooper 2014).

To be clear, I do not mean to suggest that all or even most institutional racism is unintended. There are many, many situations where institutional racism is clearly intentional—one simple example would be historical exclusion of Black people from country clubs. The point is rather that even if institutionally generated racial disparities are unintentional, they are real and should be addressed.

In economics, we often celebrate unintended effects because they show us the importance of economic thinking. We love to explain to other economists (especially those with different political views than our own) how the unintended effects of their proposals will outweigh the intended effects. When it comes to the study of discrimination, though, these effects tend to get ignored or downplayed (our "bias against bias"). The sociology literature helps fills in this blind spot, and we can learn a lot from that perspective. Recognizing that discrimination occurs at institutional levels opens the door for a variety of tax policy changes that that could help ameliorate inequitable outcomes.

B. Systems of Discrimination

Systemic discrimination, or systems of discrimination, emphasizes that racism anchors itself across many or all sectors within a society. Even without explicit racial animus, this can occur if people employ statistical discrimination, as "disparities breed discrimination" (Lang and Spitzer 2020). The literature on statistical discrimination shows that even if Black people and white people have identical characteristics (for example, productivity) ex ante, if people believe the groups are different, situations can arise where (a) the differences become a self-fulfilling prophecy, (b) both Black and white people act optimally (in a narrow sense) in accepting that belief, and (c) the differences are not removed by the market mechanism (see, e.g., Coate and Loury 1993; Thomas 2021). In addition to possible statistical discrimination, the US history of slavery, Jim Crow laws, and continuing discrimination show that systemic discrimination can also be caused by both individual racial animus and government policies.

The key point–somewhat paradoxical–is that, once racism is everywhere, it may be harder to see. We may not notice it precisely because it is everywhere. That is, racism does not exist only in Klan lynchings and Nazi marches; it is embroidered into everyday life and reinforced by passivity. As Alexander (2012) writes, "Our understanding of racism is therefore shaped by the most expressions of individual bigotry, *not by the way in which it functions almost naturally, almost invisibly (and sometimes with genuinely benign intent) when it is embedded in the structure of a social system*" (emphasis added).

An example makes the point. Suppose that in a racially integrated neighborhood, white residents begin to move away from the area for any reason. The first effect is that property values will fall.[18] As a result, property tax revenues will fall, leaving fewer resources for public education. With underfunded schools, neighborhood children will get a lower-quality education, which leads to worse future labor market prospects (possibly making crime more attractive as an alternative to work) and thus fewer resources to buy homes, starting the cycle again.[19]

This example may be oversimplified, but even in more complex versions, the key point is that the typical Black person is disadvantaged at every stage through multiple subsystems of the community—housing, education, jobs, safety, and so on—*through no fault of their own*. The racial disparities in each subsystem of this fictional neighborhood then go on to continually build and reinforce disparities in other subsystems, exactly as Alexander (2012) describes. Note that the effects take place both over many sectors of society and over time. Outcomes in some sectors reinforce the discrimination in other sectors, thus lengthening and "hardening" the effects over time.

Reskin (2012) provides a formal model consistent with these ideas, defining a race discrimination system as one where disparities between groups reinforce one another across multiple subsystems (such as education, labor market, housing, or criminal justice) and stem from discrimination in at least one subsystem. Each subsystem contributes to systemic discrimination by reinforcing the disparities caused in other subsystems. Small and Pager's (2020) examples focus on the passivity of the individual; Reskin emphasizes the passivity of the subsystem. In this way, institutional discrimination, as well as active discrimination, of course, can contribute to a system of discrimination by allowing subsystems to feed into a cycle of growing disparities.

The key insight from systemic discrimination—that the effects of discrimination in one market inevitably spill over into other markets, even if there is no discrimination in the latter markets—should be an obvious insight to economists, because it is simply an application of general equilibrium effects. Systems of discrimination can and should be evaluated as general equilibrium effects, analyzing how inequities and disparities in one sector, such as housing, spill over into others, such as education, wages, and crime. This systems-level approach would allow us to understand more fully the cumulative amount of discrimination in an entire system rather than isolating one subsystem at a time.

To date, however, economists have tended to look for discrimination in particular areas rather than in interconnected systems. There is substantial literature on discrimination in the labor market, in the housing market, or in policing efforts (Lang and Spitzer 2020). There is much less attention to connecting each of these hosts of discrimination.

In terms of policy, the systemic aspect of discrimination means that to avoid racially discriminatory results, we need to think carefully not just about providing aid but where and how aid is provided. The earlier that policies can interrupt systems that compound differences in outcome by race, the better. Residential integration and inclusionary zoning, for example, would affect the entire chain of disadvantages in the neighborhood example I provided earlier.

C. Antiracism

Lyndon Johnson (1965) defended affirmative action programs, saying "You do not take a person who, for years, has been hobbled by chains and liberate him, bring him up to the starting line of a race and then say, '"you are free to compete with all the others,"' and still justly believe that you have been completely fair."

Eliminating *current* discrimination is the equivalent of removing the chains and placing a runner at the start of the race when his competitors started running 200 years ago. It is the right thing to do, if that is the only action taken, we cement past wrongs into the present and the future. The implication is that implementing race-blind policies is not necessarily "race fair" and, indeed, race-blind policies are necessarily race-unfair policies. Even if we magically eliminated all current discrimination, the legacy effects of white people's mistreatment of Black people—which have created, exacerbated, and maintained severe economic disparities—would continue to live on.[20]

Kendi (2019) posits that the opposite of racism is antiracism (rather than race neutrality), defined as a commitment to producing racial equality and actively reducing the amount of racism in the world. Doing so requires more than removing the chains; it requires addressing past injustices as well.

Antiracism strikes me as an application of corrective policy, which is not a new concept to economists. In particular, antiracism is consistent with the notion of second-best policy analysis. Tax economists spend a lot of our time thinking about ways that tax policy can correct imperfections or can make optimal policy, given the constraints and imperfections that exist. The constraint here is both current discrimination and the historical record. We cannot change the historical record, but we can adopt policies that compensate for it and take it into account.

D. Stratification Economics

Stratification economics, a theory pioneered by Darity (2005), contains many rich and interesting ideas, including an emphasis on how the key role of intergenerational transfers in household wealth accumulation serves to exacerbate long-term inequality in wealth.

For current purposes, however, the aspect that I find most interesting is that the theory posits that (a) people identify with a group; (b) groups are determined both by others' expectations and by personal preference; (c) groups are hierarchically ranked, or stratified, along a number of characteristics, such as race, gender, sexuality, nationality, and class, among others; and (d) most importantly, individuals seek to maximize their own group's status at the expense of others, through markets, the political system, or other avenues.[21]

This leads to intergroup discrimination as individuals and their groups benefit economically and socially from discriminating against other groups. Importantly, although the traditional theories of taste-based and statistical discrimination conclude that discrimination is reduced with market competition and profit-maximizing behavior, in stratification economics, the amount of discrimination can increase as groups become closer as the dominant group aims to retain its position.

Wilkerson (2020) shows that caste and race are interwoven in the US. In her analysis, as in stratification economics, dominant groups are motivated to keep disadvantaged groups down (i.e., to maintain the existing caste order). One particularly noteworthy example is that in the 20th century, many municipalities closed and paved over public swimming pools rather than allowing Black children to swim there (McGhee 2021).

These theories, which emphasize the relative position of groups, seem to be a kind of social variant of the relative income hypothesis, which posits that individuals derive utility from their income and consumption compared with others in our social and professional circles (Duesenberry 1949). Frank (1985) describes how our status compared with others in our "pond" affects our happiness, finding that we compare ourselves most strongly to people with whom we have face-to-face contact. Likewise, there is some evidence that individuals' reported level of happiness is driven at least in part by our comparisons to other people (Graham 2012; Stevenson and Wolfers 2008).

Stratification economics is consistent with these findings and extends the analysis to groups: although the absolute status of our own "pond" matters to us, so does our group's status relative to other races, genders, ethnicities, nationalities, and other identities. The connection between stratification economics and the relative income hypothesis may seem to be a bit of a leap, but I conjecture that many of the same forces are at play in the two cases.

V. CONCLUSION

Incorporating the study of racism into areas of study is often likened to adding a "racial lens." It is more accurate, though, to think about removing blinders (McGhee 2021) that prevent us from seeing the racism that has anchored itself within every aspect of American society.[22] David Foster Wallace (2009) provides a down-to-earth example: "Two young fish are swimming along and they happen to meet an older fish swimming the other way, who nods at them and says 'Morning, boys. How's the water?' And the two young fish swim on for a bit, and then eventually one of them looks over at the other and goes 'What the hell is water?'" The fish cannot recognize water by adding a "lens" of water to their sight; they can only see it by removing the assumption that there is nothing around them. One theme of this report is that the public finance profession has been underwater for a long time.

Addressing the economics of racism creates challenges and opportunities. The opportunity is that economists would be confronting and ameliorating a crucial issue for society and demonstrating the vitality and utility of economics. Even if racism persists, economists can determine the costs and benefits of alternative ways to reallocate resources or reshape tax policy. The challenges include incorporating new perspectives, language, and criteria in the way economists think, but these are far from insurmountable. New frameworks, such as asymmetric information and behavioral economics, and new topics, such as crime, health, and education, have been regularly incorporated into economics.

Although I have tried to avoid policy issues in this paper, many crucial ones are at stake. Particular issues include the effects of recent tax policies (Sullivan 2021; Huang and Taylor 2019),[23] whether to report race data to the IRS (Bearer-Friend 2018), how to address differing marriage penalties and treatment of the family by race (Brown 2021) and the possibility of reparations (Darity and Mullen 2020).[24] A more general issue is the relative advantages and disadvantages of universal policies, such as higher minimum wage or baby bonds or universal basic income, versus more targeted policies in addressing the long-lasting effects of past and current discrimination. These are merely a few examples of topics where a vast amount of important work could be done by combining insights from public finance and the analysis of racism.

NOTES

[1] In response, the National Tax Association (NTA) board of directors adopted a statement on racial injustice. The statement firmly holds that structural racism and racial animus exist in the US, and it is the duty of NTA members to address these issues. The statement committed the NTA to three broad goals. The first was enacting a code of conduct that prohibits and penalizes racial discrimination (and other forms of discrimination). The NTA board enacted the code of conduct in 2020, in large part because of the work of Juan Carlos Suárez Serrato and Kim Rueben, who constituted the task force that led these efforts. Second, was to increase the number of Black people and other underrepresented identities in NTA leadership positions. That process began with the election of new board members in November 2020. Thirdwas to increase the attention tax policy gives to racial issues. As an organization, the NTA has begun that effort with this presidential address, a plenary session on racism and tax policy at the annual conference in November 2020, a session on racial issues in tax policy at the spring symposium in 2021, and a forum in a forthcoming issue of the *National Tax Journal*.

[2] A "second-best policy" does not refer to the quality of the policy. Rather, it refers to enacting policy in an environment that is less than ideal, for example, because it bears the lasting effects of racism.

[3] Public finance is not alone in that regard. Although scholars in labor economics and economic history have studied racism and discrimination fairly extensively, Advani et al. (2021) document that, over the past 40 years, very few economics papers (and only a slightly greater share of political science and sociology papers) focus on race.

[4] There is a political cartoon that aptly shows the effective difference between equality and equity. In it, three people—an adult, a medium-height child, and a small child—want to watch a baseball game while standing behind a fence. In the "equality" panel, each gets to stand on one carton. This lets the two taller people, but not the small child, see the game. In the "equity" panel, the small child stands on two cartons, the older child on one, and the adult on none. As a result, all of them can see. Deriving the difference between equity and equality in other situations is more difficult and has a "you know when you see it" feel to it. This metric, as discussed later in the text, does not resolve many disagreements, because different people can see a given situation in different ways. See "Illustrating Equality vs Equity," Interaction Institute for Social Change, January 13, 2016, https://interactioninstitute.org/illustrating-equality-vs-equity/.

[5] Of course, the whole discussion depends on the definition of "racist." Merriam-Webster defines "racist" as "having, reflecting, or fostering the belief that race … is a fundamental determinant of human traits and capacities and that racial differences produce an inherent superiority of a particular race" See https://www.merriam-webster.com/dictionary/racist.

[6] Redlining practices adopted by the Federal Housing Administration in 1934 explicitly denied mortgages to Black home buyers. Color-coded maps of major American cities documented mortgage lending risks to guide investment based on the racial composition of given neighborhoods: Black neighborhoods were colored red and considered 'hazardous' to insure. Effectively prohibited from buying homes in and around white suburbs, Black families were deliberately isolated in urban housing projects with lower property values by government mandates with undisguised racial animus. Rothstein (2017) writes that state, local, and federal government policies not only failed to repair this clearly discriminatory system but actively promoted it. See also Ta-Nehisi Coates, "The Case for Reparations," *The Atlantic*, June 2014, https://www.theatlantic.com/magazine/archive/2014/06/the-case-for-reparations/361631/.

[7] Zenou and Boccard (2000) find that the spatial distribution of Black residents in urban city centers, a direct result of redlining, is a significant contributing factor toward high unemployment rates among Black people in the US. In addition to economic stagnation and structural decay from disinvestment, once-redlined neighborhoods are associated today with dangerous health outcomes such as cancer, asthma, poor mental health, a lack of insurance coverage, and crime (Nardone, Chiang, and Corburn 2020; Benns et al. 2020). Aaronson et al. (2020) find that the demarcations drawn by Home Owners' Loan Corporation redlining maps account for between 15 and 30 percent of the Black-white gap in homeownership rates and 40 percent of the Black-white gap in house values. It should not be surprising that the effects of redlining are still present. Line drawing for political reasons often has very long-term effects. Dell (2010) finds that historical institutions, such as 17th-century Peru's mita system of forced mining labor, have had long-term effects on the trajectory of contemporary economic underdevelopment. Acemoglu, Johnson, and Robinson (2001) similarly find that European colonial practices have influenced the long-term developments of the colonized areas. More recently, studies on the present-day consequences of the 1921 Tulsa Race Massacre have demonstrated a direct, persistent, and growing decline in homeownership rates and occupational status of Black Tulsans (Albright et al. 2021).

NOTES

[8] Zelenak (2020) covers much of the same territory as this section, but the analysis here was developed independently.

[9] Analysis of filings of income tax from IRS Form 1040 suggests that the direct benefit of MID goes mainly current to high-income households. But since the MID has been shown to have little impact on homeownership rates (Gale, Gruber, and Stephens-Davidowitz 2007; Glaeser and Shapiro 2003; Gruber, Jensen, and Kelven 2017) and thus is likely to be capitalized into housing prices, the benefits go mainly to those who owned homes at the time the deduction was created or when the income tax was expanded in the past.

[10] William Gale "How a VAT Could Tax the Rich and Pay for Universal Basic Income." *Up Front* (Brookings Institution blog), January 30, 2020, https://www.brookings.edu/blog/up-front/2020/01/30/how-a-vat-could-tax-the-rich-and-pay-for-universal-basic-income/.

[11] Ta-Nehisi Coates, "The Case for Reparations," *The Atlantic*, June 2014, https://www.theatlantic.com/magazine/archive/2014/06/the-case-for-reparations/361631/. See also William Darity Jr. and A. Kirsten Mullen, "Black Reparations and the Racial Wealth Gap," *Up Front* (Brookings Institution blog), June 15, 2020, https://www.brookings.edu/blog/up-front/2020/06/15/black-reparations-and-the-racial-wealth-gap/.

[12] The implicit assumption that Darity, Mullen, and Coates make is that had groups of Africans not been forcibly brought to America and enslaved, they would have still come to America and worked for pay. Although these authors do not explicitly state this counterfactual, they calculate reparations based on the value of enslaved people's work in the US and the wealth they would have been able to accrue in the US.

[13] Darity and Mullen (2020), Ta-Nehisi Coates, and Ray and Perry (2020), among others, have shown that the effects of enslavement have lingered among the descendants of slaves, causing lasting damage. Sacerdote (2005) estimates that the descendants of enslaved black people caught up with the descendants of free black people by about 1920. This does not mean the effects of slavery were eliminated, though, rather that it affected all black people by 1920. See Coates, "The Case for Reparations."

[14] Surprisingly, though, consideration of slavery as part of the baseline has drawn opposition. Bittker (2003) uses the end of the Civil War as a baseline, imagining what the world would look like if, after emancipation, Black Americans had had the same opportunities as their white peers. Trying to compensate for slavery, Bittker writes, would draw opposition on the grounds that the perpetrators of slavery are long dead, and he claims that the benefits gleaned by former slaveowners have dissipated among their descendants, who bear no responsibility for the actions of their ancestors. Bittker also argues that including slavery in reparations would send us down a slippery slope toward paying reparations for every historical wrongdoing. It is hard for me to see, though, how slavery can be ignored in thinking about counterfactual scenarios for Black Americans. See Darity and Mullen, "Black Reparations and the Racial Wealth Gap."

[15] Harry Alford, "Estate Tax Is Hurdle for Minority American Business Owners," *The Hill*, December 8, 2017, https://thehill.com/opinion/finance/363944-estate-tax-is-hurdle-for-minority-american-business-owners.

[16] Josh Bivens, "The Distribution of TCJA Cuts, as Well as the Burden of Financing Them, by Income Group and Race." *Working Economics Blog* (Economic Policy Institute), December 5, 2017, https://www.epi.org/blog/distribution-tax-cuts-and-jobs-act-by-income-race/.

[17] "Women and Economics: The Profession's Problem with Women Could Be a Problem with Economics Itself." *The Economist*, December 19, 2017, https://www.economist.com/christmas-specials/2017/12/19/women-and-economics.

[18] Schelling (1969) notes that such moves can happen even if white and Black residents prefer integrated neighborhoods given that each racial group has a limit to how small a minority they are willing to be. Evidence shows that property values will fall in a self-fulfilling prophecy: the white residents left behind believe that property values will fall, and they will then move to avoid losing home equity, pushing housing prices down (Armstrong 1998; Harris 1999; Krysan 2002).

[19] Darity and Mullen (2020) describe a "complex web of harms imposed upon Black Americans today" including "labor market discrimination, grossly attenuated wealth, confinement to neighborhoods with lower levels of amenities and safety, disproportionate exposure to inferior schooling, significantly greater danger in encounters with the police and the criminal justice system writ larger, and a general social disdain for the value of Black people's lives."

NOTES

[20] See Williamson (2020), Darity and Mullen (2020), and Albright et al. (2021). See also Darity and Mullen, "Black Reparations and the Racial Wealth Gap."

[21] See also Darity, Hamilton, and Stewart (2015). Although people may be assigned to their racial group based on how others perceive them, everyone has some control over the group they identify with. For example, a Black man might be perceived as belonging to the group "Black people," but he could change the way that others perceive and group him by attending a college with few Black students, surrounding himself with white, Latino, and other non-Black people, and taking jobs where he is the only Black worker. Alternatively, he could make others associate him more strongly with Black communities by surrounding himself with other African Americans and by being active in Black circles.

[22] I have described to others that the process of learning about race and taxes was like looking at an Escher drawing and all of sudden "getting it."

[23] Bivens, "The Distribution of TCJA Cuts, as well as the Burden of Financing Them, by Income Group and Race."

[24] Coates, "The Case for Reparations."

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