Testimony before the House Financial Services Committee Oversight and Investigations Subcommittee
April 5, 2022

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Private individuals, private institutions, and state and local governments do not have the capacity, individually or collectively, to meet the requirements for reparative justice for black American descendants of U.S. slavery. True reparations must prioritize elimination of the racial wealth gap in its entirety. The black-white wealth gap serves as the premier economic indicator of the cumulative intergenerational effects of American racism on the conditions confronting living black Americans, whose have ancestors enslaved in the United States (Darity and Mullen, 2020). As economist William Spriggs puts it, the racial wealth gap is the central measure of opportunity stolen from black Americans.

The minimum sum needed to close the black-white chasm in wealth is $14 trillion (EconoFact Chats 2022). Only the federal government has the capacity to fund such an amount. If private individuals and institutions paid $1 billion a month into a “reparations” fund, it would take a millennium for the fund to reach $14 trillion. The combined budgets of all states and municipalities in the United States are less than $3.5 trillion. It would take them four consecutive years of devoting all of their spending to a reparations fund—thereby forgoing all of their usual obligations to their constituents—to approach $14 trillion.

Contrary to widely held beliefs, the black-white gap in net worth is not due exclusively, or even primarily, to the racial difference in homeownership rates nor black over-indebtedness nor differences in black and white levels of educational attainment.

In previous testimony before this committee, I reported the following (Darity 2021):

Not only is there a racial gap in rates of homeownership (73 percent for whites versus 45 percent for blacks), there is a racial gap in the equity values associated with white and black owned homes. Zillow listing prices indicate that a home in a neighborhood with no black residents has a median value of $341,000. In contrast, homes in neighborhoods with a majority of black residents have a median value of $184,000 (Perry, Rothwell, and Harshberger 2018). The average level of equity whites hold in their homes is $216,000; for blacks the average level is $94,000 (Ross 2020).

Moreover, there are wide differences in the possession of other types of assets by race. Sixty percent of white households have retirement accounts but only 34 percent of black households. Fifteen percent of white households have family owned business equity but a mere seven percent of black households. Sixty percent of white households have publicly traded stocks but only 31 percent of black households (Ross 2020).

There is a tendency to overemphasize homeownership as the primary route toward asset-building. Plainly, equity in a home is the core asset for households in the middle of the wealth distribution. However, for persons in the upper quarter of the wealth distribution, homeownership is markedly less important in comparison with retirement accounts, non-residential land ownership, business ownership, and stocks and other financial assets. On
average, overall primary residences amount to 24 percent of household net worth. The combination of business interests, financial assets, and retirement accounts amount to 62 percent of household net worth (Swanson 2018).

Nor is the racial wealth gap attributable primarily to excessive indebtedness on the part of black Americans. Again, in my earlier testimony (Darity 2021), I pointed out the following:

A Prosperity Now (Nieves) study in 2019 reported that median black household liabilities were $30,800, while median white household liabilities were more than twice as large at $73,800. However, white households had a median level of assets valued in excess of $260,000 in contrast with the median black households’ assets valued at $55,900. The median black household had forty percent of the debt of the median white household, but only 20 percent of the assets. Correspondingly, the ratio of assets to debts for black households was 1.6 versus 2.8 for white households, both measured at the median.

Finally, the racial wealth gap will not close by enhancing black educational attainment. In 2019, blacks with a college degree had two-thirds of the median net worth of whites who never completed high school, $49,700 versus $71,800 (Hicks, Addo, Price, and Darity 2021, 12-13).

True reparations necessarily must be a federal project aimed at making direct payments to eligible recipients in an amount sufficient to build average black assets to a level comparable with average white assets.

However, this conclusion is not a recipe for paralysis on the part of private individuals and institutions nor other levels of government. There are steps they can take to enhance racial equity, even if they cannot execute a project for true reparations.

For example, a central financial weakness of Historically Black Colleges and Universities (HBCUs) is the underfunding of their endowments relative to Predominantly White Institutions (PWIs). Private donors do have the resources that can facilitate elimination of the HBCU endowment gap.

I turn to Louisiana to illustrate the possibilities, a state where its four HBCUs have significantly lower endowments per student than peer PWIs.

Comparing two private Catholic institutions in Louisiana, Xavier University of New Orleans, the only Catholic HBCU in the United States, has an endowment of $178 million (about $52,350 per student) in contrast with Loyola University of New Orleans with an endowment of $234 million (about $60,000 per student). Dillard University has an endowment of $100 million (about $80,000 per student, given its small student body of only about 1250 students) versus Tulane University’s endowment of $1.4 billion (about $103,000 per student). Grambling State University has an endowment of only $8.5 million (about $1420 per student) in contrast with the University of Louisiana with an endowment of $1.4 billion (about $13,650 per student). Comparing Louisiana’s two land grant institutions, Southern University and A&M has an endowment of $10 million (about $1325 per student) while Louisiana State University has an endowment of $546 million (about $15,900 per student).

The endowment differentials are not explained by financial mismanagement. Drezner and Gupta (2012) have demonstrated, unambiguously, at least among public institutions, there is no difference in the quality of fiscal administration of their endowments between black and white colleges and universities.
Nor are the differentials explained adequately by the sheer respective ages of each pair of institutions. Loyola of New Orleans is now 109 years old while Xavier is 96 years old. Tulane came into operation in 1834, during slavery, while Dillard began only four years after the end of the Civil War. The University of Louisiana, formerly the University of Louisiana at Lafayette, began operation in 1898 while Grambling began operation only three years later. Louisiana State also opened during slavery in 1853, while Southern started in 1880, less than two decades after the close of the Civil War.

Differential treatment by their funders/sponsors is the critical source of the endowment gap. The Louisiana legislature brought Grambling and Southern into existence to maintain a system of segregated higher education, and, ultimately the state never put the “equal” into the “separate but equal” dimension of the Supreme Court’s 1896 Plessy v. Ferguson with respect to university finances. Alumni giving also has been limited for HBCUs generally, despite, in a number of cases, these institutions having high participation rates (Gasman 2021). The enormous racial gulf in wealth is the decisive factor in determining the magnitude of the difference between HBCU and PWI endowments in Louisiana (Hamilton et al. 2015).

To close the endowment gap would require, at minimum, an additional contribution of $26 million to the endowment for Xavier University, $28.75 to Dillard, $61.4 million to Grambling, and $102 million to Southern University. The total will amount to approximately $218 million.

This is a minimum contribution since it does not consider the following factors: 1. Endowment equalization approach does not take into account the many years of adversity experienced by HBCUs because of the disparities in endowments. 2. The per student size of the current endowments of several of the HBCUs may be inflated artificially because of the relatively smaller size of their student bodies, which, in turn, is a likely function of historic underfunding. This seems to be the case for Dillard, in particular. 3. Estimates of the required contributions to bring Louisiana’s HBCUs on a par with their PWI peers do not take into account the disproportionately lower funding for their annual operating budgets, particularly for state schools. 4. A sustained problem for HBCUs, public or private, are their high attrition rates. Graduation rates for all four of Louisiana’s HBCUs, including Xavier, widely touted for its success in sending its black graduates to medical school (Clark 2018), are less than 45 percent. The rate falls as low as 30 percent at Southern. The lowest graduate rate among the four PWIs is 45 percent at the University of Louisiana, but the rate exceeds 60 percent at the remaining three institutions.

There is compelling evidence that larger endowments per student are associated with higher graduation rates (Coupet and Barnum 2012), but increased endowments are unlikely to be sufficient to bring about full improvement in graduation rates. The target for all the institutions should be, at least, to match Tulane’s graduation rate of 85 percent.

Who, among potential private contributors, could take on this task effectively? Certainly, the banking sector has the wherewithal, since the top ten banks in the United States have combined assets of approximately $13 trillion, albeit with varying degrees of risk. The total needed in Louisiana amounts to a blip on their financial horizon; they could take these beneficial steps toward greater racial equity without doing major harm to their balance sheets.

References


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