

United States Senate

WASHINGTON, DC 20510

December 19, 2023

Gene L. Dodaro
Comptroller General
U.S. Government Accountability Office
441 G St., NW
Washington, DC 20548

Dear Comptroller General Dodaro,

Decades of the War on Drugs have hollowed out communities across America. However, the federal government has yet to account for the economic consequences of these policies. As Chairman and Members of the Subcommittee on Financial Institutions and Consumer Protection of the U.S. Senate Committee on Banking, Housing, and Urban Affairs, we request that the United States Government Accountability Office (GAO) initiate a study regarding the economic effects of the War on Drugs and the role that financial institutions can play in addressing these effects. Such a study should also investigate the effects that legislation to regulate financial institutions that serve the cannabis industry would have on the country's racial wealth gap.

The War on Drugs began in 1971, ushering in federal and state policies that have caused dramatic increases in drug-related arrests and incarceration. From 1975 to 2019, the U.S. prison population increased from under 250,000 to over 1.4 million.¹ Even today, drug-related arrests remain high, at over 1.5 million drug arrests per year.²

These policies do not fall evenly on communities across the country. For example, one in four people arrested in 2015 for drug offenses were Black despite similar rates of use across race and ethnicity,³ Black incarceration rates are five times higher than those of white Americans,⁴ and 80% of people incarcerated for drug offenses in the federal prison system are Black or Latino.⁵

Arrest and incarceration related to the War on Drugs can have long-lasting effects on economic well-being. Existing research demonstrates that a criminal history can have significant collateral

¹ Aaron Morrison, *Fifty-Year War on Drugs Imprisoned Millions of Black Americans*, Associated Press (Jul. 26, 2021), <https://apnews.com/article/war-on-drugs-75e61c224de3a394235df80de7d70b70>.

² Jamila Hodge and Nazish Dholakia, *Fifty Years Ago Today, President Nixon Declared the War on Drugs*, Vera Institute (Jun. 17, 2021), <https://www.vera.org/news/fifty-years-ago-today-president-nixon-declared-the-war-on-drugs>.

³ *Report to the United Nations on Racial Disparities in the U.S. Criminal Justice System*, The Sentencing Project (Apr. 19, 2018), <https://www.sentencingproject.org/reports/report-to-the-united-nations-on-racial-disparities-in-the-u-s-criminal-justice-system>.

⁴ Adewale A. Maye, *Chasing the Dream of Equity: How Policy Has Shaped Racial Economic Disparities*, Economic Policy Institute (Aug. 1, 2023), <https://www.epi.org/publication/chasing-the-dream-of-equity> (describing data from 2019).

⁵ Altaf Rahamatulla, *The War on Drugs Has Failed. What's Next?*, Ford Foundation (Mar. 23, 2017), <https://www.fordfoundation.org/news-and-stories/stories/the-war-on-drugs-has-failed-whats-next>.

consequences on individuals after they have completed their sentences.⁶ Some states prohibit those with a criminal record from voting, accessing housing, or obtaining employment in specific sectors.⁷

These barriers can prevent individuals from building wealth and potentially contribute to the persistence of the racial wealth gap. In 2019, the Federal Reserve Bank of St. Louis found that the median white family had \$184,000 in wealth, compared to \$23,000 for Black families.⁸ Similarly, rates of white homeownership are considerably higher than those of their Black and Hispanic counterparts: 74% of white households versus 44% for Black households and 48% for Hispanic households.⁹

Financial institutions can play an important role in addressing any economic harms caused by the War on Drugs, including its effects on the racial wealth gap. For example, financial institutions can determine who has access to small business lending opportunities, which are critical in community development. Studies have shown that white-owned small businesses are twice as likely to receive full approval for financing in comparison to their Black- and Latino-owned counterparts, even when accounting for credit risk.¹⁰ We also see disparities at the individual level, with white applicants having higher rates of approval for mortgage loans than people of color.¹¹ These inequities can contribute to a vicious cycle in which minority communities cannot accrue wealth through the same means as their white counterparts.

As Chairman and Members of the Senate Banking Committee's Financial Institutions and Consumer Protection Subcommittee, our role is to ensure oversight and regulation of financial institutions that begins to address these historical harms and improve economic wellbeing across America. Doing so requires a fuller understanding of the War on Drugs and its consequences on families across America. With these concerns in mind, we request GAO expeditiously conduct one or more studies on the following topics:

⁶ See, e.g., *Collateral Consequences: The Crossroads of Punishment, Redemption, and the Effects on Communities*, U.S. Commission on Civil Rights (Jun. 2019), <https://www.usccr.gov/files/pubs/2019/06-13-Collateral-Consequences.pdf>.

⁷ Cameron Kimble and Ames Grawert, *Collateral Consequences and the Enduring Nature of Punishment: For Some People, Punishment Can Continue Years After the Sentence Ends, Even Decades*, Brennan Center (Jun. 21, 2021), <https://www.brennancenter.org/our-work/analysis-opinion/collateral-consequences-and-enduring-nature-punishment>.

⁸ Benjamin Harris and Sydney Schreiner, *Racial Differences in Economic Security: The Racial Wealth Gap*, U.S. Department of the Treasury (Sept. 15, 2022), <https://home.treasury.gov/news/featured-stories/racial-differences-economic-security-racial-wealth-gap> (describing data from 2019).

⁹ Aditya Aladangady and Akila Forde, *Wealth Inequality and the Racial Wealth Gap*, Federal Reserve (Oct. 22, 2021), <https://www.federalreserve.gov/econres/notes/feds-notes/wealth-inequality-and-the-racial-wealth-gap-20211022.html> (describing data from 2019).

¹⁰ *Credit Survey Finds White-Owned Small Businesses Were Twice as Likely to be Fully Approved for Financing as Black- and Latino-Owned Firms*, Federal Reserve Bank of New York (Apr. 15, 2021), https://www.newyorkfed.org/newsevents/news/regional_outreach/2021/20210415.

¹¹ Jacob William Faber, *Segregation and the Geography of Creditworthiness: Racial Inequality in a Recovered Mortgage Market*, Housing Policy Debate (Jul. 31, 2017), <https://www.tandfonline.com/doi/abs/10.1080/10511482.2017.1341944>.

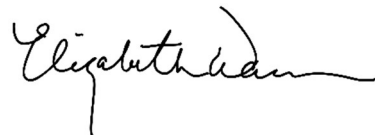
- To what extent would allowing financial institutions to bank state-sanctioned cannabis significantly ameliorate any negative economic effects or disparities arising from the War on Drugs and, if so, to what degree;
- What federal actions or policies (regulatory, legislative, or otherwise) would reduce regulatory uncertainty and facilitate the role financial institutions can play in addressing the effects of policies related to the War on Drugs, specifically in communities of color who have dealt with the negative effects of these policies;
- Economic effects of federal, state, and local policies to prosecute the sale, possession, use, manufacture or cultivation of cannabis, including the collateral consequences of arrests and incarceration;
- Whether these economic effects differ across the country, including by race, gender, socioeconomic status, or other classifications as appropriate, and whether those economic effects have contributed to widening inequality, including of the racial wealth gap;
- If economic effects exist, to what extent (if at all) communities have recovered from those economic effects, especially those communities with high rates of prosecution and incarceration under the War on Drugs; and
- Whether state policies to decriminalize or legalize cannabis have significantly ameliorated the negative economic effects or disparities arising from the War on Drugs and, if so, to what degree.

We look forward to your timely response on this issue of critical importance.

Sincerely,



Reverend Raphael Warnock
United States Senator



Elizabeth Warren
United States Senator



Tina Smith
United States Senator



John Fetterman
United States Senator