CHAPTER 2: ECONOMIC INEQUALITY

OVERVIEW

Aggregate measures of economic health do not fully reflect the experiences of tens of millions of Americans, who face higher unemployment, lower wages, higher poverty rates and decreased economic mobility. Disaggregating those indicators reveals vast economic disparities by income, race and ethnicity, gender and geography.

Economic inequality has plagued the American economy for decades, and by key measures, it is growing. However, rather than address this issue, the Administration has worsened it by passing $1.9 trillion tax cuts that disproportionally benefit the wealthiest Americans. Unfortunately, the *Economic Report of the President* is silent on this issue and paints an overly rosy picture of the economy that ignores the reality many Americans face. This chapter dissects aggregate indicators to examine economic disparities and discusses possible ways to enable all Americans to participate in national economic growth.

AGGREGATE ECONOMIC INDICATORS DO NOT TELL THE WHOLE STORY

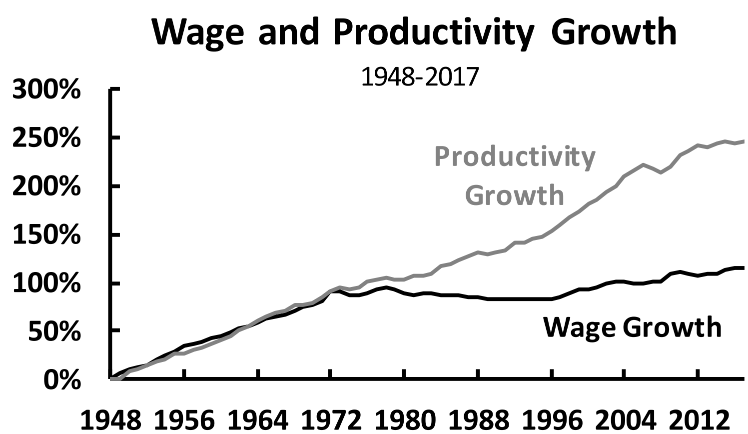
The United States economy has expanded at approximately 2.6 percent annually since 1980, adding over $12 trillion in total economic activity to the U.S. economy over those four decades.[83] The current economic recovery from the Great Recession is now the longest in United States history, with gross domestic product (GDP) growing at an average of 2.3 percent and now exceeding pre-recession levels by over $3 trillion.[84]

Decades of Wage Stagnation

However, economic growth has not led to broad-based gains in wages over the last several decades. Wages have been growing slowly for the median worker and even slower for those at the bottom of the income distribution. From 1979 to 2017, the median worker's wages increased just over six percent, from an estimated $20.27 an hour to $21.50 an hour, after accounting for inflation. That is less than a two-tenths of a percentage point increase each year, which translates to annual earnings growing from $40,540 in 1979 to only $43,000 in 2017. This long-term picture is even worse for workers at the bottom of the income distribution. Over the same period, wages at the 10th percentile grew by just 1.2 percent in total, increasing only 13 cents an hour from $10.81 in 1979 to just $10.94 in 2017. That means that annual earnings for workers at the 10th percentile grew a mere $260 over almost four decades, from $21,620 in 1979 to just $21,880 in 2017.[85]

Slow wage growth translates to lower lifetime earnings for workers. As shown by *Figure 2-1*, productivity growth has sharply diverged from wage growth since the early 1970s, demonstrating how economic growth has not translated to real wage gains for workers.[86] Each cohort of men entering the labor force between the late 1960s and early 1980s has experienced lower starting median earnings than the cohort of men who entered the labor force in the previous year, and lifetime earnings trended steadily downward during that time.[87] There are several factors that are likely contributing to sluggish wage growth, such as slower productivity growth, increased automation, pressures from globalization, the erosion of the real value of the minimum wage, fewer protections for workers and more bargaining power for employers.[88]

Figure 2-1



Source: Economic Policy Institute
Notes: Productivity growth shows the cumulative percent change in output per hour of work since 1948, net of depreciation; wage growth shows the cumulative percent change in hourly compensation of private sector production and nonsupervisory workers since 1948.

However, over the past year, wages have started to rise, likely as a result of an unusually tight labor market. This has particularly benefited low-income workers, whose wages have grown up to twice as fast as those at the 95th percentile.[89] This is described in greater detail in the *Macroeconomic Overview* chapter.

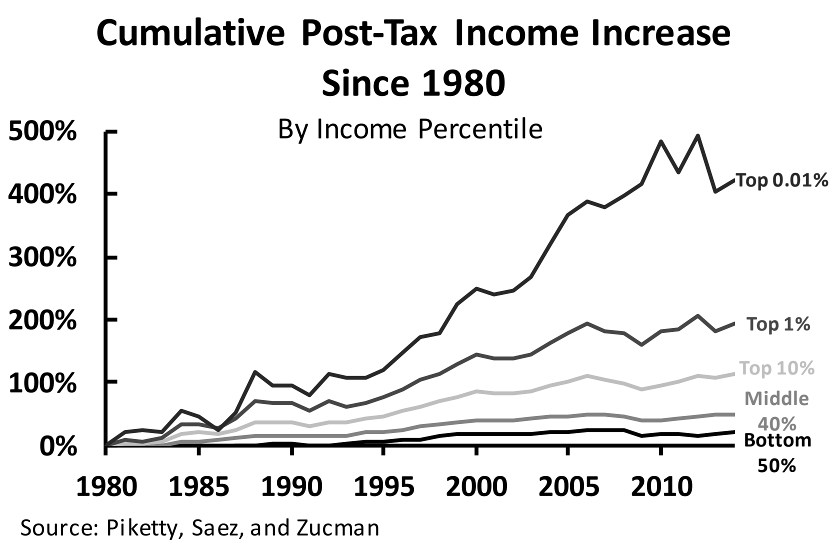
Rising Income Inequality

While median wage growth has been stagnant since the late 1970s, the wages and incomes of those at the top have risen substantially. Workers at the 90th percentile have seen wages grow by 34 percent, a stark contrast from the six percent for the median worker and just over one percent for the worker at the 10th percentile.[90]

Tax data show a dramatic increase in income inequality over the last few generations.[91] One study suggests that the continued rise of income inequality since 2000 has been driven largely by gains of the top one-hundredth of one percent (0.01)—those with incomes of about \$7.2 million.[92] Since 1980, approximately 70 percent of the increase in the share of income going to the top 0.01 percent was caused by incomes within this group growing faster than the long-run growth rate of two percent, and around 30 percent was caused by incomes outside this tiny sliver growing more slowly.[93]

While the top 0.01 percent have seen extraordinary gains and the top one percent overall have seen very large gains, the top 10 percent of the distribution have kept up with GDP growth over this time. The other 90 percent of the income distribution have been losing ground (see *Figure 2-2*).[94]

Figure 2-2



Wage Growth Varies by Education Level

Disaggregating wage growth across different levels of educational attainment reveals different wage patterns. Wages for workers with lower levels of education (high school diploma or less) fell from 1979 to 2017 at all levels of the income distribution, while wages for workers with at least a college degree rose over this period. Wages dropped more than 14 percent for the median worker with a high school degree or less, while they grew more than 15 percent for the median worker with a college degree. Rising wages for college graduates reflect the marked increase in the college wage premium—the economic benefit of a college degree—leading up to the turn of the century. However, in recent years, the college wage premium has started to flatten out, likely in part due to continued growth in the college-educated population.[95]

Growing Wealth Inequality

While income inequality measures the difference between earned income in a given year, wealth inequality measures the differences in accumulated lifetime assets. Today, wealth inequality is even more extreme than income inequality. This is partly because the returns of invested wealth are often high, leading to further increases in income that allow for the acquisition of even more wealth, and partly because wealth is passed down from generation to generation. The share of wealth of the bottom 90 percent of families has been falling for most of the past quarter-century, down from one-third (33 percent) in 1989 to just under one-quarter (23 percent) in 2016.[96] At the same time, the top one percent of households hold nearly 40 percent of all wealth in America, with half of that belonging to the top one-tenth of one percent (0.1).[97]

Decreased Economic Mobility

Over the last several decades, absolute mobility rates have fallen, and it has become increasingly difficult for children to earn more than their parents—a foundational aspect of the American dream. While a child born in 1940 had a 90 percent chance of earning more at age 30 than their parents at the same age, the odds for a child born in 1980 were no better than 50-50. These rates have fallen across the entire income distribution and in all 50 states, with the largest declines for families in the middle class.[98]

Family Economic Security

All of these structural challenges—including income and wealth inequality and declining mobility—threaten families' economic security. Assessing family economic security is difficult, but it is rooted in a family's ability to plan for expenses, save for the future and pay any outstanding debts. Tens of millions of Americans experience substantial economic insecurity. Nearly 40 percent of American adults report that they or their families struggle to meet at least one basic need like food, health care, housing or utilities.[99] A 2019 Federal Reserve report found that four in 10 Americans reported that they would be either unable to afford an unexpected $400 expense, or would have to resort to borrowing money or selling possessions to cover it.[100]

Improving Measurement

Aggregate national indicators do not tell the whole story. For example, GDP figures do not show how economic growth is distributed among the American people across different income levels. Recent legislation introduced in the House and Senate would work to supplement that information. The *Measuring Real Income Growth Act of 2019* (H.R. 707) instructs the Bureau of Economic Analysis (BEA) to report on income growth indicators, which measure how income is growing at each decile (bottom 10 percent up to top 10 percent) of income and for the top one percent. New indicators like this would provide a more complete picture of how economic gains are distributed, allowing policymakers to implement policies that benefit all Americans.

PERSISTENT DISPARITIES

More than half a century since the civil rights movement, racial economic disparities in the United States persist. Evidence shows gaps in key measures of economic well-being, such as unemployment rates, incomes, poverty rates, wealth, homeownership and mobility.

Employment

The black unemployment rate peaked at 16.8 percent in the aftermath of the Great Recession, then fell to 7.7 percent at the end of the Obama Administration and 6.0 percent in June of this year. However, it is still about double the rate of white unemployment.[101] Research shows black unemployment is also more cyclical than white unemployment, and that black workers experienced more involuntary part-time employment over the last four decades.[102] Tight labor markets improve relative outcomes for black workers, but the U.S. economy has more often than not run below potential since 1980.[103]

Wage and Income

Wage growth also has been particularly weak for black and Hispanic workers over the last several decades. For Hispanic workers, wages at the median and 10th percentile fell between 1979 and 2017. As a result, the wage gap between the median Hispanic worker and the median non-Hispanic worker grew over this period. In 1979, the median Hispanic worker earned 81 cents for every dollar earned by the median non-Hispanic worker, but in 2017 that figure fell to just 70 cents on the dollar. The wage gap also grew between the median white and black worker—the median black worker earned 80 cents for every dollar earned by the median white worker in 1979, with that figure falling to just 71 cents on the dollar in 2017.[104]

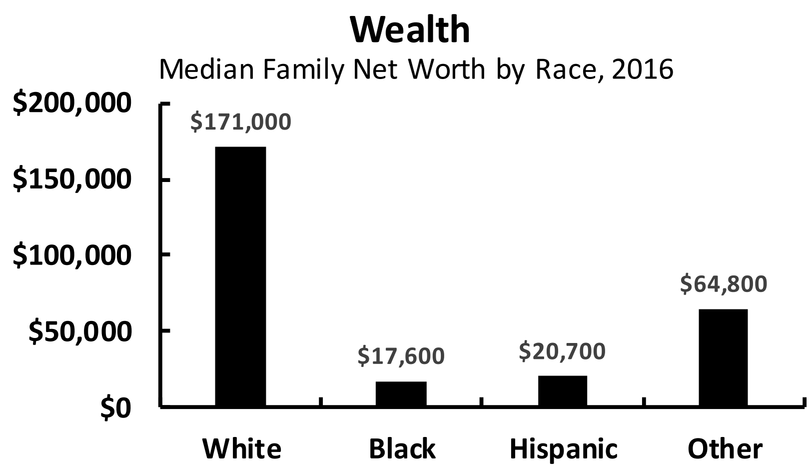
There are substantial gaps in household income by race. In 2017, the median Hispanic household earned just 74 cents for every dollar of income earned by the median white household, while the median black household earned just 60 cents. Black household incomes have remained relatively flat over the past few decades. Black real median household income in 2017 was about $40,600, roughly where it stood in 2007 and below its peak of over $42,300 at the turn of the millennium.[105]

Wealth

Racial wealth disparities are stark and have significant implications for the economic security of communities of color. Median net worth for all families fell during and in the immediate aftermath of the Great Recession. However, it continued to fall for black and Hispanic families between 2010 and 2013, while remaining unchanged for white families. Despite overall gains for black and Hispanic families between 2013 and 2016, the racial wealth gap increased during this period. In 2016, the typical black and Hispanic family held about 10 and 12 percent, respectively, of the wealth held by the typical white family (see *Figure 2-3*).[106]

Homeownership rates remain lower among black and Hispanic households compared to white households.[107] Further, home equity makes up a larger proportion of household net worth for black and Hispanic families—37 to 39 percent on average—compared to 32 percent of a white family's net worth.[108] Unfortunately, many families saw this equity vanish following the Great Recession. Homeownership rates and the value of homes for families of color plummeted following the housing crisis, eliminating much of the wealth built up by these families.[109]

Figure 2-3



Source: Federal Reserve Survey of Consumer Finances, 2016
Note: Both white and black refer to non Hispanic; other refers to other or multiple race.

Poverty

Communities of color also experience higher poverty rates. In 2017, poverty rates among blacks and Hispanics were 21 percent and 18 percent, respectively—more than twice as high as the white poverty rate of less than nine percent. Out of the nearly 40 million people living in poverty, almost 13 million are children.[110] Roughly one in four black and Hispanic children were living in poverty in 2017 (28 percent and 25 percent, respectively), compared to just one in ten white children (10.9 percent). [111] Research shows that children growing up in poverty tend to experience worse health, educational and economic outcomes than children who do not grow up in poverty. [112]

Economic Mobility

Black children experience far less upward mobility than white children. For every one hundred black children who grow up in households in the bottom fifth of the income distribution, less than three will make it to the top fifth as adults. White children are more than four times as likely to move from the bottom fifth to the top fifth. Further, black children are more downwardly mobile, as they are nearly twice as likely to fall from the top of the income distribution to the bottom as white children are.[113]

GENDER DISPARITIES

Over the last several decades, women have made significant wage gains and great strides toward pay parity. Since 1980, real median earnings for women working full-time, year-round have increased by more than 30 percent and the gender pay gap has been cut in half.[114] Key elements of this progress include improved female labor force participation, increased educational attainment among women and strengthened legal protections for fair pay.

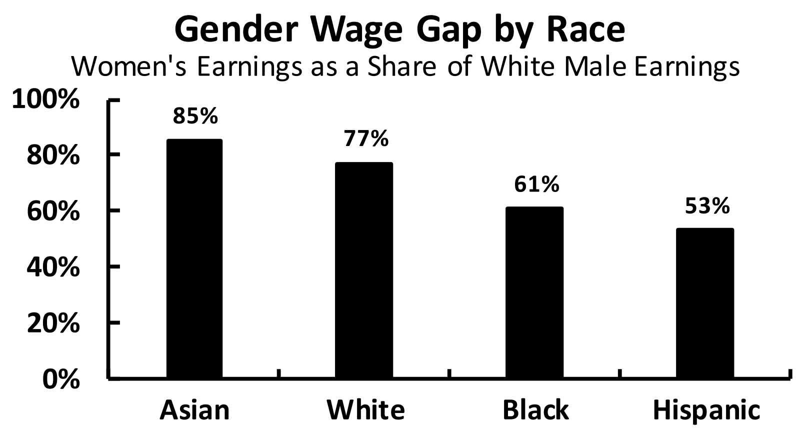
The Gender Pay Gap Persists

In 2017, the typical woman working full-time, year-round earned just 80 cents for every dollar earned by her male counterpart.[115] The gap was wider among women of color: the typical black and Hispanic woman earned 61 cents and 53 cents respectively for every dollar earned by the typical white man. Although Asian women come closest to achieving pay parity, some Asian subgroups earn far less than the national average (see *Figure 2-4*).[116]

These wage gaps add up over women's careers. The 20 percent gap in real median earnings translates to a little more than $10,000 each year.[117] If a woman were to experience this same disparity over her 40-year career, she could lose out on more than $400,000 in wages (in today's dollars).[118] Research looking into the long-term earnings of women compared with men find that the gap can even be greater once you factor in the gendered pattern of disruptions to men's and women's careers.[119]

The gender wage gap does not only affect women; it has lasting consequences for families, men and the economy as a whole. Women's share of household earnings has grown from 36 percent in 1993 to 45 percent in 2016.[120] One study shows that mothers are the sole or primary breadwinners in half of U.S. households with children.[121]

Figure 2-4



Source: JEC analysis of 2018 CPS ASEC
Note: Ratio is comparing median annual earnings of full-time, year-round workers only; Asian American, white, and black figures exclude respondents with multiple races reported or of Hispanic ethnicity; the pay gap is substantially larger for some Asian American subgroups.

There are many factors that contribute to the gender pay gap. For example, women are more likely than men to have to interrupt their careers to care for children. Roughly 43 percent of women in the workforce have experienced at least one year with no earnings—nearly twice the rate of men.[122] The wage penalties associated with taking time out of the labor force are high, harming women's present and future earnings and hampering their overall economic potential.

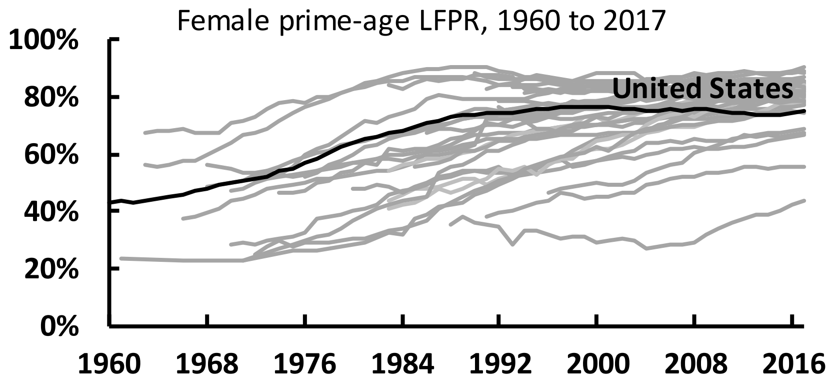
Female Labor Force Participation Still Lags Male Participation

In the postwar period, women flooded into the labor force, and the prime-age female labor force participation rate (LFPR) more than doubled from 1948 to 1999. The dramatic increase in female participation in the labor force began to offset the declining participation of men, and overall labor force participation was rising until 2000. However, since its peak at the turn of the century, women's LFPR has declined and remains far below men's LFPR.[123]

Additionally, the United States is trailing other industrialized countries when it comes to women's labor force participation (see *Figure 2-5*). Many countries with higher female labor force participation have family-friendly workplace policies, such as paid family leave and child care, which make it easier to balance work and family obligations.[124] It is estimated that lower women's labor force participation in the United States, relative to other OECD countries, potentially left over $500 billion in estimated economic activity on the table in 2017 alone.[125]

Figure 2-5

U.S. Female Labor Force Participation Compared to Other OECD Countries



Source: OECD Labour Force Statistics by sex and age
Note: Prime-age includes persons aged 25 to 54.

Gender Disparities Result in Retirement Insecurity

Earnings disparities between men and women have implications for women's economic security later in life. Planning for retirement early is becoming increasingly important for women. Older women are less financially secure than they were more than 25 years ago.[126] In 2017, women ages 65 and older earned just 59 percent of what men the same age earned, which is more than twice the overall gender wage gap.[127] In fact, elderly women are 40 percent more likely than elderly men to live in poverty.[128] Lower lifetime earnings, longer life spans and shorter work tenures all contribute to women's retirement insecurity.[129]

Improving the Economic Outlook for Women and Families

Paid family leave allows both male and female workers to better fulfill caregiving responsibilities without sacrificing pay. Research shows that paid leave policies increase employment among mothers, as those with access to leave are almost 70 percent more likely to return to work in the long run than those without access.[130] However, only 16 percent of private sector workers had access to paid family leave through their employers in 2018.[131] The United States is the only industrialized country that does not guarantee any paid leave for new parents.[132] The Federal Employee Paid Leave Act (H.R. 1534) would provide 12 weeks of paid leave for federal employees—an important first step in the effort to expand access to paid family leave.

In addition to paid family leave, more accessible and affordable child care can help increase women's work hours and earnings. As women have entered the workforce and become breadwinners, access to high-quality, affordable child care has become an increasingly important part of a family's economic success. Research shows that mothers whose children attend high-quality early learning and care programs can boost their earnings by $90,000 over the course of their careers.[133]

GEOGRAPHIC DISPARITIES

Just as the U.S. economy has become fractured by income, race and gender, it has increasingly been divided by geography. While some communities and areas of the country are booming, others might be experiencing a bust. In the years since the Great Recession, these differences have become more pronounced with the gaps between thriving and struggling areas growing wider. Large swaths of American communities—many of them in rural areas—have not shared in the recovery since the Great Recession.

Economic Growth is Increasingly Geographically Concentrated

In successive recoveries, job growth and business creation have aggregated in fewer and fewer metropolitan areas.[134] Nearly half of the nation's ZIP codes still had not reached pre-recession employment levels in 2016, and some are on a track to never fully recover.[135] As the think tank Economic Innovation Group (EIG) puts it, this means that "National growth rates have become less reflective of local realities." The median county added jobs at less than half the pace of the national economy, according to their research, and if you subtract the top five counties, the nation as a whole still had fewer businesses in 2016 than in 2007.[136]

These disparities manifest in a variety of ways. The Brookings Institution's Hamilton Project divided the nation's counties into quintiles based on several indicators of economic vitality. They found that in the lowest performing quintiles, incomes are less than half that of the highest performing quintile, poverty rates are nearly three times higher, employment levels for prime-age workers trail by nearly 16 percent and life expectancy is a full six years lower.[137]

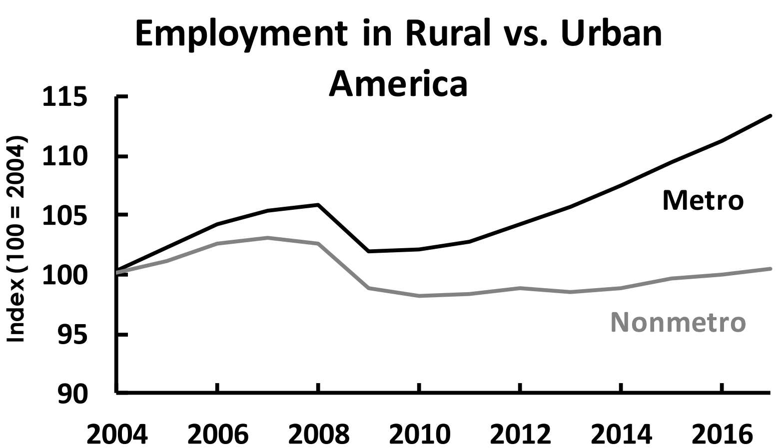
The Rural-Urban Divide

Wages have been particularly stagnant for rural workers. Since 2007, the median income of rural workers has averaged 25 percent below that of urban workers.[138] Rural Americans also experience higher unemployment rates than their urban counterparts—a gap that has widened since the Great Recession.[139] EIG found that the number of rural Americans living in distressed communities has risen even as the national share has fallen.[140]

There is also a stark rural-urban divide in labor force participation rates, with participation much lower in rural areas. Some of this can be attributed to an aging population and the outmigration of young people from rural areas. However, even when looking at participation rates of prime-age workers, there is a growing gap between participation in urban areas and rural areas, especially since the Great Recession.[141] This gap is mostly concentrated among workers with lower levels of education. Recently, the rural-urban gap in labor force participation grew sharply among workers with a high school diploma or less.[142]

Rural America has not shared in the employment recovery that has occurred since 2010. While most urban areas have long since surpassed pre-recession employment levels, employment in rural America is still below pre-recession levels (see *Figure 2-6*).

Figure 2-6



Source: Bureau of Labor Statistics, Local Area Unemployment Survey.
Note: Quarterly data is indexed at 2004Q1, seasonly adjusted, and uses USDA adjusted data for survey redesign break in 2009Q4 -2010Q1.

Economic Opportunity Varies by Location

The geographic economic divide is about more than just the current working population—it also affects future generations. Groundbreaking research over the last decade has revealed that where a child is born has a large impact on their ability to achieve upward economic mobility. Researchers have tapped into federal administrative data records to show how children's ability to improve their economic situation is heavily influenced by several factors, including where they are born. Children who move from a below average mobility area to a high mobility area—for example, from a low-income to an affluent community—early in life increase their lifetime earnings by $200,000. They are also less likely to end up incarcerated or have a teenage birth. Even growing up a few miles apart can make the difference in where a child ends up later in life.[143]

THE IMPORTANCE OF ANTI-POVERTY PROGRAMS

Nearly 40 million Americans live in poverty—for a family of four with two children, this includes those with incomes of less than about $25,000.[144] Many more will experience poverty at some point during their lives. More than half experience poverty by the time they are 65, typically from losing a job for a period of time.[145]

The effects of poverty ripple throughout the economy. Child poverty alone costs the nation an estimated $1 trillion each year in increased health care bills, child maltreatment costs, higher crime rates and lost wages and productivity.[146]

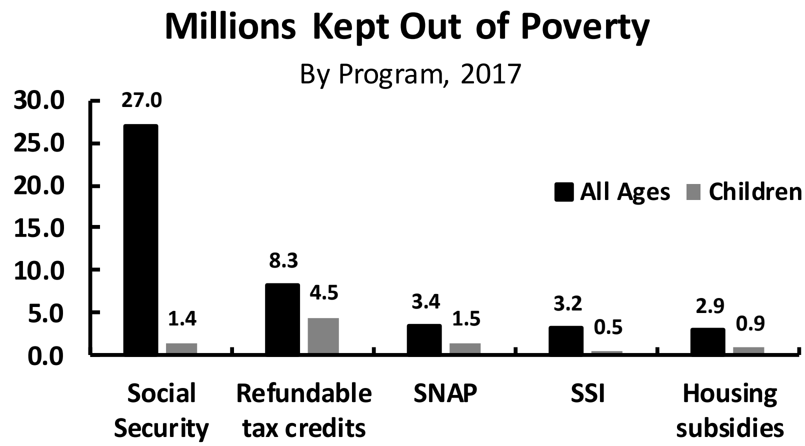
The *Report* declares that "President Johnson's War on Poverty is largely over and has been a success based on 1963 standards of material hardship."[147] It arrives at this conclusion using a proposed alternative to the U.S. Census Bureau's Official Poverty Measure (OPM) and Supplemental Poverty Measure (SPM). The proposed measure uses a different index for inflation, counts the household rather than the family as the sharing unit and includes the various forms of federal assistance to help low-income Americans. These include the Earned Income Tax Credit (EITC) and Child Tax Credit (CTC), as well as the "the market value of noncash transfers, including [the Supplemental Nutrition Assistance Program] (SNAP); subsidized school lunches; rental housing assistance; and public health insurance (Medicare and

Medicaid)."[148] In other words, the *Report* suggests that the War on Poverty has been won thanks to federal government programs that many conservatives deem too generous or unnecessary. The *Report* then proposes a new war on poverty centered on gutting these same programs that are focused on alleviating poverty for millions of Americans.

While the *Report* is correct in arguing that a strong labor market can help offer opportunities for those living below the poverty line to work their way out of poverty, an unemployment rate under four percent will not continue indefinitely and is not the silver bullet to ending poverty. Many Americans face barriers to work that a tight labor market would not address, such as serious health conditions or a lack of child care. For these reasons, federal programs that mitigate poverty will continue to be critical.

As shown by the SPM, which extends the OPM by taking into account many of the programs that assist low-income Americans, anti-poverty programs like the EITC, CTC and SNAP keep millions of Americans from feeling the worst effects of poverty each year. In 2017, Social Security alone lifted 27 million Americans above the poverty line, while refundable tax credits like the EITC and CTC alleviated poverty for another eight million. Out of the 3.4 million people SNAP prevented from falling into poverty, more than 40 percent were children (see *Figure 2-7*).[149]

Figure 2-7



Source: U.S. Census Bureau, 2018 CPS ASEC
Note: Refundable tax credits include the Earned Income Tax Credit and the refundable portion of the Child Tax Credit. SSI is Supplemental Security Income.

There are other proven benefits that these programs provide in addition to the sheer number of people lifted above the poverty line, such as the intergenerational effects that will benefit future generations. Medicaid results in long-term health, educational and economic benefits for recipients. Children with Medicaid coverage are healthier and are more likely to complete high school and college and be employed as adults.[150]

Research shows that programs like SNAP and EITC collectively reduce the level of income volatility in the economy.[151] Additionally, SNAP is a vital investment in human capital, setting a healthy foundation for America's current and future workforce. Every dollar of SNAP generates $1.79 in increased GDP.[152] Tax credits like the EITC and CTC provide much-needed wage boosts for families and improve outcomes. Increasing the EITC has been shown to substantially increase employment among single mothers and reduce poverty levels for their families.[153] Supporting these programs is key to setting up current and future generations for success to fuel a strong, vibrant economy.

CONCLUSION

While the *Economic Report of the President* focuses mostly on aggregate economic indicators that show a strong economy, data and research reveal large disparities by income, race and ethnicity, gender and geography. The *Report* includes almost no discussion of economic inequality, except in a discordant chapter on socialism, and it declares that the War on Poverty has been won. This ignores the economic experiences of tens of millions of Americans.

Addressing these disparities will require a robust agenda that combats discrimination, invests in education and sets the foundation for broad-based inclusive growth. It also will require expanding access to paid family leave and affordable, high-quality child care to help workers balance the demands of work and family while remaining in the labor force. Finally, rather than claiming that poverty is rare and attempting to cut Medicaid and nutrition assistance, we should protect these programs so that they can continue to help lift millions out of poverty and put future generations on a viable path to the American Dream.