Understanding American Economic Inequality

William Darity, Jr., Founding Director
Samuel DuBois Cook Center on Social Equity
Samuel DuBois Cook Professor of Public Policy, Economics, African and African American Studies
Duke University
Exploring the Income Gap
Drivers of Widening Income Inequality

- Pre-tax: Productivity gains have not gone to labor in the form of higher wages
- Post-tax: “Tax reforms”
- Labor participation
- Booming stock exchange
The gap between productivity and a typical worker’s compensation has increased dramatically since 1979

Productivity growth and hourly compensation growth, 1948–2018

1948–1979:
- Productivity: 108.1%
- Hourly compensation: 93.2%

1979–2018:
- Productivity: 69.6%
- Hourly compensation: 11.6%

Productivity has grown 6.0x more than pay since 1979.
How the Private Sector Contributes

- Low wages
- Low benefits
- Uncertain hours
- Growing gap in compensation between executives and average workers
A Closer Look at the Income Gap

- Top 10% averages 9x the income than bottom 90%
- Top 1% averages 40x the income of bottom 90%
- Top 0.1% averages 198x the income of bottom 90%

- Gap has widened over past 40 years:

**Top 1% income percentage has grown from 9-10% of population’s income to 22% at present** (similar to what happened before Great Depression)
Causes of the Racial Income Gap

- Education
- Discrimination (esp. in labor markets)
- Unequal wealth

The median black family income is 55-60% of the median white family income (gap has remained consistent over the past 50 years)
Exploring the Wealth Gap
Wealth vs. Income

**Wealth**
- Stock of resources
- Difference between what an individual owns and what an individual owes
- Reflects how long one can maintain existing (or decent) level of living

**Income**
- Flow of resources
- Earnings
- How much did one bring in over a given amount of time
Why Wealth Matters

- Indicates economic opportunity, security & overall wellbeing
- Buffers against economic shocks (job loss, medical emergency)
- Buffers against economic uncertainty
- Provides a human capabilities approach to personal development
- Helps deliver gifts and bequests to future generations
Four Examples Highlighting the Extent of Wealth Inequality
Norton and Ariely, 2011
US wealth inequality: Top 0.1% hold the same amount of wealth as the bottom 90%

Share of US household wealth by income level

Note: Data estimated by Berkeley Professors Seaz and Zucman using capitalized income tax returns, see also here: http://gabriel-zucman.eu/uswealth/

SOURCE: Emmanuel Saez, Gabriel Zucman, QJE May 2016, DB Global Markets Research
## Income and Wealth Inequality, Compared

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Bottom 90%</td>
<td>50%</td>
<td>23%</td>
</tr>
<tr>
<td>Top 10%</td>
<td>50%</td>
<td>77%</td>
</tr>
<tr>
<td>Top 1%</td>
<td>22%</td>
<td>35%</td>
</tr>
<tr>
<td>Top 0.1%</td>
<td>11%</td>
<td>22%</td>
</tr>
</tbody>
</table>

The 400 richest people in the United States own more assets than the 150 million Americans in the bottom 60 percent, combined.

Exploring the Wealth Gap at the Intersections of Race and Gender
Between Racial and Ethnic Groups


Notes: 2016 dollars. No comparable data are available between 1963 and 1983. Black/Hispanic distinction within nonwhite population available only in 1983 and later.
Within Racial and Ethnic Groups

Approximately 75% of all wealth
For blacks, whites, and Latinos is owned by the top 10% of each group

Approximately 40% of all wealth
For blacks, whites, and Latinos is owned by the top 1% of each group

Less than 3% of all wealth
For blacks, whites, and Latinos is owned by the bottom 50% of each group
Wealth Share, By Race

Note that the cumulative wealth held by all black households is equivalent to the wealth share of just the bottom half of white households.
Sources of Wealth Inequality

- **Primary source is intergenerational**
  - Inheritances, gifts, absence of economic anxiety, optimism about future possibilities

- **Overall wealth gap is a product of government policy**
  - Tax and transfer policy

- **Racial wealth gap also is a product of government policy**
  - 1865-present

- Education, hard work, income, and active savings do little to address the racial wealth gap

- The racial wealth gap is **structural not behavioral**
What We Get Wrong About Closing the Racial Wealth Gap

Myths of Pathways to Closing the Gap

- Education
- Savings
- Buying and banking Black
- Homeownership
- Entrepreneurship
- Financial literacy
- Emulate other successful ethnic groups
- Family structure
- Soft skills
- Personal responsibility
Black heads of households with college degrees have two-thirds the wealth of white heads of household without high school diplomas.
Racial Differences in Wealth among Elderly Women by Education

- White women who graduated from college have **35x** the wealth of black women who graduated from college.
- White women without college degrees have **5x** the wealth of black women without college degrees and **5.5x** that of black women with college degrees.
What We Get Wrong About Closing the Racial Wealth Gap

Myths of Pathways to Closing the Gap

- Education
- Savings
- Buying and banking Black
- Homeownership
- Entrepreneurship
- Financial literacy
- Emulate other successful ethnic groups
- Family structure
- Soft skills
- Personal responsibility
Median Wealth for Black and White Women by Marital Status and Presence of Children

- Unmarried w/o Children
  - White: Low
  - Black: Very Low

- Unmarried w/ Children
  - White: Low
  - Black: Very Low

- Married w/o Children
  - White: Very High
  - Black: Medium

- Married w/ Children
  - White: High
  - Black: Low
Causes of the Racial Wealth Gap

- Public Policies
- Intergenerational Effects (Gifts & Bequests)
Bold Policies for a New America
Ways to Alleviate Racial Inequality

- Federal Jobs Guarantee
- “Baby Bonds”
- Public Banking
- Improved educational opportunities (ending racialized tracking)
Federal Jobs Guarantee

- Affects current generation
- Employment as a guaranteed right addresses income poverty—especially working poverty
- Meets human and physical infrastructure needs; could direct capital to communities where it’s most needed
- Sets a floor on compensation for all workers
“Baby Bonds” aka Young Adult Trust Accounts

- Universal program for future generations
- Foundation for asset development for all newborns regardless of the financial position into which they are born (Hamilton et al. 2015)
- Amount of the endowment would be graduated based on the child’s parental wealth
- Program costs <10% of the annual social security expenditure
Public Banking, through the U.S. Postal Services System

- Currently, 49.3 percent of black households and 45.5 percent of Latino households are unbanked or underbanked.
- Would provide alternative to the predatory nature of the current system of finance.
- Offers access to reasonable financial services.
- Would generate a quality floor in the financial sector.
Ways to Alleviate Racial Inequality

- Federal Jobs Guarantee
- “Baby Bonds”
- Public Banking
- Improved educational opportunities (ending racialized tracking)

But to close the racial wealth gap, more is needed...
Reparations

Post-slavery injustices had—and continue to have—severe economic effects on generations of black Americans

- Failure to provide ex-slaves with “40 acres and a mule”
- Racialized policies
- Destruction of prosperous black communities and business districts

*From Here to Equality* (Darity and Mullen, April 2020)

- Three aims: Acknowledgement, Redress, and Closure

**Two Criteria for Eligibility**

- Had enslaved ancestor in the United States
- Self-described as Black or African American at least ten years prior to the onset of the program
Thank You!

William “Sandy” Darity

Email: william.darity@duke.edu
@SandyDarity

The Cook Center on Social Equity

Website: socialequity.duke.edu
@DukeSocialEQ