

CHAPTER TWO

Charting New Trends and Imagining an All-In Nation

An All-In Nation in 5 Charts

BY ROBERT LYNCH AND PATRICK OAKFORD



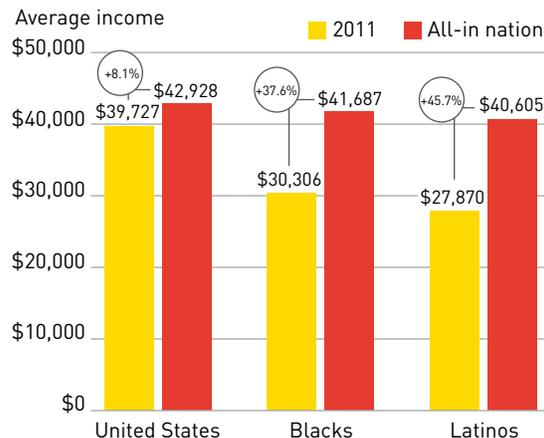
n All-In Nation is not only necessary to fulfill our founding ideals, but it is also an economic imperative if our elected officials care about our future prosperity.

Closing racial and ethnic gaps would yield concrete economic gains for the nation. As the analysis below shows, eliminating racial inequities would increase earnings, gross domestic product, and tax revenue while reducing poverty and improving the solvency of Social Security.

The effects of eliminating racial disparities

FIGURE 1

Higher total earnings: Average yearly income 8.1 percent higher, or \$3,201 more

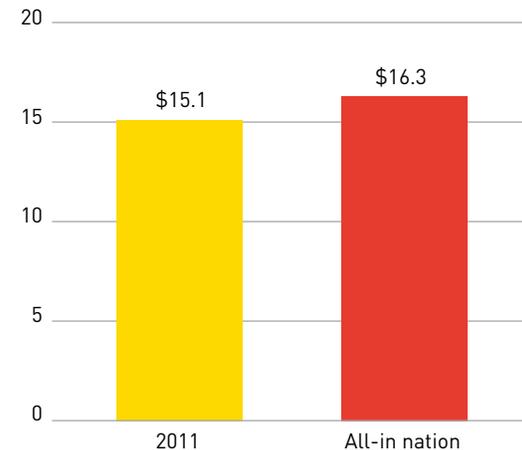


Source: Author's calculations of 2012 March Current Population Survey.

If racial and ethnic differences were eliminated, the average total personal yearly income in the United States in 2011 would have been 8.1 percent higher, or \$3,201 more—\$42,928 versus \$39,727. The average earnings of African Americans would have been 37.6 percent higher—\$41,687 versus \$30,306; the earnings of Hispanics would have been 45.7 percent higher—\$40,605 versus \$27,870; and the earnings of a subset of Asians¹ would have been 14.1 percent higher—\$43,576 versus \$38,203. These figures would have closely matched the average earnings of white non-Hispanic Americans in 2011—\$43,439. The total increase in earnings across all groups of people in the United States in 2011 would have summed to \$687 billion.

FIGURE 2

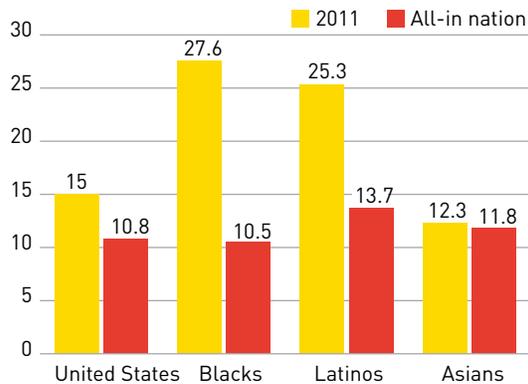
Increased national standard of living: GDP \$1.2 trillion higher



Source: Author's calculations of 2012 March Current Population Survey.

If we had eliminated racial and ethnic disparities, the gross domestic product, or GDP, of the United States would have been at least \$1.2 trillion higher in 2011, totaling at least \$16.3 trillion instead of the \$15.1 trillion recorded that year. This is a conservative estimate as the impact on GDP of higher earnings would have been even larger had the ancillary effects of higher incomes on spending and economic activity been taken into account.

FIGURE 3
Reduced poverty: 13 million people lifted out of poverty

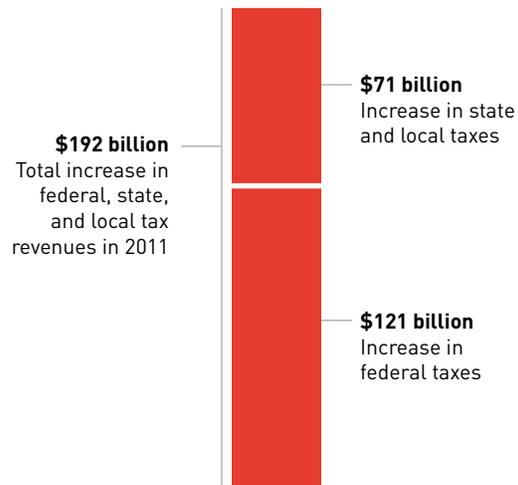


Source: Author's calculations of 2012 March Current Population Survey.

In 2011, 46 million people in the United States—15 percent of the population—were living in poverty as defined by the Census Bureau.² This included 27.6 percent of African Americans, 25.3 percent of Hispanics, and 12.3 percent of Asians, which translates into more than 26 million people of color who lived below the federal poverty threshold. If racial and ethnic disparities in income earnings

were eliminated, then the black poverty rate that year would have dropped to 10.5 percent, Hispanic poverty would have dropped to 13.7 percent, and the poverty rate for Asians would have dropped to 11.8 percent. These figures more closely approximate the white poverty rate of 9.8 percent. This lowering of the poverty rate for communities of color would have had the effect of lifting 13 million people out of poverty, including nearly 6.8 million African Americans, 6.1 million Hispanics, and 100,000 Asians. The overall poverty rate in America would have fallen sharply from 15 percent to 10.8 percent.

FIGURE 4
Added tax revenue: Federal, state, and local tax revenues increased by \$192 billion

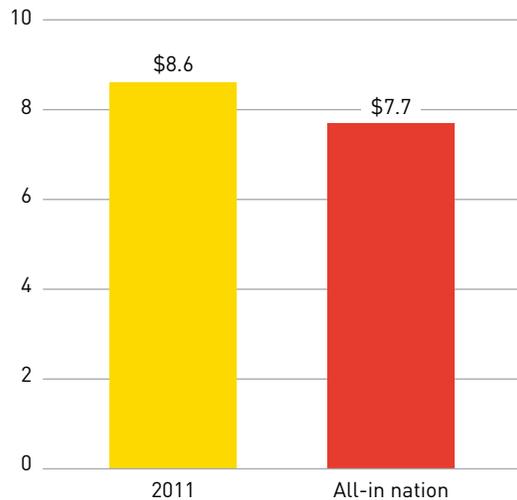


Source: Taxes on increased earnings were calculated by applying federal, state and local tax rates for average income in 2011. See, "Who Pays Taxes in America?" Citizens for Tax Justice, Washington, DC, April 4 2012.

Note: Taxes on increased earnings were calculated by applying federal, state and local tax rates for average income in 2011. See, "Who Pays Taxes in America?" Citizens for Tax Justice, Washington, DC, April 4 2012.

The elimination of racial and ethnic disparities would have increased federal, state, and local tax revenues by \$192 billion in 2011—\$121 billion more in federal revenue and \$71 billion more for state and local governments.³ The positive impact on government budgets would have been substantially greater if reductions in means-tested public services were taken into account.

FIGURE 5
**Improved solvency of Social Security:
Long-run deficit reduced by 10 percent,
or \$860 billion**



Source: Source: Author's calculations of 2012 March Current Population Survey and The 2012 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Funds.

Eliminating racial and ethnic disparities would have multifaceted effects on the solvency of the Social Security system, but in general, the long-run deficit in Social Security would be reduced by more than 10 percent.⁴ This would reduce the estimated present value of Social Security's long-term financial shortfall by at least \$860 billion. The increase in earnings projected above increases the wages subject to Social Security payroll taxes and thereby raises revenues for the system. On the other hand, the higher earnings also increase the benefits paid out by the program because initial Social Security benefits are indexed to wages—in general, individuals with higher wages receive more in total benefits. Hence, the improvements in the Social Security system's long-run finances from eliminating racial and ethnic inequalities are limited but still significant.

These charts paint a compelling vision of what our economy could look like if we were to close the racial economic disparities that the United States faces today. This vision is attainable and within our grasp, provided Congress and the administration work to erase America's lingering racial divide. ■

About the analysis

This analysis quantifies the economic costs of racial and ethnic inequalities by providing estimates of the economic impacts of eliminating them. Following the practice of the U.S. Census Bureau, the researchers use non-Hispanic whites as the comparison group for other race groups and Hispanics.⁵ We then calculate what America could have looked like in 2011 if all racial and ethnic groups earned the same median income, adjusted for age differences.⁶ Accordingly, we estimate the hypothetical earnings of America if racial/ethnic groups earned the same median “total personal income” of non-Hispanic white Americans. We do so by assigning various racial/ethnic groups the same mean (average) total personal income, adjusted for age and by percentile, as that of non-Hispanic white Americans as determined by the March Current Population Survey, or CPS, of 2012, which estimated income in the United States for 2011. The median and mean (average) total personal income across racial/ethnic groups in our hypothetical, disparity-free America continue to vary because the exact percentage of observations in each percentile, the age distribution, and the sample sizes vary by group.

Endnotes

- 1 This subset comprises all groups of Asians except those born (or those with one or more parents born) in India, China, Hong Kong, South Korea, and Taiwan. These groups were excluded from the Asian subset because their mean personal income was already higher than that of white non-Hispanics. In other words, these groups do not face income disparities relative to white non-Hispanics.
- 2 Carmen DeNavas-Walt, Bernadette D. Proctor, and Jessica C. Smith, "Income, Poverty, and Health Insurance Coverage in the United States: 2011" (Washington: U.S. Census Bureau, 2012).
- 3 Taxes on increased earnings were calculated by applying federal, state, and local tax rates for average income in 2011. See Citizens for Tax Justice, "Who Pays Taxes in America?", April 4, 2012, available at <http://www.ctj.org/pdf/taxday2012.pdf>.
- 4 To calculate the magnitude of the change in Social Security's solvency as a result of the increase in wages we project, we can use the results of a dynamic micro-simulation model. See Melissa M. Favreault, "Rising Tides and Retirement: The Aggregate and Distributional Effects of Differential Wage Growth on Social Security" (Washington: The Urban Institute, 2009). The study, based on data available in 2008, ran several scenarios about the distribution of future wage growth among workers to examine their impacts on the long-term financing of Social Security. One scenario examined the effect of wage growth that raised the share of income subject to Social Security payroll taxes by 1 percentage point, from 83 percent to 84 percent, which is somewhat less, but close, to the increase in the share of income subject to payroll taxes that we calculate would follow from the elimination of race- and ethnicity-based inequalities. We estimate that the proportion of income subject to Social Security payroll taxes in 2011 would have risen by 1.27 percentage points if racial and ethnic disparities were eliminated. The study concluded that the long-run deficit in Social Security would be reduced by approximately 10 percent. It is likely that the elimination of racial and ethnic disparities would have a similar but slightly larger positive impact on the solvency of Social Security.
- 5 The term "non-Hispanic white" refers to people who are not Hispanic and who reported white alone as their race in the March 2012 Current Population Survey.
- 6 The median income is the income at the middle of the income distribution, such that it divides the income distribution into two equal groups: one having incomes above the median, and the other having incomes below the median.