Prosperity and Inequality: Lessons from the United States

Samuel L Myers, Jr
Prosperity and Inequality: Lessons from the United States
繁荣和不平等：来自美国的经验

Samuel L. Myers, Jr.
Roy Wilkins Professor of Human Relations and Social Justice
Hubert H. Humphrey Institute of Public Affairs
University of Minnesota
Senior Fulbright Research Scholar

2008 年 12 月 17 日星期三
Introduction

For most of the post-World War II period prior to the 1980s, the distribution of income in the United States remained remarkably stable. Measures of inequality – such as the gap between incomes of those at the top and those at the bottom of the income distribution – showed little change for nearly 40 years (Darity and Myers, 1998, p. 3). In their book, *Persistent Disparity*, published 10 years ago, Darity and Myers documented a contemporaneous rise in general inequality and the widening of black-white disparities in family incomes. The ratio of black to white family incomes declined from the mid-1970s to the early 1980s. Even though the ratio rose again throughout the late 1980s, the ratio was lower by the end of the 1980s than it was at any point between 1967 and 1980. From 1979 to 1992, mean family incomes in the top quintiles increased, while mean family incomes declined in the lowest quintiles and remained largely unchanged in the middle quintiles. In short, general inequality increased from 1979 to 1992. Based on this evidence, a general view has emerged that widening racial inequality accompanied overall increases in general inequality. (Darity and Myers, 1998, p. 8)

During the ten years since the publication of the Darity-Myers book, the evidence of widening general inequality has become uncontested. Even though significant methodological changes have been made in the collection of data used to measure income inequality since the book was published, these changes have not reversed the substantive finding that overall income inequality – measured in various ways – increased substantially. (Burkhauser, et al., 2008) While there remains debate about the size of the continuing trend of rising general inequality, the uncontroversed conclusion is that the entire period from the 1970s until the catastrophic global economic meltdown of 2008
was one of substantially increasing overall inequality. This period in America’s history coincides with the opening of trade and economic expansion in China that the current conference volume celebrates. The 30 years of economic and social reforms in China are known to be associated with sustained economic growth. So, too, in the United States, particularly during the period from 1992 to 2008, there was sustained economic growth. Although the growth rates in China exceed, by a substantial margin, the growth rates in the United States in the 1990’s and early 21st century, both countries arguably experienced unprecedented periods of progress.

The purpose of this chapter is to explore the relationship between the economic prosperity of the 1990s into the 21st century and racial inequality in the United States. Does overall prosperity produce increased opportunities for racial minority group members that results in a narrowing of income disparities or does prosperity help non-minorities more than minorities which results in widening racial inequality? This question has implications for China, which has also experienced sustained prosperity over the past 30 years and improved economic conditions for its ethnic minorities.

**Income Inequality and Economic Prosperity**

收入不平等和经济繁荣

China has experienced unprecedented economic growth over the past 30 years. As others have documented, the growth has been stimulated by significant reforms associated with home and automobile ownership and the expansion of private enterprises (Walder, 1996). This broad economic growth has also occurred during a time when many social reforms have been undertaken (Guan, 2000). The status of ethnic minority groups in China also has improved significantly since the reforms of the Deng Xiaoping
The key stylized fact associated with the 30 years of reforms in China is a nearly uninterrupted economic expansion since 1978. As seen in Figure 1, the real rate of growth in gross domestic product (GDP) averaged nearly 9.4 percent between 1978 and 2007, following the downturn of 1977. Whereas the impressive 13 to 15 percent annual growth rates of 1984 to 1986 and again from 1992 to 94 were not sustainable over the whole time period, the 8 to 10 percent annual rate of growth in the past decade suggests that the economic progress experienced by China was not an aberration.

By way of contrast, real economic growth during a comparable period, 1970 to 2007, in the United States was only 3.3 percent. During this period, there were four episodes of negative growth: 1974-75, 1980, 1982, and 1991. These recessionary years pull down overall growth rates that hovered around 4 to 6 percent during the years between recessions. Only since 1991, however, has there been a long, sustained period of
recession-less economic activity in the United States. This long period of sustained growth, demonstrated in Figure 2, is the source of the current investigation about the relationship between prosperity and racial inequality.

Figure 2

![Sustained Period of Economic Growth in USA, 1991-2007](image)

Prior to the 1991 to 2007 period, there were regular cycles of business activity, with episodic negative rates of GDP growth. Since 1992, but before the devastating collapse of major financial and insurance institutions leading to the global financial crisis and recession of 2008, there has been a period of no negative growth. During this period, significant public policy shifts have occurred. The rush to deregulate major industries begun during the Reagan Administration continued unabated throughout the Clinton years. Large company mergers and the shift in production activities by many American firms from the United States to low labor cost countries became the norm. Expanded
trade, especially with China and a concomitant shift in production activities to China were key components of the sustained growth in the United States (Woo, 2006).

One of the most alarming features of the period of expansion and sustained economic growth in the United States is the accompanying rise in income inequality. There are many different ways to measure inequality and some suffer from the fact that the data used often suffer from major methodological flaws in handling the highest incomes (Burkhauser, et al., 2004; Burkhauser, et al., 2008). This problem of top-coding in data can be partially overcome by measuring the percentage shares of persons at the bottom and top ends of the income distribution. Figure 3 shows that the share of persons with incomes over $100,000 in real dollars which had been steadily rising since the 1960s, rose steeply in the 1980s and reached more than 20 percent in the current decade. By way of contrast, the share of persons with incomes less than $15,000 declined slightly throughout the period. It dropped from around 14 percent in the late 1960s to less than 10 percent in 2007.
Paradoxically, precisely at this time when general inequality was widening and after years of widening racial earnings gaps, racial earnings gaps narrowed during the 1991 to 2007 period. The narrowing of the earnings gaps during the sustained period of economic growth gives, at first glance, the impression that the adage “a rising tide lifts all ships” finds new support. To understand why we say this shift is paradoxical, we review the evidence on the widening of the gap prior to the 1990s.

**Reversal of widening racial inequality in the 1970s-1980s**

From 1967 to 1990, the ratio of black to white family incomes trended downward. Many economists have noted that gaps between black and white individual wage and salary earners narrowed, notably after the Civil Rights Act of 1964, which banned a
number of types of racial discrimination, including in employment (Welch, 2003). Yet, racial inequality in family incomes widened even as gaps in wage and salary incomes between blacks and whites narrowed. How can that be? Conventional explanations include the fact that there was an increase in African American families headed by females. One parent families earn less than two parent families and female-headed families earn less than male-headed families. The structural shift in family composition among blacks in America stands as a central explanation as to why the income gap between black and white families widened.

Why, however, was there a structural shift in the composition of African American families? Throughout the period of the 1970s and 1980s there was declining labor force participation by African American males. Some of this decline can be attributed to the increase in incarceration rates in prisons and jails. Even among those African American males in the labor force, however, there was evidence of declining performance in school and declining access to high-skilled jobs, which made these males less marriageable and contributed to the increase in black female-headed families (Wilson, 1986; Darity and Myers, 1998).

Figure 4 clearly shows that there was a continuing downward trend in the ratio of black-to-white mean and median family incomes well into the early 1990s. The trend reverses by the mid-1990s and shows a positive trend thereafter. This coincides with the expansion period of the 1990s and early 21st century.
How does one explain this abrupt change in the trend in black-white family income inequality in the mid-1990s? The immediate, and to some most obvious, explanation is again that “a rising tide lifts all ships.” The problem with this explanation is that the tide (the 1990s expansion) was rising long before the reversal in the trends.

A second explanation is that the black middle-class was growing while the white middle-class was shrinking. If one measures the entire distribution of family incomes just by one measure of central tendency (e.g. the mean or median) the impression is that blacks are improving relative to whites, despite the fact that at the very top of the distribution – the top 1 percent of earners – inequality is increasing. With top-coding of data for administrative and confidentiality reasons, there is an illusion of progress created by the clustering of white families with millions of dollars with black families with
hundreds of thousands of dollars. Since the top-coded values themselves have changed over the years and since each component of incomes has a different top code, the interpretation of information such as that provided above can be problematic.¹

Figures 5 and 6 support the view that the appearance of an improvement in black family incomes in recent years can be linked to the rise in the black middle class and the decline in the relative shares of black families at the bottom of the income distribution.

**Figure 5**

<table>
<thead>
<tr>
<th>Year</th>
<th>Share of blacks with incomes below $15,000 dropped from 30% to 20%, 1991-2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>1967</td>
<td>30%</td>
</tr>
<tr>
<td>1970</td>
<td>25%</td>
</tr>
<tr>
<td>1973</td>
<td>22%</td>
</tr>
<tr>
<td>1976</td>
<td>20%</td>
</tr>
<tr>
<td>1979</td>
<td>18%</td>
</tr>
<tr>
<td>1982</td>
<td>16%</td>
</tr>
<tr>
<td>1985</td>
<td>14%</td>
</tr>
<tr>
<td>1988</td>
<td>12%</td>
</tr>
<tr>
<td>1991</td>
<td>10%</td>
</tr>
<tr>
<td>1994</td>
<td>8%</td>
</tr>
<tr>
<td>1997</td>
<td>6%</td>
</tr>
<tr>
<td>2000</td>
<td>4%</td>
</tr>
<tr>
<td>2003</td>
<td>2%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Share of whites with incomes below $15,000 dropped from 8% to 7%, 1991-2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>1967</td>
<td>8%</td>
</tr>
<tr>
<td>1970</td>
<td>7%</td>
</tr>
<tr>
<td>1973</td>
<td>6%</td>
</tr>
<tr>
<td>1976</td>
<td>5%</td>
</tr>
<tr>
<td>1979</td>
<td>4%</td>
</tr>
<tr>
<td>1982</td>
<td>3%</td>
</tr>
<tr>
<td>1985</td>
<td>2%</td>
</tr>
<tr>
<td>1988</td>
<td>1%</td>
</tr>
<tr>
<td>1991</td>
<td>0%</td>
</tr>
<tr>
<td>1994</td>
<td>0%</td>
</tr>
<tr>
<td>1997</td>
<td>0%</td>
</tr>
<tr>
<td>2000</td>
<td>0%</td>
</tr>
<tr>
<td>2003</td>
<td>0%</td>
</tr>
</tbody>
</table>

Source: U.S. Census Bureau, Current Population Survey

There are larger shares of black families than white families with incomes at the lowest end of the income distribution –less than $15,000 in constant dollars. The ratio of the black share of lowest incomes to the white share declined, however, from 1991 to the

¹ It is important to note, however, that the figures presented in this paper, unless stated otherwise, come from official statistics and not the public use data sets that use different censoring and top coding practices than do the official statistics. See Burkhauser, et. al. 2008.
21st century. The share of blacks with incomes below $15,000 dropped from 30 percent to 20 percent in the period from 1991 to 2005; the share of whites with incomes below $15,000 dropped from 8 percent to 7 percent from 1991 to 2005. Thus, the income gap at the lowest end of the distribution narrowed.

There are larger shares of white families than black families with incomes in the middle range of $35,000 to $75,000. The percentage of white families with incomes in this range was declining, however, while the percentage of black families with these middle incomes was about constant. Thus, the share of blacks and whites in the middle was converging to about 35 percent. Figure 6 clearly shows that the white middle class was shrinking while the black middle class was moving closer to the relative size of the white middle class.

Figure 6

Shrinking white middle class; Growing black middle class
白人中产阶层人数的缩小和黑人中产阶层人数的扩大

Source: U.S. Census Bureau, Current Population Survey
At the top of the distribution, ratio of black to white shares of incomes over $100,000 was rising (Figure 7). All of this is entirely consistent with the evidence that the ratio of black to white incomes was increasing during the period of expansion during the 1990s. Taken together, the evidence suggests that black families benefited from the sustained economic growth relative to white families.

One nagging criticism of these findings, especially those in the last figure which shows a longer term narrowing of the gaps in incomes at the highest levels, is that the data generally do not make a distinction between blacks earning, say, $250,000 and whites earning $1.5 million. From income tax records, we know that there has been a huge surge in persons with incomes in excess of $1 million. This group of the top 1 percent of earners can obscure data that are top coded in such a way that prevents a comparison between high earning blacks and high earning whites. Impressionistic media accounts would imply that there are literally hundreds upon hundreds of millionaire blacks, the likes of Oprah Winfrey and Bill Cosby. The fact remains, however, that the United States Census Bureau’s Current Population Survey public use data, in order to preserve the confidentiality of respondents, top-codes incomes well below these figures. The result is that it is almost impossible to test whether black high earners are keeping pace with white high earners using these data sets. With that caveat in mind, with consistent top-coding of data for the period of 1967 to 2007, we can examine the changes in the relative position of blacks and whites over the years to explore further the notion that economic expansion in the 1990s was at the heart of the narrowing of racial earnings gaps.
The explanation that 1990s economic expansion was the driving force in narrowing racial earnings disparities is weakened by the fact that the disaggregated public use wage and salary data for individuals show improvements that started long before the current period of expansion. Figure 8 shows the ratios of black males to white males, white females to white males, and black females to white males among those earning over $75,000 in real wage and salary incomes. In 2007, the share of white males earning over $75,000 is more than 2.5 times that of white females or black males among full-time, year-round non-Hispanic workers aged 24-63. Or, put differently the black male and white female shares of earners with incomes over $75,000 were about 40 percent of the white male share of earners with incomes over $75,000 in 2007. This is up from 22 to 23
percent in 1992 and up from about 5 percent in 1967. The figure shows that the shares of earners in this upper-middle income level and above rose steadily for black males and black females relative to white males, at least since the early 1980s, which was long before the current uninterrupted expansion.

Figure 8

![Graph showing the ratio of percentage of persons with wage and salary incomes over $75,000 in real 2006 dollars.](image)


Moreover, the share of black male, prime-age (ages 24-63) wage and salary earners at the bottom of the income distribution relative to white males has been about constant at least since the mid-1980s. The ratio of the share of non-Hispanic black males (full-time, year-round workers ages 24-63) with wage and salary incomes under $15,000 was about 2.1 times that of white males in 1986; it was 2.05 times that of white males in 2007, which is hardly a dramatic decline (Figure 9). The ratio of black female shares to white male
shares declined from 3.8 to 3.45 in the same period. Thus, it is not clear whether the current narrowing in the black-white family income disparity can be traced specifically to the expansion period of the 1990s. The wage and salary incomes of black males and females relative to white males began their ascent long before the 1990s among the higher earners. The flatness of the ratio of black male and female shares to white male shares of the lowest incomes was also evident long before as well.

Figure 9

![Figure 9: Ratio of Percentage of Persons with Wage and Salary Incomes Below $15,000 in Real 2006 Dollars](chart)


The final possible explanation for the connection between the rising ratio of black to white family incomes during the expansion period is that there were coincidental policy changes during the period that contributed to an improvement in the economic well-being of black families, but the expansion itself did not. During this period “welfare
as we know it” conventionally known as AFDC (Aid to Families with Dependent Children) since the Great Depression, was abandoned and replaced by temporary assistance for needy families (TANF). The key components of this policy change were limits on the length of time a needy family can receive public assistance and the implementation of work requirements. These welfare reforms created new disincentives for the formation of female-headed families and produced incentives to work. Together, these policy changes may have played more of a role in producing improvements in the relative incomes of blacks than the overall economic expansion.

Immediate Implications for President Obama

对于新当选总统 Obama 的直接建议

Barack Obama was elected president upon a promise to undertake change and reverse policies that contributed to the obscenely concentrated wealth and income among the top 1 percent of the population. No small consequence of the financial collapse and the excessive compensation packages of the managers and executives of firms that were at the core of the collapse, President Obama promised in campaign speeches across the nation to reform how government would interact with large businesses. Even before he was sworn in, the urgency to find a solution to the credit market crisis and the problems of homeowner foreclosures was evident. There was also a diminution in the value of many middle class workers’ pensions, which were heavily invested in stocks no longer worth what their owners had paid for them; the imperative to find solutions to these problems of the collapse was apparent even before the worst of the crisis was known.

To some extent, the rapid and sustained economic growth of the 1990s was built on economic activities that emerged from policy changes dating to the Reagan
administration that reduced regulatory enforcement, encouraged the export of production activities to low wage countries, and reduced tax burdens on the most wealthy in American society. If indeed these policies amounted to a rising tide lifting all ships and if indeed the narrowing gap between black and white family incomes can be attributed to this economic expansion, then the concern for President Obama now should be: What are the consequences for the reversal of this economic expansion for black-white economic inequality? In short, if the answer to the question of how inequality narrowed during the 1990s is that economic growth spurred the improvements in the relative economic well-being of racial minority group members, then can we afford the resumption of racial inequality during the period of decline? Moreover, are there non-economic consequences associated with widening racial inequality that might thwart immediate efforts to boost the economy and reverse the downward spiral in economic growth?

In a related vein, if general inequality is needed in order to fuel an expansion, will there be a return to low taxes for the rich and harsh welfare policies for the poor? Can the economic downturn be reversed without returning to the policies in place that accompanied the widening inequality?

**Longer-Term Implications for China**

对中国的长期建议

China, too, has experienced long term economic prosperity. Unlike the United States, the expansion in China has been longer and has been at much higher rates of growth. At the same time, there has been a well-documented experience of improved economic well being among China’s 55 ethnic minority groups. Much of this
improvement is attributed to the movement of ethnic minority group members to urban centers and industrial production zones where the otherwise rural agricultural workers have been transformed into wage earners. The world economic recession, however, threatens these groups’ well-earned prosperity that is shared with others in Chinese society and raises questions about whether ethnic minorities are more heavily concentrated in those industries and employment sectors most vulnerable to the visitudes of the global financial crisis. Will the Chinese economic miracle come to a screeching halt under the weight of the decline in demand for Chinese exports and will ethnic minorities bear the brunt of these economic reversals? These are questions that policy makers should consider as they contemplate the lessons learned from other instances where overall economic prosperity has contributed to relative improvements in the economic position of racial and ethnic minorities.
Bibliography


