

“The Great Recession and Racial Inequality:
Evidence from Measures of Economic Well-Being”
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Principal Findings

- 1. The Great Recession had a tremendous impact on low-income Americans, in particular Black and Latino Americans.
- 2. The losses in terms of employment and earnings are matched only by the losses in terms of real wealth.
- 3. We examine the changes in overall economic wellbeing and inequality, as well as changes in racial economic inequality over the Great Recession, using the period from 1989 to 2007 for historical context.
- 4. In many ways, however, these losses are merely a continuation of trends that have been unfolding for more than two decades.

Principal Findings (cont.)

- 5. While racial inequality increased from 1989 to 2010, during the Great Recession racial inequality in terms of LIMEW decreased.
- 6. We find that changes in base income, taxes and income from non-home wealth during the Great Recession produced declines in overall inequality, while only taxes reduced between-group racial inequality.

Introduction

- 1. Economic disparities between racial groups in the United States have in some ways undergone profound transformations over the last half-century, while in other ways things remain the same.
- 2. The Great Recession and especially the housing bubble, the collapse of which precipitated the financial crisis and recession, had decidedly unequal effects on different racial groups.
- 3. In this paper we trace racial economic inequality over the last two decades, with particular emphasis on the period between 2007 and 2010. This period includes the official beginning and end of the Great Recession (measured as usual in terms of economic growth).

Introduction (cont.)

- 4. Inter-racial disparities have moved in different directions in recent years. Despite the dismal gap in employment experience, income gaps between white and non-white households have diminished over time.
- 5. Wealth gaps, however, remain almost unchanged.
- 6. Public expenditures, both direct transfers and spending on other services such as education or health, have had an important role in ameliorating racial disparities.
- 7. In order to accurately measure all these changes, we use a measure called LIMEW (Levy Institute Measure of Economic Well-Being).

Introduction (cont.)

Note: (1) Aligned with the NIPA estimates. (2) The government-cost approach is used.

LIMEW
Money income (MI)
Less: Property income and Government cash transfers
Equals: Base money income
Plus: Income from wealth
Annuity from nonhome wealth
Imputed rent on owner-occupied housing
Less: Taxes
Income taxes ¹
Payroll taxes ¹
Property taxes ¹
Plus: Cash transfers ¹
Plus: Noncash transfers ^{1,2}
Plus: Public consumption
Plus: Household production
Equals: LIMEW

Introduction (cont.)

- 8. In addition to including taxes and non-cash transfers, we treat wealth as an economic resource, rather than using property income reported in the survey. We annuitize a household's non-home net worth and assign an imputed rent to home value. We refer to the annuitized value of nonhome assets minus the annuitized value of all debt other than mortgage debt as income from non-home wealth; and, the difference between imputed rent and the annuitized value of mortgage debt as income from home wealth.
- 9. LIMEW also includes the value of publicly provided services and household production. Thus, LIMEW is a much more comprehensive measure of household economic well-being than the official measure, Money Income (MI).

Results

Table 2 Median Economic Well-Being, 1989 to 2010 (2013 US\$)

						Percentage Change	
	1989	2000	2004	2007	2010	1989-2007	2007-2010
Measures							
LIMEW	83,100	92,122	94,905	97,400	99,114	17.2	1.8
MI	54,340	56,820	54,527	56,178	52,632	3.4	-6.3

Table 3 Contribution of Components to Percentage Change in Mean LIMEW of the Middle Quintile

	1989-2000	2000-2004	2004-2007	2007-2010	2000-2010	1989-2010
Base Income	6.5	-2.8	1.1	-2.7	-4.5	1.5
Income from Wealth	2.1	-0.2	0.6	-0.6	-0.2	1.8
Income from Home Wealth	0.1	0.0	0.1	0.5	0.6	0.8
Income from Non-home Wealth	2.0	-0.2	0.5	-1.1	-0.9	1.0
Net Government Transfers	0.6	3.9	1.8	6.1	12.3	14.2
Transfers	2.1	2.7	1.3	3.2	7.5	10.4
Public Consumption	1.6	0.7	0.7	1.1	2.6	4.6
Taxes	3.2	-2.7	2.3	-1.8	-2.2	0.8
Value of Household Production	1.9	2.0	-0.9	-0.9	0.2	2.2
LIMEW	11.2	2.9	2.6	1.9	7.7	19.7

Table 4 Median LIMEW and MI by Race, 1989 - 2010 (\$US 2013)

	White		Black		Hispanic	
	LIMEW	MI	LIMEW	MI	LIMEW	MI
1989	86,353	58,240	66,327	33,755	74,478	41,116
2000	96,409	61,427	72,603	40,089	85,944	44,644
2004	99,853	60,429	72,499	36,997	86,642	41,932
2007	101,571	61,796	76,590	38,100	91,987	43,215
2010	103,884	58,224	76,479	34,187	95,239	40,529
% Change						
1989-2007	17.6	6.1	15.5	12.9	23.5	5.1
2007-2010	2.3	-5.8	-0.1	-10.3	3.5	-6.2

Figure 7 Ratio of Median LIMEW and MI to White Households, 1989 - 2010

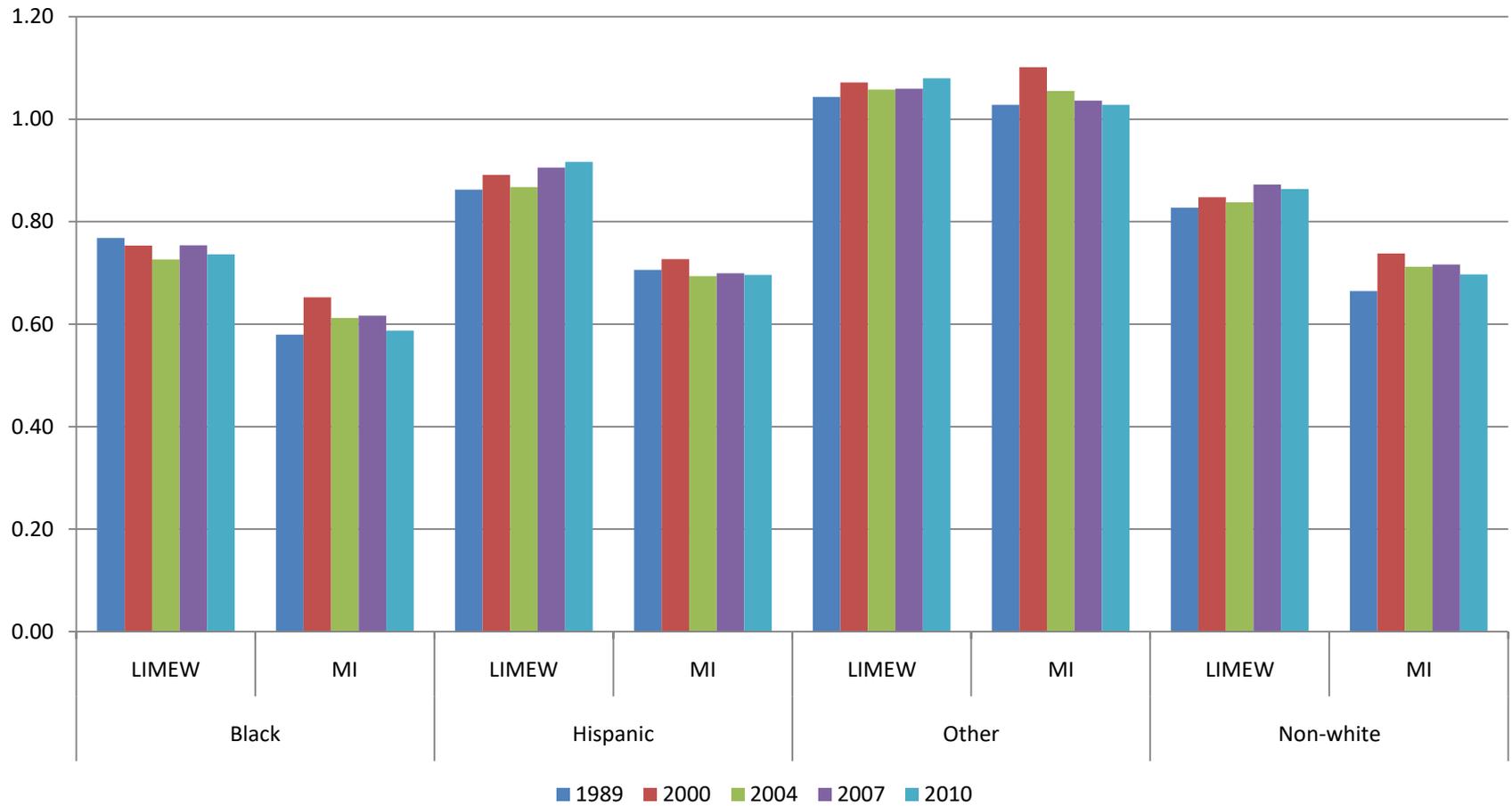


Figure 8 Changes in Components of Net Government Expenditures and Rest of LIMEW by Race, 2007 - 2010

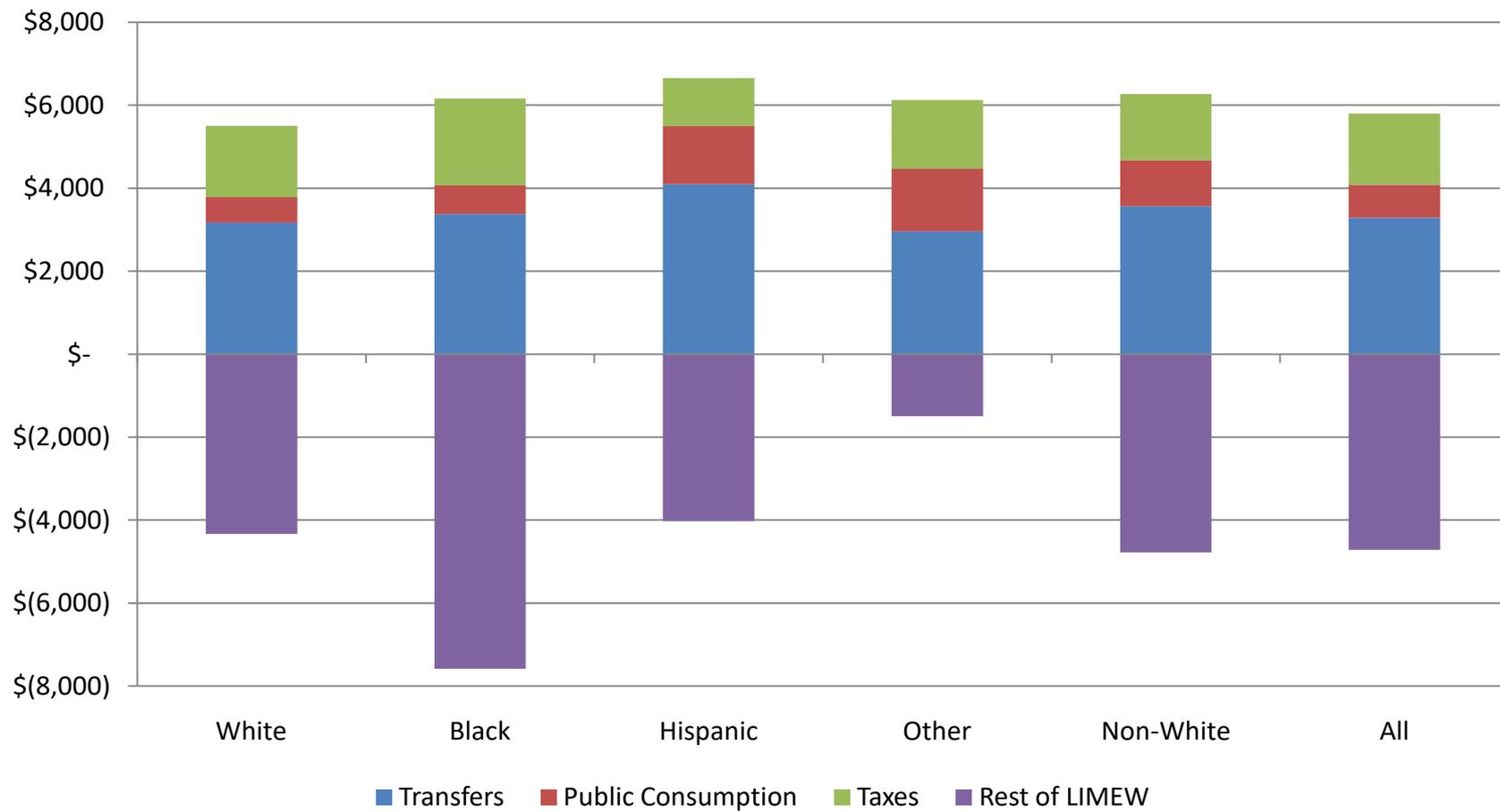
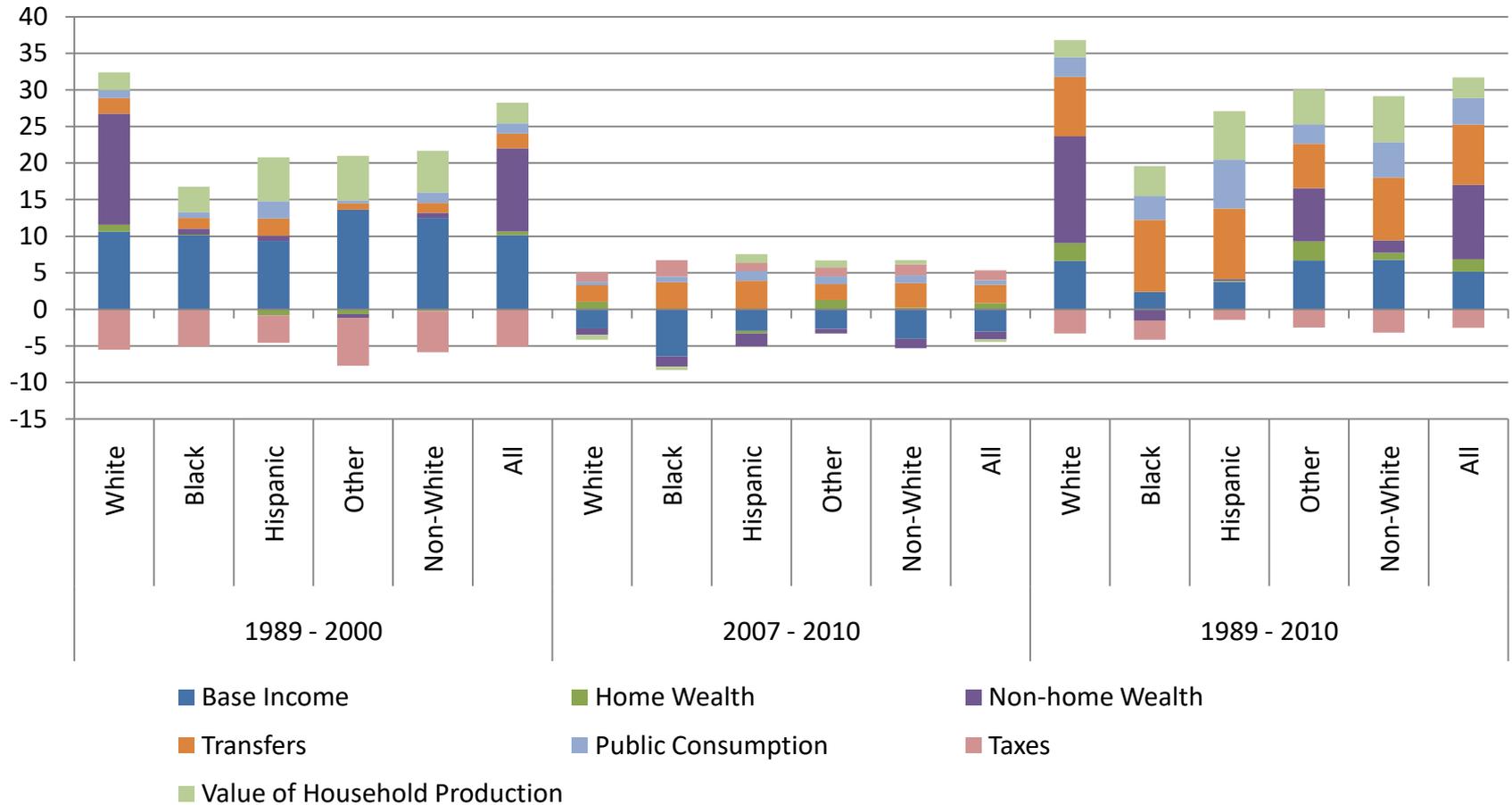


Figure 9 Contributions to Growth in LIMEW by Race, 1989 – 2010 (Percentage Points)



Conclusions

- 1. The Great Recession, though officially lasting a year and a half, in many ways is still very much with us. Employment rates have not fully recovered to their pre-recession levels, though much of this may be due to the aging of the population. Earnings have certainly not recovered, remaining at below their 2000 level. Home ownership rates have dropped off even more sharply after 2010. As we have demonstrated, all of these trends have been experienced quite differently by different racial sub-groups in the United States.

Conclusions (cont.)

- 2. In terms of wealth, Black and Hispanic households remain far behind White households, with average net worth amounting to 12 and 15 percent, respectively, of the average net worth of White households in 2013. The ratio of median Black and Hispanic household net worth to White households is just below 2 percent. This is down from 6.6 and 5.2 percent in 2007, respectively. Black households' mean home equity is a quarter that of White households' and Hispanic households' is one third. Black and Hispanic households' median home equity is zero. In terms of employment rate, Black adults remain far behind every other group. These trends have their implications for household economic well-being, measured either by MI or LIMEW.

Conclusions (cont.)

- 3. While all groups lost ground during the Great Recession in terms of Money Income (MI), only Black households lost in terms of LIMEW, while each of the other groups gained two to three thousand dollars. Unfortunately, this is not an aberration caused by the Great Recession but a continuation of a decades-long trend. In the 1990s, this trend was mainly the result of the increase in White households' income from non-home wealth. In the 2000s, and certainly during the Great Recession the increased gap between White and Black households has been due to the greater loss of base income for Black households than for any other group. Only slightly greater increases in transfers for Black households have kept the gap from increasing even further by 2010. This fact makes the prospects for the period since 2010 even gloomier, given the turn towards fiscal austerity, especially in terms of cuts in spending.