Memorandum

To: Members, Select Committee on Economic Disparity and Fairness in Growth
From: Select Committee Majority Staff

The Select Committee on Economic Disparity and Fairness in Growth will hold a hearing entitled “The Nature and Consequences of American Economic Disparity” on Thursday, July 29, 2021, at 10:00 AM ET in 2359 Rayburn House Office Building. There will be one panel with the following witnesses:

- **Mr. Jason Furman**, Aetna Professor of the Practice of Economic Policy, Harvard University
- **Ms. Joi O. Chaney**, Executive Director of the Washington Bureau and Senior Vice President for Policy and Advocacy, the National Urban League
- **Prof. James Kenneth Galbraith**, Lloyd M. Bentsen, Jr. Chair in Government/Business Relations, LBJ School of Public Affairs, the University of Texas at Austin
- **Prof. Janet Currie**, Henry Putnam Professor of Economics and Public Affairs, Princeton University
- **Ms. Shailly Gupta Barnes**, Policy Director, the Poor People’s Campaign: A National Call for Moral Revival and Kairos Center for Religions, Rights and Social Justice

**Summary**

American income and wealth disparity have reached unprecedented levels, and the United States is one of the most economically unequal developed countries in the world. Today’s hearing aims to showcase trends in economic disparity, discuss demographic and regional differences, and highlight consequences of economic disparity. Witnesses will discuss the current state of the economy, the statistics behind economic disparity, and their perspectives on how disparity harms the potential for economic growth.

The top quintile of Americans have reaped the vast majority of income and wealth gains over the last fifty years while the bottom half of Americans have essentially stayed flat. Further, these disparities are correlated with race, as white Americans consistently have more annual income and more wealth than Black or Hispanic Americans. Data show significant regional differences, as urban and suburban areas have grown both in population and relative prosperity compared to rural and small town areas. In the past, hope held out that economic disparities could be overcome by economic mobility, or the ability to work hard, gain skills and climb the economic ladder. But recent research has shown more limited economic mobility for Americans, where future income can be predicted by place or even neighborhood of birth. Finally, the memo discusses the reasons a growing number of economists believe that economic disparity can inhibit the full growth potential of the economy.
Background: Current and Historical Levels of Economic Disparity

**Income Disparity**

Income disparity refers to the gap in income between low income Americans, the working class and middle class, and the richest people in America. Today the United States is experiencing higher levels of income disparity among Americans than in past decades.\(^1\) The income inequality between Americans at the lowest and highest ends of economic quintiles has grown markedly over the last 50 years. Average income in the top quintile of households was 16.6 times greater than the bottom quintile in 2019; in 1975 it was only 10.3 times greater. While income has grown on a real basis across all quintiles, greater increases at the top of the income scale have driven the increase in disparity: the highest 5% of households earned nearly five times the average real income growth rate from 1975 to 2019 than the bottom quintile.

**Mean Quintile Household Income, 1967-2019**

Source: Figure created by the Congressional Research Service (CRS) based on data from U.S. Census Bureau, Current Population Survey (CPS), Annual Social and Economic Supplements (AEC), available at https://www.census.gov/data/tables/time-series/demo/income-poverty/historical-income-households.html. Recession data (in gray) are from the National Bureau of Economic Research, at https://www.nber.org/cycles.html.

Notes: Income refers to household money income as defined by the Census Bureau: pre-tax cash income received by households on a regular basis from market and nonmarket sources. Money income excludes periodic income, such as capital gains, and in-kind transfers (e.g., SNAP, housing subsidies). Census uses the CPI-U-RS to convert incomes to 2019 dollars. Periods of recession are shaded in gray. Apparent turning points in the patterns of distributional growth are indicated by vertical blue lines.

**Wealth Disparity**

Another measure of economic disparity is the gap between accumulated wealth in American households. The wealth disparity in America is much more severe than the income disparity described above, and it has increased over recent decades. Wealth accumulation is vital for a household to have sufficient retirement income and provide opportunities for the next generation.

From 1989 to 2019, all quintiles experienced growth in average household wealth, but growth was concentrated at the top (236.8% growth for the ninth decile and 220.6% growth for the top decile) compared to the bottom quintile (68.1% growth) or middle quintile (50% growth).\(^2\) When looking at raw numbers, in 1989, the top 10% of Americans had 30 times more wealth than the bottom quintile and 11.5 times more wealth than the third quintile; by 2019, the gap grew to 58 times more wealth and 24.5 times more wealth.\(^3\)

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\(^1\) Per 2019 Census data, which is accumulated from Census interviews conducted in 2020 during the coronavirus pandemic. These interviews saw decreased response rates among vulnerable communities. It is possible the response bias in the 2019 data therefore underestimates the economic disparity discussed in this note and throughout this memo. Congressional Research Service, The U.S. Income Distribution: Trends and Issues January 13, 2021


\(^3\) Analysis of raw Federal Reserve Survey of Consumer Finance Data available as Appendix One on Page 9 of this memo
Analyzing only from 2007-2019, the period immediately before the Great Recession to the latest survey, another troubling trend becomes apparent: the wealthiest Americans grew their average net wealth much more (62.65% growth for the ninth decile and 36.88% growth for the top decile) than the bottom quintile (9.29% growth) while the net wealth of the third quintile shrank (-3.29% growth).

The Great Recession’s harm to the housing market and homeowners affected the wealth of middle income households over the period of 2007 - 2019, as building home equity is the primary means of wealth creation for the middle class. Upper income households are more likely to own financial instruments or businesses, leaving them better positioned to weather market downturns and benefit from later market expansions. For example, as of 2019, the top 10% of income earners own 70% of traded equities, compared to the bottom 60% of income earners, who only own 7.3%. The stock market rallies subsequent to the Great Recession help explain why wealthier Americans have disproportionately gained wealth over that period.

**US Economic Disparity compared to other developed countries**

The Gini Index measures economic disparity within a country through analysis of “the relationship between the cumulative distribution of income and the cumulative distribution of the population,” allowing for domestic and international comparisons over time. It ranges from 0, perfect equality, or an economy where everyone in the population has the same income, to 100, perfect inequality, or an economy where all income is held by one person. Put another way, the Gini Index is 0 in a country where income is perfectly proportional — the bottom 25% of the population earn 25% of the national income, the 50% of the population earn 50% of the national income, and so on.

As the graph indicates, the Gini Index in the United States has steadily risen, from 38 in 1991 to 41.4 in 2018. The United States ranks sixth on the Gini Index among 37 OECD countries, a higher index than all other countries with comparable income and exceeded only by poorer countries like Colombia, Mexico and Turkey.

**Economic Disparity Disproportionate by Race**

Economic disparity in income and wealth are stark when examined by race and ethnicity, and people of color are disproportionately more likely to be in the lower end of income and wealth distribution. As seen in the charts on the following page, Black- and Hispanic-led households are overrepresented in lower-income households and underrepresented in higher income households.

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4 Pew Research Center, *Trends in Income and Wealth Inequality* January 9, 2020
5 Ibid
8 Ibid
9 Image from the Federal Reserve Board of St. Louis, based off World Bank estimates
10 Drawn from *latest World Bank estimates* of Gini Index
2019 Income Distribution of Households by Race of Householder

Source: CRS, using data from U.S. Census Bureau, Table H-17 Households by Total Money Income, Race, and Hispanic Origin of Householder, at https://www.census.gov/data/tables/time-series/demo/income-poverty/historical-income-households.html.

Notes: Householder is a Census Bureau concept that identifies the individual in a household in whose name the housing unit is rented or owned. The racial groups shown above are not mutually exclusive. Black describes householders who indicate that they are of a single race (Black only) and householders who report they are Black and of another race (i.e., Black alone or in combination, to use the Census terminology). Likewise, Asian describes householders who report their race as Asian alone or in combination, and White describes householders who report their race as White alone or in combination. Every racial group includes persons who are Hispanic and non-Hispanic. Percentages may not sum to 100% due to rounding. Householders are identified as being of “Hispanic origin” if they indicate that their origin was Mexican, Puerto Rican, Cuban, Central or South American, or some other Hispanic origin. People of Hispanic origin may be of any race.

The racial disparity in median household income has held roughly steady over the course of this century. According to an Economic Policy Institute analysis, seen in the graph to the left, in 2019, the median income of white households was $76,057, while the median income of Hispanic households was $56,113 and Black households was $46,073.12

Data on the racial wealth gap is more striking. The Federal Reserve shows the median white household ($188,200) has roughly eight times more wealth as compared to the median Black household ($24,100) and five times more wealth as compared to the median Hispanic household ($36,100). The racial wealth gap is also consistent, as the current ratio of the mean wealth of white households to Black households (7 to 1) is roughly the same as it was in 1962 (7 to 1).13

Building home equity accounts for a large portion of lower and middle class wealth creation, and racial disparities are significant in home ownership.14 In households headed by someone under age 35, 46% of white households own their home, compared to only 17% of Black households; the difference in home ownership between younger white and Hispanic households is 46% to 28%. Home ownership rates increase with age, as does overall wealth, but the gap in home ownership barely budges between white and Black households headed by someone over age 55 (a 27 point differential, 84% to 57%) and actually increases between white and Hispanic households (a 23 point

12 Economic Policy Institute, Racial Disparities in income and poverty remain largely unchanged amid strong income growth in 2019, September 16, 2020
14 Pew Research Center, Trends in Income and Wealth Inequality January 9, 2020
differential, 84% to 61%). As a reflection of capacity for intergenerational wealth transfer, the massive gap in home ownership indicates communities of color still suffer the effects from past exclusionary policies like red-lining.

**Economic Disparity Disproportionate by Region**

Recent economic trends and shifts in population growth have exacerbated regional economic disparity, creating more relatively prosperous urban and suburban areas at the expense of rural and small town communities. The Economic Innovation Group uses several economic indicators to separate counties and zip codes into five even quintiles for comparison, calling it the Distressed Communities Index. While significant economic disparity exists within urban areas (and even within zip codes, as urban zip codes have significantly higher populations), this metric is helpful to evaluate urban, suburban, small town and rural areas as a whole.

EIG’s 2020 report compares the Distressed Communities Index from 2000 to 2018 and generally finds suburban areas as most prosperous and urban areas most improved, while rural and small town areas have backslid. In particular, rural areas in the South have the most concentrated distress and urban areas in the Midwest see significant distress in comparison to a relatively prosperous West and core areas of urban prosperity in the Northeast.

Researchers have theorized that Americans are sorting themselves by education, occupation and income, and many factors have drawn wealthier Americans to booming parts of the country, leaving

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18 Ibid. Factors include: Percent of the 25-year-old+ population without a high school diploma or equivalent; Percent of habitable housing that is unoccupied, excluding properties that are for seasonal, recreational, or occasional use; Percent of the prime-age (25-54) population not currently employed; Percent of the population living under the poverty line; Median household income as a percent of metro area median household income (or state, for non-metro areas); Percent change in the number of jobs from 2014 to 2018; Percent change in the number of business establishments from 2014 to 2018
19 Ibid
other areas behind.\textsuperscript{20} A study of average incomes of metropolitan areas over the period from 1980 to 2013 found that the share of Americans living in both the most affluent areas (those with income 20\% higher than the national average) and the least affluent areas (those with income 20\% lower than the national average) increased, with the most affluent areas increasing from 4\% to 16\% of Americans and the least affluent areas increasing from 12\% to 31\% of Americans.\textsuperscript{21}

\textit{Current US Poverty Rate}

The US Poverty rate is related but distinct from economic disparity, as economic disparity is measured on a relative basis and the poverty rate is calculated on an absolute basis. Before discussing the current official poverty rate, it is important to note the official poverty measure has not changed for decades. Actual lived conditions of poverty are higher when using supplemental metrics like the Supplemental Poverty Measure, which uses different definitions of needs and resources like regional cost various and the effects of governmental benefits on poverty.\textsuperscript{22} Congress is actively considering measures to update how to measure poverty accurately. Secondly, as previously noted, survey data for 2019 was taken during the COVID-19 pandemic likely underestimated poverty at the time.\textsuperscript{23}

That being said, the official US Poverty rate for 2019 is 10.5\%, or approximately 34 million Americans.\textsuperscript{24} Demographic disparity exists within the impoverished, with more women in poverty than men (11.5\% - 9.4\%), and more people of color in poverty than whites (18.8\% rate among Black people; 15.7\% among Hispanics; and 7.3\% among non-Hispanic whites). Many of those living in poverty are the working poor: 39.2\% of poor 16-64 year olds in 2019 were employed.\textsuperscript{25}

\textsuperscript{20} Bloomberg City Lab, \textit{How the 1 Percent is Pulling America’s Cities and Regions Apart}, April 3, 2019. The research referenced is from Bill Bishop’s book \textit{The Big Sort}.

\textsuperscript{21} Bloomberg City Lab, \textit{How the 1 Percent is Pulling America’s Cities and Regions Apart}, April 3, 2019. The study referenced is by Robert Manduca, \textit{The Contribution of National Income Inequality to Regional Economic Divergence}.


\textsuperscript{23} 2019 Census data is accumulated from Census interviews conducted in 2020 during the coronavirus pandemic, which saw decreased response rates among vulnerable communities. It is possible the response bias in the 2019 data therefore underestimates the economic disparity discussed in this note and throughout this memo. Congressional Research Service, \textit{The U.S. Income Distribution: Trends and Issues} January 13, 2021.


\textsuperscript{25} Ibid.
Effects of the Ongoing COVID-19 Pandemic on Economic Disparity

The comprehensive economic data presented in this memo pre-date the COVID-19 pandemic, but other data show that COVID-19 worsened US economic disparity and has disproportionately harmed those in lower economic classes. For example, the Federal Reserve found respondents earning less than $40,000 in 2019 most likely to report losing more than half or all of their income in 2020 (14.2% vs. 9.6% for the full sample). The pandemic has disproportionately affected people of color, whether through poverty, health care access, or being statistically more likely to serve as essential workers, and therefore have greater exposure to the virus. For example, weekly Census Household Pulse Survey data over the course of 2021 have consistently shown Black and Hispanic/Latino households have experienced greater income loss in than white households.

Economic Mobility

Income level will vary at the individual and household level over time, whether in the positive direction (better-paying jobs, increased return on investments like home equity or retirement accounts) or the negative direction (job loss, personal or family crisis, etc). This concept is called economic mobility, and being able to move across income and wealth brackets is essential to remedying economic disparity.

Medium Term Mobility

Less income mobility exists in the short term (1-5 years) than the longer term (20+ years), as earnings potential tends to grow over time with experience and training, and wealth accumulates more over a longer time horizon. One study of quintiles of US income tax data from 1987 and 2007 demonstrated significant economic mobility, though taxpayers in the bottom quintile and top quintile were still likely to remain in their respective quintiles than to shift over the 20 year period. Further, income mobility was typically limited to only one quintile in either direction: only 28% of those in the middle quintile moved either to the top quintile (14%) or bottom quintile (14%).

Taxpayers Income Mobility Between 1987 & 2007


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26 Consumer Finance Institute of the Federal Reserve Bank of Philadelphia. CFI COVID-19 Survey of Consumers – Recovery is starting, but Not for Everyone July 2021
27 Centers for Disease Control, Health Equity Considerations and Racial and Ethnic Minority Groups April 19, 2021
28 Analysis of Household Pulse Census Bureau survey data acquired from the Census Bureau: Table 1, Experienced and Expected Loss of Employment Income by Select Characteristics
**Intergenerational Mobility**

Another key area of study is the ability for children to exceed the economic potential of their parents, or intergenerational mobility. This is core to the concept of the American Dream, but has been difficult to study empirically until recent work by Dr. Raj Chetty of the *Opportunity Insights Project* at Harvard University.31 Researchers compiled federal tax records from parents and their children and directly compared their incomes at age 30, finding decreasing levels of absolute upward mobility for children born in recent decades than in past decades, with 92% of children born in 1940 exceeding their parents’ income at age 30 compared to only 50% for those born in 1980 and 1984, with the data showing a steady downward trend over the period. Dr. Chetty’s work also produced evidence indicating regional and even neighborhood birthplace characteristics have significant effects on intergenerational mobility. Further, his work demonstrated that much like income and wealth, significant racial disparities exist in intergenerational mobility.32

![Mean Rates of Absolute Mobility by Cohort](image)

**Source:** [Opportunity Insights](http://opportunityinsights.org)

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**Economic Disparity and Economic Growth**

A growing number of economists theorize that increased economic disparity actually harms the potential of economic growth. In a recent speech, Federal Reserve Chair Jay Powell noted disproportionate decreases in labor participation among Black and Hispanic women, as well as disproportionate access to childcare, and said, “The Fed is focused on these long-standing disparities because they weigh on productive capacity of our economy. We will only reach our full potential when everyone can contribute to, and share in, the benefits of prosperity.”33

Higher levels of economic disparity could reduce growth potential if unequal/disparate access to educational and professional opportunities limit the economic potential of those with restricted access.34 This can particularly restrict growth if discrimination or systemic barriers block otherwise capable workers from accessing educational opportunities, social networks geared for career advancement, or capital to start businesses or pursue innovative opportunities, as described above in the work of Raj Chetty as well as in other recent work.35 Organization for Economic Cooperation and Development research has also found the lack of educational investment for poorer households contributed to a widening gap between those on the lower economic scale and the rest of society, limiting growth.36

Other research indicates economic disparity could also decrease economic potential if those at the top of the distribution scale use their economic power to restrict competition through anti-competitive practices or the use of political power to secure the advantages they have accumulated.37 This would perpetuate a cycle of continued capital accumulation at the top of the income scale, restricted innovation and competition, underinvestment in other economic classes, and potentially poorer governance and political instability.

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31 Ibid
32 Ibid
33 Chair Jerome H. Powell, *Community Development*, a May 3, 2021 speech to the “2021 Just Economy Conference.”
34 Heather Boushey, *Unbound: How Inequality Constricts Our Economy and what we can do about it*. 2019
35 Shekhar Aiyar, Christian Ebeke, *The missing link between income inequality and economic growth: Inequality of Opportunity* April 3, 2019
Additionally, economic disparity can restrict growth because severely limited income and wealth in the bottom half of the income distribution can artificially limit demand for products, as half of potential customers could not afford to purchase products.  

APPENDIX ONE

Table 1. Mean Value of Family Financial Assets, by Percentile of Income (in thousands of 2019 dollars)

<table>
<thead>
<tr>
<th>Year</th>
<th>Bottom Quintile</th>
<th>Second Quintile</th>
<th>Third Quintile</th>
<th>Fourth Quintile</th>
<th>Ninth Decile</th>
<th>Top Decile</th>
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<tbody>
<tr>
<td>1989</td>
<td>23.8</td>
<td>46.8</td>
<td>62.8</td>
<td>97.4</td>
<td>141.6</td>
<td>721.5</td>
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<tr>
<td>1992</td>
<td>18.4</td>
<td>39.7</td>
<td>62.7</td>
<td>92.1</td>
<td>157.2</td>
<td>685.1</td>
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<tr>
<td>1995</td>
<td>26.5</td>
<td>54.2</td>
<td>71.3</td>
<td>115.1</td>
<td>203.0</td>
<td>821.0</td>
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<tr>
<td>1998</td>
<td>29.5</td>
<td>65.2</td>
<td>82.5</td>
<td>153.4</td>
<td>266.3</td>
<td>1,216.0</td>
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<tr>
<td>2001</td>
<td>34.9</td>
<td>64.4</td>
<td>116.6</td>
<td>216.9</td>
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<td>2004</td>
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<td>57.8</td>
<td>98.4</td>
<td>199.5</td>
<td>329.4</td>
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<td>2007</td>
<td>36.6</td>
<td>60.9</td>
<td>97.4</td>
<td>203.3</td>
<td>293.2</td>
<td>1,689.7</td>
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<td>2010</td>
<td>45.6</td>
<td>50.3</td>
<td>98.8</td>
<td>164.4</td>
<td>343.1</td>
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<td>2013</td>
<td>34.3</td>
<td>48.3</td>
<td>86.0</td>
<td>176.4</td>
<td>360.6</td>
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<td>2016</td>
<td>27.6</td>
<td>50.4</td>
<td>96.3</td>
<td>194.8</td>
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<td>2019</td>
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<td>49.4</td>
<td>94.2</td>
<td>218.9</td>
<td>476.9</td>
<td>2,312.9</td>
</tr>
</tbody>
</table>

cumulative % change  
68.1% 5.6% 50.0% 124.7% 236.8% 220.6%

Source: CRS, as drawn from the Federal Reserve Board

38 Heather Boushey, Unbound: How Inequality Constricts Our Economy and what we can do about it. 2019