

The Economic Gains From Equity

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Our Question

How much larger would the U.S. economic pie be if opportunities and outcomes were more equally distributed by race and ethnicity?

Prior Research Points to Large Gains

- **Peterson and Mann (2020)** – Closing Black-white gaps in wages, higher educ, home ownership and entrepreneurship would have boosted GDP by \$16 trillion over past 20 years
- **Hsieh, Hurst, Jones, Klenow (2019)** – Improved allocation of talent of females and Blacks contributed 20% - 40% of total growth in aggregate output per person between 1960 and 2010
- **Truehaft, Scoggins, and Tran (2014)** – Eliminating gaps in earnings and employment by race/ethnicity in 2012 would have increased GDP by 14%, or \$2.1 trillion that year

The Reasons Are Easy to See

1. Basic GDP Math

Aggregate output (Y) is a function of physical capital (K) and labor input (L)

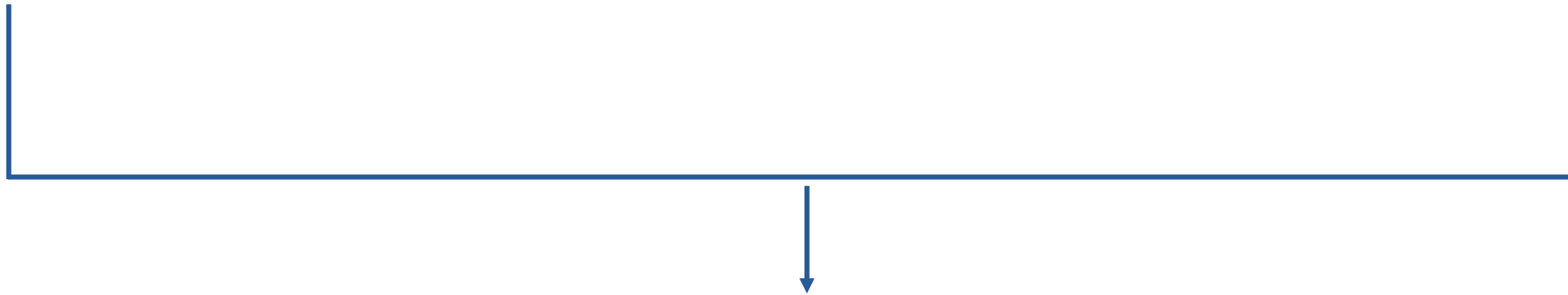
$$Y = F(K, L)$$

Holding the relationship between K and L fixed, the size of Y, aggregate output, depends on the amount of capital and labor used

This means that gaps in labor outcomes, that sideline or underutilize workers, translate directly into lower aggregate output

2. Sizeable And Persistent Gaps

Across A Range Of Indicators



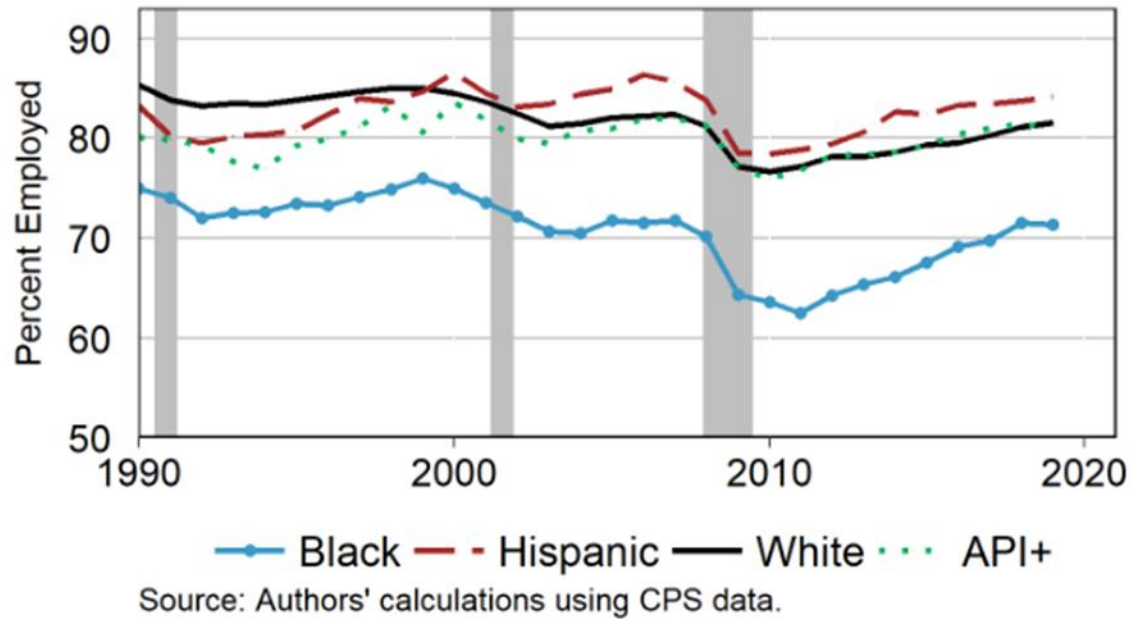
Add up to a smaller economic pie for the nation

Example: Employment

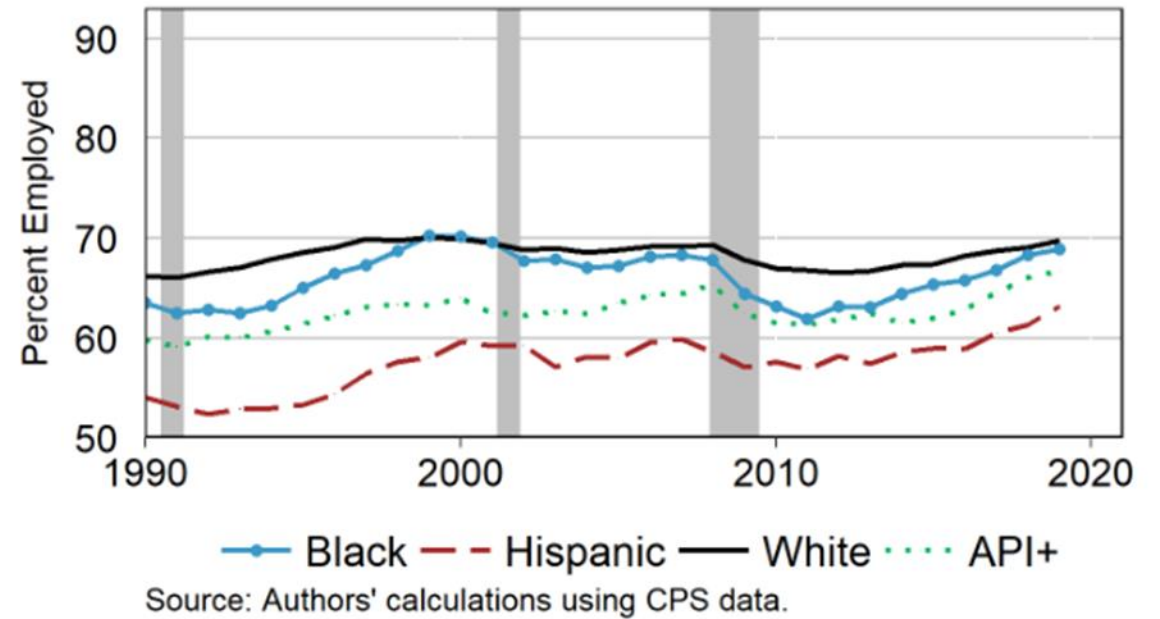
Employment Rates by Gender, Race, and Ethnicity

Trends in Employment

(a) Employment to Population Ratio, Male 25-64



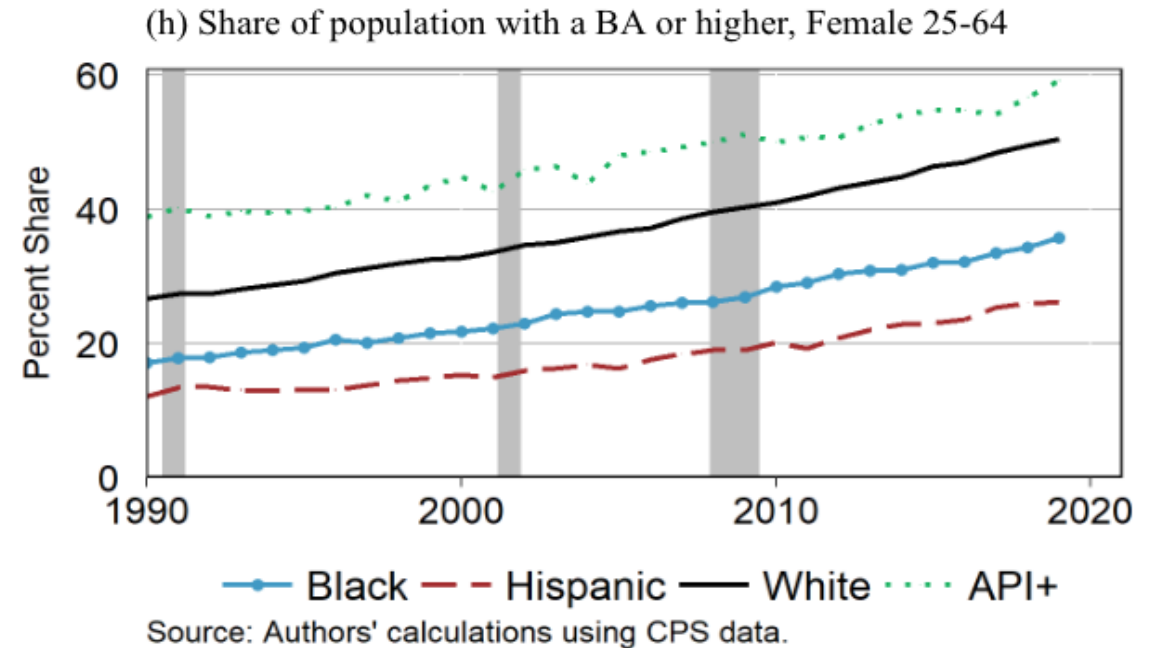
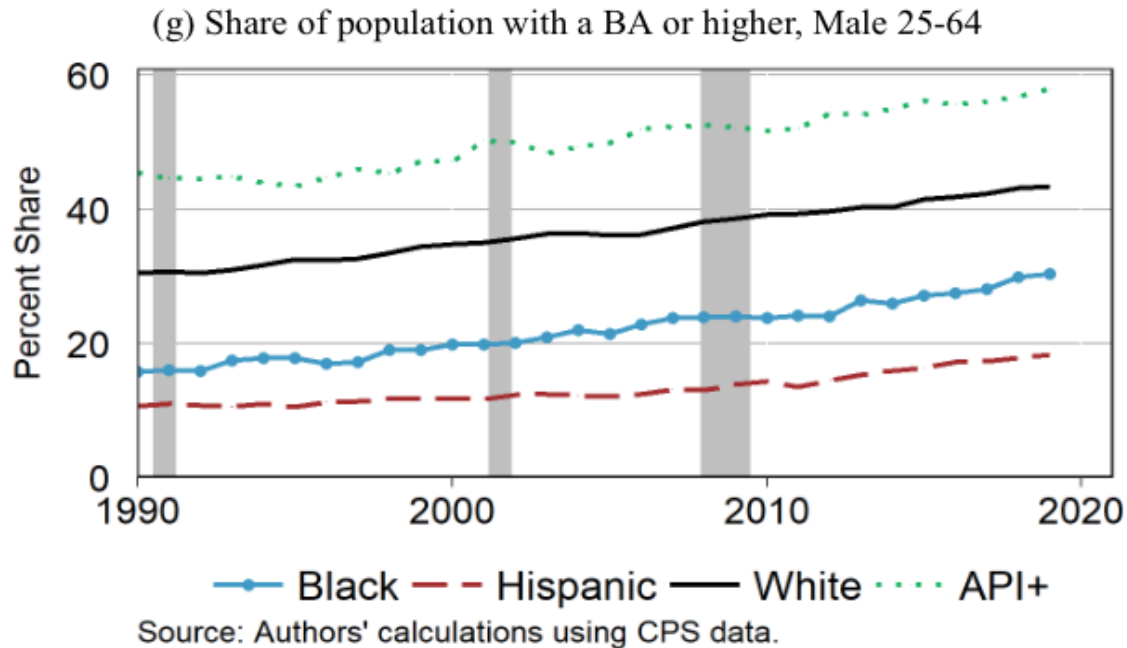
(b) Employment to Population Ratio, Female 25-64



Example: Educational Attainment

Higher Education Trends by Gender, Race, and Ethnicity

Trends in Educational Attainment



What If These Gaps Were Eliminated?

How Much Larger Would GDP Be?

A Simple Pass

Closing Aggregate Earnings Gaps, CPS Data, 2019

	Share of Population	Population 25-64	Avg Annual Earnings	Group Specific “GDP”
White	0.60	155 million	46,407	4.31 trillion
Black	0.13	155 million	32,572	0.65 trillion
Hispanic	0.18	155 million	32,760	0.92 trillion
API+	0.09	155 million	47,440	0.68 trillion
Total	–	–	–	6.56 trillion

Observed GDP Contributions

	Share of Population	Population 25-64	Avg Annual Earnings	Group Specific “GDP”
White	0.60	155 million	46,407	4.31 trillion
Black	0.13	155 million	46,407	0.93 trillion
Hispanic	0.18	155 million	46,407	1.30 trillion
API+	0.09	155 million	47,440	0.68 trillion
Total	–	–	–	7.22 trillion

Counterfactual GDP Contributions

A Simple Pass

Gain from closing gaps:
7.22 - 6.56 = 0.66

Closing Aggregate Earnings Gaps, CPS Data, 2019

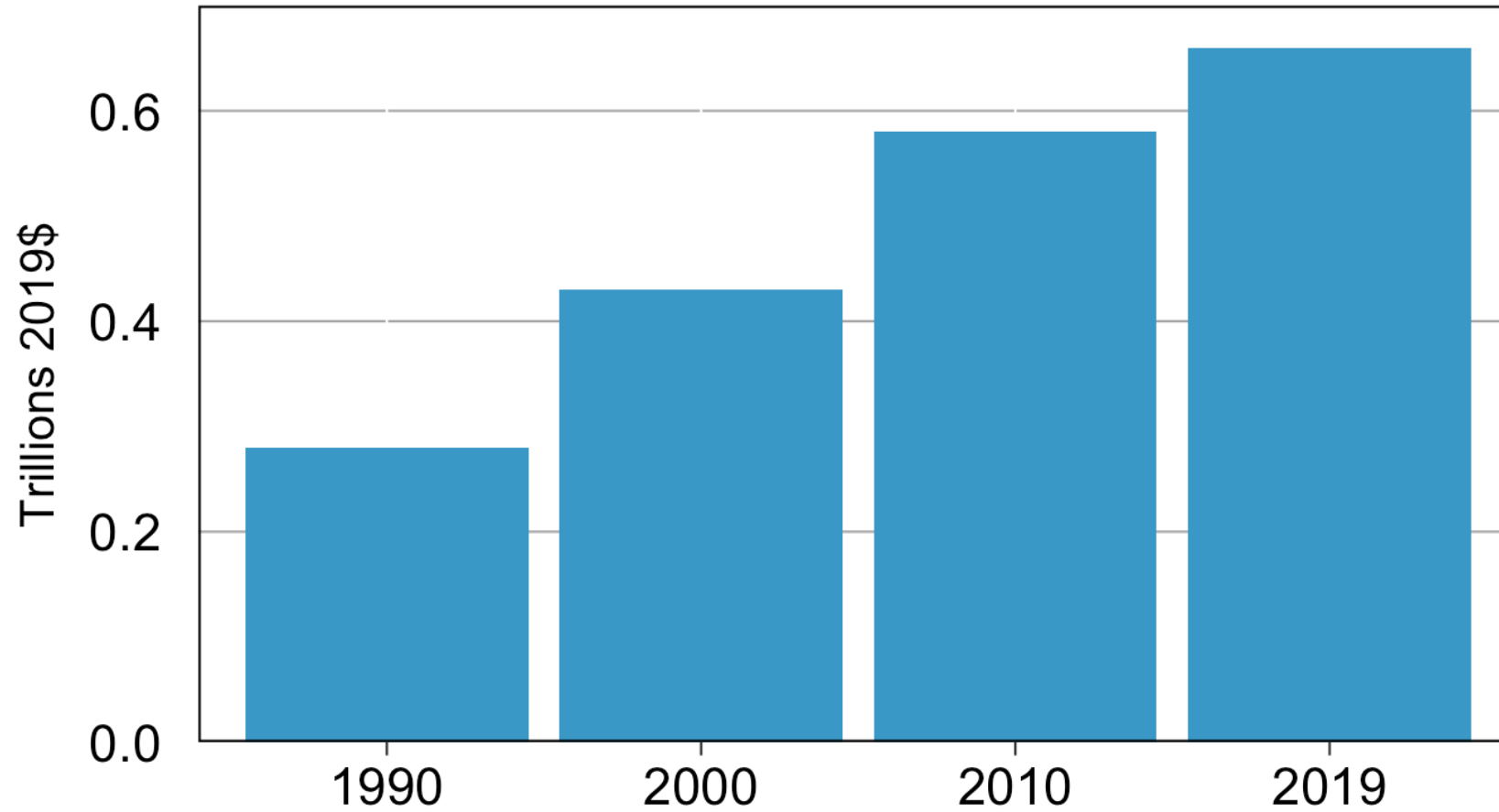
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Counterfactual GDP Contributions

Gains Have Risen Over Time



Drivers Of The Gains

A Decomposition:

- Close gaps at more micro level: 10-year age groups, gender, race, and ethnicity
- Close gaps in specific variables: employment, hours, educational attainment, and educational utilization
- Compute the gains to GDP from closing these gaps, ΔQ_t
- Close gaps in average hourly earnings, both for the moved, “treated” group, ΔE_t and the unmoved, “untreated” group, ΔE_u
- Total decomposed labor gains to GDP = $\Delta Q_t + \Delta E_t + \Delta E_u$

GDP Gains Decomposed

(percent share of total gains)

1990 and 2019



1990	26%	6%	19%	< 1%	48%
2019	19%	7%	27%	3%	44%

Putting It All Together

	Totals	
	1990	2019
Labor Share Contribution CPS Data	0.31	0.79
Labor Share Contribution Scaled to Labor Share	0.28	1.38
Labor Share Contribution Scaled to Labor Share + Capital	0.88	2.57

GDP Gains from Labor Equity in Trillions of 2019\$

The Gains From Equity Are Large

In Sum

- The economic gains from greater equity are large—\$2.6 trillion in 2019
- Between 1990 and 2019, the annual gains from equity, including labor and capital, would have amounted to nearly \$51 trillion in extra GDP
- Bottom line, equity is not a zero-sum game and the imperative to achieve it is both moral and economic

Supplementary Figures

Our Exercise – An Example

	Percent Employed	Weekly Hours	Education Shares				Utilization Shares		Total GDP
			≤ HS	SC	BA	Post-graduate	BA + Postgraduate Utilized	BA + Postgraduate Underutilized	
Quantities									
White	87.74	42.06	0.45	0.11	0.33	0.12	0.70	0.30	–
Black	76.63	40.74	0.64	0.09	0.23	0.05	0.54	0.46	–
Avg Hourly Earnings									
White	25.97	25.97	20.38	23.77	31.00	35.22	34.66	26.13	–
Black	18.98	18.98	16.95	18.89	22.97	26.85	27.56	19.04	–
GDP Contributions (Trillions of 2019\$)									
Δ Quantities (Q_t)	0.012	0.003	-0.015	0.002	0.011	0.008	0.005	-0.003	0.023
Δ Earnings treated (E_t)	0.005	0.001	0.000	0.000	0.003	0.003	0.001	0.000	0.013
$\Delta E_t + Q_t$	0.017	0.004	-0.015	0.002	0.014	0.011	0.006	-0.003	0.036

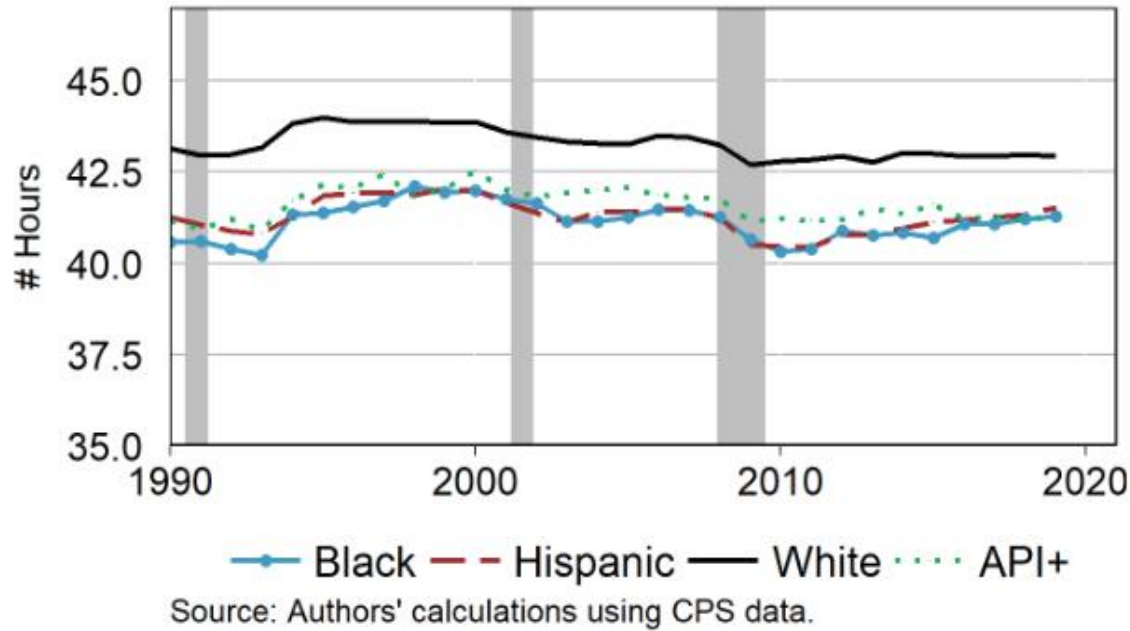
Example of Our Data Matrix for 25–34 Males in 2019

Trends in Hours

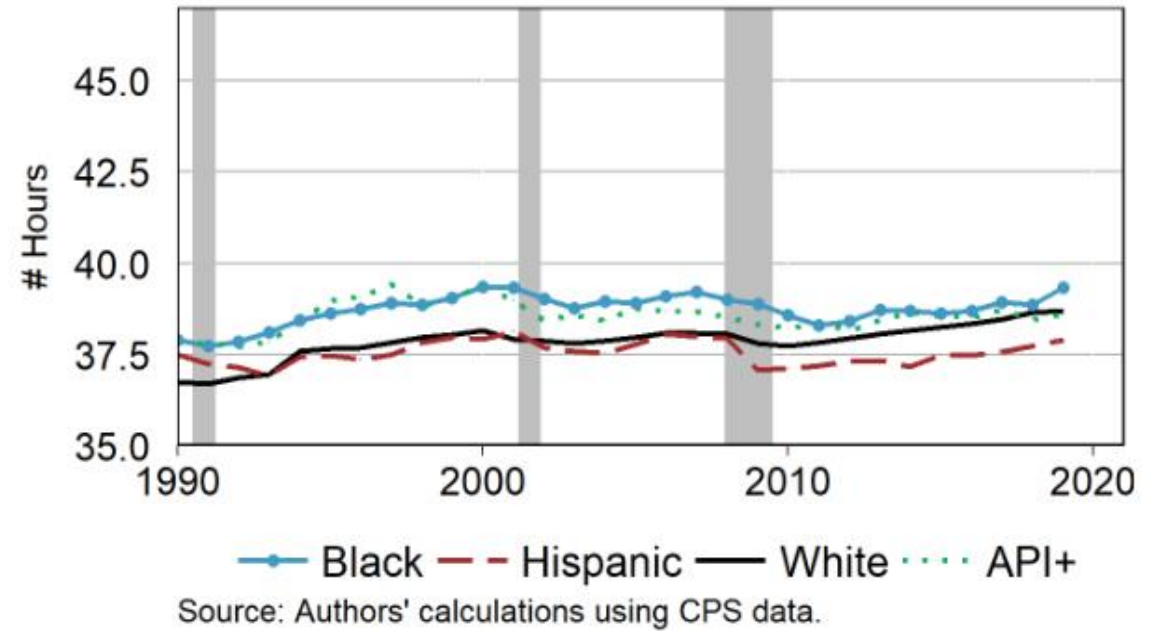
Average Weekly Hours by Gender, Race, and Ethnicity

Trends in Hours

(e) Weekly Hours, Male 25-64



(f) Weekly Hours, Female 25-64

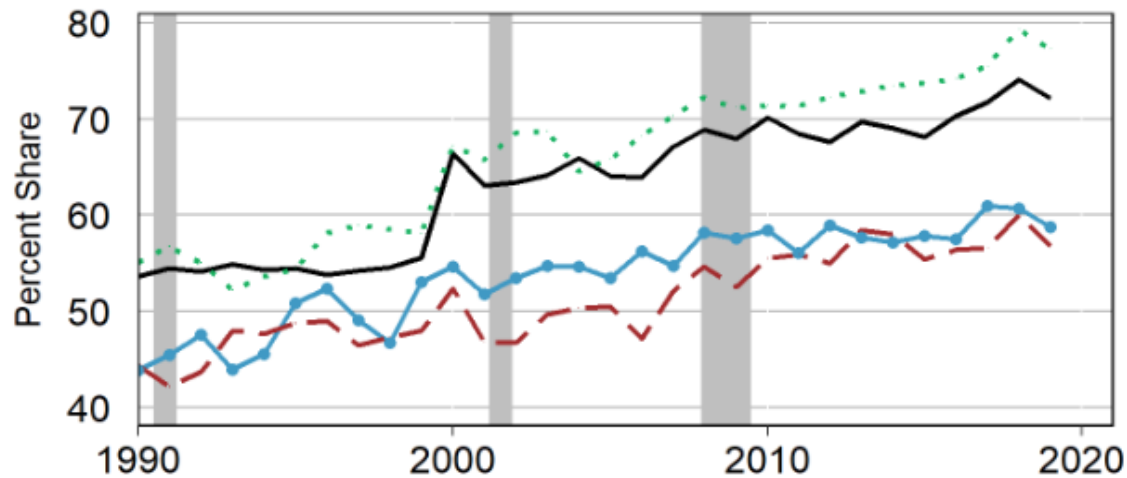


Trends in Educational Utilization

Educational Utilization by Gender, Race, and Ethnicity

Trends in Educational Utilization (25-64)

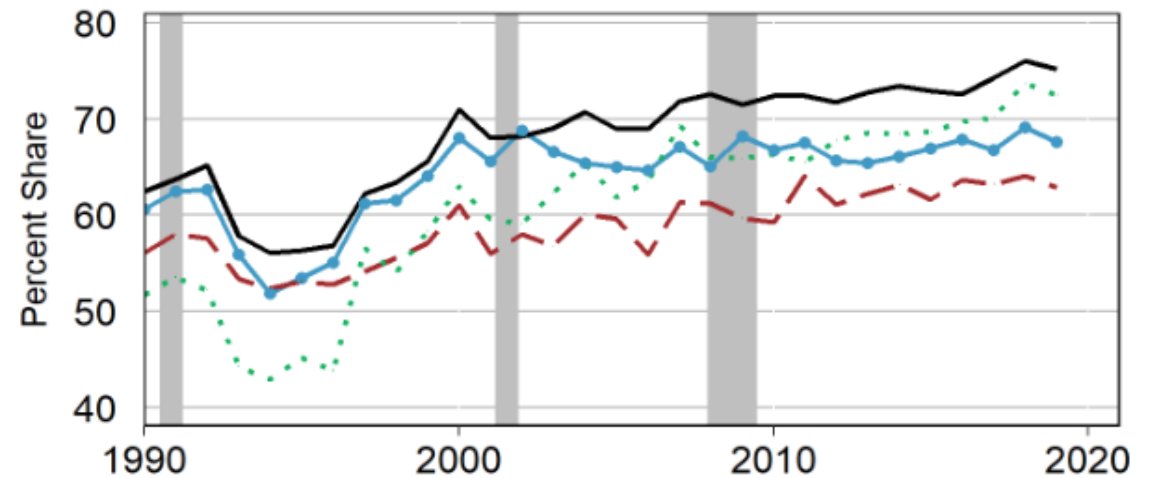
(i) Share of bachelor's and post graduates in high skill jobs, Male



—●— Black — — Hispanic — — White — — API+

Source: Authors' calculations using CPS data.

(j) Share of bachelor's and post graduates in high skill jobs, Female



—●— Black — — Hispanic — — White — — API+

Source: Authors' calculations using CPS data.