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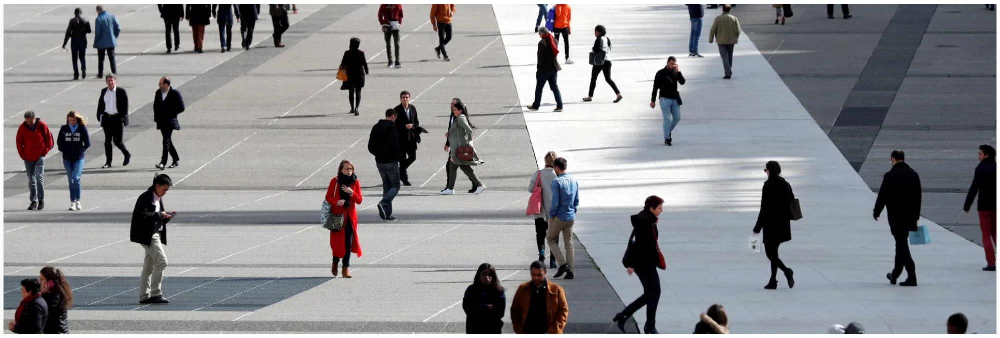
Class Notes: The Black-white gap in three-generation poverty, SNAP work requirements, and more



This week in Class Notes:

- A greater share of the Black-white earnings gap is explained by human capital – but only because of the risks of non-employment.
- SNAP work requirements lead to high rates of program exit, particularly among the neediest recipients – but not necessarily into work.
- The Black middle class is relatively small and has low levels of wealth.
- This week's top chart shows that the gender pay gap held steady in 2020 with women making 84% of men's earnings.
- Our tax code makes it easy for wealthy Americans to avoid paying their fair share in taxes, argues Binyamin Appelbaum in this week's choice op-ed.
- Check out our latest piece documenting the stark Black-white gap in three-generation poverty.

A greater share of the Black-white earnings gap is explained by human capital – but only because of the risks of non-employment

Black-white wage gaps remain stubbornly wide. (In fact, we just published a report looking at the racial gaps in intergenerational earnings trends – more on this below.) Owen Thompson asks how much of the earnings gap can be explained by differences in human capital and how this relationship has changed over time. With data from three waves of the National Longitudinal Survey for Youth (NLSY) he measures male earnings, educational attainment, and standardized test scores from the 1970s to the present day. The Black-white gaps in educational attainment and test scores have narrowed – [but the share of the earnings gap that can be explained by human capital differences grew]. In the 1960s and 1970s, human capital explained 10% of the Black-white earnings gap; by the 2000s and 2010s, it accounted for 30%. Importantly, however, the increased importance of human capital is mostly the result of a strengthening association between human capital and being out of employment (i.e. with earnings of zero). Among employed men, human capital has in fact become much *less* of a factor in the Black-white earnings gap.

SNAP work requirements lead to high rates of program exit, particularly among the neediest recipients – but not necessarily into work

Many policymakers – especially conservatives – worry about the work disincentives of welfare programs. This is one reason why a number of government programs in the U.S., like the Supplemental Nutrition Assistance Program (SNAP), have "work requirements" for their recipients. What are the effects of SNAP work requirements on program participation and labor market outcomes for recipients? Using administrative data from Virginia, Colin Gray and his coauthors study able-bodied SNAP recipients with no dependents around the cut-off age of 50, where work requirements are dropped. A year and a half after work requirements were introduced in the state, participation in SNAP dropped by 53% and exits increased by 64%.

But do most of those exiting SNAP enter employment? It seems unlikely. Program exits were disproportionately concentrated among SNAP's neediest beneficiaries – homeless recipients and those reporting no income. The paper concludes that "eliminating work requirements would likely transfer more resources to SNAP participants per dollar of public expenditure than other programs targeting similar populations."

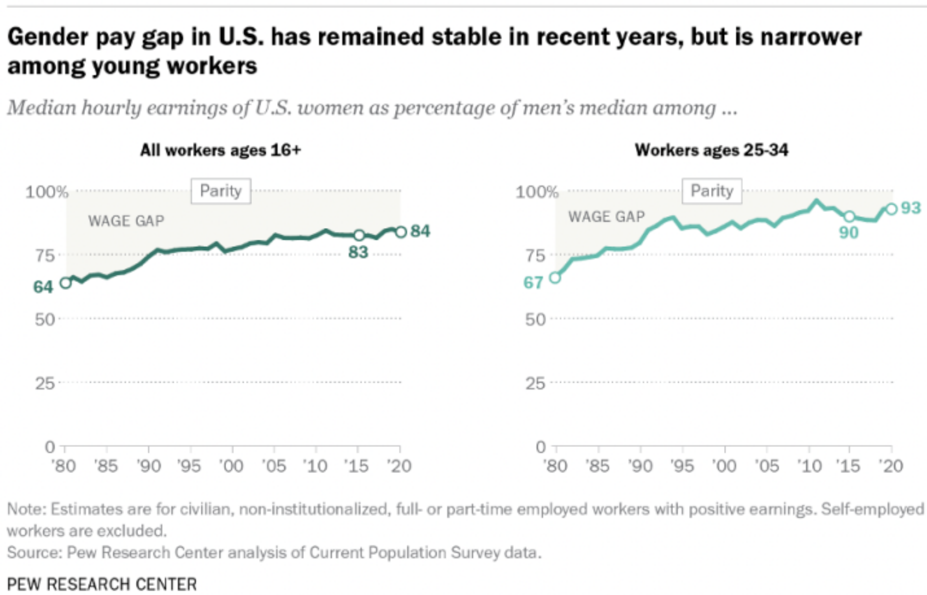
The Black middle class is relatively small and has low levels of wealth

Here in the Future of the Middle Class Initiative, we have done a lot of work on how we define the American middle class and how race plays into those definitions. In their new paper, William Darity Jr., Fenaba R. Addo, and Imari Z. Smith explore the state of the Black middle class using data from the 2016 Survey of Consumer Finances (SCF). The authors show that for each quintile of the income distribution (within race), the median income level for Black Americans is significantly lower than for whites. The gaps are even wider when looking at the wealth distribution – particularly at the top. The median wealth in the top quintile of the white wealth distribution is $1,590,000 – for Black Americans, it's $283,000. The authors call this the "lower ladder phenomenon": Blacks at the top of their group-specific distribution are at a rung far below whites at the top of *their* racial group's social ladder. This means that a Black family in the middle of the Black wealth distribution (what some would consider the Black middle class) would be in the bottom or second quintile of the white distribution. To grow the Black middle class, the authors argue for "a comprehensive national program… that is aimed directly at removing racial wealth differences."

Top chart: Gender pay gap held steady in 2020 with women making 84% of men's earnings

This week's top chart shows that the gender pay gap did not change in 2020. Over the last 15 years, the median hourly earnings of women have held steady at around 84 cents for every dollar earned by men.

For young workers, however, the gap is narrower at 93 cents per dollar.



Choice opinion: Our tax code makes it easy for wealthy Americans to avoid paying their fair share in taxes

"Wealthy Americans can save a lot of money by cheating on their federal income taxes, but that's nothing compared with how much money they've been saving by following the rules," writes Binyamin Appelbaum.

"The federal income tax is designed to be progressive, meaning that those who make more money are supposed to pay taxes at higher rates. But the richest Americans don't. Public data shows that in 2018, the most recent year for which data is available, the top 0.001 percent of taxpayers — roughly 1,400 households — paid a smaller share of income in taxes than the rest of the top 1 percent. The effective tax rate for that elite group was 22.9 percent."

Self-promotion: Documenting the stark racial gap in three-generation poverty

Understanding the ways in which Black-white inequality and racial injustices have been reproduced across generations is an important first step in creating a more equitable society where upward social mobility is accessible to all. In our new paper coauthored with Scott

Winship, Christopher Pulliam, Ariel Gelrud Shiro, and Santiago Deambrosi, "Long Shadows: The Black-White Gap in Multigenerational Poverty," we take a multigenerational perspective on economic inequality by race, showing the persistence of unequal economic opportunity for Black Americans across time. We use the Panel Study of Income Dynamics (PSID) to measure incomes across three generations – dating back to the Civil Rights Era – and find stark differences in the intergenerational persistence of poverty between Black and white families. We define poverty as the bottom fifth of the income distribution and find that just five percent of white adults today are poor after having had poor parents, but that is true of 32 percent of Black adults. Across three generations, the divide is even wider. One in five Black Americans today are experiencing poverty for the third generation in a row, compared to just one in a hundred white Americans. In other words, experiencing poverty for three generations straight is almost uniquely a Black experience.

In a separate piece, I outline a policy approach to reducing multigenerational Black poverty.

3:00 – 4:00 PM EDT on Monday, June 28, 2021

Urban Institute

2:30 – 4:00 PM EDT on Tuesday, June 29, 2021

Urban Institute

2:00 – 3:30 PM EDT Wednesday, June 30, 2021

Washington Center for Equitable Growth