Border Business Briefs

Texas Inequality

By SALVADOR CONTRERAS

THE UNITED STATES IS EXPERIENCING ONE OF the longest economic expansions in modern history. The unemployment rate in Texas has declined from just over 8% in late 2009 to 3.5% in the first half of 2019. During this period the Texas labor force has increased by some 3 million and seen wages and salaries increase by $270 billion. In light of these great numbers, it is only natural to wonder how widespread this bounty has been.

In this piece, we look at how Texas distributes incomes, income inequality, and regional differences. We show that inequality in Texas has been flat (to slightly up) over the past 17 years. However, we show that at these inequality levels, blacks and Hispanics across income and education levels face a significant income gap. Finally, we show that although the Texas Border Region is poorer than other parts of the state, it has a more equitable distribution of incomes with McAllen-Edinburg-Mission MSA being an exception.

Let us first start with why we should care about income inequality. Inequality is how evenly, some would argue fairly, incomes are spread. If society is composed of 5 individuals who earn a combined $100 then we say that incomes are equally distributed if each earns $20. However, if 1 earns $100 and the other 4 earns zero then we would have a highly unequal distribution of income. There are many reasons why society may decide to "unfairly" allocate incomes. Whatever the reason, those who receive less also face reduced economic opportunities for themselves and their families.

In the United States, initial resources strongly predict a child's later in life outcomes like education and income. Children born to parents with few resources, on average, will go on to themselves become parents with relatively few resources. That is, intergenerational income mobility is stymied. This is in part because poor parents are able to provide fewer resources to their children like access to formative experiences or safe neighborhood, access to health care or a good school. All these factors likely influence the chances of having an early in life equal starting line. For example, a paper by Raj Chetty and co-authors (see endnote) show that children born in 1986 to parents in the bottom 20th percentile have a 9% probability of reaching the 80th percentile.
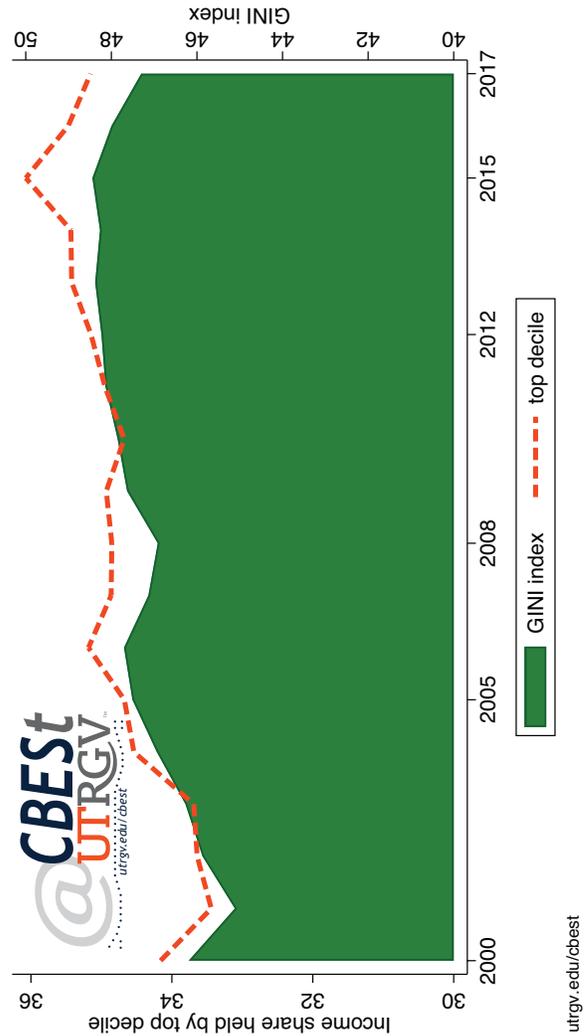

Figure 1: Texas income inequality, 2000-2017

SOURCE: AMERICAN COMMUNITY SURVEY

When society accepts greater income inequality it concedes that ideas, energies, and potential from some are not essential to the vibrancy, creativity, and development of the eco-system. That said, inequality is not necessarily all-bad, after all, context is important. Economies with high economic growth generally see a rise in inequality as a result of the marketplace compensating the responsible

creative forces. Growth makes the economic pie bigger for everyone.

Texas Inequality

Turning to Texas, figure 1 shows the GINI index and the income share held by top decile (top 10%). These are two commonly used measures of inequality. GINI measures the extent to which the distribution of income deviates from a perfectly equal distribution. GINI has a range between 0 or perfect equality and 100 or perfect inequality. All measures of inequality and income are created using the American Community Survey 1% sample and consists of individuals in the labor force who are age 25-65.

Figure 2: Real income growth by percentile group, 2000-2017

Figure 1 shows that the GINI has increased by about 1 point over the past 17 years. The 2017 Texas GINI is roughly in line with the GINI for the United States. The second measure of inequality tells us the income share held by the top 10%. Here again, we see a slight increase over the 17 years. The top 10% holds 35% of all income. This again is similar to the income share for the United States. Over the past 17 years inequality has been relatively flat in Texas. That is, it does not appear to have gotten (much) worse.

Next, we take a close look at how incomes have changed from 2000-2017. Figure 2 shows the percent change of real incomes by income group over the past 17 years. All dollar values are adjusted for inflation and are in 2010 dollars. The figure shows that those in the 50th percentile have seen a 6.3% decline in real income. The 50th percentile, is simply the median or middle. For example, in 2017, those in the middle earned $35,600. This means that half the sample population earned more, and half earned less than $35,600. The 80th percentile saw almost no change. Those at the 90th and 20th percentile saw a 2.5% decline in real incomes. Only, the 95th percentile, those making $129,000 in 2017 saw an increase of 2% over the 17-year period.
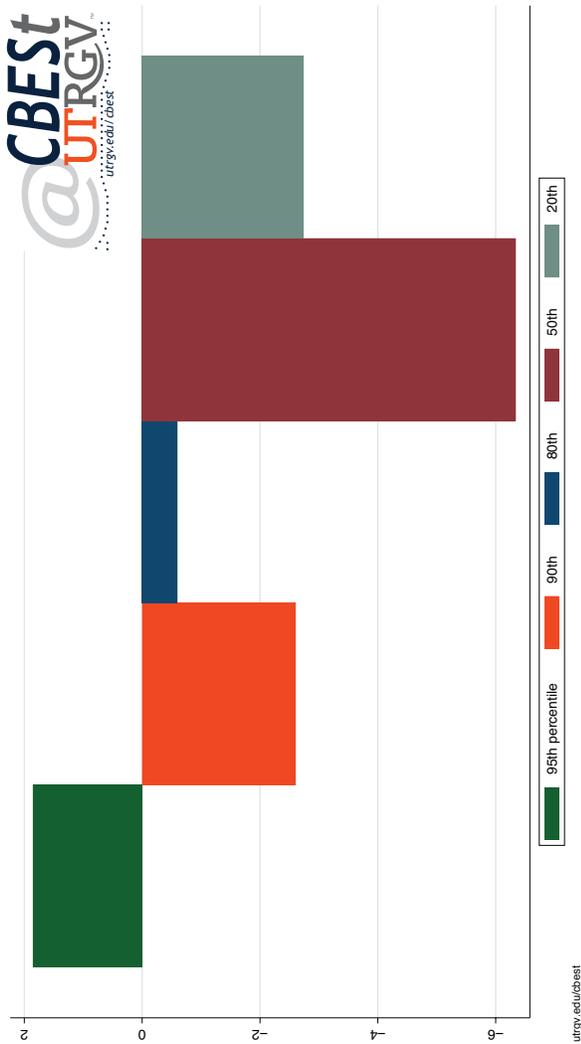
Texas Minorities

Next, we evaluate the relative incomes of blacks and Hispanics. We produce black and Hispanic incomes as a percent of white incomes by skill level and percentile. We divide individuals into low skill (high school education or less) and high skill (some college or Associates Degree or more).

Figure 3 shows black and Hispanic incomes as a percent of white's by percentile and skill level in 2017. For example, the 95th percentile of high skill blacks took home 60 cents for every dollar a white individual earned. That is, blacks in this group took home 60% the white income of $178,000. For comparison, top earning, high skill, Hispanics took home 58 cents. It is interesting that low skill blacks and Hispanics in most cases do better than high skill blacks and Hispanics in closing the income gap with whites across income groups. The exception is at the 50th percentile where blacks and Hispanics earn 71 cents across skill levels. The lowest earning, low skill, Hispanics have the smallest income gap. They earn 89% of comparable white's $13,300 income.

low skill, whites out earn comparable blacks and Hispanics. That said, not all is bad news. Top earning, high skill, blacks saw their incomes increase by 20% and Hispanics 11% over the 17-year period compared to 9% for whites.
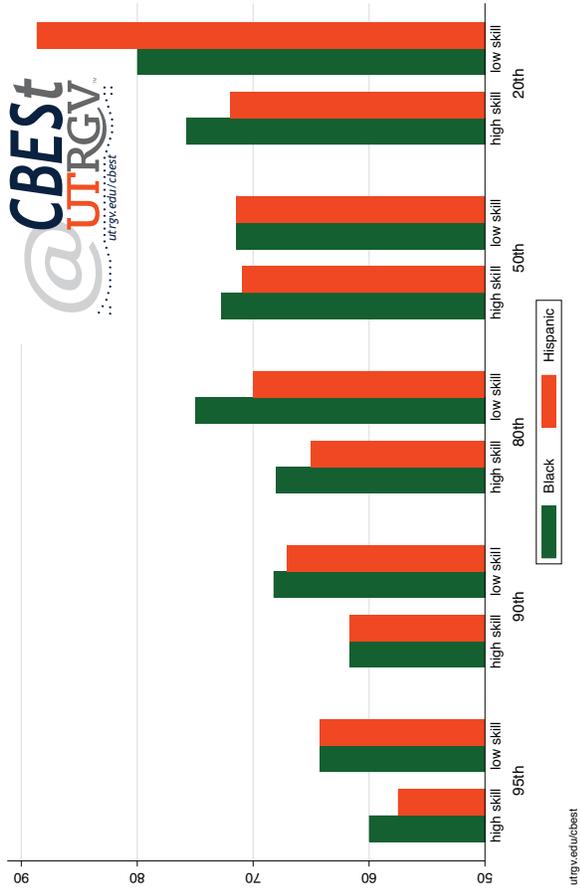

Figure 3: Black and Hispanic incomes as a percent of white's by percentile and skill level, 2017

SOURCE: AMERICAN COMMUNITY SURVEY

As a final note to figure 3, it is interesting that the black and Hispanic income gap is increasing in income percentiles. In particular, the top black and Hispanic earners are clearly excluded from jobs and entrepreneurial activities that pay wages reserved for whites. If the highest incomes are attained by entrepreneurial ability, education, and talent it is not possible that the top 5% of black and Hispanic Texans are 60% as able, educated, and talented as the top 5% of whites. Other factors must be at play. Whatever the reason, we will not find answers in this piece. Certainly, the gap could be lower if we adjusted for wealth, professional networks, industry, and a host of other factors. However, if we had such data, it is not clear that the gap would be zero. After all, even low earning,
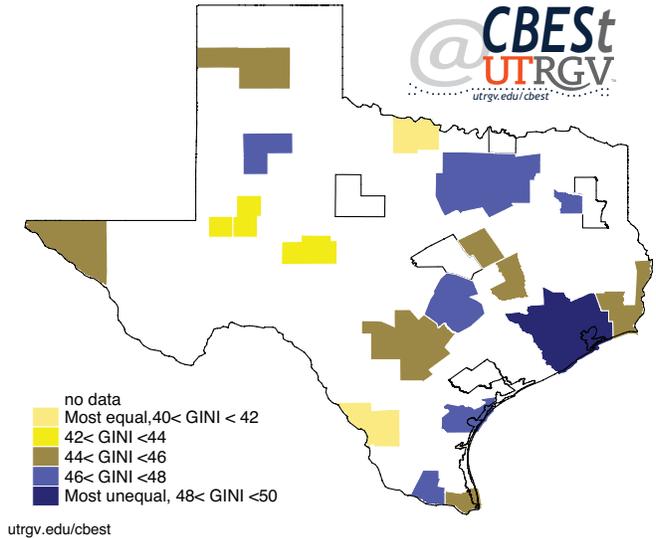
Texas Metros

Figure 4: Texas income inequality by MSA, 2017

SOURCE: AMERICAN COMMUNITY SURVEY

Next, we give our attention to evaluating differences within the state. Figure 4 maps GINIs for Texas MSAs. Wichita Falls and Laredo are the two Texas MSAs with the lowest levels of income inequality. Houston-The Woodlands-Sugar Land and McAllen-Edinburg-Mission are the most unequal MSAs in Texas.

Figure 5 shows the income share held by the top 10% by MSA. This second measure of income inequality has Laredo and Odessa MSAs as the most equal MSAs. The top 10% hold 29% of all income in these MSAs. This measure of inequality moves McAllen-Edinburg-Mission MSA to the middle in inequality. However, Houston-The Woodlands-Sugar Land is again the most unequal MSA. The top 10% in this MSA hold 37% of all income.
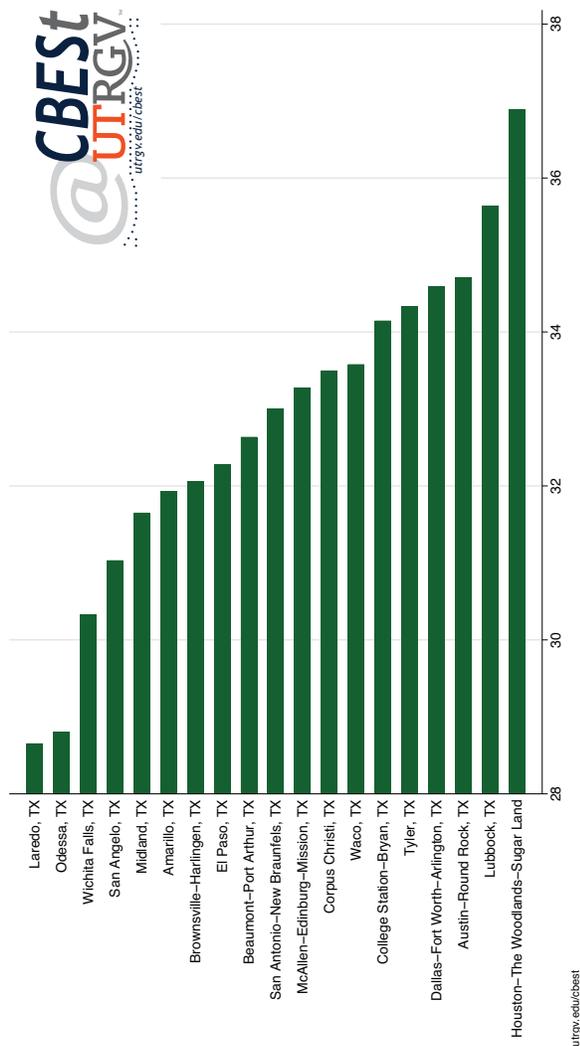
Figure 5: Income share held by the top decile by MSA, 2017

Source: American Community Survey

Finally, figure 6 presents the incomes of the 50th and 80th percentile. The graph is sorted by the income of the 50th percentile. Notice that the Border Region has the lowest 50th percentile incomes. Individuals in Brownsville-Harlingen and McAllen-Edinburg-Mission MSAs at the 50th percentile earn $22,200. El Paso and Laredo comparable groups earn $3,000 to 4,000 more. Midland MSA has the highest 50th and 80th percentile incomes at $44,500 and $80,000 respectively.
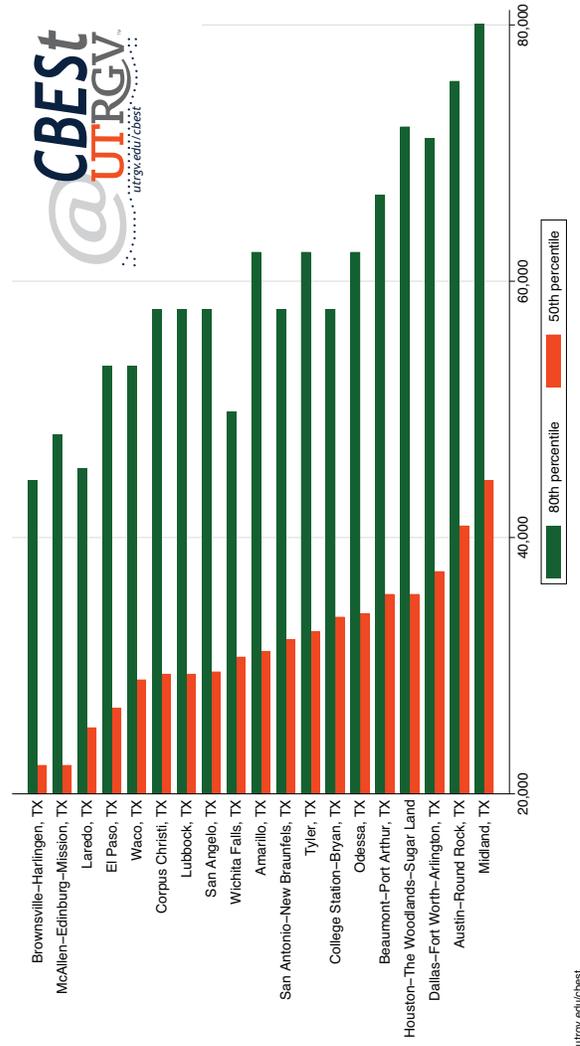

Figure 6: Incomes of the 50th and 80th percentile by MSA, 2017

Source: American Community Survey

Brownsville-Harlingen and Laredo MSA 80th percentile earn $45,000, the lowest among Texas MSAs. El Paso MSA has the highest incomes among the four Border Region MSAs. Among the largest metros, Austin-Round Rock, Dallas-Fort Worth-Arlington and Houston-The Woodlands-Sugar Land MSA have the highest incomes at the 50th and 80th percentile respectively.

Summary

From 2000-2017 Texas economy expanded 162% or about 2.9% annually. This growth has had a minor effect on inequality. However, the current level of inequality has

constrained the economic opportunities of black and Hispanic Texans. Across skill and income groups blacks and Hispanics earn significantly less than whites. In addition, economic growth appears to have been exclusively for the benefit of the highest earners. The purchasing power of the average Texan is today lower than in 2000. Finally, economic growth in Texas has been uneven and is evident in the earnings profile across metros. The Border Region in particular is unable to attract the income levels enjoyed by the rest of the state.

Author

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Endnotes

Raj Chetty, Nathaniel Hendren, Patrick Kline, Emmanuel Saez, and Nicholas Turner. (2014) Is the United States Still a Land of Opportunity? Recent Trends in Intergenerational Mobility. NBER Working papers series. https://www.nber.org/papers/w19844.pdf