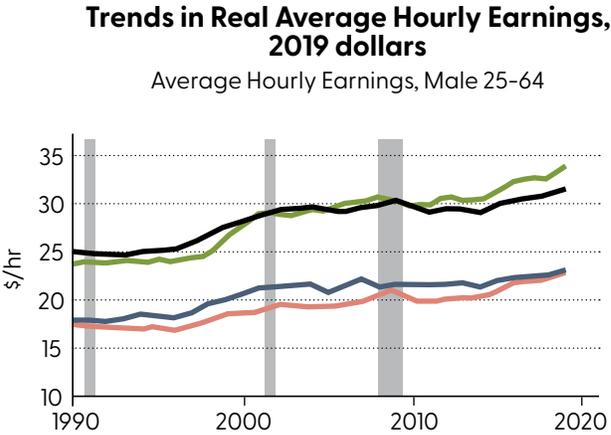
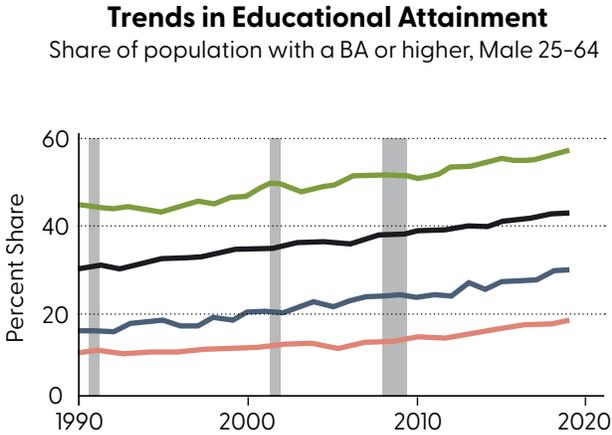




The Economic Gains from Equity

Shelby R. Buckman, Laura Y. Choi, Mary C. Daly, Lily M. Seitelman

The U.S. has experienced persistent gaps in labor market measures by race and ethnicity, which are the result of longstanding structural inequities in our economy. The gaps are particularly large between white individuals and their Hispanic counterparts. For example, as shown in the figures below, Hispanic men have consistently lower levels of educational attainment and average hourly earnings compared to white men. The trends for Hispanic women follow a similar pattern. But imagine if these gaps were eliminated. How much would our economy gain in terms of additional aggregate output?



■ Hispanic ■ Black ■ White ■ API+
 Source: Authors' calculations using CPS data

According to our analysis, closing gaps in labor market outcomes by race and ethnicity would result in an aggregate gain to GDP (including labor and capital) of \$2.57 trillion in 2019. These gains have been growing over time, as the gaps for some groups have remained stable or even worsened over time and the population share of racial and ethnic minorities has been rising. In particular, the Hispanic share of the U.S. working-age population has increased rapidly, from 9 percent in 1990 to 18 percent in 2019. **Over the thirty-year period of our sample, from 1990-2019, closing these gaps would have generated a cumulative aggregate gain to GDP of \$51.18 trillion.**

Looking across the gaps for employment, hours, educational attainment, educational utilization, and earnings, the largest gains to aggregate output come from closing gaps in employment, education, and earnings (conditional on being employed). Among Hispanics, the largest driver of GDP gains in 2019 is closing educational attainment gaps. In contrast, in 1990, the largest driver of GDP gains among Hispanics was closing residual earnings gaps, suggesting the growing importance of closing educational attainment gaps for the Hispanic population. This paper demonstrates that the gains from equity are large and the case for closing these gaps goes well beyond the issue of fairness—these persistent inequities impose significant costs that limit aggregate output and have important implications for future global competitiveness.

Building on this research, a Federal Reserve System team led by San Francisco Fed researchers modeled how much GDP would have increased each year by eliminating racial gaps in earnings, hours worked, educational attainment, and employment in every U.S. state and Washington, D.C.

With considerable pressures weighing on U.S. economic potential in coming decades, the time seems right to take a new perspective and imagine what’s possible if equity is achieved.

Twelfth District State	Estimated increase in state GDP from 2005-2019
AK	\$2.2 B annually
AZ	\$19 B annually
CA	\$210 B annually
HI	\$5 B annually
ID	\$1.2 B annually
NV	\$8.2 B annually
OR	\$4.1 B annually
UT	\$3.2 B annually
WA	\$9.7 B annually

Read the full research paper: https://www.brookings.edu/wp-content/uploads/2021/09/15985-BPEA-BPEA-FA21_WEB_Buckman-et-al.pdf

See the state-by-state data visualization project: <https://fedcommunities.org/data/closesthegaps/>

Learn more about the SF Fed’s commitment to equity in support of our mission to promote a healthy and sustainable economy: <https://www.frbsf.org/our-district/about/commitment-to-equity/>