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Black America Doesn't Benefit from the Nation's Economic Growth

A Report Brief

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"Black America Doesn't Benefit from the Nation's Economic Growth"

In the best of all possible worlds, the 42 million plus Black Americans would reside in their own nation and have their own economy. That economy could be designed to utilize the available physical, human capital, and natural resources so that the economy would grow optimally. But, alas, we are not in the best of all possible worlds.

It is in this context that we ask: Is economic growth important? Answer: Why of course it is. If for no other reasons than because, when the population grows, the economy must grow to keep pace: (1) producing more goods for the larger population to consume; and (2) creating new jobs to absorb new entrants into the work force.

From 2000–2012, the US total labor force grew from 136.9 million to 142.5 million or approximately 0.3% each year; the Black American labor force grew from 15.2 million to 15.9 million or about 0.4% each year.[1] Importantly, US economic growth during the period, which is signaled by real gross domestic product (GDP), exceeded labor force growth. The former averaged 1.75% per year during the period—which is a very good thing.

The important question for Black Americans to ask is: Have we benefitted effectively as a result of the nation's growth over the period?

This year's emphasis on economic inequality has highlighted the growing wealth and income disparity between the "one percent" and the rest. That reality is unmistakable and salient.

Because so few Blacks are among the top 1%, the relevant question to ask is whether we are keeping pace with "rest" of America. Again, Are Black Americans benefitting effectively from the nation's economic growth?

This is an easy enough question to answer. To answer it, we will examine which US industries have grown the most with respect to a measure of earnings by industry called "real value-added" over the aforementioned 12 years.[2] Then we will determine whether those industries are the same industries that reflect the most growth in Black American employment. In other words, we want to determine whether the growth in Black American employment over the period is concentrated in the fastest growing industries in America with respect to incomes earned.

If Black American employment is growing most in the fastest growing industries in the nation on a real value added basis, then we might conclude that Black Americans are benefitting from the nation's economic growth. If not, then we should probably come to the opposite conclusion.

Now to the fastest growth industries in the nation. We performed this analysis at the two-digit North American Industrial Classification System (NAICS) group level. That is, we examined real

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[1] We analyze the 2000-2012 period because it is the most recent period for which a full complement of consistent and required data is available.

[2] "Value added" represents the costs incurred and the incomes earned in production. It includes compensation of employees, taxes less subsidies, and gross operating surplus. Real value added is estimated in chained dollars and represents value added at market prices adjusted for inflation.

value added growth for 20 broad industry groups.[3] We computed level and percent changes over the 12-year period to address the small base problem.[4] We found that the following five of the 20 industries (the top 25%) grew the most rapidly over the period according to the Bureau of Economic Analysis (BEA), US Department of Commerce.

Table 1.—Real Value Added by Industry: Level and Percent Change Growth 2000-2012[5]

Industries	Rank	Level Change ($s Billions)	Industries	Rank	Annual Percent Change
Real estate and rental and leasing	1	$493.5	Information	1	4.79%
Information	2	$334.2	Mining, quarrying, and oil and Gas extraction	2	4.17%
Health care and social Assistance	3	$304.3	Health care and social Assistance	3	2.73%
Durable goods manufacturing	4	$278.7	Durable goods manufacturing	4	2.51%
Professional and technical services	5	$277.7	Professional and technical services	5	2.47%

An important fact to note about the industry groups listed in Table 1 is that they are all (with Health care and social assistance and Real estate and rental and leasing as exceptions) high compensation industries top to bottom.[6] It is also important to note that four of the industry groups (Information; Health care and social assistance; Durable goods manufacturing; and Professional and technical services) are represented among the level and percent changes. This indicates that these four industry groups are growing at a fast rate and that their real value added is large.

Before we consider whether the growth in Black America's employment is consistent with the fastest growing, high compensation industries from a value added perspective, let us first consider the growth in employment by industry for the nation as a whole using data from the Bureau of Labor Statistics (BLS), US Department of Labor.[7]

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[3] The 20 industry groups include: Agriculture and related industries; Mining, quarrying, and oil and gas extraction; Utilities; Construction; Durable goods manufacturing; Nondurable goods manufacturing; Wholesale trade; Retail trade; Transportation and warehousing; Information; Finance and insurance; Real estate and rental and leasing; Professional and technical services; Management, administrative, and waste services*; Educational services; Health care and social assistance; Arts, entertainment, and recreation; Accommodation and food services; Other services; and Government (Public administration). *--As an approximation, real value added for this industry group was derived by summing two sub-industries, which is not a proper procedure for chained-dollar aggregates. However, the detail was not available with which to prepare proper chained-dollar estimates. For the related sub-industries, the summing process should produce a value that is a good approximation of the value that would be produced by a standard chaining procedure.

[4] By "small base problem" we mean that industries that are small in value may grow rapidly in percentage terms, but the level of growth may be relatively small. We compute both level and percent changes so as to distinguish industries that grow rapidly and have large level changes.

[5]The real value added data that were used to prepare this table are available at; http://www.bea.gov/industry/gdpbyind_data.htm (downloaded from the Internet on May 10, 2014).

[6]For 2012 (the most recent year available), four of the six industry groups listed in Table 1 are in the top eight industry groups when it comes to wages and salaries. See National Income and Product Account Table 6.6D.—Wages and Salaries Per Full-Time Equivalent Employee by Industry. The table is produced by the Bureau of Economic Analysis; www.bea.gov. The table was downloaded on May 10, 2014.

[7] The BLS data are available from Jim Borbely, an economist on staff with the Current Population Survey; Borbely_J@bls.gov. The data were obtained by email message on May 9, 2014.

Table 2.—Total Employment by Industry: Level and Percent Change Growth 2000-2012

Industries	Rank	Level Change (Thousands)	Industries	Rank	Annual Percent Change
Health care and social Assistance	1	4,472	Mining, quarrying, and oil and gas extraction	1	6.01%
Educational services	2	1,690	Health care and social assistance	2	2.21%
Professional and technical services	3	1,647	Management, administrative, and waste services	3	1.75%
Accommodation and food Service	4	1,524	Professional and technical service	4	1.53%
Management, administrative, and waste services	5	1,243	Arts, entertainment, and recreation	5	1.46%

Table 2 reveals that with respect to level changes, the growth in national employment growth is consistent with the growth in real value added for two industry groups (Health care and social assistance and Professional and technical services). Based on percent changes, Tables 1 and 2 match for three categories (Mining, quarrying, and oil and gas extraction; Health care and social assistance; and Professional and technical services). Consequently, we can conclude that national employment growth is tracking at the margin the growth in real value added by industry—percent changes are more in line than level changes. In other words, national employment growth is not systematically correlated with high income industry groups.

Now consider the growth in Black America's employment by industry in the following table.

Table 3.—Black Employment by Industry: Level and Percentage Change Growth 2000-2012

Industries	Rank	Level Change (Thousands)	Industries	Rank	Annual Percent Change
Health care and social Assistance	1	715	Mining, quarrying, and oil and gas extraction	1	5.75%
Retail trade	2	381	Health care and social Assistance	2	2.13%
Accommodation and food service	3	203	Retail trade	3	1.96%
Educational services	4	161	Professional and technical services	4	1.77%
Management, administrative, and waste services	5	147	Accommodation and food Services	5	1.53%

Comparing Tables 2 and 3, we find that on a level change basis there are four matches (Health care and social assistance; Educational services; Accommodations and food services; and Management, administrative and waste services). On a percent change basis, there are three matches (Mining, quarrying, an oil and gas extraction; Health care and social assistance; and Professional and technical services). Therefore, we conclude that the national and Black employment growth pattern is fairly consistent.

However, when we compare Tables 1 and 3, we find that there is little convergence in the growth in Black employment over the period and the growth in real value added by industry on a level change basis. In fact, there is only one level change match (Health care and social assistance). On a percent change basis, there are three matches (Mining, quarrying, and oil and gas extraction; Health care and social assistance; and Professional and technical services).

Looking specifically at Table 3, it is important to notice that there are only two internal matches (on both sides of the table—Health care and social assistance and Retail trade). The two matches indicate that these industry groups are important both in terms of size and growth. Therefore, we can conclude that the three non-internal matches on the percent change side of table are relatively small industries. In other words, Black employment in these industry groups grew rapidly, but that growth did not account for sizeable changes in employment on a level basis (these are "small base" cases). For example, while Mining, quarrying, and oil and gas extraction grew 5.75% annually over the 12-year period, the level change for the period was only 22 thousand. Similarly, Black employment in Professional and technical services grew 1.77% annually over the period, but that growth only accounted for 120 thousand employees over the period; a value that is too low for this industry to rank in the top five in level changes.

When compared with Table 1, the upshot of the Table 3 analysis is that Black America's employment is not reflecting high rates of growth for those industry groups that have fast growth in real value added. In other words, Black employment did not experience very fast growth in those industries where incomes and profits grew the most. Based on these findings, we can say that Black Americans have not benefitted effectively from the economic growth that the nation has experienced over the 12-year period under analysis.

On the other hand, when we take a second look at Table 1 and the industry groups that have grown the fastest on a real value added level change basis, we find that they represent industries where Black Americans expend considerable resources. That is, Black Americans were not able to infiltrate these industry groups at a fast pace and benefit from their exploding incomes; however, we certainly helped these industry groups grow by purchasing their products and services at a fast clip.

Accordingly, we contend that Black Americans are trapped in the wrong (slow growth) industries when it comes to incomes. When incomes rise, it is possible to save more, invest, and build wealth. This virtuous chain of events escaped the grasp of Black Americans over the 12-year period under study.

As we have said many times before, and we will repeat it here: "One can't expect to continue doing the same thing and get different results." In other words, if Black Americans want to benefit from America's growth, then we must reorient our industry employment.

If Black Americans want to benefit from the nation's economic growth, then we must consult with experts and determine which industries promise to grow fastest in real value added terms over the next decade or so, and then begin to guide Black Americans into those industries. If, on the other hand, we believe that factors are at play that might block our entry into those industries, then we should attack that problem. The bottom line is, if we do not begin to increase employment in the fast growing, high income industries, then we will be unable to close the prevailing income and wealth gaps that are attracting so much attention these days.

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