

**“Race in the Labor Market:
The Role of Equal Employment Opportunity and Other Policies”**

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Abstract

Fifty years have passed since the release of the Kerner Commission’s findings, conclusions, and policy recommendations. This paper first reviews recent trend and cross section analysis on racial employment and earnings inequality. Second, the paper synthesizes the evidence on racial inequality’s causes. Third, I speculate as to how these factors will shape future African American outcomes, and fourth offer a framework for addressing the nation’s persistent racial inequality.

Keywords: Inequality, Race, Discrimination, Public Policy, Human Priorities

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Introduction

This year marked the 50th Anniversary of the release of President Johnson's Kerner Commission Report. The Commission's goal was to explain why the summer of 1967 riots occurred and what could be done to prevent them in the future. The Commission concluded that "our Nation is moving toward two societies, one black, one white-separate and unequal and that white institutions created it, white institutions maintained it, and white society condones it" (Harris and Curtis, 2018).

Over the 50 years much has changed in the U.S. labor market. On one hand, African Americans narrowed education and skill gaps with whites. On the other hand, a disproportionate share of African Americans came into contact with the criminal justice system. During this fifty-year period, the U.S. economy experienced its strongest economic expansions, yet at the same time globalization (e.g., immigration and trade) and technology changed how all Americans work, when they work, where they work and with whom they work.¹ Labor market institutions changed dramatically. Enforcement of affirmative action and anti-discrimination laws were challenged. Organized labor's ability to influence employment and earnings weakened. Union membership fell from 20.1 percent in 1983 to 10.7 percent in 2017.² Increases in wage floors like the minimum wage became increasingly difficult to implement. The last time the federal minimum wage was increased was in 2009. Simply put, given these dramatic changes over this period, to what extent have African Americans improved their relative and absolute standing in the U.S. labor market?

To answer this broad-based question, this paper first, reviews recent trend and cross section analysis on racial employment and earnings inequality. Second, the paper synthesizes the evidence on the causes of racial employment and earnings inequality. Third, the paper speculates

on how these factors will shape future labor markets, and fourth offers a framework for addressing inequality.

The following summarizes the patterns of black-white employment and earnings gaps and their primary causes.

Employment

Since the early 1970s, the African American unemployment rate has typically remained twice as large as the white unemployment rate. Even during the current expansion which recently set a record for having the lowest national unemployment rate, the African American unemployment rate remains nearly twice the white jobless rate. Regardless of educational attainment, African American unemployment rates exceed white unemployment rates. These patterns have not changed over time.

The growth of underemployment during the “Great Recession” and its lingering presence during the current expansion have led many analysts to focus on the Bureau of Labor Statistics’ U-6 unemployment rate that includes individuals who are working part-time but want to work full-time, plus individuals who have actively stopped their job search but say if they were offered a job, they would take it. BLS does not publish U-6 estimates by race; however, the Economic Policy Institute does. Their latest estimate of this broader measure of joblessness suggests a picture more synonymous with the historical ratio of black and white unemployment rates. As of January 2018, the U-6 rates are 13.4 percent for African Americans and 6.8 percent for whites.

The employment-population ratio provides a more comprehensive description of the labor market prospects of African Americans. Along with job search (unemployment), this measure captures labor force participation decisions. This is of particular importance for understanding the challenges that young less-educated African American men face.

Early work in Freeman et. al (1973) and Freeman (1983) shows that young African American men’s labor market outcomes are quite sensitive to the business cycle. Freeman and Rodgers (Forthcoming, 2019) continue to find that a one percent decrease in the unemployment rate is associated with a bigger increase in the employment-population ratio of young, non-college educated African American men and women. However, they find that the relationship may have weakened, which means the ability of macroeconomic growth to serve as a tool to reduce racial employment and wage inequality has diminished.

Most research has tended to focus on describing and explaining the causes of the persistently lower labor force attachment of young out-of-school and less-educated African American men. The general consensus is that the dramatic increase in incarceration has had an adverse impact on their employment prospects. Even the “booming” economy of the 1990s was not able to offset the growth in incarceration. Over this period, the criminal justice system’s severity of punishment became more punitive, particularly for non-violent drug offenders.

Earnings

During the 1960s, black-white earnings inequality narrowed rapidly, followed by an expansion starting in the mid-1970s and throughout the 1980s. During the 1990s, especially the second half of the decade, racial inequality narrowed considerably. Since 2001, racial wage inequality widened (Wilson and Rodgers, 2016).

The primary factors for the gap’s decline during the 1960s were a narrowing in racial differences in human capital, and the passing, implementation and enforcement of Affirmative Action and anti-discrimination laws. Almost 50 years ago, Freeman et al. (1973) was one of the first empirical studies to demonstrate the ability of “governmental and related anti-discriminatory activity” in the form of the 1964 Civil Rights Act to improve both the absolute and relative

economic status of African Americans. The study also revealed a key role that the 1960s economic expansion played in narrowing racial inequality.

Bound and Freeman (1992) showed that the expansion of the earnings gap during the mid-1970s through the 1980s is attributable to a slowdown in the African American acquisition of human capital, an erosion in unions especially in the Midwest, and a failure to raise the federal minimum wage. Juhn, Murphy and Pierce (1991) took a different empirical approach and found that growing earnings inequality that disadvantaged all less-skilled workers contributed to the widening of racial inequality. The sources of the growth in earnings inequality are consistent with what Bound and Freeman (1992) identified as contributing to the wage gap's expansion.

Moving to the 1990s, Freeman and Rodgers (2000) attribute the relative improvement of African Americans to the period's "tight" labor market, and a slight improvement in institutions that help to raise the wages of all low and moderate wage workers. These "race neutral" improvements had a disproportionate impact on African Americans because they were more likely to be impacted by the policy changes. Wilson and Rodgers (2016) show that since the early 2000s, the erosion in the relative position of African Americans is primarily because of discrimination (or racial differences in skills or worker characteristics that are unobserved or unmeasured in the data) and growing earnings inequality that has reemerged.

A second area of research on racial inequality performs cross-sectional analysis using the National Longitudinal Survey of Youth (NLSY) to identify whether the wage gap among a cohort of black and white men in their 20s and 30s was largely due to racial differences in cognitive skills. The NLSY is used because the Current Population Survey (CPS) and U.S. Census do not contain a measure of cognitive skills which have been found to be correlated with measures of school quality, family background, and the local community's health.

As a result, many believe the large unexplained earnings gaps found in the CPS and Census are not primarily due to labor market discrimination but due to some omitted variable, such as cognitive skills. In 1979, when the civilian respondents in the NLSY were young adults, they were administered the military's Armed Forces Qualification Test (AFQT). It has been used to serve as a proxy for cognitive skills in numerous studies.³

Unlike the trend analysis, there was vigorous debate about the appropriateness of using the composite AFQT score in an earnings equation. Proponents of using the score argue that the challenges African Americans face are pre-market (e.g., family, schooling and neighborhood) related. Others argue that the composite AFQT score overstates the role of pre-market factors.

At the end of the day, racial differences in labor supply, labor demand, and institutional factors all explain a portion of racial employment and earnings inequality. As Bound and Freeman (1992) conclude, there is no single causal explanation for the nation's persistent racial inequality. Given there is no single narrative to explain the inequality, there is no "silver bullet" policy that will substantially improve the absolute and relative standing of African Americans. A comprehensive set of policies must be developed, and they must be committed to for a long time.

The remainder of the paper is structured as follows. The next two sections provide a detailed discussion of recent trend and cross-section research on racial employment and earnings inequality. The paper then presents a comprehensive labor and workforce policy agenda for addressing persistent racial employment and earnings inequality. The next section looks forward and speculates on the direction of racial inequality. The final section provides conclusions.

Trend Analysis

From the mid-1960s to the mid-1970's, African Americans experienced rapid improvement in their absolute and relative employment and earnings. Freeman (1973) was one

of the first studies to document these gains.⁴ Using micro data from the 1947 to 1972 CPS, Freeman identified six major findings: 1) Relative to whites, the income and occupations of African Americans improved substantially. Young African Americans and African American women experienced the largest gains, 2) Compared to whites, older African American men experienced smaller gains than women and young men, 3) The passage and implementation of the 1964 Civil Rights Act explains much of the improvement in the relative position of African Americans during the late 1960s, 4) The income and employment of African American men are more sensitive to the business cycle than whites, 5) The income and employment gap between African American women and white women closed quickly. They had an easier time accessing higher-paying occupations than African American men, and 6) The labor supply of African Americans was quite responsive to the income opportunities that became more widely available. Younger workers have the largest elasticities of labor supply.

Employment

Since the early 1970s, the African American unemployment rate has typically remained twice as large as the white unemployment rate. Even during the current expansion which recently set the record for the lowest national unemployment rate, the African American unemployment rate remained nearly twice the white unemployment rate. At the time of this paper's writing, the November 2018 black-white ratio fell to 1.74, one of the lowest ratios on record.

Regardless of educational attainment, African American unemployment rates exceed white unemployment rates. For example, as of November 2018, adult African American college graduates (BA only) have an unemployment rate of 3.0 percent, which is the unemployment rate for adult white high school graduates. These patterns have not changed over time.⁵

The growth of underemployment (e.g., part-time work for economic reasons) during the recession and its lingering presence have led many analysts to report and discuss the BLS U-6 unemployment rate. This unemployment rate includes individuals that are working part-time but want to work full-time, plus individuals that have actively stopped searching for work but say if they were offered a job, they would take it. The BLS does not publish the U-6 statistic by race, but the Economic Policy Institute does. Their latest estimate for January 2018 indicates that the more U-6 jobless rate is 13.4 percent for African Americans and 6.8 percent for whites.

The employment-population ratio provides a more comprehensive description of the labor market prospects of African Americans.⁶ Along with job search (unemployment), this measure captures labor force participation decisions. This is of particular importance for understanding the challenges that young out of school and less-educated minorities face.

Early work in Freeman et. al. (1973) and Freeman (1983) shows that young African American men's employment-population ratios are quite sensitive to the business cycle. Freeman and Rodgers (2000) and Freeman and Rodgers (forthcoming, 2019) continue to find that a one percent decrease in the unemployment rate is associated with a bigger increase in the employment-population ratio of young, non-college educated African American men. The latter study finds the same for African American women. However, Freeman and Rodgers (Forthcoming, 2019) finds that this relationship may have weakened, which means macroeconomic growth's ability to serve as a remedy for racial inequality has diminished.

Most research has tended to focus on describing and explaining the causes of the persistently lower labor force attachment of young less-educated men. The evidence points to the adverse impact of high rates of incarceration. For example, Western and Pettit (2002) show for men in their 30s, in 1989, approximately 2 percent of white men had ever been incarcerated

compared to 13 percent of African American men. A decade later, these rates had jumped by 50 percent. The risks of incarceration are about three times higher for high school dropouts in their 30s. In 1999, 14 percent of white and 59 percent of black male high school dropouts in their early thirties had been incarcerated.

The general consensus is that the dramatic increase in incarceration has had a severe impact on the employment prospects of all youth, but especially for African American youth. Even the booming economy of the 1990s, which generated an extremely “tight” labor market was not able to offset incarceration’s growth. Darity and Myers (2000) have an explanation for this observation. Their test of the Rusche and Kirchheimer (1939) hypothesis is that when a superfluous labor exists, incarceration rates rise to drain off unwanted or unneeded workers. If true, during “tight” labor markets like the 1990s, criminal justice policy should have adapted to release needed workers into the labor market. Darity and Myers find no empirical support for this explanation. In fact, they conclude that the continued surge in African American incarceration in the 1990s is due to the intersection of prison privatization and black males becoming a permanent surplus population. The criminal justice system’s punishment became more punitive, particularly for non-violent drug offenders.⁷

More recent research describes incarceration trends and estimates the contribution of incarceration’s growth to explaining the decline in employment. Western, Kling and Weiman (2001) show that the non-white prison population increased from 48 percent in 1979 to 67 percent in 1997, much more than their share of the overall population. One-third of African American male high school dropouts between the ages of 20 and 35 were in jail during the late 1990s. Holzer, Offner and Sorensen (2005) show that during the 1980s and 1990s, prior incarceration and child support enforcement can explain half or more of the erosion in 25 to 34-

year-old African American male employment. Prior incarceration also explains some of the decline among younger cohorts.

Bayer and Charles (2016) provides a very good historical presentation of the patterns and role that incarceration plays in explaining the secular decline in African American male labor market participation. Using the decennial US Census (1940 to 2000), and the annual American Community Survey (2005-2014), they show that since 1960, the fractions of both African American and white men who report not currently working rose dramatically. A major divergence in the odds of employment between African American and white men occurred, with African American men working less.⁸

They decompose the racial employment gap's growth from 1960 to 2010 into three components: unemployment gap, "incarceration" gap, and labor force participation gap. They conclude that 22 percent of the growth in the probability of work racial gap is due to the increasing "unemployment" gap, 43 percent is due to the "incarceration" gap's widening, and 34 percent is due to the expansion in the "labor force participation" gap.⁹

Blankenship et. al. (2018) takes a more granular approach and documents the racially different experiences of ex-offenders that experienced jail time for "drug related offenses". Compared to whites, African Americans have fewer convictions but are more likely to be incarcerated. African Americans are more likely to experience incarceration as juveniles and are more likely to be incarcerated for drug charges. Whites are more likely to be let go when arrested. Incarceration had more adverse impacts on African American's education, dropping out of school, job loss, eviction, and homelessness. Incarceration negatively impacted the personal relationships of African Americans more than whites.

Earnings

From 1960 to 1980, Card and Krueger (1992) and others show that the relative gains in the educational attainment of African Americans contributed heavily to the narrowing in the black-white wage gap among men. Specifically, they find that over this period, gains in the relative quality of black schools explain one-fifth of the convergence of black-white earnings.

It is important to note that many of the early studies focus on black men, with the argument that they face the greatest labor market challenges. Two of the few studies that estimate racial wage gaps among women are Blau and Beller (1992) and Conrad (2001). For the 1970s and 1980s, their results confirm Freeman's (1973) conclusions on women. Blau and Beller (1992) show wage gains were similar for both black men and women, but female annual earnings relative to men improved due to increased work time inputs. Since the gender earnings gap among whites narrowed during the period, black female's wages rose relative to white females as well as white males. The black female-to-white male wage ratio increased by 32.7 percent, while the black male-to-white male ratio increased by 8.6 percent.

Similar to the employment trends, during the 1980s, this improvement ended, and the gains dissipated for African American men and women. Bound and Freeman (1992) and Juhn, Murphy and Pierce (1991) both show that the wage gap among men expanded during the 1980s. Bound and Freeman show that the wage gap's widening results from shifts in demand for subgroups due to shifting regional employment, the falling real minimum wage, and deunionization. They attribute the wage gap's expansion among non-college educated men to increased crime among this group and the expansion among college graduates due to a large increase in the supply of black college graduates.

JMP found that "race neutral" factors were a more important contributor to racial inequality's expansion in the 1980s than "race specific" factors such as discrimination. These

could be the factors that Bound and Freeman (1992) identified. For women, there is less agreement as to why the wage gap expanded between black and white women. McCrate and Leete (1994), Anderson and Shapiro (1996), and Blau and Beller (1992) attribute the expansion to a divergence in pay structures, especially in the returns to education.

Darity and Myers (1998) argue that retrenchment efforts to enforce Affirmative Action during the Reagan Administrations play a key role in explaining racial inequality's expansion during the 1980s. The government's primary tools for implementing affirmative action and anti-discrimination laws is done thru the EEOC. Leonard (1990, 1996) asserts that enforcement of EEO regulations ceased in the late 1970s, and discrimination worsened in the 1980s due to these retrenchment efforts.¹⁰

There is a smaller literature on the effects that the EEOC and the Federal Contract Compliance Program has on employment diversity. Economists don't seem to be as active in this area. Holzer and Neumark (2000a, 2000b) reviewed the employment-based programs and found that affirmative action opens and expands the applicant pool for minorities without a meaningful reduction in the quality of minority candidates, and it can be done with relatively little loss in economic efficiency. The statistical case against affirmative action based on efficiency has little merit. Thomas (2000) also finds that the employment share of African Americans increases because federal contractors modify their search and application processes such that more African Americans are considered. Most recently, Miller (2017) shows that Affirmative action increases the black share of employees over time, and that the share of African Americans continues to rise even after a company is regulated.

Using the Outgoing Rotation Group files of the CPS, Rodgers (2006) updates Bound and Freeman (1992) through 1991 and develops a quantile distributional approach to demonstrate

that the general inequality explanation is limited to less-skilled workers and explains none of the erosion in the earnings of black college graduates. The evidence is more consistent with a worsening in discrimination, or the increased contribution of racial differences in unobservable characteristics (e.g., cognitive skills).

Wilson and Rodgers (2016) extend the analysis through 2015. They describe and explain the black-white earnings gap by age, gender, educational attainment, and region of residence.¹¹

- The black-white wage gap expanded more among women, but it is still largest among men. Black men's average hourly wages are 22.2 percent lower than those of white men in 1979 and declined to 31.0 percent. African American women were near parity with white women in 1979, but by 2015 they faced a disadvantage of 19.0 percent.
- Differences in educational attainment and experience explain more than 25 percent of the black-white wage gap for men and over 33 percent of the gap for women. Racial differences in educational attainment and experience, along with the fact that African Americans are more concentrated in the South and in urban areas, partially explains the pay gap between blacks and whites.¹²
- Racial differences in earnings continue to be smaller among women than men; however, black women still face a large disadvantage associated with gender differences in pay.¹³
- For both new entrants and the more experienced, the male black-white wage gap has expanded since 1979. The gaps in each year are always smaller among new entrants.¹⁴
- A large wage gap existed among young lesser-educated men in 1980, expanding in 2014.
- Black male college graduates started the 1980s with less than a 10 percent disadvantage relative to white male college graduates but by 2014 similarly educated new entrants were at a roughly 20 percent disadvantage.

- Despite the fact that black women in both experience categories were near parity in 1979, adjusted black-white wage gaps increased so sharply among more experienced women during the 1980s and early 1990s that experienced black women went from having smaller wage gaps than new entrants to having larger gaps.¹⁵
- All new-entrant women with at least a high school diploma start the 1980s with similar wage gaps. Among more experienced black women, wage gaps are basically zero as the 1980s begin or, in the case of college graduates, favor black women. In both experience categories, the largest increases occur among college-educated women.

While there are multiple causes, discrimination has consistently played a major role:¹⁶

- Since 1995, the narrowing of new-entrant racial wage gaps was largely due to a reduction in discrimination as labor markets tightened and public policy became more favorable for reducing racial wage inequality. Continued progress in narrowing education gaps between young black and white men also contributed to improvements during this period.
- Since the “Great Recession,” gaps among new-entrant women expanded more than among any other experience/gender group. The same factor that dominated prior to 2000—growing labor market discrimination—is the primary source of the erosion. Another major contributor has been the growing racial gap in college completion.
- While the effects of changing occupational patterns on trends in women’s racial wage gaps are minor in most periods, they have had the largest effect since 2000.
- Black-white wage inequality among less-educated workers is becoming less of a regional issue but a greater problem for Americans overall. Since 1979, black-white wage gaps across regions have converged, but at higher levels of inequality.¹⁷

- Declining unionization has had a role in the growing black-white wage gap, particularly for men newly joining the workforce. Between 1983 and 2015, the black-white wage gap grew 1.6 percent among new-entrant men and 3.0 percent among experienced men. The decline in unionization accounts for about one-fourth to one-fifth of this growth.
- Among new-entrant men and experienced men, a diminishing union wage premium accounts for 43 and 33 percent of the total growth in the men's racial wage gaps.

A long-standing concern with the evidence in studies like Rodgers and Wilson (2016) is the widespread labor market exit of young men, especially African American men due to their contact with the criminal justice system. The concern is that earnings gaps may be too small or the trend analysis for the 1990s overstates the relative gains that African American men made because it is assumed that if incarcerated black men were employed, they probably would be earning wages at the lower end of the wage distribution. Thus, an adjustment of this nature would lower the average wage of African American men.

For example, Juhn (2003) shows that from 1969 to 1993 accounting for out of the labor force men, inflation-adjusted wage growth for prime age black men falls by 40 percent and wage convergence between African Americans and whites is reduced by one-third.¹⁸ More recently, Bayer and Charles (2016) use the US Census (1940-2000) and American Community Survey (2005-2014) and include individuals that report zero earnings in their trend analysis. Their use of quantile regression also allows them to describe the black-white annual earnings gap at different points in the earnings distribution. Their analysis uncovers three key insights. First, incorporating non-employment substantially changes the path of the earnings gap over the past thirty years. Instead of stagnating, the median earnings gap has re-expanded so much so that it is now as large as in 1950. Second, the narrowing of the median earnings gap is largely due to the narrowing of

the earnings distribution and decrease in the returns to education. The earnings gap's expansion since the 1980s is fully explained by the stretching of the earnings distribution.¹⁹

Third, their distributional analysis allows them to describe the differential experiences of African American workers at different points of the earnings distribution. At the bottom of the earnings distribution, sharp increases in incarceration, labor force non-participation, and unemployment since 1970 have severely retarded the ability of African American men to compete in the labor market. At the distribution's 90th percentile African American men made significant "positional" gains. Their relative improvement accounts for the majority of the earnings gap's narrowing at the 90th percentile from 1940-2014. These relative gains were largely due to blacks catching up in their college completion rates during the 1960s and 1970s.²⁰

Cross-Section Studies

The cross-section literature is where the greatest controversy about the sources of racial wage inequality lies. One strand of researchers tend to focus on racial differences in pre-labor market experiences (e.g., family, school and neighborhood) as the key driver of the black-white gaps.²¹ Starting with O'Neill (1990), followed by Maxwell (1994), Neal and Johnson (1996), and Carneiro, Heckman and Masterov (2005), these studies all use the NLSY and the composite AFQT score to estimate how much of the black-white wage gap is explained by cognitive skill differences. All or most of the gap vanishes when the test score is added.²²

Rodgers and Spriggs (1996, 2002) and Darity and Mason (1998) question the ability of the AFQT score to explain all of the gap among black and white men. Rodgers and Spriggs were the first to show that an AFQT score adjusted for racial differences in age at time of the exam and promotion rates explains much less of the earnings gap. The Rodgers and Spriggs adjusted score removes the large unexplained test score gap that exists between blacks and whites.²³ What

is the source of the large unobservable gap in test scores? The answer depends on how one interprets the results in Rodgers (2002). Neal and Johnson would interpret it as racial differences in premarket factors, while Rodgers and Spriggs (1996) and Darity and Mason (1998) label the unobservable gap in test scores as a racial bias in the AFQT's ability to predict wages.

Darity and Mason (1998) and Myers and Chunjin (1998) pursue this debate further. They describe the framework on which this finding stands as one based on the notion that African Americans have pre-labor market deficiencies. Family, school and neighborhood differences between African American and white families (e.g., greater proportion of black families are led by single women) contribute to earnings inequality. They estimate earnings gaps between black and white family heads and find that rising female headship among black families explains a small portion of the 5 percent increase in the racial earnings gap between 1976 and 1985.

Most recently, Krueger (2017) cast further doubt on the “deficiencies” explanation. He links the opioid crisis to the decline in the labor force participation of prime age men. He shows that a larger share of prime age white men are more likely to report having at least one of six functional disabilities (35.8 percent) than were prime age, African American men (32.3 percent).

In Krueger’s regressions, he shows that African Americans have a 2.8 to 4.2 percentage point lower likelihood of taking pain medication. He goes on further to connect the high rate of pain medication utilization for out of the labor force men to Case and Deaton’s (2015, 2017) findings of a rise in mortality for middle age whites due to accidental drug poisonings, especially from opioid overdoses, from 1999 to 2013.

Unfortunately, Krueger does not estimate a linear probability model with just race such that we can see whether the black-white difference in male labor force participation gets smaller when opioid use is controlled for in the model. This is not an issue when comparing prime age

African American and white women because they have the same labor force participation rate. The bottom line here is that the “deficient family” hypothesis is not credible. At a minimum the use of the composite AFQT score leads to an overstatement of its role in explaining racial earnings inequality. Clearly, additional data on premarket and labor market factors are needed, or another cognitive skills test needs to be developed such that a large unexplained gap does not exist between African Americans and whites. In the end the truth will most likely lie somewhere in the middle. Pre-market and labor market factors play key roles in explaining racial inequality.

Other cross-sectional work focuses on directly identifying the dynamics of discrimination. One example or set of studies looks at how people with African or black “sounding” names fare in the labor market. Also, Oettinger (1996) examines racial differences in job mobility and finds that young blacks and whites in the NLSY are at parity upon labor force entry, but as experience accumulates, racial differences in job mobility generate an earnings disadvantage for African Americans.²⁴

Similar to the trend analysis, a great deal of research focuses on incarceration’s impact on labor market outcomes. Pager (2003, 2007) and Pager et. al (2009) are very good examples. These studies reveal the existence of a large adverse employment and earnings impact associated with having a criminal record. In an early study, Lott (1992) estimates the post-incarceration total monetary penalty associated with a drug conviction. Using District of Columbia data on heroin and cocaine distribution, importation, and possession violations, Lott finds that higher income is associated with higher fines but lower prison time.²⁵

In fact, numerous studies find significant and persistent adverse impacts on the post-incarceration earnings of all individuals, especially African Americans. Western (2002) shows that from the mid-1980 to late 1990s, the prison and jail population increased by 7.3 percent. By

1996, a larger number of African American male high school dropouts between the ages of 20 to 35 were in custody than in paid employment. Over this same time period, wage inequality increased especially among black and Hispanic men. To estimate the wage impacts, Western regresses wages on age, dummy variables that capture time incarcerated, and incarceration status. The evidence indicates that ex-offenders earn 7.0 percent less than non-offenders. When individual effects are included, ex-offenders earn 19.0 percent less than non-ex-offenders.

Post-incarceration wages increase at a slower rate, causing the wage gap between ex-offenders and non-offenders to increase with age. Further, incarceration expands wage inequality among blacks and Hispanics and between blacks and whites by 8.0 to 9.0 percent.

Lyons and Pettit (2011) use data from Washington State Department of Corrections and Unemployment Insurance Records to examine the compounding impact that incarceration has on wage growth. Based on growth curve models, post-incarceration wage growth was 21 percent slower for African Americans than whites. It is important to note that prior to incarceration, race differences in wage growth were insignificant. Focusing on incarcerated men from 1990 to 2000, they compare pre and post jail experiences. A key finding is that wage returns to work experience post incarceration are about 40 percent lower. This may be due to the fact that African Americans tend to work in lower wage retail and service occupations post incarceration. Sentence length has an adverse impact on wage growth.

Blankenship et. al. (2018) continue to find that African Americans are more likely to report negative effects from incarceration on well-being. Using data from Structures, Health and Risk among Reentrants, Probationers and Partners (SHARRPP), they study the experiences of 302 men and women from New Haven, Connecticut that are on probation or released from jail. They find that African Americans have fewer convictions but are incarcerated twice as much as

whites. Juvenile incarceration rates and other juvenile infraction rates are higher for African Americans and they are more likely to be incarcerated for drug charges. Whites are more likely to be released when caught. African Americans report more adverse impacts on education, on dropping out of school, and loss of longest job. Incarceration leads to home evictions and greater homelessness.

The Policy Framework

The previous review continues to confirm the conclusion in Freeman (1973) and Bound and Freeman's (1992) seminal work. The labor market experiences of African Americans are not monolithic. In fact, the African American experience in the U.S. labor market has become increasingly more diverse. There is no single narrative that fully explains persistent racial employment and earnings inequality. Thus, there is no "silver bullet" policy or policy agenda that will eradicate or substantially reduce it. A coordinated and comprehensive set of labor supply, labor demand, and institutional policies must be implemented and there must be a long-term commitment to the framework and its policies.

This section presents a policy scaffolding for addressing the nation's persistent racial employment and earnings inequality. Based on the evidence presented in this paper and for political and pragmatic reasons, the framework is also tilted toward "race neutral" approaches that will assist all Americans.²⁶

Blueprint for Narrowing Racial Inequality

Business Community

- Expand the demand for workers in "innovation" areas of the economy and increase education and training investments in these sectors.²⁷ Consider using forfeiture funds to fund workforce development in these sectors.²⁸

Human and Social Capital: Children

- Provide children and parents with the resources and support such that they have a “high quality” preschool experience.
- Professionalize preschool teachers. Raise their status to that of K-12 teachers.
- Expand “Community” schools, and strengthen economic and financial literacy.

Human and Social Capital: Teenagers and Young Adults

- Expand teenagers’ employment, internship, and volunteer opportunities such that they acquire “soft” skills. A large literature shows a strong link between teenage employment and education, wages and contact with the criminal justice system.
- Increase investment in career technical occupations, such as auto technicians, HVAC technicians, and plumbers. Simultaneously reduce the “stigma” that youth and parents have with working in such careers. Stress that these jobs have a lower chance of being outsourced, providing greater economic security that many Americans crave.
- At the time of incarceration, assist ex-offenders, especially non-violent drug offenders with returning to school, obtaining employment and training, driving, and voting. The First-Step Act has a few of these elements.
- Convene policymakers, researchers, practitioners, current high school students, current college students, and recent graduates to identify and recommend ways to narrow the black-white wage gap among college graduates.

Human and Social Capital: Supporting Families and Communities

- Create a balanced policy that reduces child support arrearages, but also preserves and builds a non-custodial parent’s connection to their children.²⁹

- Strengthen social safety nets and rebuild the capacity of non-profits to assist vulnerable families.³⁰ The “Great Recession” was so severe that a new set of families needed assistance. Families and communities are resilient, but recent experiences suggest that in many communities, a job loss, a natural disaster, or failed public water sources, now seem to have larger individual, family, and community impacts than in the past.
- Reduce the difficulty African Americans face with either commuting or moving to suburban employment opportunities.³¹

Elected Officials

- Urge Congress and the President to increase the minimum wage, create new work scheduling standards and rigorously enforce wage laws aimed at preventing wage theft.
- An infrastructure initiative will be implemented in a few years. Urge elected officials to run the procurement process through federal and state governments and add provisions for education and job training. Doing so will ensure that all workers, but especially minorities and women have a chance to compete for the infrastructure jobs.³²
- Elected officials must ensure that the Federal Reserve pursues monetary policy that targets full employment, with wage growth that matches productivity gains.
- Under the leaderships of the U.S. Census Bureau and BLS, identify the “unobservable measures” that impact racial inequality and include them in national surveys.
- Strengthen the ability of workers to bargain with their employers by combatting state laws that restrict public employees’ collective bargaining rights or the ability to collect “fair share” dues through payroll deductions, pushing back against the proliferation of forced arbitration clauses that require workers to give up their right to sue in public court,
- Secure greater protections for freelancers and workers in “gig” employment relationships.

- Urge Congress to get the EEOC to develop metropolitan area measures of discrimination that could be linked to individual records in the federal surveys so that researchers could directly assess the role that local area discrimination plays.

Looking Forward

Implementing any type of comprehensive agenda to address racial inequality will be a challenge. President Trump's behavior toward women, minorities, immigrants, and people with disabilities has empowered and emboldened not only conservatives, but also neo-Nazi and alt-right groups to publicly express themselves.³³ The President has also framed the debate solely in terms of national security. This will most likely further reduce the public's appetite and support for even the "race neutral" components that seek to remedy inequality.

Focusing on public policy, the Trump Administration's justice department withdrew Obama Administration guidance documents that encouraged schools and colleges to promote diversity through their admissions process.³⁴ Although Affirmative Action policy has not changed, the pulling back of the documents sends the message to colleges and universities that the Administration is placing less value on the existence of diverse learning environments. Further, Supreme Court Justice Anthony Kennedy who sided with the court's liberal block in 2016 *Fisher v. University of Texas* announced his retirement, and Brett Kavanaugh was placed on the Court.

The Administration's FY18 EEOC's budget would have continued flat at \$365 million, but advocacy groups' pressure to address sexual harassment led to Congress adding an additional \$13 million to the budget that the President signed early spring of 2018. This growth was the Commission's first budget increase in eight years. There are still major backlogs and the number of days for a claim to get resolved is much higher than a decade ago. The Trump

Administration's labor department has begun to chip away at its practices that help to ensure safe and fair workplaces for all Americans.³⁵

Although there are no signs of “recession,”³⁶ the economy has or is near its peak and thus has probably “maxed out” its ability to narrow black-white employment and earnings gaps.³⁷ In fact, the policy direction that the Trump Administration is taking has the potential of further expanding black-white employment and earnings gaps. There seems to be little appetite to increase the minimum wage, or to strengthen the ability of unions to collectively bargain. Evidence is now emerging that the tax reform benefits that were implemented in early 2018 have gone to corporations in the form of stock buybacks, and not capital investment. Many analysts predict that the household tax cuts will favor high-income families and thus not have large micro effects on families.³⁸ Further, there is little Congressional appetite to significantly invest in what the United Nations calls “human priority” investments. In fact, recently Senate leader Mitch O’Connell pointed to “entitlements” as the “key cause of rising federal deficits, and blamed Democrats for refusing to go along with proposals to cut spending by Medicare, Medicaid and Social Security.”³⁹

Although Congress passed the First Step Act in May 2018 and has the President’s support, the Senate has yet to vote on the legislation. The bill has four main components. It would make retroactive the reforms enacted by the Fair Sentencing Act of 2010. The 2010 Act lessened the disparity between crack and powder cocaine sentences at the federal level. The Marshall Project estimates that this could impact nearly 2,600 federal inmates. Second, the bill attempts to reduce mandatory minimum sentences under federal law. Third, the bill increases “good time credits” that federal inmates can accumulate. Fourth, the Act allows inmates to get “earned time credits” by participating in more career, technical and rehabilitative programs. The

goal is to address prison overcrowding and use education programs to reduce the likelihood that an inmate will commit another crime once released and, as a result, reduce both crime and incarceration in the long term.

The Act does have its limitations. The Act does not reduce the number of offenders sent to prison. The Act does not address length of sentences or mandatory minimums. The Act will have limited effect because the reform focuses on federal prison, which house only 13 percent of the nation's prisoners. The rest are in state facilities. Finally, undocumented immigrants are not eligible for time credit release reduce incentive.⁴⁰

The system will use an algorithm to determine who can cash in earned time credits. Critics are concerned that this algorithm could perpetuate racial and class discrimination. For example, an algorithm that prohibits offenders from earning credits due to their past criminal history may pass over African Americans and poor offenders, who are more likely to be incarcerated for crimes even though they're not more likely to actually commit those crimes. Currently, Arkansas' Senator Cotton is the major opposition to Senate passage and some speculate that Speaker O'Connell feels there is not enough time now at the end of 2018 to iron remaining differences.

Along with policy gridlock, the economy continues to evolve in ways that is impacting employment and wages. The latest concern is continued adoption of technology in the workplace. Employers are implementing robotics and AI in their production processes. Little is known about whether it is having disparate effects across race. To begin to assess the impacts, Freeman and Rodgers (Forthcoming, 2019) estimate the impact that industrial robots have on the wages and employment on American workers by race, ethnicity, age and gender.⁴¹ First, they find that industrial robot intensity does not explain racial, ethnic and gender differences in

employment and wages. Second, their measure of a metropolitan area's robot intensity is associated with lower employment and wages in the East North Central (ENC) region. The negative effects are the worst for all young less-educated ENC men and women. Based on these estimated relationships, they predict that without the current economic expansion, changes in metropolitan area industrial robot intensity would have led to ENC youth employment-population ratios to be 10 to 15 percentage points lower than their actual 2017 values.⁴² Even though the effects are concentrated in a particular region and demographic group are nontrivial.

Summary and Conclusions

This paper shows that employment and earnings inequality between African Americans and whites continues to be large and persistent. Further, since the "Great Recession", the gaps expanded. Discrimination continues to contribute to the lives of women and minorities, but other factors also drive the disadvantages that African Americans persistently face. Racial differences in education, experience, type of work, marital status, and industry of employment still contribute to the large and persistent employment and earnings gaps. However, the erosion in the relative position of all low-wage workers regardless of race and ethnicity plays a key role. The effects of incarceration on ex-offenders and their communities, especially on less-educated and less-skilled African Americans continues to be quite substantial, and there are a variety of political, cultural and economic headwinds that could cause inequality to expand.

Continuing the current path and pace at which we are addressing the nation's racial inequality will have serious consequences. The following are just a few.

- Larger class sizes, fewer teacher resources, and continued parental hurdles to participating in the development of their children.

- Lower labor force participation, elevated worker idleness, higher crime and incarceration rates, and higher recidivism rates.
- Elevated levels of hunger, food insecurity, stress, anxiety and clinical depression.
- Lower individual and community productivity, and thus competitiveness.
- Slower city, state, regional and national economic growth.

As former National Urban League President Hugh Price said, “we have many of the solutions at our finger tips. We need the political courage to make the necessary investments that make workplaces safe and fair for all workers.”⁴³ Building on Price’s statement and the Kerner Commission’s call to action from 50 years ago, these solutions need a moral re-commitment to their strengthening.

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ENDNOTES

¹ See, for example U.S. Department of Labor (2000).

² <https://www.bls.gov/news.release/pdf/union2.pdf>.

³ See, Anderson and Shapiro (1996), Conrad (2001), Darity and Mason (1998), England, Christopher, and Reid (1999), Maxwell (1994), McCrate and Leete (1994), Neal and Johnson (1996), Neal (2004), O’Neill (1990), and Rodgers and Spriggs (1996).

⁴ Also, See Welch (1973). Butler and Heckman (1977) present evidence to the contrary. Fifteen years later, Smith (1993) reveals that the large gains in African American male wages can be attributed to affirmative action which opened up many doors for African American men in the covered sector.

⁵ Spriggs and Williams (2000) conclude that “economic growth and black human capital acquisition are not sufficient to eradicate the two-to-one black white unemployment gap.”

⁶ Some studies on youth (16 to 24 year olds) use a measure of “idleness”. This is the percent of the civilian population that is neither employed, searching for a job or enrolled in school.

⁷ Neal and Rick (2014) also provide a detailed analysis of the causes of the increase in the criminal justice system’s severity of punishment. They show that changes in sentencing policy are the primary driver for prison population growth. The movement to harsher sentencing policies disproportionately impacted African Americans. The latter is startling given that most of this shift did not target African Americans or crimes that they commit relatively more than whites.

⁸ For African American men, the rate jumped from 18 percent in 1960 to 37.8 percent in 2010, while the rate moved from 7.9 to 18.6 percent for white men.

⁹ The relative disadvantage that African American men face could be biased downward. Bayer and Charlies can only infer current incarceration from their institutionalization variable. Because of that limitation, it is not possible to identify men who are unable to find work because of prior incarceration. As a result, a nontrivial share of the increase in the racial gaps in labor force participation and unemployment could also be due to the effects of mass incarceration.

¹⁰ During the past 50 years, the EEOC’s jurisdiction has grown and now includes the following areas:

- Equal Pay Act of 1963 (included in the Fair Labor Standards Act
- Pregnancy Discrimination Act of 1978
- Age Discrimination in Employment Act of 1967
- Sections 501 and 505 of the Rehabilitation Act of 1973
- Titles I and V of the Americans with Disabilities Act of 1990.
- Title II of the Genetic Information Nondiscrimination Act of 2008
- Lilly Ledbetter Fair Pay Act of 2009,

These laws protect individuals from employment discrimination on the basis of race, color, religion, sex, national origin, age, disability, genetic information, and family medical history. They make it illegal to retaliate against a person for opposing employment discrimination, filing a discrimination charge, or participating in an employment discrimination investigation or lawsuit. https://www.eeoc.gov/eeoc/plan/2017budget.cfm#_Toc442168099.

¹¹ See Vuolo (2017) on the Great Recession’s impact by race.

¹² These differences account for a fairly consistent portion of the estimated gaps among men (from 5.3 of 22.2 percentage points in 1979 to 9.0 of 31.0 percentage points in 2015), but account for a growing portion of the estimated gaps among women (from 1.5 of 6.0 percentage points in 1979 to 7.3 of 19.0 percentage points in 2015).

¹³ In 1979, black women's wages were 42.3 percent lower than those of white men and 25.4 percent lower than those of black men. By 2015, these differences had narrowed, but remain significant—34.2 percent and 12.2 percent lower than white and black men, respectively.

¹⁴ The new-entrant wage gap started at 11.2 percent in 1979 and rose to an 18.7 percent disadvantage in 2015. More experienced black men started with a disadvantage of 19.5 percent. In 2015 the disadvantage is 23.5 percent.

¹⁵ New-entrant women start with a black-white wage gap of 3.7 percent in 1979 and end at 10.8 percent in 2015. More experienced black women start at a 1.5 percent disadvantage that rises to 12.6 percent in 2015.

¹⁶ The estimates for 1979 to 1985 in Wilson and Rodgers (2016) are similar to Bound and Freeman (1992) and Rodgers (2006). During the first half of the 1980s, the main sources of expansion of black-white wage gaps among new-entrant men and women were a worsening in discrimination and/or growing differences in unobserved skills, and the decline in relatively good-paying jobs for workers with less than a college degree. Among new-entrant men, these effects far outweighed the positive effects from narrowing the education gap. Increased discrimination was the sole cause of growing racial wage gaps for college graduates during this period. Between 1979 and 1985, racial wage gaps widened most in the Midwest and among men working in the manufacturing industry. Shifting patterns of employment across industries and occupations also contributed to growing racial wage gaps among new-entrant men during this period.

¹⁷ The deterioration of regional economies has been bad news for less educated blacks. Bound and Holzer (1993) show that the contraction of the nation's manufacturing sector had a more adverse impact on the employment of black men. Inasmuch as they could move to better regions, at least from a wage standpoint, this is no longer possible, or as feasible. Racial wage gaps have grown most in the Midwest and least in the South.

¹⁸ Brown (1984) developed a technique for adjusting for the greater censoring in African American men's wages. He also finds that the improvement is dampened when the correction for African American labor market dropouts is incorporated in the estimates. Western and Pettit (2000) also develop an adjustment technique. It too, reduces the employment rates of African Americans. They show that from 1982 to 1996, employment of young African American male high school dropouts falls despite it being a period of low overall unemployment. They conclude that the standard CPS data which does not include incarceration data downward biases the black-white employment gap among young high school dropouts by 45 percent.

¹⁹ They do not find this result. Darity and Mason (1998), Juhn, Murphy and Pierce (1992), Bound and Freeman (1992), Rodgers (2006), and Wilson and Rodgers (2016) all show that increased earnings inequality contributed to a decline in the economic prospects of low and middle wage African Americans.

²⁰ They speculate that these relative gains are due to the elimination of exclusionary practices that existed during the 1940s and 1950s in many professions, occupations and higher education institutions. Since the 1980s, they argue that "affirmative action in college admissions may have better equalized effective college quality for high-ability black students, shrinking racial differences in unobserved skills within the upper part of the earnings distribution."

²¹ In early work, Reimers (1983) conclude that while no significant labor market discrimination was found, it occurred in the acquisition of characteristics, such as education.

²² Maxwell (1994) concludes that the main source of black-white wage differential is the racial difference in quality rather than quantity of schooling. The racial gap in basic skills learned in school explains two-thirds of the wage gap. After correcting for the error in Maxwell, school quality's importance is reduced.

²³ Rodgers and Spriggs are not saying that the composite test score is culturally biased. They show in Rodgers (1996) that when the math and verbal scores are used to predict wages, the verbal score only predicts the wages of African Americans, while math scores only predicted the wages of whites.

²⁴ Also see, Bertrand and Mullainathan (2004). Fryer, Pager and Spenkuch (2013) find that in their sample of unemployed New Jersey residents, discrimination contributes to one-third of the unadjusted wage gap.

²⁵ For example, a two-standard deviation increase in income leads to a monetary penalty that is five times higher. If inflation-adjusted income pre-sentence equals \$19,601 then income falls by 12.0 percent; however, if pre-sentence income equals \$35,468 then income falls by 48.0 percent. Finally, conviction further reduces income.

²⁶ Many of the recommendations were presented in Wilson and Rodgers (2016).

²⁷ Economic historian Joseph Schumpeter developed the concept called “Creative Destruction.” As one industry contracts, other industries expand. Workers with the assistance of the public, private, and non-profit sectors shift from contracting to expanding industries.

²⁸ This was suggested during a presentation at Newark’s Institute for Social Justice.

²⁹ States are required to update and evaluate their child support guidelines every four years. Recently, the Federal government required the use of labor market data to assist in setting “reasonable” orders, especially for low-income obligors. The regulation was amended in December 2016 and reads as follows: a State must consider economic data on the cost of raising children, labor market data (such as unemployment rates, employment rates, hours worked, and earnings) by occupation and skill-level for the State and local job markets, the impact of guidelines policies and amounts on custodial and noncustodial parents who have family incomes below 200 percent of the Federal poverty level, and factors that influence employment rates among noncustodial parents and compliance with child support orders.

³⁰ With respect to the Unemployment Insurance system, see for example, O’Leary and Kline (2016), https://research.upjohn.org/up_workingpapers/257/

³¹ This phenomenon is called “spatial mismatch”. Low income urban residents, especially minorities have difficulty commuting or moving to the suburbs where job growth is occurring.

³² <https://www.nytimes.com/roomfordebate/2016/12/20/can-trumps-infrastructure-plan-work/trumps-infrastructure-plan-cant-neglect-human-needs>.

³³ The planned to celebrate the one-year anniversary of the Alt-R’s march in Charlottesville was quite small.

³⁴ <https://www.justice.gov/opa/pr/attorney-general-jeff-sessions-rescinds-24-guidance-documents>.

³⁵ EPI developed the Frances Perkins Project. The project tracks the Administration’s efforts to erode the wages and worker protections. <https://www.epi.org/blog/how-president-trump-and-congressional-republicans-are-undercutting-wages-and-protections-for-working-people/>.

³⁶ Some economists are citing evidence that the yield curve has begun to flatten, inflation has ticked upward, home sales are starting to decline in key markets, and credit card debt and late payments are rising. <https://www.usatoday.com/story/money/markets/2018/09/05/recession-signs-getting-closer/37630241/>.

³⁷ Freeman and Rodgers (Forthcoming, 2019) find that Metropolitan Areas where jobless rates fell by at least 5 percentage points from 2009/10 to 2016/17, men benefit the most. All men experience an increase in their employment-population ratios, while women in these areas have modest employment gains. None experience increases in their inflation-adjusted wages. Further, the employment-population ratios of young black men only increase from 52.5 to 59.5 percent. For young black women, their employment-population ratio increases for 50.4 to 54.7 percent, still large room for improvement.

³⁸ See, for example, <https://www.brookings.edu/research/effects-of-the-tax-cuts-and-jobs-act-a-preliminary-analysis/> or <https://www.nytimes.com/2018/07/25/business/trump-corporate-tax-cut-deficit.html>.

³⁹ <https://money.usnews.com/investing/news/articles/2018-11-01/social-security-and-the-us-deficit-separating-fact-from-fiction>.

⁴⁰ See <https://equaljusticeunderlaw.org/thejusticereport/2018/8/21/the-first-step-act-a-pros-and-cons-list>.

⁴¹ They find that prior to the “Great Recession”, industrial robot intensity trended upward. However, during the recession robot intensity plummeted. Since 2009, robot intensity has sharply increased. The East North Central Census region which contains, Michigan, Ohio, Indiana, Illinois and Wisconsin have the highest robot intensities. Minorities and youth with no more than a high school diploma live in metropolitan areas that have similar industrial manufacturing robot intensities as whites and adults. The Top 10 Metropolitan Areas with respect to robot intensity are 1) Los Angeles-Long Beach-Santa Ana, CA, 2) Chicago-Naperville-Joliet, IL, 3) Houston-Baytown-Sugar Land, TX, 4) Phoenix-Mesa-Scottsdale, AZ, 5) Detroit-Warren-Dearborn, MI, 6) Milwaukee-Waukesha-West Allis, WI, 7) Philadelphia-Camden-Wilmington, PA-NJ-DE-MD, 8) San Jose-Sunnyvale-Santa Clara, CA, 9) Indianapolis, IN and 10) Cleveland-Elyria, OH.

⁴² It is important to note, that their estimates do not control for the impact of productivity on manufacturing employment. Without robots, fewer firms might have been able to be competitive against internal suppliers, leading to less manufacturing employment. Thus their model may overstate the impact of robots on overall employment levels of different populations.

⁴³ Price said this in a conversation about the National Urban League’s annual publication called “The State of Black America.”