Racism and the Economy
focus on Employment

Author:	William M. Rodgers III, Professor of Public Policy and Chief Economist, Heldrich Center for Workforce Development and Bloustein School of Planning and Public Policy
Title of proposal:	Employment, Racism and the Economy: A Comprehensive Approach to Addressing Racial Inequality

I. Objective

Two years ago marked the 50th Anniversary 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 history from repeating itself. The Commission concluded that "our Nation is moving toward two societies, one black, one white-separate and unequal…" (Harris and Curtis, 2018).

Since the Commission's Report, African American workers have and continue to experience dramatic changes in the U.S. labor market. On one hand, black Americans narrowed education and skill gaps with whites. On the other hand, a disproportionate share of black Americans came into contact with the criminal justice system. During this fifty-year period since the Commission's Report, the U.S. economy experienced its strongest economic expansions, yet at the same time globalization (e.g., immigration and trade) and technological innovation 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 first supported, but then challenged.

Today, the laws are under renewed scrutiny and agencies such as the Equal Employment Opportunity Commission (EEOC) face major backlogs due to a lack of funding. 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 2007. Macroeconomic growth plays a weaker role in elevating the position of black Americans. Further, when the Federal Reserve conducts contractionary monetary policy, the black American unemployment rate which is already nearly twice as high as the white unemployment, rises faster than the overall/white unemployment rate.[3]

Given these and other dramatic shifts in the economy and policy over this period, to what extent have African Americans improved their absolute and relative standing in the U.S. economy? Many feel that George Floyd's killing and the renewed round of demonstrations and riots illustrates that the standing of black Americans has shown little improvement.

The main empirical conclusion is that the relative earnings of black Americans is similar to what it was in 1979. If the widespread effects of incarceration are included, the relative position falls to what it was in 1950. These sobering comparisons are because we have and continue to choose "race specific" and "race neutral" policies that put less compensation and power in the hands of workers. Macroeconomic growth prior to the COVID-19 pandemic no longer outweighs the forces generating racial and overall inequality.

The full proposals which are sketched in a Russell Sage Foundation chapter[4] and a report for The Century Foundation[5] seek to establish and implement a long-term comprehensive scaffolding or framework that will help to improve the absolute and relative status of black Americans. The proposal has four pillars: building human and social capital, improving opportunity, lessening inequality, and fighting discrimination.

This written proposal develops one initiative from the improving opportunity, lessening inequality, and fighting discrimination pillars. Specifically, the three proposals are the following:

- Implement a Second-Step Act (Improving Opportunity)
- Pass the Federal Reserve Racial and Economic Activity Act[6] (Lessening Inequality)
- Increase the Equal Employment Opportunity Commission's Funding (Fighting Discrimination)

II. Development

The proposal builds on a chapter that I wrote for a Fall 2019 Russell Sage volume and a recent report for The Century Foundation. The chapter critically reviews recent empirical analysis on racial employment and earnings inequality. The chapter provides a synthesis of the evidence on inequality's causes. The Century Foundation report describes the challenges that young adults, especially minorities are facing during the pandemic-induced recession. Based on the evidence in these two studies, a multi-generational scaffolding or framework for addressing racial and overall inequality is developed.

Income

Using published data from the U.S. Census Bureau, Figure 1 compares the median annual income of black Americans to white men. Two series are shown: all persons and those that work full-time and full-year. The key insight here is what happens when the sample adds part-time and part-year workers. Since black Americans persistently have higher unemployment rates, this translates into less full-time and full-year employment. Thus, the ratio of income falls when part-year and part-time workers are included. Figures 2 to 4 report similar comparisons for white women, Asians, and Latinx men and women. The effect of part-time and part-year employment is most pronounced for white, Latinx and Asian women. Focusing on black Americans, the next two sub-sections explain why this occurs.

Unemployment and Employment

Since the early 1970s, the black American unemployment rate has typically remained twice as large as the white unemployment rate. Although a record, even during the current record-setting economic expansion, the black American unemployment rate has remained nearly twice the white jobless rate. Even among college graduates, the black American unemployment rate maintains a 2-to-1 ratio with white college graduates. The Bureau of Labor Statistics' U-6 unemployment rate that includes the under employed suggest a picture more synonymous with the historical ratio of black and white unemployment rates.[7]

The employment-population ratio provides the most comprehensive description of labor market prospects. It shows the diminished ability of macroeconomic growth to raise the status of black Americans. In February 2020, the peak of the expansion, the black American employment-population ratio finally hit 59.4 percent, meaning it took over a decade to make up the ground lost during the "Great Recession". The ratio still lags the historical best of 61.4 percent in 1999.

This lack of the macroeconomy's ability to move black American outcomes past their pre-recession levels is problematic. Previous work shows that young black American men's labor market outcomes are more responsive to improvements in the macroeconomy.[8] However, Freeman and Rodgers (2019) find that a one percent decrease in the unemployment rate is associated with a smaller increase in the employment-population ratio of young, non-college educated black American men and women. This means that the ability of macroeconomic growth to serve as a tool to reduce racial inequality is not as effective as it was in the past.

The final major employment theme is the adverse impact that mass incarceration has and continues to have on black Americans. The consensus is that the increase in incarceration has had a major impact on the unemployment and participation rates of young non-college educated men and women. Criminal justice policy became more punitive, particularly for non-violent drug offenders.

Earnings

Today, the black-white earnings gap is larger than it was in 1979. The gap's expansion did not emerge gradually. During the 1960s, 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, the racial wage gap expanded (Wilson and Rodgers, 2016).

The primary factors for the gap's narrowing during the 1960s were a closing of the gaps 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 black 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 racial inequality's widening. 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 black 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 black 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 black 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.
However, when racial differences in mass incarceration are taken into account, Bayer and Charlies (2016) show that the current economic status of black Americans is roughly equivalent to 1950. Criminal justice policies that led to widespread incarceration swamp the gains of black Americans that occurred over the period. They too, exacerbate the growth in discrimination and factors such as trade, technology and policies (e.g., minimum wage) that led to greater general earnings inequality.

Documenting and explaining racial inequality is a complex task. At the end of the day, racial differences in labor supply, labor demand, and institutional factors all explain a portion of racial inequality. The reasons can depend on one's educational attainment, region of residence, age and gender. The reasons also depend on one's type of work. Houseman and Abraham (2019), show that a larger fraction of respondents that report working in informal jobs to earn money are less-educated, minority, low-income, unemployed or experiencing financial distress. As Bound and Freeman (1992) conclude, there is no single causal explanation for the nation's persistent racial inequality, which means there is no "silver bullet" policy that will substantially improve the absolute and relative standing of black Americans. A comprehensive set of policies must be developed, and they must be committed to for at least a generation.

III. What is the Proposal and Its Potential Impacts?

There is no single root cause for the nation's large and persistent racial inequality. The labor market experiences of black Americans are not monolithic. There is no single black American community which means there is no single narrative that fully explains persistent racial employment and earnings inequality.

For example, young out-of-school blacks have weaker cognitive or soft skills[9], face discrimination and are more likely to come into contact with the criminal justice system. While, Midwestern blacks were hurt by the region's de-industrialization, Rodgers and Freeman (2019) show more recently that the use of robots has adverse impacts on employment of less-educated minority Midwestern workers. Black college graduates faced growing discrimination in the 1980s and have been unable to recover from it, largely because of a retrenchment in enforcement efforts after the Obama Administration. For example, since 1980, the EEOC's approved and actual end of year full-time equivalent staffing has trended downward.

Even contractionary monetary policy contributes to racial inequality. Rodgers and Carpenter (2004) show that the employment-population ratio of minorities is more sensitive to contractionary monetary policy than that of whites. The ratio falls primarily because of an increase in unemployment and not because of a decline in labor force participation. Monetary policy appears to have a disproportionate effect on the unemployment rate of teenagers, particularly African American teenagers. Their employment-population ratios fall because of increased difficulty in obtaining employment.

Thus, there is no "silver bullet" policy or policy agenda that will eradicate or substantially reduce racial inequality. 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.[10] This means the simultaneous use of several levers to narrow racial inequality. Based on this heterogeneity of policy needs, the proposal develops a policy scaffolding for addressing the nation's persistent racial employment and earnings inequality. Based on the evidence in the Russell Sage chapter and The Century Foundation report, the framework provides a menu of "race neutral" and "race specific" approaches or levers that will assists all Americans, especially black Americans.[11]

The scaffolding has four pillars: building human and social capital, improving opportunity, lessening inequality, and fighting discrimination. This proposal develops a strategy for each of the latter three pillars.

Improving Opportunity: Implement a Second-Step Act

The First-Step Act has four main components. It makes 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 law reduces 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 has its limitations. It does not reduce the number of offenders sent to prison. It does not address length of sentences or mandatory minimums. It will have limited impact because the reform focuses on federal prisons, which house only 13 percent of the nation's prisoners. The rest are in state facilities. Undocumented immigrants are not able to cash in their time credits for early release (see Haynes, 2018). For many felons, there is confusion about their voting status.

Finally, 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 are not more likely to actually commit those crimes.

Clearly, a second step act is needed that reduces the number of offenders sent to prison, creates an algorithm for earned time credits that is not systemically racist, and clarifies and/or restores ones voting rights.

Building on the First-Step Act, my proposed Second-Step Act would assist ex-offenders, especially non-violent drug offenders with returning to school, at the start of incarceration, in obtaining post-release employment and training, driver's license, and the ability to vote.

The proposal seeks to reduce the number of offenders sent to prison by examining sentence length and mandatory minimums. Apply the First Step Act's reforms, which are limited to federal facilities, to state facilities where 87 percent of the nation's prisoners are housed. Allow undocumented immigrants to "cash in" their time credits for early release.[12] Prisoners receive time credits when they successfully complete a recidivism reduction program. For example, under the current Act, a prisoner is eligible to earn up to 10 days of time credits for every 30 days of program participation.

Adjust the newly established algorithm that determines who can cash in earned time credits because it could perpetuate racial and class discrimination. The new algorithm prohibits offenders from earning credits due to their past criminal history, which may pass over black Americans and poor offenders, who are more likely to be incarcerated for crimes even though they are not more likely to actually commit those crimes.

Clarifying one's voting status and restoring their voting rights will help formerly incarcerated Americans feel agency and empowered. For example, Shineman (2018) shows that regaining the right to vote is a critical step in the re-entry process.[13] Further, Bowie (2019) writes that Americans returning from federal prison "face a complicated patchwork of state laws, some states treat federal convictions differently than in-state convictions — both for determining whether a federal conviction means the loss of voting rights and for the steps that an individual will have to take to get rights restored."[14]

Lessening Inequality: Pass the Federal Reserve Racial and Economic Activity Act[15]

Passing the Act will require policymakers to ensure that the Federal Reserve pursues monetary policy that targets full employment, with wage growth that matches productivity gains. Passing the Act will make reducing inequality part of the Fed's mission, will ensure that racial economic disparities are not ignored, and will require robust reporting on labor force disparities. This federal response could seriously move the needle on improving the prosperity of Black Americans.

Why support the Act? There are a variety of factors that have and continue to put downward pressure on earnings. The adoption and diffusion of technology in the workplace has many workers frightened. The federal minimum wage has not been increased since 2007. Workers have difficulty bargaining with their employers because they can't combat state laws that restrict public employees' collective bargaining rights or the ability to collect "fair share" dues through payroll deductions. This pushes back against the proliferation of forced arbitration clauses that require workers to give up their right to sue in public court. A growing number of workers are freelancers and workers in "gig" employment relationships.

The main tool the Fed has in guiding the U.S. economy is through the setting of interest rates. Adjusting its benchmark interest rate changes the cost of borrowing for companies and consumers, which in turn can stimulate or subdue their spending. When the unemployment rate is extremely low, the Fed may increase interest rates. This puts a brake on private consumption and investment and protects against inflation. The Fed uses the national unemployment rate to help guide its rate setting. But even during times of prosperity, the Black American jobless rate is roughly two times the white rate. As a result of the Fed targeting the national unemployment rate – which is roughly equal to the white rate – interest rates are hiked before many Black Americans fully experience the benefits of a deep and lengthy economic boom.[16]

The Fed can also use tools handed to it under the Community Reinvestment Act to narrow racial wealth differences and provide Black Americans with greater access to credit. The act, enacted in 1977, requires the Fed to use its oversight powers to encourage financial institutions to help meet the credit needs of the communities in which they do business, particularly in low- and moderate-income neighborhoods. The new proposals specifically call on the Fed to aggressively implement the act.

Features of the act will ensure that policymakers and the public are made fully aware of racial economic disparities. Under the act's terms, the Fed will be required to report on recent racial, ethnic, gender and education gaps in income and wealth, with the Fed chair expected to identify racial disparities in the labor market through periodical congressional testimony. The chair will also have to make public how the Fed intends to reduce these gaps.

Fighting Discrimination: Increase EEOC and OFCCP funding

EEOC

Since 1980, the EEOC's approved and actual end of year full-time equivalent staffing has trended downward. However, as reported in the National Employment Law Project (NELP) proposal, the labor force has grown by 50% since 1980. After trending upward from 1980 to 2010, the Agency's funding (presidential request and actual) has remained flat.[17] In 2018, the EEOC experienced its first budget increase in eight years.

The proposal urges members of Congress to request more resources for the EEOC. 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.

Increasing funds for enforcement will send a message to employers that they must create and maintain safe and fair workplaces for all workers.

Increasing the Agency's resources can reduce the large backlogs and the number of days for an EEOC claim to get resolved. Doing so, will enable the EEOC to initiate investigations for all areas of discrimination under its umbrella.

Requiring equal-pay data collection would prod companies to identify and end pay disparities. The data will allow the EEOC to more effectively and efficiently identify and address pay discrimination.

Increasing funding is consistent with past research that the NELP proposal references. This research finds that vigilant enforcement reduces occupational segregation, and occupational integration raises wages, especially the wages of women of color.

OFCCP

The Office of Federal Contract Compliance Program (OFCCP) operates the only federal affirmative action employment program. Federal contractors are required to act affirmatively, show goals and time tables for improving the diversity of their workforces. If not, they can be subject to disbarment.

The agency's website needs to be more transparent and a richer set of enforcement statistics needs to exist (e.g., historical data). I was only able to find program statistics for FY2016 to FY2020 on the following:

- Supply and Service Compliance Evaluations Conducted
- Construction Compliance Evaluations Conducted
- Monetary Relief Obtained
- Complaints Received, by Basis
- Complaints Received, by Employment Practice
- Complaint Investigation Outcomes
- Financial Remedies to Affected Class Members

Although limited, the available statistics suggest a decline in enforcement from FY2018 to present. The number of complaints jumped from 686 in FY2017 to over 1,200 in FY2018, FY2019, and FY2020, while over this period the agency's funding remained between $102 million and $104 million. Over 40 percent of the complaints are related to race or national origin (Latinx).

The funding to the Office of Federal Contract Compliance (OFCCP) needs to be increased and there is solid research to support this proposal. In a careful study, Kurtulus (2015)[18] shows that during the period from 1973 to 2003, the primary beneficiaries of affirmative action in federal contracting were black Americans and Native Americans. The study shows that close to the time of contracting reveals that affirmative action on increasing protected group shares occurred within the first four years of gaining a contract, and that these increased shares persisted even after a firm was no longer a federal contractor. The study also shows that the fastest growth in the employment shares of minorities and women at federal contractors relative to noncontracting firms occurred during the 1970s and early 1980s, with growth slowing since then.

IV. Summary

To summarize, collectively the overall proposal's three priority components will increase opportunity, lessen inequality and fight discrimination. This will improve the status of all Americans, but especially black Americans. Specifically, the proposals will have the following effects:

- Create greater public awareness, transparency and accountability
- Higher labor force participation, less worker idleness, lower crime and incarceration rates, and lower recidivism rates
- Put upward pressure on earnings
- Narrow racial differences in unemployment and earnings
- Create safer and fairer workplaces
- Faster city, state, regional and national economic growth

In the aggregate, these consequences mean higher U.S. productivity and higher economic growth, a more competitive economy which is a must in today's globalized world. All of this adds up to a higher standard of living for all Americans, restoring the health of the democracy.

ENDNOTES

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

[2] https://www.bls.gov/news.release/pdf/union2.pdf.

[3] Seth B Carpenter and William M. Rodgers III, "The disparate labor market impacts of monetary policy," Journal of Policy Analysis and Management. Volume23, Issue 4, Autumn (Fall) 2004: 813-830. https://doi.org/10.1002/pam.20048.

[4] https://www.rsfjournal.org/content/5/5/198.

[5] https://tcf.org/content/report/the-covid-19-recession-is-hitting-young-workers-especially-young-workers-of-color-the-hardest/.

[6] https://theconversation.com/changing-the-federal-reserve-mandate-could-provide-a-down-payment-to-ending-racial-inequality-144102.

[7] The Economic Policy Institute (EPI) estimates that as of December 2018, the U-6 rates are 11.9 percent for African Americans, 10.1 percent for Latinos and 6.3 percent for whites. The estimates for African Americans and Latinos are the lowest since 1989 when EPI begins to construct estimates. The series record for whites is 5.6 percent from July 2000 to January 2001. Economic Policy Institute, *State of Working America Data Library*, "Underemployment," 2019.

[8] See, for example, Freeman et. al (1973) and Freeman (1983).

[9] A variety of studies present evidence that supports the view that racial differences in pre-labor-market experiences (such as family, school, and neighborhood) are the key driver of the black-white gap. These studies all use the National Longitudinal Study of Youth and the composite Armed Forces Qualification Test (AFQT) score to estimate how much of the black-white wage gap is explained by cognitive skill differences (O'Neill 1990; Maxwell 1994; Neal and Johnson 1996; Carneiro, Heckman, and Masterov 2005). All or most of the gap vanishes when the test score is added.

[10]Loprest, Nightingale, and Spaulding (2019) come to the same conclusion for addressing declining labor force participation of young adults.

[11] Many of the recommendations were presented in Wilson and Rodgers (2016).

[12] See https://crsreports.congress.gov/product/pdf/R/R45558, and also https://equaljusticeunderlaw.org/thejusticereport/2018/8/21/the-first-step-act-a-pros-and-cons-list.

[13] https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3272694.

[14]https://thefulcrum.us/voting/first-step-act-felons-voting.

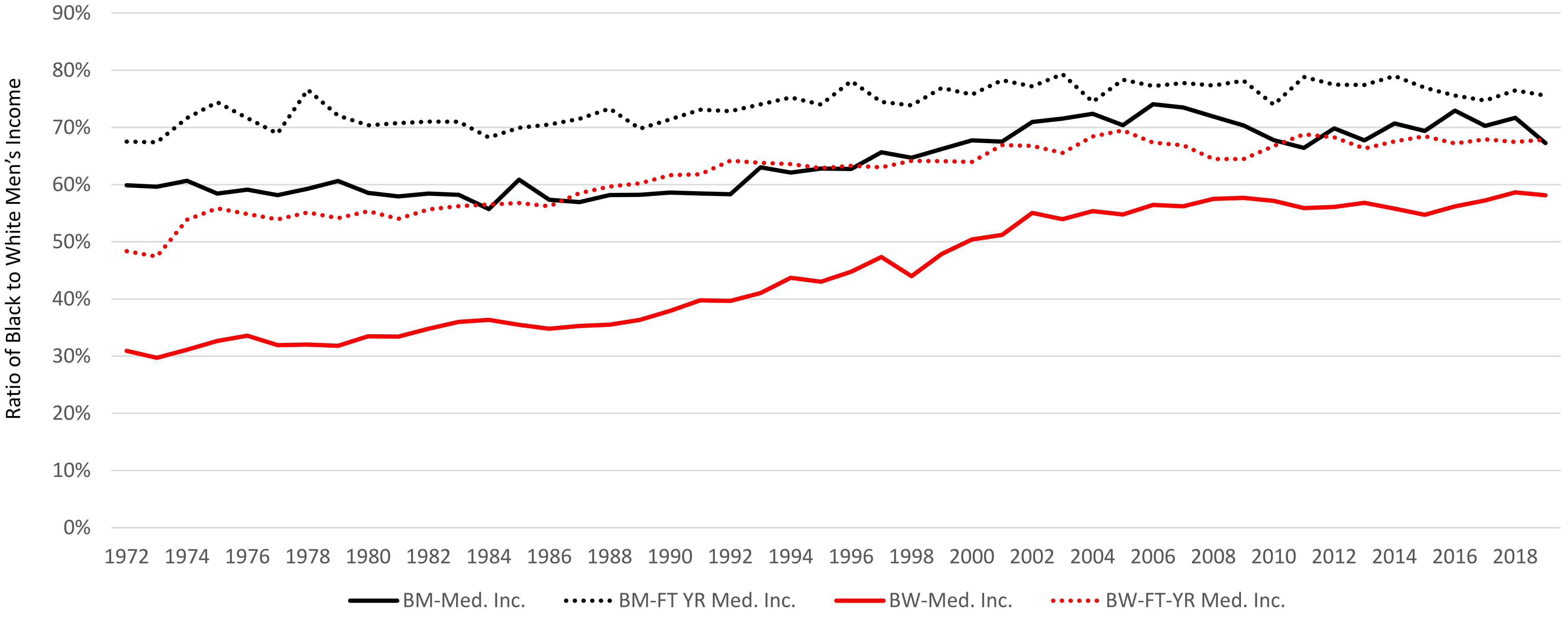
[15] https://theconversation.com/changing-the-federal-reserve-mandate-could-provide-a-down-payment-to-ending-racial-inequality-144102.

[16] My research with former Fed economist Seth Carpenter shows that when the Fed puts its foot on the brakes, the Black jobless rate rises more. Black teen unemployment suffers the most from this brake pumping.

[17] https://www.eeoc.gov/eeoc-budget-and-staffing-history-1980-present.

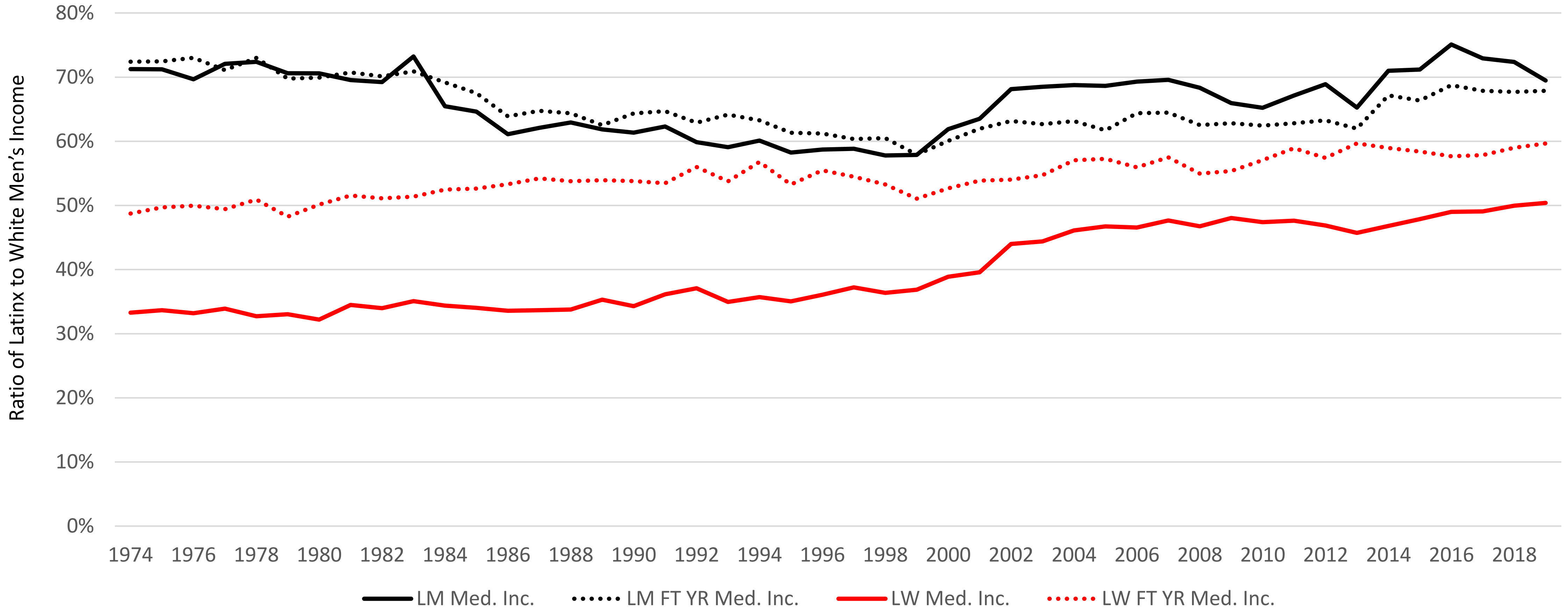
[18] https://onlinelibrary.wiley.com/doi/abs/10.1002/pam.21881.

Figure 1: The relative income of Black Americans compared to white men increases when differences in hours and weeks worked are taken into account.



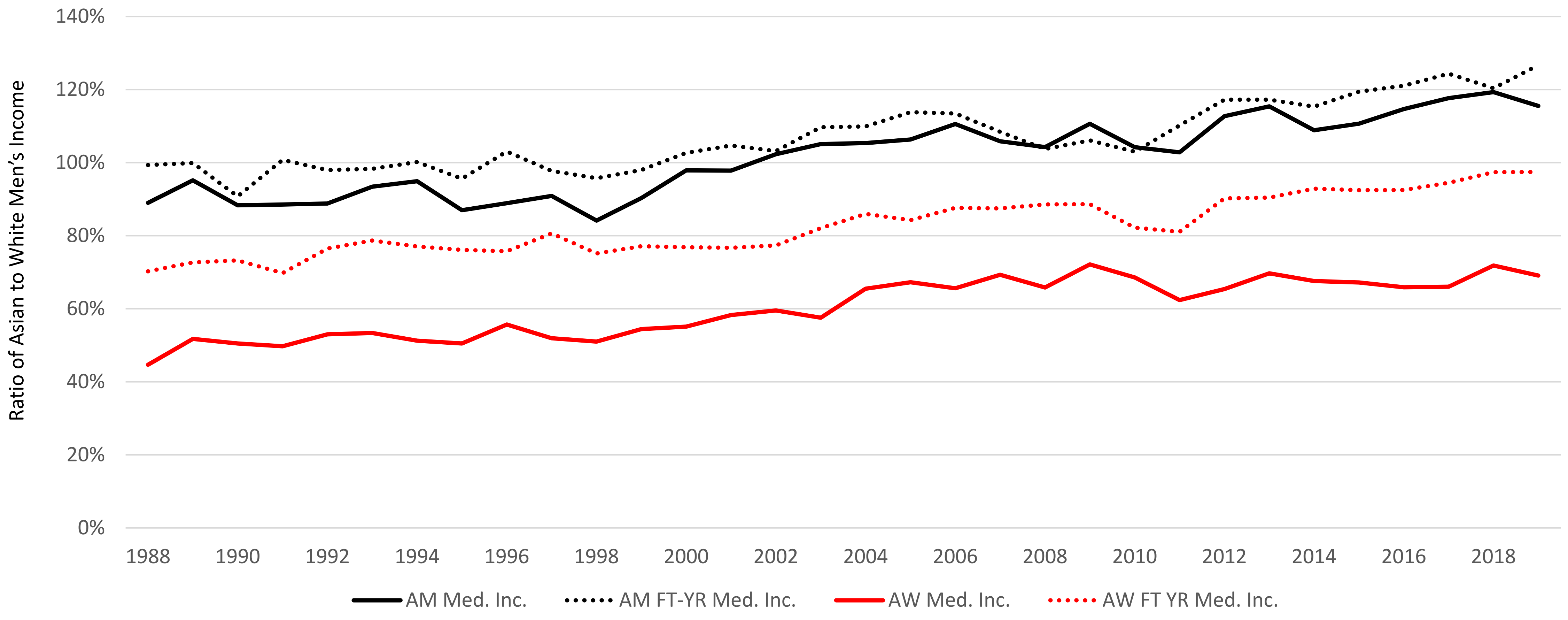
Notes: Rodgers calculations based on annual income data from the U.S. Census Bureau. Tables P-2, P-36 and P-38.
https://www.census.gov/data/tables/time-series/demo/income-poverty/historical-income-people.html

Figure 2: The relative income of Latinx women compared to white men increases when differences in hours and weeks worked are taken into account.



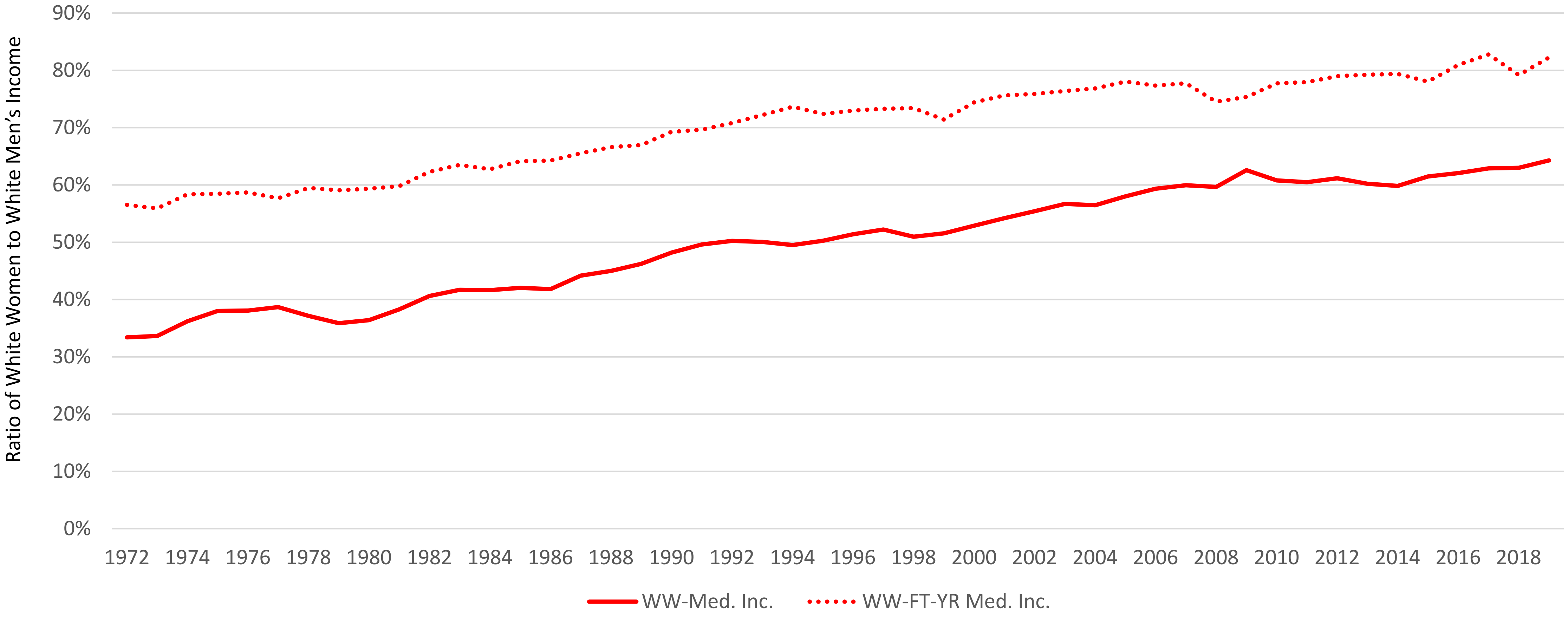
Notes: Rodgers calculations based on annual income data from the U.S. Census Bureau. Tables P-2, P-36 and P-38.
https://www.census.gov/data/tables/time-series/demo/income-poverty/historical-income-people.html

Figure 3: The relative income of Asian women compared to white men increases when differences in hours and weeks worked are taken into account.



Notes: Rodgers calculations based on annual income data from the U.S. Census Bureau. Tables P-2, P-36 and P-38.
https://www.census.gov/data/tables/time-series/demo/income-poverty/historical-income-people.html

Figure 4: The relative income of white women compared to white men increases when differences in hours and weeks worked are taken into account.



Notes: Rodgers calculations based on annual income data from the U.S. Census Bureau. Tables P-2, P-36 and P-38.
https://www.census.gov/data/tables/time-series/demo/income-poverty/historical-income-people.html