

The Economic Gains from Equity

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Context

- 2020: a tumultuous year
 - start of the COVID-19 pandemic
 - reawakening of protests against anti-black racism following the death of George Floyd at the hands of police
- Waves of protest, sometimes violent, imposed real costs (infrastructure, policing)
- Economists have long been aware of anti-black discrimination
 - even though many were in denial because according to Becker's theory, firms who discriminate against Blacks are leaving money on the table
- Put it simply, can America afford to be racist now and in the future?
- This is the question that this ambitious, though-provoking paper asks

Goal of the paper

- “How much larger would the U.S. economic pie be if opportunities and outcomes were more equally distributed by race and ethnicity?”
- This paper evaluates the simulated impact on the labor contribution to GDP over a 30 years period
- more equal outcomes by race and ethnicity
 - What if Blacks and Hispanics had outcomes similar to Whites’
- in 1) employment, 2) hours worked, 3) educational attainment, 4) educational utilization,
- And if these additional workers had earnings comparable to Whites.
- Which these factors contribute most to the gains?

Main Results

- Substantial gains to GDP from eliminating disparities in **employment** rates and **educational** attainment
- Gains substantially larger in 2019 than in 1990

Counterfactual Contributions 1990				
	Percent Employed	Weekly Hours	Education	Utilization
GDP Contributions				
ΔQ_t	0.08	0.02	0.06	0.00
ΔE_t	0.01	0.01	0.02	0.00
$\Delta Q_t + \Delta E_t$	0.09	0.03	0.08	0.00

Counterfactual Contributions 2019				
	Percent Employed	Weekly Hours	Education	Utilization
GDP Contributions				
ΔQ_t	0.15	0.06	0.21	0.02
ΔE_t	0.03	0.01	0.07	0.01
$\Delta Q_t + \Delta E_t$	0.18	0.07	0.28	0.03

Table 5: Decomposed GDP Gains From Labor Equity in Trillions of \$2019

Main Results

- Equalizing quantities yields the largest gains of 0.44 trillions
- Equalizing earnings for new and existing workers yields gains of 0.35 trillions

	Totals	
	1990	2019
Observed GDP Contributions	3.61	6.54
GDP Contributions Treated		
Δ Quantities (Q_t)	0.16	0.44
Δ Earnings (E_t)	0.04	0.12
$\Delta Q_t + \Delta E_t$	0.20	0.56
GDP Contributions Untreated		
Δ Earnings (E_u)	0.11	0.23
GDP Contributions Treated + Untreated		
$\Delta Q_t + \Delta E_t + \Delta E_u$	0.31	0.79
Counterfactual GDP Contributions	3.92	7.33

Table 6: GDP Gains From Labor Equity in Trillions of 2019\$

Viewpoints of a labor economist

A. Role of immigration policies

1. Which counterfactual and racial/ethnic groups should be considered.

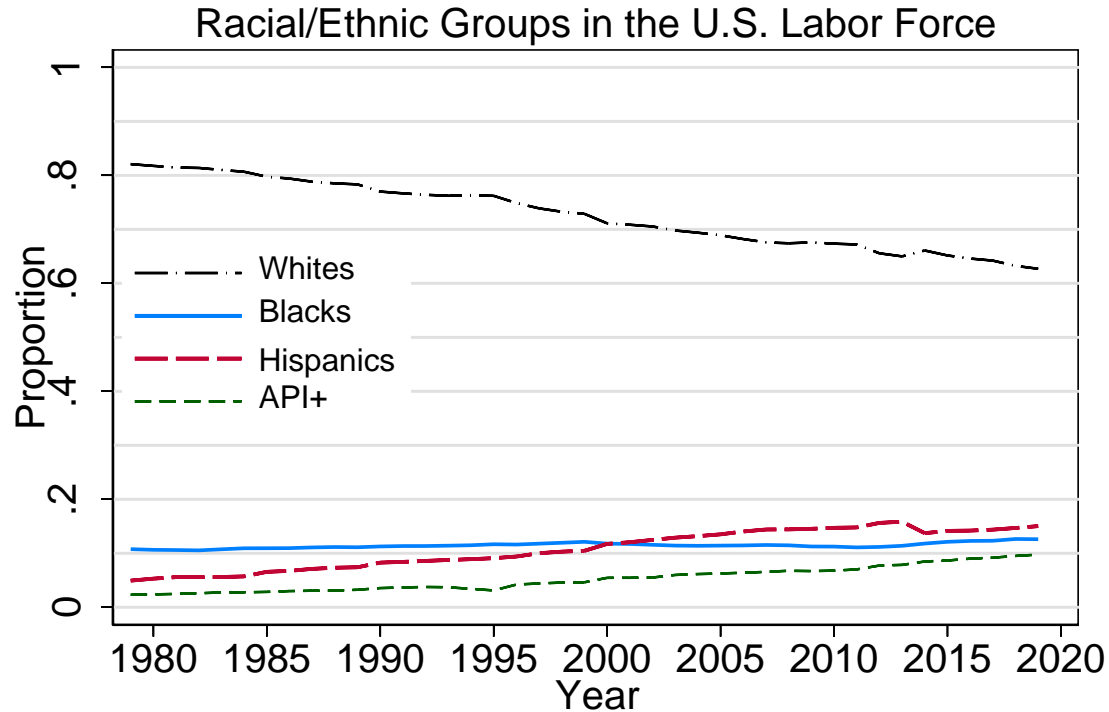
B. Decline in affirmative action measures

1. Slowdown in educational attainment of Blacks

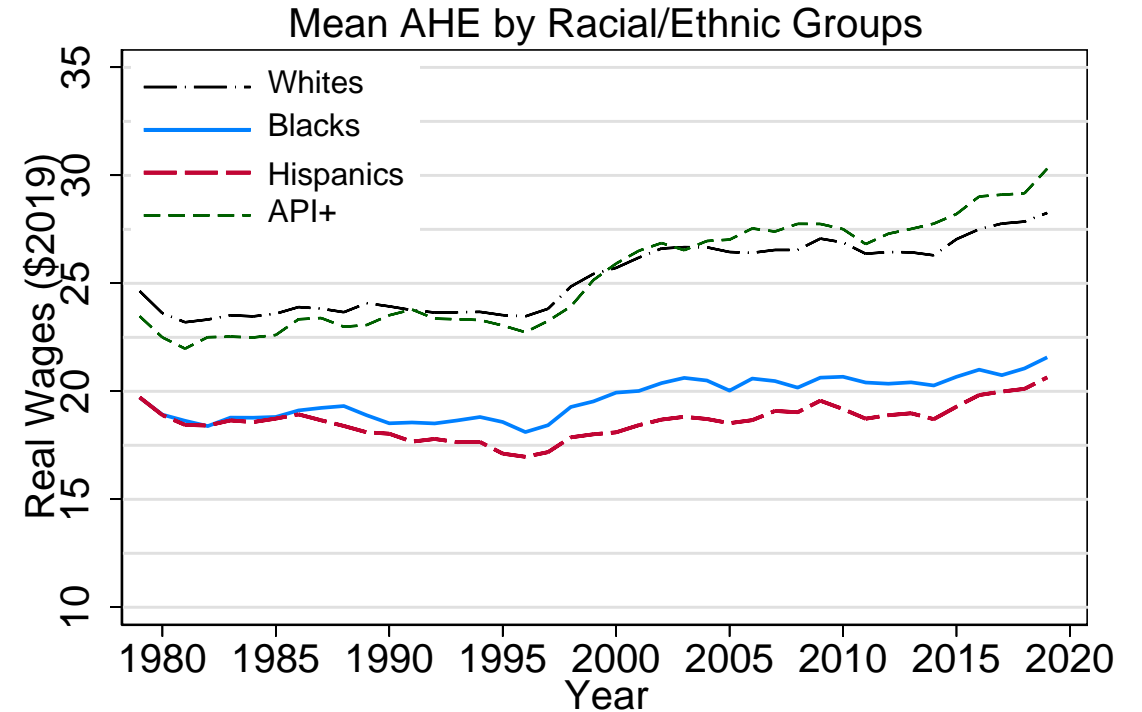
C. Weakening of labor market institutions has consequences

1. Decline in union wages larger for Blacks
2. Stagnating minimum wages disproportionately impact minority groups

Definition of Racial/Ethnic Groups Matters



Source: Author's Calculation, CPS-MORG 1979-2019, Workers Ages 25-64.



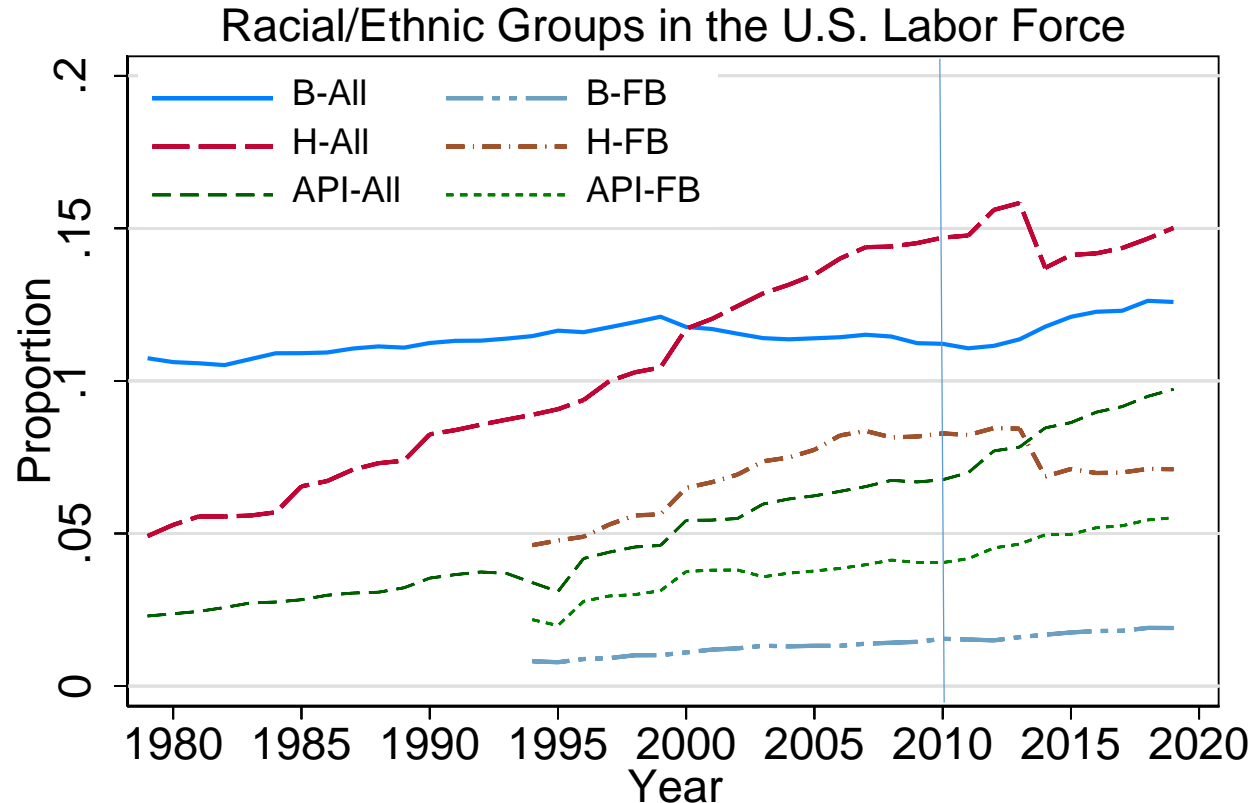
Source: Author's Calculation, CPS-MORG 1979-2019, Workers Ages 25-64.

- In terms of demographic weights, employed Hispanics overtook Blacks in 2001, whereas API+ are closing in on Blacks
- In terms of average hourly earnings (AHE), API+ surpassed Whites in 2000; Hispanics are below Blacks

Role of Immigration Policies

- Different equity issues with respect to immigrant workers
 - Most immigrant workers arrive in the US in adulthood after completing their education
 - “Economic refugees” from Mexico and Central America have lower education levels
 - Highly selected immigrants will purposefully have better labor market outcomes.
 - Quotas system yields substantial positive selection from large Asian countries in particular
- Immigration policies play a big role in the racial/ethnic composition of the US labor force, thus in its contribution to GDP

Distinguishing US and Foreign Born is important among minority groups

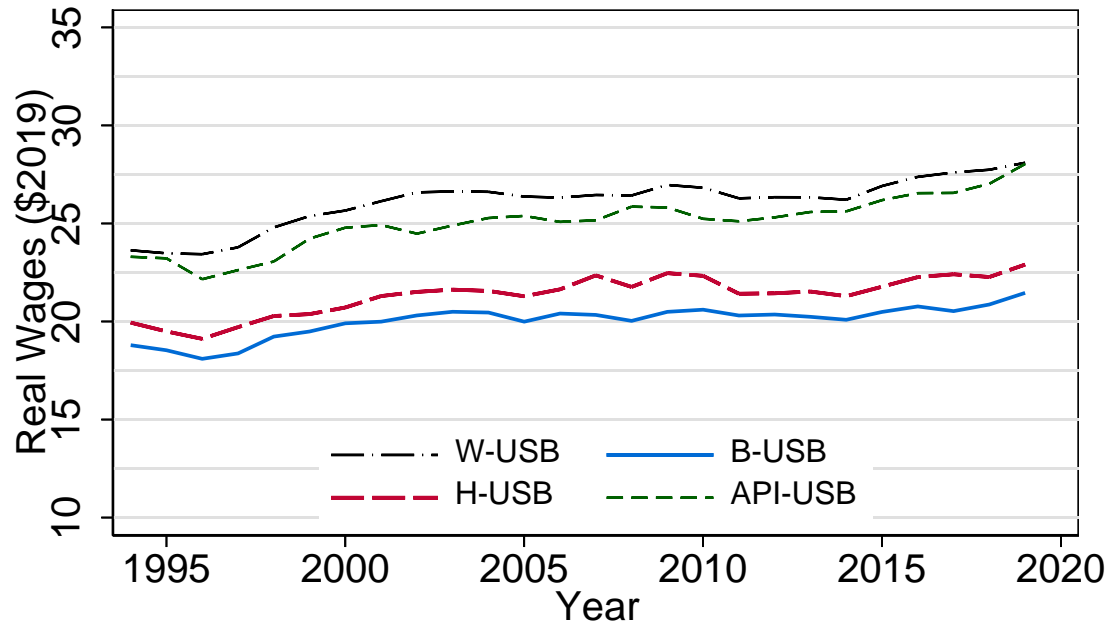


Source: Author's Calculation, CPS-MORG 1979-2019, Workers Ages 25-64.

- Among minority groups, foreign born workers make up an important share
- They come under different immigration status
- In 2010, the proportion of Foreign Born (FB) was
 - 60% among API+
 - 56% among Hispanics
 - 14% among Blacks

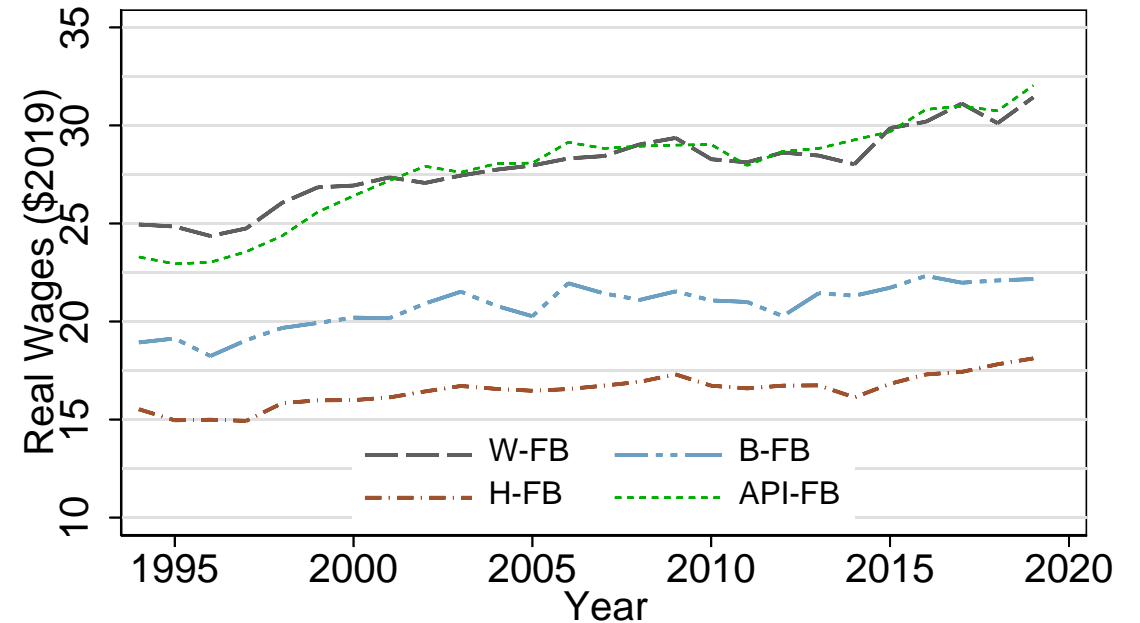
Distinguishing US and Foreign Born is also important in terms of choice of counterfactual wages

Mean AHE by Racial/Ethnic Groups
A. US-Born



Source: Author's Calculation, CPS-MORG 1979-2019, Workers Ages 25-64.

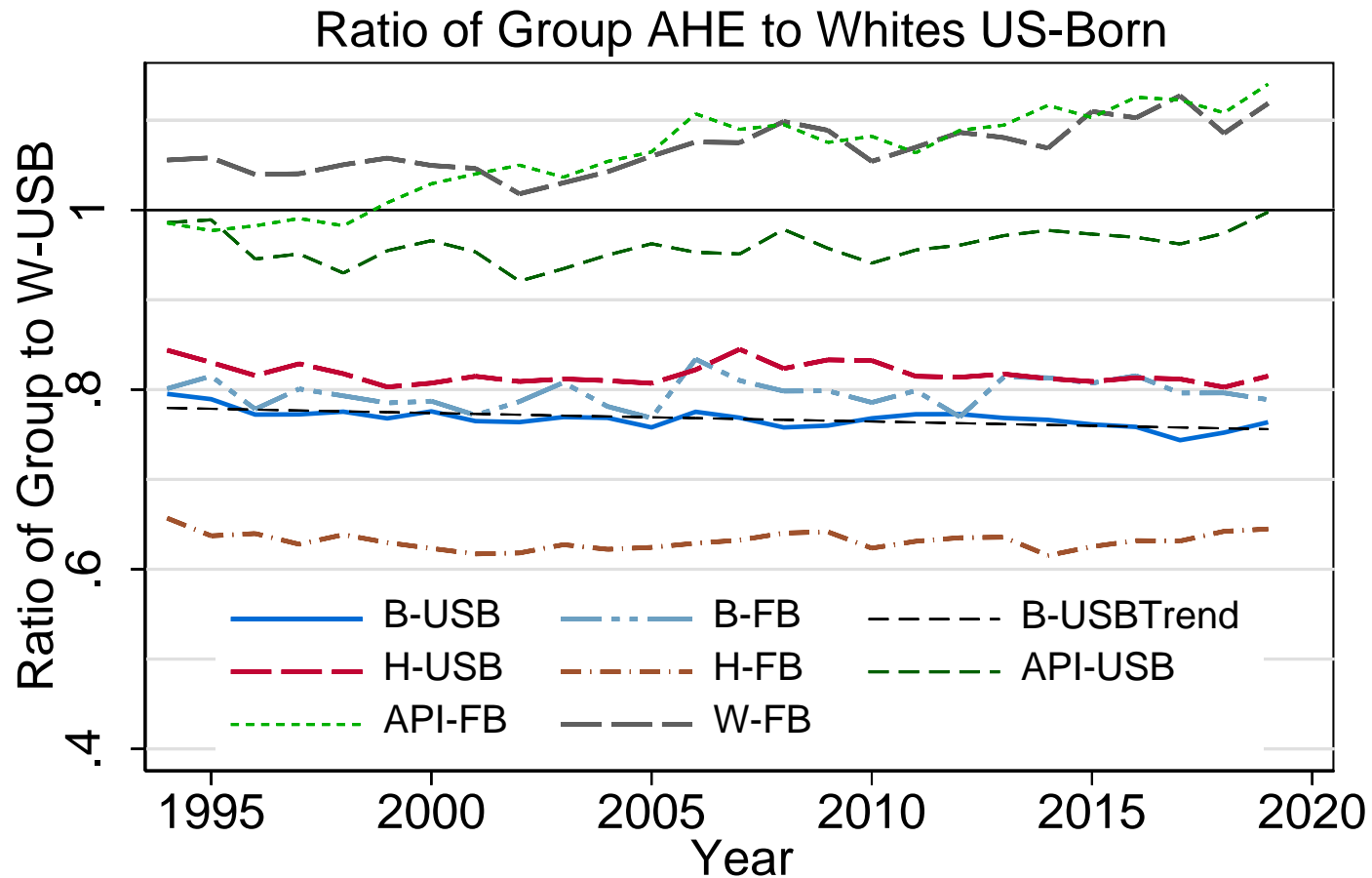
Mean AHE by Racial/Ethnic Groups
B. Foreign-Born



Source: Author's Calculation, CPS-MORG 1979-2019, Workers Ages 25-64.

- Among the US-born, Whites surpass Others, Hispanics surpass Blacks
- Among the Foreign-born, Blacks surpass Hispanics, Whites are comparable to Others

As a ratio of the AHE of Whites US-Born



Source: Author's Calculation, CPS-MORG 1979-2019, Employed Workers Ages 25-64.

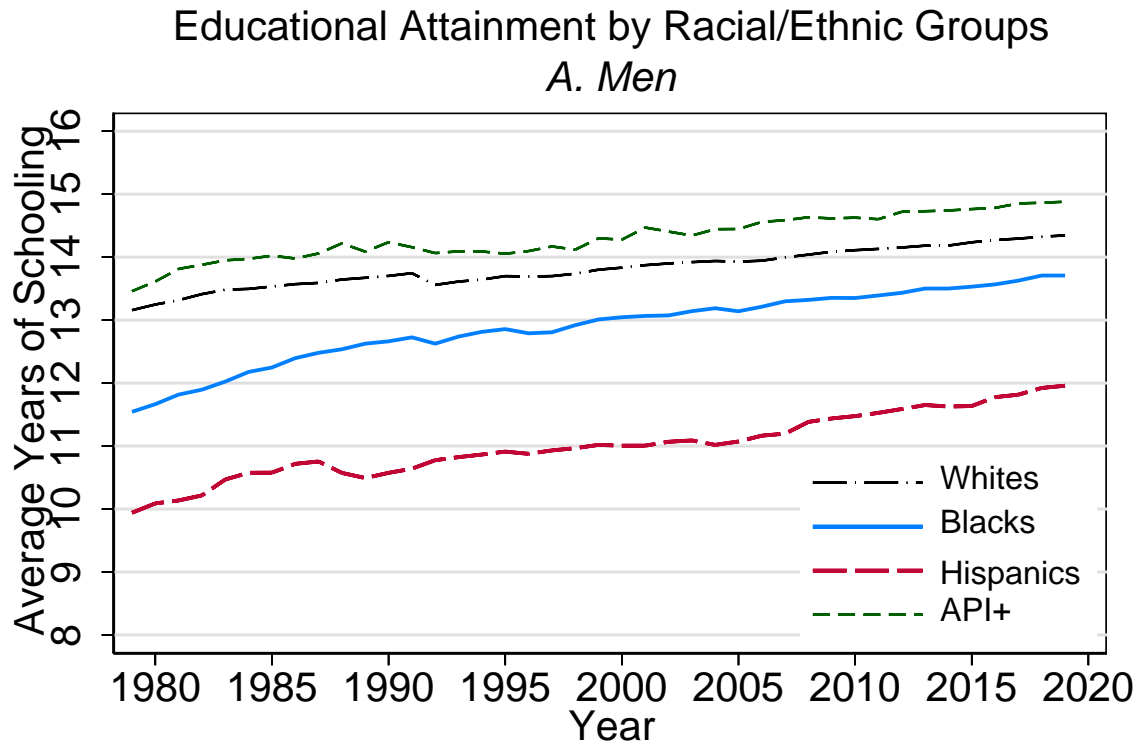
The ratio

$$r_i = \frac{AHE_i}{AHE_{W-USB}}$$

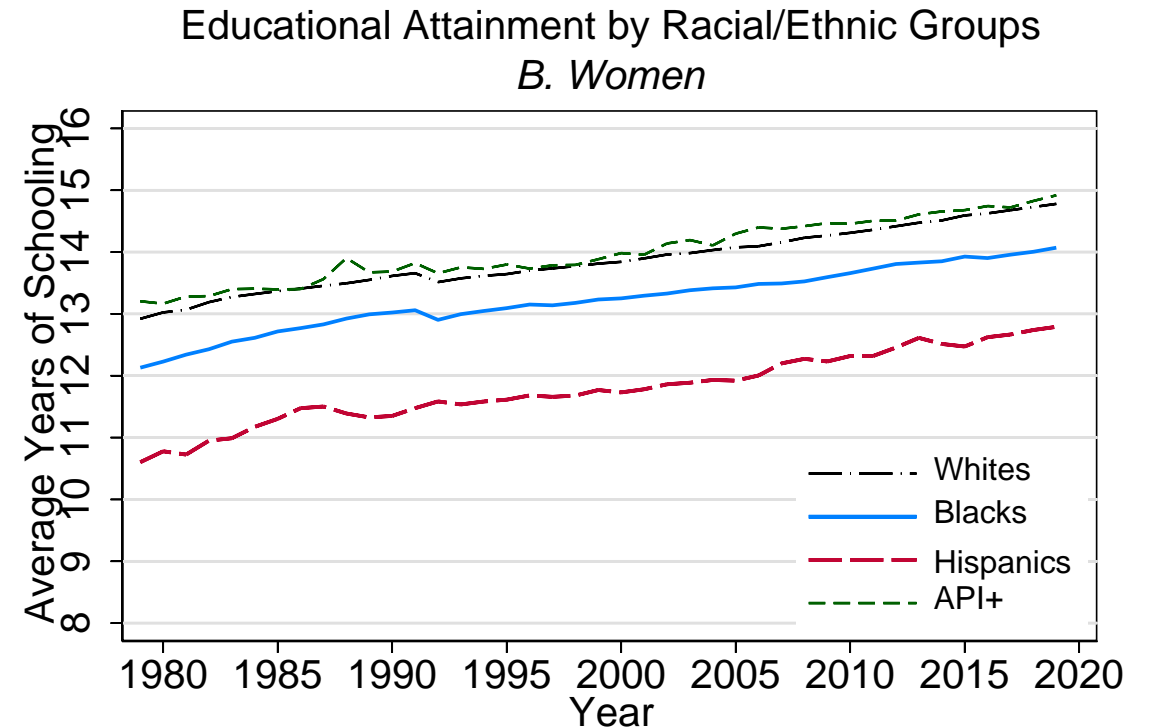
has statistically significant
negative trend for Blacks-
US Born

Why?

Improvement in education attainment for Black men has slowed down by half after 1996



Source: Author's Calculation, CPS-MORG 1979-2019, Workers Ages 25-64.

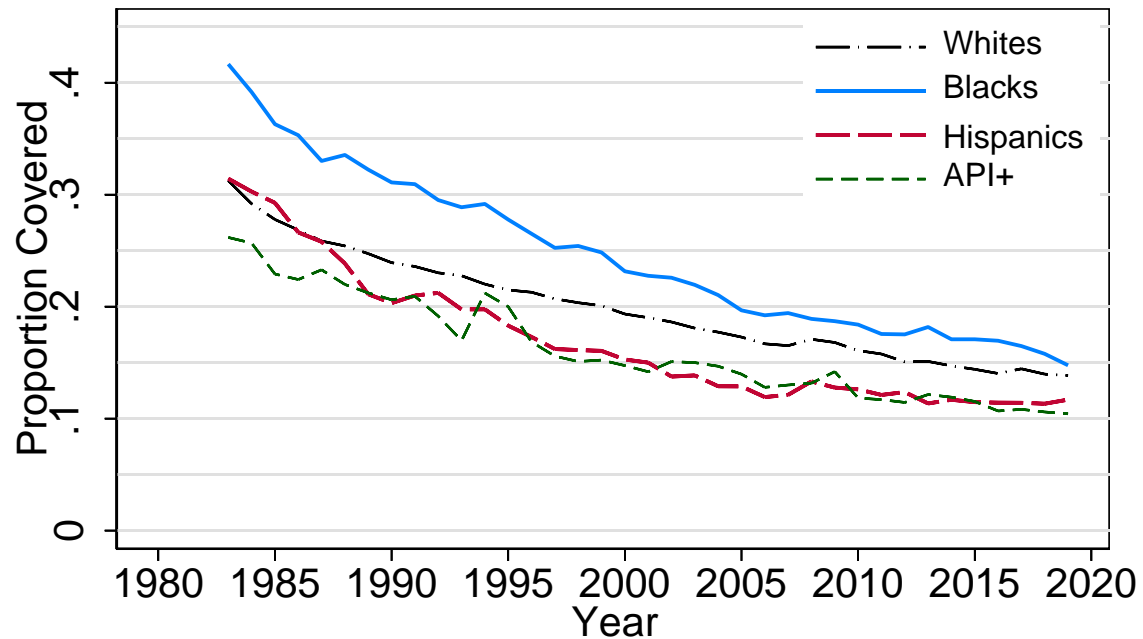


Source: Author's Calculation, CPS-MORG 1979-2019, Workers Ages 25-64.

- Civil right Initiatives to foster higher education among Blacks and Hispanics, such as affirmative action, have been banned in several large states
 - California 1996, Texas (1996-2003), Washington (1998), Florida (1999), plus 6 others

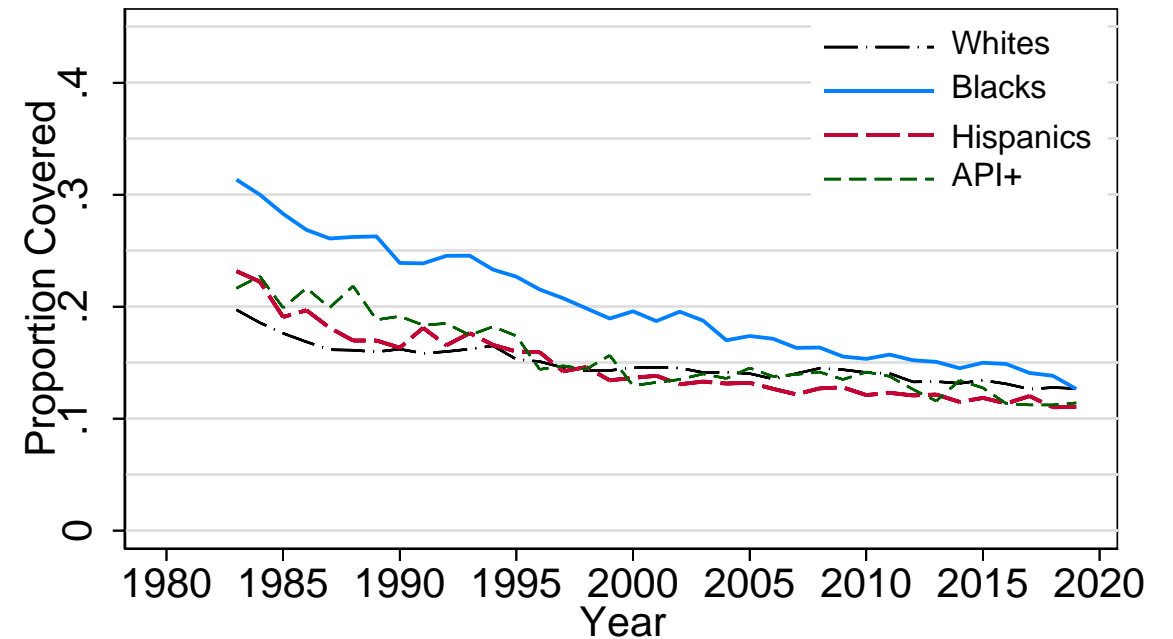
Decline in Unionization Larger for Blacks

Union Coverage Rates by Racial/Ethnic Groups
A. Men



Source: Author's Calculation, CPS-MORG 1979-2019, Workers Ages 25-64.

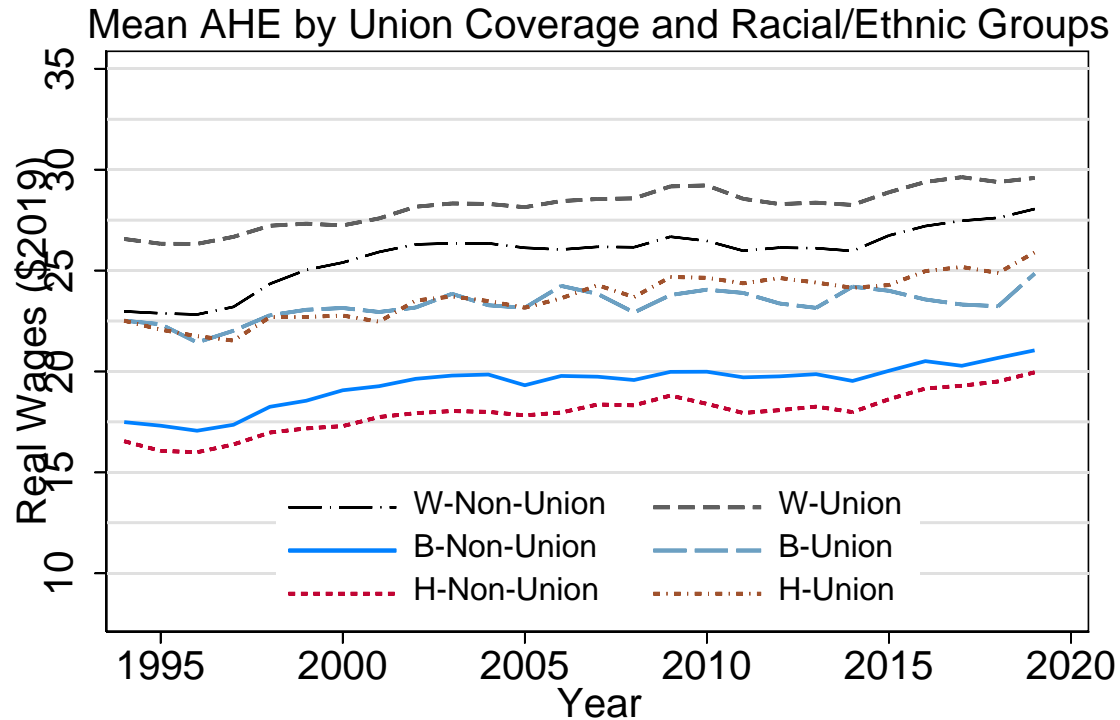
Union Coverage Rates by Racial/Ethnic Groups
B. Women



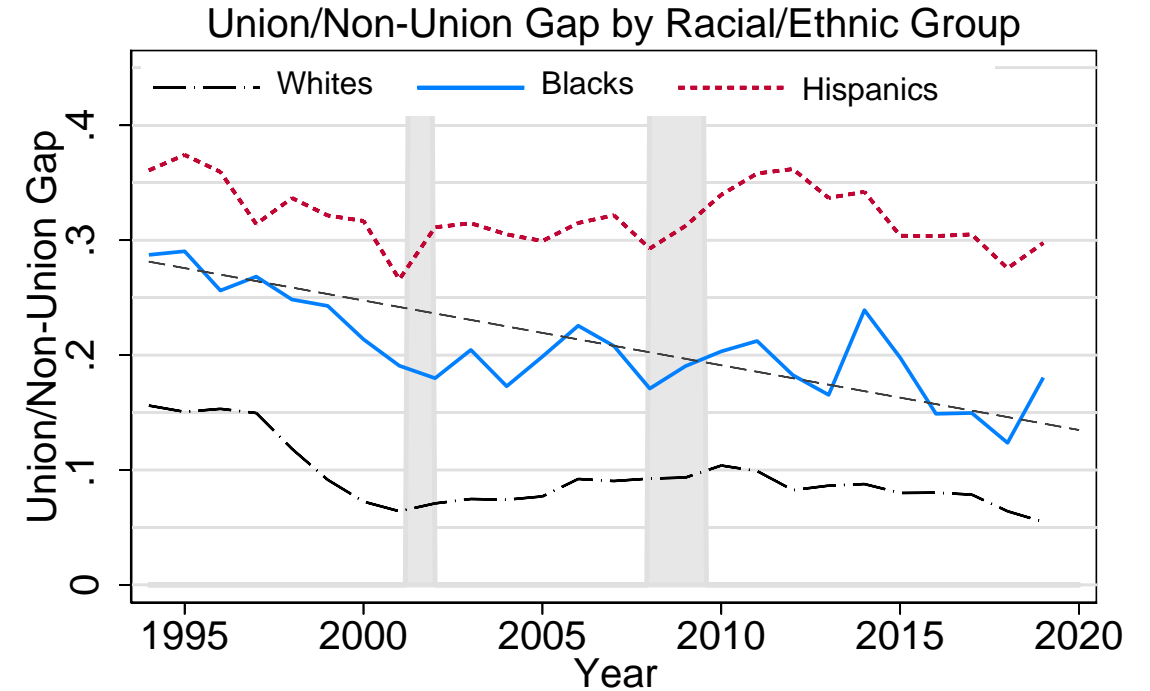
Source: Author's Calculation, CPS-MORG 1979-2019, Workers Ages 25-64.

- Blacks had historically higher union coverage rates, and therefore saw steeper decline over the past 4 decades

Decline in Union Power Has Larger Effects for Blacks



Source: Author's Calculation, CPS-MORG 1979-2019, Workers Ages 25-64.

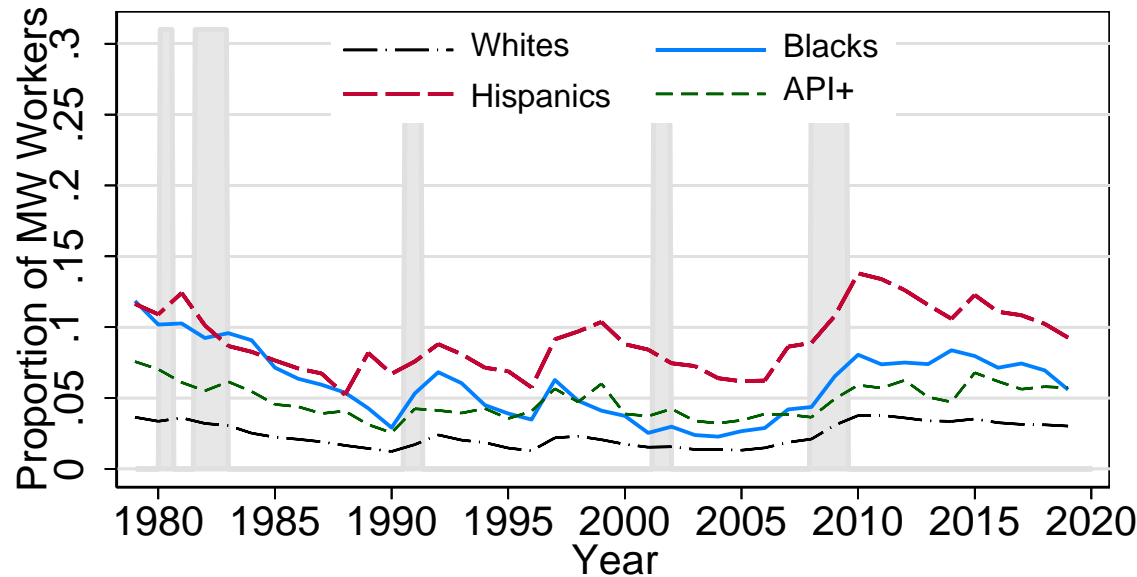


Source: Author's Calculation, CPS-MORG 1979-2019, Workers Ages 25-64, shaded areas indicate recessions.

- Wages among union covered workers, many of whom are public sector workers are relatively higher among Blacks and Hispanics
- Decline in the Union/Non-Union wage gap is larger for Blacks

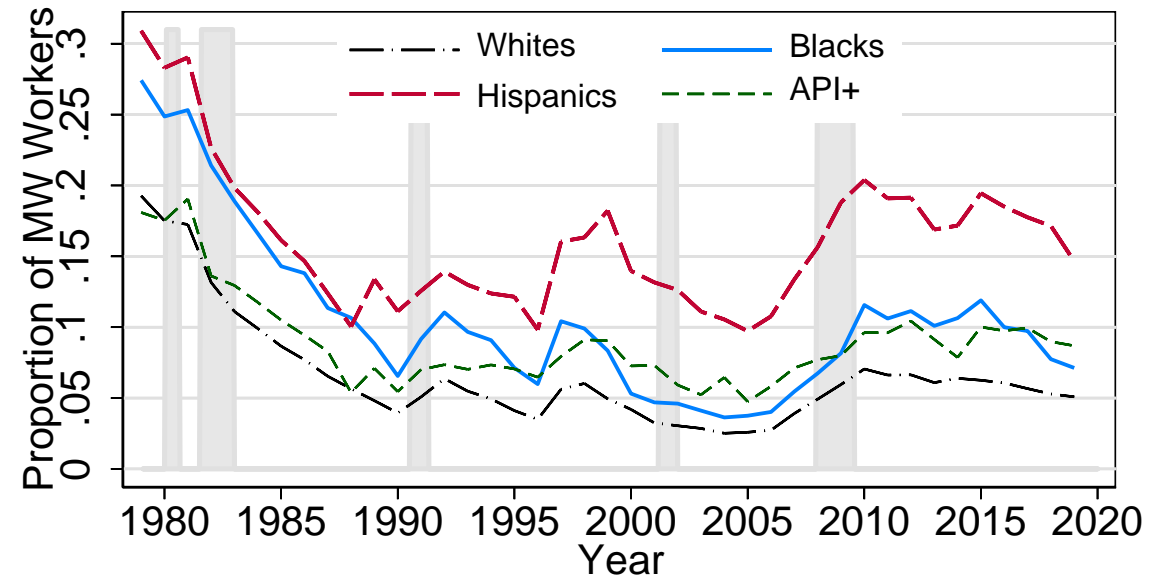
Minority Workers More Likely at Minimum Wages

Proportion of Minimum Wage Workers
by Racial/Ethnic Groups
A. Men



Source: Author's Calculation, CPS-MORG 1979-2019, Workers Ages 25-64, within 15% of effective minimum wage, shaded areas indicate recessions.

Proportion of Minimum Wage Workers
by Racial/Ethnic Groups
B. Women

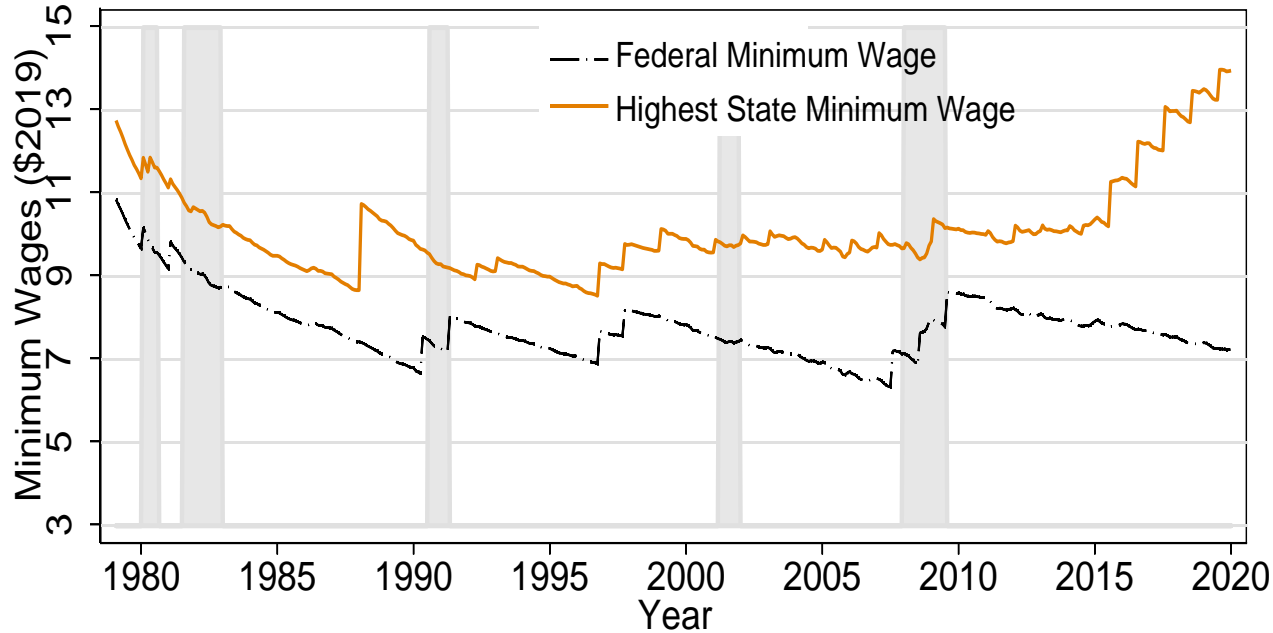


Source: Author's Calculation, CPS-MORG 1979-2019, Workers Ages 25-64, within 15% of effective minimum wage, shaded areas indicate recessions.

- Following the great recession, not only did Blacks' unemployment rate remained higher than Whites for a longer time, but when employed they were twice as likely to be at minimum wages

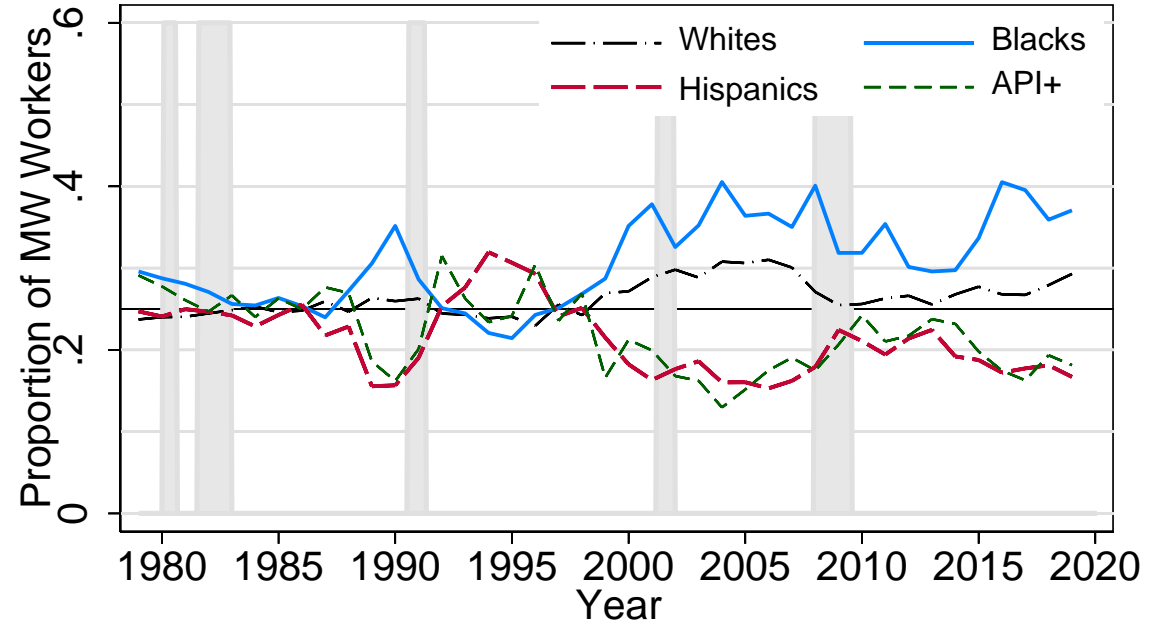
Increasing Minimum Wages Inequality

Increasing Inequality in Real Minimum Wages



Source: Author's Calculation, FRED and Vaghula dn Zipper (2019), shaded areas indicate recessions.

Proportion of MW Workers in the Bottom 25% of the MW Distribution



Source: Author's Calculation, CPS-MORG 1979-2019, Employed Workers Ages 25-64, within 15% of effective minimum wage, shaded areas indicate recessions.

- Moreover, Blacks are less likely to have benefited from recent increases in state level minimum wages

How to reach greater equity?

- Improve educational attainment among minority US born/1.5 generation immigrants beginning with literacy and numeracy
- Labor market institutions, namely unions and minimum wages, which protect the most vulnerable workers, have eroded over time
 - More so for Black workers than other minorities
- Unions are not coming back, but further erosion through Right-to-Work Laws (RTW) could be stopped or reversed
- There is wider support for minimum wages increases, which limits EITC outlays
 - This would require federal action because Blacks are concentrated in states with lower (or no) state minimum state wages