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

<table>
<thead>
<tr>
<th>Counterfactual Contributions 1990</th>
<th>Percent Employed</th>
<th>Weekly Hours</th>
<th>Education</th>
<th>Utilization</th>
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<tbody>
<tr>
<td>GDP Contributions</td>
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<tr>
<td>$\Delta$ Quantities ($Q_t$)</td>
<td>0.08</td>
<td>0.02</td>
<td>0.06</td>
<td>0.00</td>
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<tr>
<td>$\Delta$ Earnings ($E_t$)</td>
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<td>0.01</td>
<td>0.02</td>
<td>0.00</td>
</tr>
<tr>
<td>$\Delta Q_t + \Delta E_t$</td>
<td>0.09</td>
<td>0.03</td>
<td>0.08</td>
<td>0.00</td>
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</tbody>
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<td>GDP Contributions</td>
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<tr>
<td>$\Delta$ Quantities ($Q_t$)</td>
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<td>$\Delta$ Earnings ($E_t$)</td>
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<td>0.01</td>
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<td>$\Delta Q_t + \Delta E_t$</td>
<td>0.18</td>
<td>0.07</td>
<td>0.28</td>
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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

<table>
<thead>
<tr>
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<th>1990</th>
<th>2019</th>
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<tr>
<td>Observed GDP Contributions</td>
<td>3.61</td>
<td>6.54</td>
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<tr>
<td>GDP Contributions Treated</td>
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<td>$\Delta$ Earnings ($E_t$)</td>
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<td>$\Delta Q_t + \Delta E_t$</td>
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<tr>
<td>GDP Contributions Untreated</td>
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<td>$\Delta$ Earnings ($E_u$)</td>
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<tr>
<td>GDP Contributions Treated + Untreated</td>
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<tr>
<td>$\Delta Q_t + \Delta E_t + \Delta E_u$</td>
<td>0.31</td>
<td>0.79</td>
</tr>
<tr>
<td>Counterfactual GDP Contributions</td>
<td>3.92</td>
<td>7.33</td>
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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

- 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.

Source: Author's Calculation, CPS-MORC 1979-2019, Workers Ages 25-64.
Role of Immigration Policies

• Different equity issues with respect to immigrant workers
  o Most immigrant workers arrive in the US in adulthood after completing their education
    • “Economic refugees” from Mexico and Central America have lower education levels
  o 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

• 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

Source: Author's Calculation, CPS-MORG 1979-2019, Workers Ages 25-64.
Distinguishing US and Foreign Born is also important in terms of choice of counterfactual wages

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

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

Educational Attainment by Racial/Ethnic Groups

- **A. Men**

- **B. Women**

Civil right Initiatives to foster higher education among Blacks and Hispanics, such as affirmative action, have been banned in several large states
Decline in Unionization Larger for Blacks

Union Coverage Rates by Racial/Ethnic Groups

A. Men

- Whites
- Blacks
- Hispanics
- API+

Proportion Covered

Year


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

B. Women

- Whites
- Blacks
- Hispanics
- API+

Proportion Covered

Year


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

Mean AHE by Union Coverage and Racial/Ethnic Groups

Union/Non-Union Gap by Racial/Ethnic Group

- 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

Source: Author's Calculation, CPS-MORG 1979-2019, Workers Ages 25-64.
Minority Workers More Likely at Minimum Wages

A. Men

Proportion of Minimum Wage Workers by Racial/Ethnic Groups

- Whites
- Blacks
- Hispanics
- API+

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

B. Women

Proportion of Minimum Wage Workers by Racial/Ethnic Groups

- Whites
- Blacks
- Hispanics
- API+

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

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