European Economic Review 84 (2016) 57–75

Contents lists available at ScienceDirect

European Economic Review

journal homepage: www.elsevier.com/locate/eer

# Racial prejudice and labour market penalties during economic downturns

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ARTICLE INFO

Available online 8 August 2015

*JEL classifications:*
J71
J70
J01

*Keywords:*
Prejudice
Recessions
Racism
Discrimination

ABSTRACT

Do economic downturns encourage racist attitudes? Does this in-turn lead to worse labour market outcome for minorities? We assess these important questions using British attitude and labour force data. The attitude data show that racial prejudice is counter-cyclical, with the effect driven by large increases for high-skilled middle-aged working men – a 1%-point increase in unemployment is estimated to increase self-reported racial prejudice by 4%-points. Correspondingly, the labour force data show that racial employment and wage gaps are counter-cyclical, with the largest effects also observed for high-skilled men, especially in the manufacturing and construction industries – a 1%-point increase in unemployment is estimated to increase the wage gap by 3%. These results are entirely consistent with the theoretical literature, which proposes that racial prejudice and discrimination are the result of labour market competition among individuals with similar traits, and that the effects of this competition are exacerbated during periods of economic downturn.



***"To make matters worse, the current economic and social crises threaten to widen some equality gaps that might have closed in better times."*** (Equality and Human Rights Commission, 2010)

## 1. Introduction

Recent commentary in the popular press and corresponding statements from equality and human rights groups propose that racial prejudice has escalated during the recent Great Recession.[1] If true, this rise in racial prejudice may have led to increased labour market discrimination, widening already existing inequalities in wages and employment. This is in line with predictions from a theoretical literature that highlights the propensity for prejudice and discrimination to increase during periods of economic downturn, due to increased competition for scarce resources (LeVine and Campbell, 1972; Frijters, 1998; Smith, 2012; Caselli and Coleman, 2013). In view of the strong public interest in this issue and the important repercussions for policy-makers, this paper provides a detailed analysis of whether self-reported racial prejudice and racial labour market gaps are counter-cyclical.

Our measure of racial prejudice is found in British Social Attitudes Surveys between 1983 and 2010, and is a declaration by a White respondent of being 'not prejudiced at all', 'a little prejudiced', or 'very prejudiced' against people of other races.

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[1] Examples from the popular press include The Telegraph, 19 January 2009; Reuters, September 1 2008; The Times 14 January 2009; The New York Times, September 12 2009.

http://dx.doi.org/10.1016/j.euroecorev.2015.07.011
0014-2921/

To identify the effects of macroeconomic conditions we exploit variation across geographic regions and time; a general econometric approach that has been used to analyse attitudes towards immigrants (Mayda, 2006), attitudes towards ethnic minorities (Dustmann and Preston, 2001) and racially motivated crime (Falk et al., 2011). Our findings suggest that prejudice amongst native-born Whites increases with the unemployment rate, with the effect owed mainly to large increases among highly-educated, middle-aged, full-time employed men. For example, it is estimated for this subgroup that a 1%-point increase in the unemployment rate increases self-reported prejudice by approximately 4%-points.

This increase in prejudice may translate into worse labour market outcomes for non-Whites through two main mechanisms. First, increased discrimination could affect non-Whites at all levels within firms if there is a general increase in taste-based discrimination,[2] or second, it could be concentrated among the highly skilled if the propensity to discriminate arises from increased competition among employees with similar positions. First, assuming that highly-educated middle-aged White men are more likely to be managers and employers, and have political power within organisations, as racial prejudice increases among this group, high-skilled White managers may discriminate against people of all skill levels for whom they have hierarchical power over. Second, it is possible that prejudice and subsequent discrimination arise from increased competition between White and non-White job seekers and workers with similar traits. By forming coalitions based on ethnicity, individuals are more likely to hire and promote persons from within their own coalition in an attempt to capture labour market rents. This second mechanism implies that the negative effects will be concentrated mainly among high-skilled non-Whites. Overall, we expect that counter-cyclical racial prejudice will cause counter-cyclical labour market discrimination. We can explore this hypothesis, and comment on the most likely mechanism, using data on native-born individuals from the 1993–2012 versions of the Quarterly Labour Force Survey (QLFS), and by including in wage and employment models the interaction between local-level unemployment rates and ethnicity. Focusing on native born individuals only, means we avoid composition issues that arise due to the varying inflows and outflows of immigrants across regions and time. Overall, this approach tests whether racial labour market gaps widen during periods of high unemployment under the assumption that differences in unobserved human capital between native Whites and native non-Whites are uncorrelated with shocks in area-level unemployment.

The results suggest that non-Whites are worse off during recessionary periods in terms of employment and earned income. We refer to the increased racial wage gaps during periods of high unemployment as the 'recession wage penalty' (RWP), and correspondingly refer to the increased racial employment gaps as the 'recession employment penalty' (REP). A particularly interesting finding is that the penalties are largest for high-skilled workers, supporting the theoretical predictions. Further disaggregation by ethnicity reveals that Black workers are the most affected. For example, the Black-White wage gap for high-skilled non-manual workers is estimated to increase by 2.4% for every 1%-point increase in unemployment.

For decades economists have developed theories of racial prejudice (Lang and Lehmann, 2012; Altonji and Blank, 1999; Arrow, 1998; Becker, 1957) and have empirically examined its economic consequences (Guryan and Charles, 2013; Lang and Lehmann, 2012; Fryer Jr. et al., 2010; Ritter and Taylor, 2011; Lang and Manove, 2011; Dawkins et al., 2005; Lang et al., 2005; Chay, 1998; Card and Krueger, 1992; Donohue and Heckman, 1991). There are also large independent literatures investigating the determinants of social attitudes, including attitudes towards immigrants and immigration policy (Quillian, 1995; Dustmann et al., 2005; Dustmann and Preston, 2007; Pettigrew 1998; Mayda 2006; Hainmueller and Hiscox, 2010; Facchini and Mayda, 2009). However, despite these influential literatures there is little economic research on the determinants of self-reported racial prejudice. Understanding the economic determinants of prejudicial attitudes is therefore academically valuable, as is exploring how racial prejudice may translate into worse labour market outcomes for non-Whites.

Our findings also have implications for policies targeting ethnic minorities residing in Britain. This arises because of already existing inequalities: minorities live in worse housing (Phillips and Harrison; 2010), are taught by lower quality teachers (Clotfelter et al., 2004) and are in worse health (Lordan and Johnston, 2012; Bollini and Harald, 1995). Additionally, the unemployment rate of minorities in Britain has been approximately double that of Whites over the last 40 years, with only half of this gap explained by residential segregation, education differences and other observable factors (Leslie et al., 2001; Blackaby et al., 2002; Heath and Li, 2007). Higher levels of racial prejudice widen this gap, and thus the recent recession may have reversed some of the gains made during the past decades (Equality and Human Rights Commission, 2010).

The remainder of this paper is organised as follows: In Section 2 we provide a background for our study by discussing theoretical and empirical work related to prejudicial attitudes and discrimination. In Section 3 we describe the British Social Attitudes data, along with our methodology. We also document the results for the empirical work on attitudes. In Section 4 we describe the data sources used to consider labour market impacts, methodology and results. The final section is a discussion.

## 2. Racial prejudice and discrimination

For many years economists have been interested in a diverse range of individual attitudes and values (Gentzkow and Shapiro, 2004; Voigtländer and Voth, 2013; O'Rourke and Sinnott, 2001). However, to our knowledge economists have never

[2] In the vein of Becker (1957).