



# The declining racial earnings' gap in United States: Multi-level analysis of males' earnings, 1960–2000

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## ABSTRACT

Despite dramatic changes in education and occupational opportunities for Blacks in the United States, facilitated by affirmative action policies, the White–Black earnings' gap has not vanished. Although the literature on this issue has become substantial no one has yet provided a systematic examination of changes in the earnings' gap that takes into consideration the concomitant changes in the occupational structure and changes in the racial composition of occupational labor markets as well as changes in characteristics of the labor force. In the present research, we use 5 waves of IPUMS data and hierarchical linear modeling to estimate changes in the effect of race on earnings between 1960 and 2000. The models focus on the interaction of time and race with earnings while controlling for individual-level characteristics (i.e. education) at the individual-level and the characteristics of detailed occupational labor markets (i.e. occupational socioeconomic status, race and gender composition, occupational earnings inequality) at the aggregate level. In order to evaluate the effect of change over time, both linear and non-linear trends in earning gaps are estimated in the labor market as a whole and separately for the public and private sectors. The data reveal that net of changes in the occupational distributions and market-relevant characteristics of Black and White men, the gaps have generally narrowed but at a declining rate. The data also reveal considerable differences in racial earnings inequality between the public and the private sectors. Whereas the unexplained earnings gap in the public sector has virtually vanished by 2000, in the private sector, the gap is still significant, although it declined over time. The findings are discussed in light of past research in order to re-evaluate the contribution of labor market attributes and sector differences to change in earnings disparities between Black and White men in the US.

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## 1. Introduction

The economic disadvantages faced by racial and ethnic minorities have long been a central focus of research for students of ethnic stratification and inequality. Consequently, considerable attention has been devoted to the study of sources of earn-

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ings disparities between Blacks and Whites in the American labor market and trends in such inequality. The ever-growing literature on the issue has arrived at two explanatory approaches for understanding racial earning disparities. The first suggests that earning gaps between Black and White workers are attributable to differential levels of individuals human capital resources (such as education, skills and cognitive ability) (e.g. Card and Krueger, 1992; Farkas et al., 1997; Farkas and Vicknair, 1996; Hedges and Nowell, 1999; Jacobson et al., 2001; Maxwell, 1994; Neal and Johnson, 1996; O'Neill, 1990; Raudenbush and Kasim, 1998). According to this approach, one would expect that an over time decline in the gap of human capital resources between Black and White workers would bring a decline in earnings disparities between the groups.

The second explanation contends that earnings disparities between Blacks and Whites result mostly from over-concentration of minority workers in low-status and low-paying occupational labor market (e.g. Huffman, 2004; Huffman and Cohen, 2004; Kaufman, 1983, 2002; Tauber et al., 1966; Tomaskovic-Devey, 1993). According to this approach one would expect that upward occupational mobility of Black workers and over time decline in racial occupational segregation would lead to a decline in racial earning disparities.

Yet, unexpected opposing trends were observed in recent studies of change in racial earnings inequality. Despite a considerable rise in the educational level of Blacks (Jencks and Phillips, 1998; Mare, 1995) and despite a decline in occupational segregation (Farely, 1996) the Black–White earnings disparities did not decline at the rate commensurate with these changes. Some even suggest that Black–White earnings gaps are no longer narrowing and they may be widening once again (e.g. Bound and Freeman, 1992; Grodsky and Pager, 2001).

These seemingly inconsistent patterns may occur if earning gaps between groups (i.e. gender, racial) are more pronounced in higher status lucrative occupations than in low-status low-paying occupations (Grodsky and Pager, 2001; Huffman, 2004; Kaufman, 1983) and in labor markets characterized by a greater dispersion of earnings (e.g. Blau and Kahn, 1996; Mandel and Semyonov, 2005). From this perspective racial inequality is not only a product of segregation across occupations but it also results from earnings inequality within occupational labor markets. According to this logic as more Blacks join lucrative high status occupations, hence attaining an occupational distribution more similar to Whites, they are likely to increasingly enter occupational labor markets in which racial income disparities are greater. This outcome may result from more intense earnings discrimination in high status occupations. Likewise, the same outcome may be observed if Blacks increasingly enter occupations in which there is high earnings dispersion and if they disproportionately enter at the bottom of the earnings distribution.

The crucial issue, however, is how the change in racial earnings inequality is related to over time changes in educational achievement and occupational distributions of the race groups. In the present paper, therefore, we intend to study change in racial earnings inequality between 1960 and 2000 while taking into account both changes in human capital attributes of Blacks and Whites and changes in the structure and composition of occupational labor markets. In light of the importance of public sector employment for minority workers and for reducing racial economic inequalities (e.g. Asher and Popkin, 1984; Blank, 1985; Collins, 1983; Eisinger, 1986; Grodsky and Pager, 2001; Maume, 1985; Zwerling and Silver, 1992) we will also examine changes in racial-linked earnings disparities separately in the public and private sectors of the economy. By so doing we intend to contribute to the literature on racial socioeconomic inequality in general and to a better understanding of trends in racial inequality in the US in particular.

## 2. Previous theory and research

Researchers that examined trends in racial inequality (e.g. Allen and Farley, 1986; Card and Krueger, 1992; Donohue and Heckman, 1991; Farley, 1984, 1996; Jaynes, 1998; Smith and Welch, 1989) observed a general improvement in the relative economic standing of Blacks during the second half of the 20th century. However, the rate of improvement varied considerably throughout the period. For example, Maloney (1994) suggested that Blacks' economic gains were much more pronounced during the 1940s but less so during the 1950s. Smith and Welch (1989) demonstrated that the economic convergence that started at a fast pace during the 1940s, slowed down during the 1950s and continued at even a slower rate during the 1960s and 1970s. Likewise, Jaynes (1990) observed rapid economic progress during the first three decades of the 1939–1985 period but relative stagnation after that; and Bound and Freeman (1992) argue that earnings disparities between Blacks and Whites may be widening again.<sup>1</sup> The researchers cited in this paragraph attribute the economic progress of the Black population to a number of factors. These factors include migration from the rural South to other regions and to urban centers, rise in education level, decline in occupational segregation, and the enactment of affirmative action policy and development of new job opportunities in government (for detailed discussion see also Allen and Farley, 1986; Farley, 1984).

Most research and commentary on the racial earnings gap in the United States follows two lines of reasoning. One approach tends to examine the labor process as a general phenomenon and focuses on factors that contribute to labor productivity and wage determination. Assuming that the labor market is sufficiently integrated, these factors are expected to explain earnings differences both with and across labor market segments. Analyses emanating from this approach underscore the importance of human capital attributes (especially education) and other factors such as cognitive ability, motivation and effort in determining earnings. It seeks to explain the racial wage gap as deriving from differences in attributes or in the ability to convert the attributes into economic outcomes. To the extent that structural characteristics are taken into account they are introduced as controls typically ignoring the variation in racial inequality across labor market segments.

<sup>1</sup> Several researchers (e.g. Donohue and Heckman, 1991; Heckman, 1989; Neal, 2004; Western and Pettit, 2005) argue that when selection bias of Blacks into the labor force is taken into account, the decline in the earnings gap between Blacks and Whites over the years is actually smaller than it appears to be.

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