



# Ethnic unemployment rates and frictional markets <sup>☆</sup>



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## ABSTRACT

The unemployment rate in France is roughly 6 percentage points higher for African immigrants than for natives. In the US the unemployment rate is approximately 9 percentage points higher for blacks than for whites. Commute time data indicates that minorities face longer commute times to work, potentially reflecting more difficult access to jobs. In this paper we investigate the impact of spatial mismatch on the unemployment rate of ethnic groups using the matching model proposed by [Rupert and Wasmer \(2012\)](#). We find that spatial factors explain 1–1.5 percentage points of the unemployment rate gap in both France and the US, amounting to 17–25% of the relative gap in France and about 10–17.5% in the US. Among these factors, differences in commuting distance play the most important role. In France, though, longer commuting distances may be mitigated by higher mobility in the housing market for African workers. Overall, we still conclude that labor market factors remain the main explanation for the higher unemployment rate of Africans.

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## 1. Introduction

The persistence of the unemployment rate gap between natives and immigrants, or in the US context between whites and blacks, is a major policy concern. However, there is still debate whether it is “race” or “space” that is the key explanatory factor of the poor labor market outcomes of many minorities (see [Ellwood, 1986](#)). The spatial mismatch literature, initiated by [Kain \(1968\)](#), has indeed attempted to determine whether minority workers have worse access to the labor market or whether they face barriers in housing choice, making it difficult to locate close to job opportunities.

In this paper we propose a methodology to assess the “dynamic spatial mismatch” hypothesis, that is, the intertemporal decisions of housing, commuting, job acceptance and quits. We develop and quantify a tractable macro-economic matching model to assess the importance of job market factors and spatial factors. Our contribution is threefold: we model frictions on both the labor and housing markets whereas, in the literature, frictions are usually introduced only in one market; we calibrate the model to get quantitative results rather than giving only theoretical predictions;

finally, we perform comparative statics to assess the contribution of job and spatial factors to the ethnic unemployment rate gap.

There are several forces possibly at work that have been formulated in the literature. Minority workers may not have the same access to jobs due to differences in unobservables related to productivity or discrimination in the labor market. Employers may have racial preferences and discriminate ([Becker, 1971](#)). They may also consider minority workers to be, on average, less productive and assign their average productivity to all minority applicants if productivity is not observed during the recruitment process ([Phelps, 1972](#)). Finally, they may avoid employing minority workers because they expect their customers to be reluctant interacting with them ([Borjas and Bronars, 1989](#); [Combes et al., 2011](#)).

According to the spatial mismatch literature, housing market discrimination may prevent US black workers from locating close to job centers and the resulting distance to job opportunities could be a cause of their unemployment.<sup>1</sup> [Zax and Kain \(1996\)](#) investigates the effect of the relocation of a plant in Detroit from the city center to a white neighborhood, where housing discrimination against blacks is considered to be operational, on quits and residential relocations of black and white workers. They show that blacks quit more often and relocate less often close to the plant. We consider in our model that there is a Minority (here, non-natives, pre-

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<sup>1</sup> For empirical surveys on spatial mismatch, see [Jencks and Mayer \(1990\)](#), [Kain \(1992\)](#), [Ihlanfeldt and Sjoquist \(1998\)](#) and [Hellerstein and Neumark \(2011\)](#). For a survey insisting on theoretical mechanisms, the reader can refer to [Gobillon et al. \(2007\)](#).

dominantly Africans) and a Majority, with the Minority have housing opportunities which are possibly associated to longer commuting distances during the residential search process.

The effect of distance on unemployment has been investigated in the theoretical literature mostly in an urban economics setting. Wasmer and Zenou (2002) show how distance to jobs can decrease search efficiency and lead to unemployment. However, their paper does not consider the racial dimension. Closer to our paper is the paper by Brueckner and Zenou (2003) that considers two cities and model the effect of housing discrimination for blacks in one city on their unemployment. However, the importance of this mechanism relative to job discrimination is not assessed. More recently, Gautier and Zenou (2010) propose a model where blacks initially have less wealth than whites. This translates into blacks having a lower access to cars and therefore a weaker bargaining position than whites since fewer jobs are accessible. Blacks thus end up with a higher unemployment rate, lower wages and higher commute times. Empirical results obtained by Weinberg (2000, 2004) suggest that the centralization of blacks in US cities explains a significant part of the black-white employment differential because jobs have migrated to the suburbs. Hellerstein et al. (2008) find that, for blacks, it is the distance to jobs occupied by blacks (and not the distance to all jobs) that significantly affects their employment opportunities. This suggests that the labor markets for blacks and whites could be segmented to some extent.

In this paper we consider a matching model based on Rupert and Wasmer (2012) that incorporates ethnic differences in the access to jobs and dwellings. While Decreuse and Schmutz (2012) used a similar approach, we explicitly take space into account through the distances between dwellings and jobs, and do not restrict the analysis to a two-location framework. In particular, unemployed workers receive job offers with an associated commuting distance.<sup>2</sup> Employed individuals also search for houses to reduce commute times. In the data individuals might also be forced to move due to a change in family structure, neighborhood quality and so on. We model these as “family shocks” that necessitate a move from the current location. These modeling choices allow a parsimonious representation, providing key theoretical and quantitative outcomes.

Whereas ethnic differences in the job arrival rate may be related to differences in the access to the labor market, ethnic differences in the distribution of commuting distances can be related to differences in the access to both the labor market and the housing market. Indeed, commuting distance depends both on the place where unemployed workers find a dwelling and the place where they receive a job offer. Offers are turned down if the wage net of commuting costs is not high enough compared to unemployment benefits. These mechanisms can generate ethnic differences in unemployment rates and unemployment duration. The model also incorporates the ability of employed workers to receive housing offers that may allow them to decrease their commuting distance. There may be differences between ethnic or racial groups in the arrival rate of housing offers as well as the distribution of commuting distances related to those offers. These differences are related to ethnic or racial differences in the access to the housing market and they can generate longer commuting distances for the Minority than for the Majority. We then calibrate the model for France and the US to assess, quantitatively, the importance of spatial and labor market factors in explaining the unemployment rate gap between the Majority and the Minority.

<sup>2</sup> A limitation of our distance approach is that we do not consider the heterogeneity among locations. Here, space is assumed to be isotropic, in the sense that all locations look identical when unemployed. This means in particular that consumption amenities are ignored as well as local network effects that may be used for finding a job or positive community effects if minority workers have a taste for residing closer to people of the same origin.

Overall, although labor market factors play a major role, spatial factors in France explain between 17% and 25% of the unemployment rate gap between the Minority and the Majority, depending on the decomposition. The results appear to be robust to various alternative calibration parameters and correspond to an unemployment difference between 1 and 1.5 percentage points, out of six percentage points. Decreuse and Schmutz (2012) find similar qualitative results as, in their study, spatial factors account for around 15% of the unemployment rate gap.<sup>3</sup> More work is needed to better understand the factors behind the ethnic differences in access to the French housing market. It appears that the different outcomes across ethnic groups in the housing market are less due to the Minority receiving fewer housing offers, than to the Minority receiving fewer good offers. That is, while the probability of housing offers can be the same, these offers are for dwellings which are located farther away from jobs. This result is consistent with other papers on the French housing market emphasizing a substantial degree of spatial mismatch and rising segregation (Bouvard et al., 2009a).<sup>4</sup>

In the US, spatial factors also seem to play a role, and explain 1–1.5 percentage points of the difference in unemployment rates between Blacks and Whites. However, this corresponds to only 10–17.5% of the total racial unemployment gap because there is a larger absolute difference in unemployment rates.

Section 2 describes the data and facts. Section 3 presents the model with labor market and housing frictions. Section 4 lays out the numerical parameters and comment the results. Section 5 provides robustness checks when changing the parameters. Section 6 compares the results with those obtained for the US. Section 7 concludes.

## 2. Data and stylized facts

### 2.1. Data description

We use two micro datasets to calibrate the model. Our main dataset is the 1999 French Time Use Survey conducted by the French Institute of Statistics (INSEE). 8186 households were interviewed and individual surveys were filled for the 20,370 individuals aged 15 and above. The data set also includes a time diary that allows us to quantify how much time is spent during the day for each daily activity.

At the household level, there is information on whether the household lives in couple and has children, and on the urban unit size with a specific category for Paris. We use this information to distinguish between the Paris urban unit and the rest of the territory. The time spent in the dwelling since arrival is also reported and allows us to determine mobility within one or more years before the survey date. Also asked is why the households moved to the current dwelling, for example, to get closer to the workplace of the household head, his partner or another individual in the dwelling.

At the individual level, it is possible to determine whether individuals are first generation immigrants from Africa using citizenship and country of birth. We consider African individuals to be not only individuals with an African citizenship but also those born in Africa who have become French. As these individuals are not

<sup>3</sup> It is also consistent with Rathelot (2013) who studies the employment gap between French natives and second-generation Africans, and finds that between 63% and 89% of the employment gap remains after controlling for observable individual characteristics and location, which suggests that ethnic differences in access to the labor market play a major role and spatial factors a lesser role.

<sup>4</sup> More precisely, Bouvard et al. (2009a) argue that, in France, over the past several decades, employment in industrial sectors shrunk, and job centers moved away from social housing where migrants used to live. The sectoral employment shift lead jobs to appear in the service sectors, located in cities, where migrants may not have had access in terms of housing markets.

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