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Assessing 50 Years of African-American Economic Status, 1940–1990

By Marcus Alexis*

On the eve of World War II, African-Americans suffered the twin afflictions of (i) segregated education, housing, transportation, and public accommodations and (ii) employment discrimination, which translated into lower earnings, entry barriers to many occupations and industries, and greater exposure to the business cycle and to competition at home and overseas. Post-World War II labor-market conditions (strong aggregate demand and relatively improved labor quality of African-American workers, civil rights legislation, and supportive court decisions) reduced job barriers and narrowed pay differentials. As a consequence, relative earnings of African-Americans increased in the aggregate and in subgroups from 1940 to 1970. The African-American/white earnings gap narrowed until the late 1970’s and has since stagnated, an effect which was not apparent in early comparisons of the 1970 and 1980 Census data.

I. Benchmarking Earnings Differentials

James P. Smith and Finis Welch (1989) computed earnings of African-American and white male workers over the 1940–1980 period. The comparison is weekly wages of full-time working males. An obvious shortcoming of this approach is that unemployed workers, part-time workers, and women are excluded. The results are important, nevertheless, in identifying changes in the relative hourly earnings of fully employed men between 1940 and 1980.

To remove the effects of inflation Smith and Welch express their data in constant 1987 dollars. The base year is 1940, and the endpoint is 1980. In the base year (1940), the ratio of the median weekly wage of African-American men to that of white men was 43.3 percent, ranging from 39.8 percent for those with 36–40 years experience to 47.5 percent for those with 6–10 years experience. For the least experienced (1–5 years) it was 46.7 percent. Older African-American men had lower relative wages.

By 1950 the overall ratio of African-American to white weekly wages increased by 12 percentage points to 55.2 percent. Even the oldest (most experienced) men saw their relative wage rise several percentage points to 46.9 percent. The most impressive gains were among the youngest (1–5 years experience) men, rising from 46.7 percent to 61.8 percent, 15 percentage points. The large relative change reflected both the depressed base year (1940) and the strong post-World War II economy. The job market explains the general rise in the wages of both African-American and white men, but not the relative change.

Two factors were likely to have been at work: a tighter labor market presented opportunities for African-American men to move up the occupational ladder, and market discrimination eased due to both the relative abundance of jobs and the lessening of overt discrimination.

During the next decade (1950–1960), African-American men experienced virtually no increase in overall relative wages, a gain of 2 percentage points, from 55.2 percent to 57.5 percent. The entire gain is explained by the exit of two cohorts, those entering the labor force before 1923. Younger cohorts with less than ten years experience actually did slightly worse than similarly experienced workers in 1950.

Between 1960 and 1970 a combination of older workers with lower relative wage exiting and a 15-percentage-point gain by younger workers (those with less than five years experience) and modest improvements at all other experience levels pushed the 1970 overall relative wage to 64.4 percent, up 6.9 percentage points over the 1960 level.

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In 1980 the overall relative percentage increased to 72.6, up 8.2 percentage points, and virtually all experienced cohorts experienced some gain. But again, it was the younger cohorts that did best. The relative wage increased to 76.6 percent for African-American men with 5–10 years experience, and those with less than five years experience received 84.2 percent of the wage received by their white counterparts.

Over the 40-year period, full-time employed African-American men with less than five years of experience moved from 46.7 percent of the white wage to 84.2 percent. Those with 36–40 years experience had their relative wage increase from 39.8 percent to 68.5 percent, impressive gains. Even if one takes the more representative post-World War II base year of 1950, the gains for the least experienced African-Americans went from 61.8 percent to 84.2 percent, up 22.4 percentage points. And for the most experienced men, it increased from 46.9 percent to 68.5 percent, a gain of 21.6 percentage points, not quite the values of 37.5 percent and 28.7 percent, respectively, of the 1980–1940 comparison, but quite respectable. Had the narrowing rate of 1950–1980 continued, African-American men would have achieved parity by 2020.

II. Labor-Force Participation

Labor-force participation rates between 1940 and 1970 for both African-American and white men were relatively stable. After 1970 both races experienced sharp declines in participation rates. The decline was much larger for African-American men, most notably for those of prime working age. The decline for African-American men 36–45 years old was 5–6 percentage points versus 1.3 percentage points for white men in the same age group. During the decade of the 1970’s, at ages 46–54, labor-force participation of African-American men fell 9.8 percentage points; for white men of the same ages, labor-force participation declined a much smaller 3.5 percentage points. In both cases exit rates were highest among less well-educated men, highest for those with 0–7 years of schooling, followed by those with 8–11 years.

III. Unemployment

In the early 1970’s the ratio of African-American to white unemployment (male and female) hovered around 2. Following a brief jump in the late 1970’s to nearly 2.5, the ratio fell steadily to 2.2 in 1982. During the 1980’s there was a steady progression, so that by the end of the decade the ratio was slightly in excess of 2.5. Unemployment rates of African-Americans during the economic expansion of the 1980’s fell from 18.9 percent in 1982 to 11.3 percent in 1989; for whites it fell from 8.6 percent to 4.5 percent.

For younger African-Americans, those 16–19 years old, the relative-unemployment ratio is virtually constant from the early 1970’s (1972) to 1989, roughly 2.5. One interpretation of this is that unskilled workers of both races and sexes experienced the same market forces. An alternate explanation is that younger African-Americans were more likely to have exited the labor market, thus understating the relative joblessness of young African Americans.¹

An interesting insight into the labor-market difficulties facing young African-Americans is reported by Kathryn M. Neckerman and Joleen Kirschenman (1990). They found that employers view inner-city African-American youth as having poor skills, bad work habits, and no work ethic. This view of inner-city African-American youths did not extend to suburban African-American youths. Applicants’ addresses were used as a screen. Addresses in large public-housing projects were a potent negative signal. Inner-city public schools were considered a poor place to recruit. School recruiting of African-American youth was mainly from private and parochial schools. Employee reference networks were important sources of new workers, and recruitment was centered on particular neighborhoods. Job interviews were also given great weight. Similar results were reported by

¹ Lisa M. Lynch (1989) finds that the longer both young men and women are unemployed, the less likely they are to find another job. Her data show that this reduced probability of reemployment is greater for nonwhites.
Jomills Henry Braddock and James M. McPartland (1990). An important difference is that they found some African-Americans to have adequate employment networks, but those from segregated high schools with segregated networks disproportionately held jobs paying lower wages; this effect is much stronger in entry-level jobs than in those that are the results of a promotion. These results are consistent with those found by Richard Price and Edwin Mills (1985). Using alternate specifications to measure the effects of race and suburban versus central-city location they estimate that central-city location lowers earnings by between 5.7 percent and 8.6 percent.

Using U.S. Census data, Glenn G. Cain and Ross E. Finnie (1980) studied labor-market conditions for African-American youth in 94 statistical metropolitan areas. They found a modest but statistically significant relationship between the African-American male unemployment rate and the number of hours worked. A 1-percent decline in the unemployment rate increased hours worked annually by 2 percent. A much stronger relationship between local labor-market conditions and employment outcomes of young African-American men is found by Richard B. Freeman (1991). For all youth, a 1-percent decline in unemployment raises the employment/population ratio 4.3 percentage points. A consistent finding in both Cain and Finnie (1980) and in Freeman (1991) is that the relative position of African-American youth is very sensitive to local labor-market demand for all labor.

Joblessness among young African-American men has been of concern to policymakers throughout the 1970’s and 1980’s. Reasons for this high rate of joblessness include the facts that: (i) demand for less-skilled labor has decreased; and (ii) the impact of this decline falls disproportionately on African-American men. The clearest indication that industrial shifts have worsened the relative employment position of African-American men is from John Bound and Harry J. Holzer (1990). Their cross-sectional study of 52 metropolitan areas finds that manufacturing shifts account for as much as 10–30 percent of the employment declines for subgroups of African-American and white men and are larger for the former group. Between 35 percent and 50 percent of the employment decline was experienced by African-American dropouts aged 16–24 between 1970 and 1980. Based on these results, one would have predicted further declines in the employment in this age group during the 1980’s as the manufacturing share of gross domestic product continued to fall, a prediction which turned out to be correct. Support for Bound and Holzer’s results is provided by Barry Bluestone et al. (1991), who report that one-third of the increase in year-round unemployment of 20-year-old, less-educated, young African-American males and 100 percent of the decrease in the weeks worked are due to decreased manufacturing employment shares.

A somewhat different result is reported by Welch (1990), for the decade of the 1970’s. He constructs an index of industry shifts from 1940 to 1980 using Census data. His units of observation are states, not metropolitan areas, and he includes all major industrial shifts, not just manufacturing. While he does not find a strong link between industrial shifts and reduced demand for African-Americans in the 1970’s, he does find that agricultural shifts reduced labor demand from 1940 to 1960. But the magnitude of such shifts in the 1970’s is much smaller. When Welch attempts to apply his methodology to metropolitan areas, estimated effects are unstable. Smith and Welch (1989 pp.550–51) attribute the observed results to African-American youth labor-supply conditions:

[T]he main culprit is that the reservation wage of black youth (the minimum wage they are willing to accept) has increased faster than the rising market wages of black youth.

This view is challenged by Holzer (1986) based on data from the National Longitudinal Survey of Youth and the National Bureau of Economic Research 1980 survey of inner-city youths in Boston, Chicago, and Philadelphia. He finds the reservation wages of African-American youth to be quite similar to that of white youth. Observed wages for whites are, however, higher. African-American youth are more likely to accept low paying jobs than whites. Alexis et al. (1983a, b) found similar results in a comparison of Latinos, African-
Americans, and whites in the Chicago labor market.

Wage aspirations of inner-city African-American youths were higher than actual wages in the 1970's. Thus, these youths were more likely to view their jobs as temporary and to be less attached to them, giving rise to longer spells of joblessness than is observed for white youths. It can be argued that similar reservation wages mask dissimilar human-capital endowments and higher effective African-American reservation wages. Relatively greater improvements in labor-market skills over time by African-American men, as posited by Smith and Welch (1989) reduces the likelihood of this effect. Taken as a whole, the evidence does not support reservation-wage disparities as a contributing factor to a worsening job market for African-American men.

Richard Butler and James J. Heckman (1977) speculated that the support provided by welfare acted as a reservation-wage floor and that higher levels of unemployment could be explained by this relationship. Whatever the relationship between welfare and joblessness, there is no evidence to support an increasing attractiveness of welfare in the 1970's as a cause for worsening joblessness rates for African-American males. In the 1980's the real value of welfare declined. This decline in the real value of welfare did not reverse the trend of greater African-American joblessness which may be traced back to the 1970's. There is evidence, however, that income-earning opportunities from crime grew in the 1980's. The growth in the market for drugs appears to have been a major outlet for illegal activities and associated income.

During the 1970's the apparent tendency toward convergence of market outcomes for African-Americans and whites ceased, and a reverse movement that erased some of the post-World War II gains ensued. Much of the focus of research in the 1980's was on younger men's outcomes. This focus may prove to be helpful if one wishes to project whether incomes (wages) of African-American men will again experience a wave of convergence or whether the relative status will stagnate or diverge. First, young African-American men are more like their counterparts in education than are older racial cohorts. Second, the experiences, skills, and attachment to work of this group of young men will affect their labor-market outcomes in later years. Third, their labor-market experiences may feed back to affect later generations of young African-Americans through the networks formed or missed and through the family and neighborhood (community) interactions. The latter are very important and could alter, for instance, (i) decisions on labor-force participation, (ii) length and type of schooling, (iii) the choice of private-market or military occupations, (iv) allocations of time between "straight" and "extra-market" (underground and criminal) activities. A literature on these dynamic interactions is accumulating but is beyond the scope of this paper.²

Younger, less-educated workers are most affected by adverse labor-market conditions (Cain and Finnie, 1990; Freeman, 1991). Changes in the composition of industry were responsible for up to one-third the increase in year-round joblessness among less-educated African-American men (Bluestone et al., 1991). African-American men experienced greater difficulty shifting from high-paying manufacturing jobs to equally remunerative nonmanufacturing jobs in the growing service sector; they were also less successful in finding jobs in the higher-paying professional, technical, managerial, and sales sectors (David Howell, 1991). The impact of this as noted by Jeremiah Cotton (1989) was a decline in the relative earnings of African-American men to 0.79 in blue-collar jobs and to 0.67 in white-collar jobs.

The shifts of African-American men out of manufacturing is most pronounced in durable-goods manufacturing. Between 1973 and 1975, 20.1 percent of African-American male workers and 18.4 percent of white male workers worked in durable-goods manufacturing. During 1987–1988, the percentages were 10.2 and 14.4, respectively, nearly a 50-percent decline for African-Americans (49.2 percent)

² Representative papers are Robert D. Mare and Christopher Winship (1984), William J. Wilson and Neckerman (1986), Anne Case and Lawrence F. Katz (1990), and Freeman (1991).
versus a 21.7-percent decline for whites. For African-American men, the Midwest was an unmitigated disaster as far as durable-goods manufacturing was concerned. During 1973–1974, 42.1 percent of Midwestern African-American men and 33.0 percent of white men were employed in durable-goods manufacturing. By 1987–1988 the respective percentages were 12.5 and 21.3. The decline for African-Americans was 70.3 percent; for whites, 35.4 percent. In the United States overall and in the Midwest, both races suffered large job losses, but white losses were only one-half those of African-Americans.

IV. Immigration

Conventional wisdom has suggested that the large waves of immigration in 1970’s and 1980’s reduced job opportunities for low-skill workers. Identifying such an effect has proved to be elusive. Cross-sectional studies (Alexis and Nancy DiTomaso, 1983; Alexis et al., 1983a, b; George J. Borjas, 1983, 1987; Joseph G. Altonji and David Card, 1991) have failed to find large consistent effects.

Borjas et al. (1991) use the 1980 Census and Current Population Survey (CPS) data (through 1987) to estimate the effect(s) of immigration on less-educated youths and find surprisingly large impacts. In addition to the Census and CPS data, they use estimates of implicit increases in the supply of less-educated labor embodied in net imports of the 1980’s. They find that up to one-third of the observed change in the differential between college- and high-school-level labor may be attributed to the labor-supply effects of immigration and trade.

The findings of Borjas et al. (1991) represent significant advances over earlier studies for several reasons: (i) earlier studies use data from 1980 or earlier; (ii) the earlier studies miss most recent periods, when employment and earnings problems of African-American men and problems of concentrated poverty appeared to have worsened; (iii) earlier studies concentrate primarily on earnings and unemployment of working populations, and they exclude the effects of immigration on the nonworking jobless; (iv) studies using national cross sections miss the interaction of immigration flows and growth of disadvantaged populations which appear to be concentrated in relatively few cities; (v) previous studies looked at either immigration or trade but not at both together in an integrated cohesive way.

V. Discrimination

An audit study of employer discrimination by Raymond J. Struyk and his colleagues at the Urban Institute is a reminder that discrimination in all its forms—overt and statistical—still exists (see Struyk et al., 1991). The Urban Institute team sent African-Americans and whites with matched sets of educational backgrounds, experiences, and demeanors to apply for the same jobs in Washington, DC, and Chicago. The results were that white men were three times as likely as African-American men (20 percent vs. 7 percent) to advance in the hiring process; offers were received by the white applicant 15 percent of the time and by the African-American applicant 5 percent of the time.

The Neckerman and Kirschenman (1990) results reported earlier also point to continued biased perceptions by employers (a mixture of race and class bias). Braddock and McPartland (1990) find that employers are less likely to hire minorities for jobs that emphasize academic achievement and cerebral activity. Finally, indicators of Equal Employment Opportunity Commission enforcement activity in the 1980’s are consistent with reduced anti-discrimination enforcement: new cases (fewer), class-action suits (fewer), and staff size (down 20 percent).

VI. African-American Women

Francine M. Blau and Arlene H. Beller (1991) use the 1972, 1982, and 1989 Annual Demographic Files of the CPS to study the effect of part-time employment and annual weeks worked on race and gender earnings differentials. Cutoff weeks worked and annual earnings are respectively one week and $100, permitting observation over a wide range of experiences. They find that relative racial earnings stagnated during the 1980’s for both men and women, but the pattern is
a reverse of the earlier years (1960’s). For both male and female African-Americans, younger cohorts did not do better than older, more experienced ones. The largest gains over the 1971–1988 groups was found in African-American females with 20+ years of experience. These women narrowed the earnings gap relative to all groups: white women, white men, and African-American men. Likewise older African-American men were the only ones to improve their relative position during the period. These observations fly in the face of predictions of racial earnings convergence based on greater relative improvement in African-American workers. A possible explanation is that African-American inputs are no longer improving faster than white inputs. Another possibility is that there are structural changes in the labor market which disproportionately hurt younger African-Americans because (i) they are less experienced, (ii) they have the wrong skills (poor counseling/curriculum), (iii) they face greater competition from imports, immigrants, and females entering the labor market, and (iv) they possess inadequate job search skills.

The complexity of labor-market outcomes is reflected in the Blau and Beller (1991) finding that African-American females who entered the labor market in the 1960’s not only retained, but increased their relative wages as they aged. Women who entered in the 1970’s had a lower relative wage than the women who entered a decade earlier.

Another difference in the 1970’s experience of men and women involved occupation. For women with 20+ years of experience, the effect was positive and substantial, largely reflecting an exodus from private household (domestic) work. During the 1980’s, occupational shifts played a much smaller role in reducing wage inequality. For men, occupational shifts worked in the other direction, increasing earnings differentials, because of the underrepresentation of African-American men in managerial and professional jobs.

Mary Corcoran and Sharon Parrott (1997) reach many of the same conclusions as Blau and Beller (1991) with respect to the stagnation of African-American earnings relative to those of comparable white men and women in the 1980’s and the relatively superior labor-market experience of older women. But Corcoran and Parrott concentrate on younger African-American women whose employment and earnings they believe better reflect changing economic conditions than do the labor-market outcomes of older African-American women.

Among college graduates Corcoran and Parott find steady decline in the relative earnings of African-American women in the 1970’s and 1980’s. For other schooling groups they find a decline in the earnings gap in the 1980’s following the stable 1970’s. The decline is statistically significant for high-school graduates but not for the other groups. They also find that earnings trends differ by education group and region. For reasons not explained, the racial gaps in earnings of both male and female college graduates widen considerably in both the 1970’s and 1980’s. At the other end of the educational spectrum is the high-school dropout. Both high-school dropouts and single mothers have experienced large declines in employment since 1969. Throughout the 1970’s and 1980’s the gap between young white and young African-American women’s employment opportunities widened. The rising labor-force participation rate of white college graduates in the 1970’s and 1980’s reduced the cost to employers who favored whites.

The lesson of both Blau and Beller (1991) and Corcoran and Parrott (1997) is that the labor-market experiences of African-American men and women can be and often are different. One needs to consider gender as well as race to fully understand African-American labor-market outcomes.

VII. Conclusions

I have examined the postwar economic experience of African-American men and observed a pattern of relative improvement in weekly earnings between the census years of 1940 and 1980. The same pattern holds if the base year is 1950. Improvements in years of schooling and schooling quality, South–North migration, and reduced discrimination in the South are all credited with the narrowing of the racial gap in earnings.
In the mid-1970’s, the narrowing of racial disparities stagnated, and it reversed in the 1980’s. Many factors are associated with the 1980’s decline in the relative positions of African-American men: (i) a shift in labor demand toward more skilled jobs; (ii) changing industrial and occupational distribution by race, which accounts for one-third of the widening differential; (iii) a disproportionately negative impact of diminishing blue-collar employment opportunities; (iv) the disproportionately negative impact on central cities of the decline in blue-collar employment; (v) overrepresentation of African-Americans in hard-hit regions (e.g., the Midwest); (vi) the location of African-American residences in the wrong areas within the urban areas; (vii) competition from immigrants and imported goods; (viii) the continuing presence of overt and statistical discrimination; (ix) diminished government enforcement of antidiscrimination laws; and (x) physical and psychological isolation.

Studies of labor-market outcomes of African-American women also reveal earnings gaps in the 1960’s, 1970’s, and 1980’s, but the pattern differs somewhat from the male experience. The large relative gains of younger male cohorts narrowed in the 1970’s and stagnated in the 1980’s while older African-American women experienced a continued reduction in cohort earnings differentials. Younger, particularly less-well-educated African-American women did not progress as much as those with 20+ years of experience. Dropouts and single mothers experienced declines in relative position.

REFERENCES


