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WHO BENEFITS FROM RACISM? THE DISTRIBUTION AMONG WHITES OF GAINS AND LOSSES FROM RACIAL INEQUALITY*

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ABSTRACT

Most neoclassical investigations argue that racial discrimination hurts employers and benefits white workers; however, these distributional hypotheses have not been tested empirically. This article argues that, no matter how racial inequality is produced, and whether or not capitalists individually or collectively practice discrimination, racial inequality benefits capitalists and hurts white workers, by weakening workers' solidarity and bargaining strength. The article presents several tests of this bargaining-power hypothesis. The empirical results support this hypothesis and are inconsistent with prominent neoclassical discrimination models.

Who benefits from racism? Clearly, blacks lose. So some whites gain, at least in relative terms. But do all whites gain, or do some gain while others lose? These are central questions for the economic analysis of racial inequality. Economists have constructed numerous models of racial discrimination,[1] but there has been surprisingly little empirical examination of these questions.[2]

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1 For recent surveys of this literature, see Reich [31, Ch. 3], Marshall [23], and Masters [24, Ch. 1]. The most influential contributions have been by Becker [6], Krueger [19], Welch [46], Thurow [43], Bergmann [7], and Arrow [3]. Theoretical work in this area is still continuing, as is shown by Freeman [15] and Stiglitz [37].

2 Chiswick [8] and Ashenfelter [4] are important exceptions.

Racial inequality is the result of past and present acts of racial discrimination. Many economists writing on racial inequality analyze how a particular form of racial discrimination is produced and then consider the effect of this discrimination upon various groups of whites. In this article, I examine the *effects* of existing income differences *between* blacks and whites on income differences *among* whites. This is both a theoretical and empirical question; it can be examined separately from the questions of how racial inequality is produced.

Most neoclassical investigations of racial discrimination, such as that of Gary Becker [6], argue that discrimination against blacks hurts capitalists and benefits white workers. Here, I argue that black/white income differences weaken workers' overall solidarity and bargaining strength and therefore benefit capitalists. I show empirically that income inequality between blacks and whites does in fact hurt most white workers and benefit capitalists and high-income whites.

In Section I, I present my general model and contrast its predictions with those of prominent neoclassical models of racial discrimination. In Section II, I discuss the technique I employ to test my hypothesis and specify the empirical counterparts of the variables. I present and discuss my empirical results in Section III. In Section IV, I suggest and test several of the underlying mechanisms within the model. I indicate my conclusions in Section V.

I. THE GENERAL MODEL

Who gains from racial inequality? My argument can be stated succinctly. Its central claim is that racial inequality exacerbates racial antagonisms and divisions between black and white workers. White workers develop racist attitudes and feelings that make it more difficult for them to ally with blacks and to see their common class interests against capital. The greater the racial income gap, the deeper are the divisions between black and white workers, and the weaker are unions and class solidarity. The consequence of these racial divisions is that the collective strength of labor is weakened in its bargaining with capital over the wage rate and income shares.[3] Capitalists gain and white workers lose, and the income differences between capitalists and white workers are increased.

This reasoning generates the principal testable hypothesis of my model: a greater degree of racial inequality (B/W) causes more inequality among whites (I_w):

3 In Reich [31, Ch 4], I discuss in detail the theoretical argument for the role of class conflict in determining the income distribution. See also Reich, Gordon, Edwards [32] and Edwards, Reich, and Weisskopf [12, Chs. 2-6].

(A) $$I_w = f(B/W)$$

This analysis requires some clarification. First, I focus on the effect of racial inequality on working-class solidarity because I expect this effect to dominate all others. I do not exclude the possibility that specific forms of racial discrimination may affect some whites through other (e.g., market) mechanisms with possibly quite different distributional effects. For example, racial discrimination in housing may increase the income of ghetto property owners, and racial discrimination in schooling through underfunding of ghetto schools may keep taxes down for all property owners (assuming they bear the burden of school financing). The statistical results will illuminate which effects dominate empirically.

Second, I do not investigate the particular mechanisms by which racial inequality is produced because this question is not germane to a bargaining-power model of income distribution. No matter how racial inequality and racial antagonisms are created, they will weaken working-class solidarity. Even if racial inequality were the result entirely of schooling and housing-market discrimination, with employers playing no active role, the principal effect would be to produce racial divisions among workers from which employers would benefit.[4] This implies that capitalists benefit from racial divisions whether or not they individually or collectively practice racial discrimination.

Third, racial discrimination (of various types) significantly reduces the ability of blacks to enter occupations with substantial entry barriers, thereby raising earnings in those occupations and depressing earnings in the remaining more crowded occupations. In this way, some skilled white workers and professionals may gain at the expense of blacks and other white workers.[5] It is important to emphasize, however, that most workers in the United States do not belong to such privileged occupations. Since these beneficiaries have relatively high incomes to begin with, I can account for

4 It is of considerable interest and implication for public policy whether employers themselves consciously and actively discriminate against blacks in order to "divide and conquer" their labor force. In their classic survey, originally published in 1930, Spero and Harris [35, p. 163] state: "The Negro is now recognized as a permanent factor in industry and large employers use him as one of the racial and national elements which help to break the homogeneity of their labor force. This, incidentally, fits into the program of big concerns for maintaining what they call 'a cosmopolitan labor force,' which frees the employer from dependence upon any one labor supply and also thwarts unity of purpose and labor organization. Or, as the personnel manager of a very large company near Chicago put it: 'It makes fraternizing among the employees difficult.' " There is considerable dispute whether such employer discrimination is still significant. For example, Freeman [14] finds no evidence for it today, but Rustin [33, p. 78] asserts that Spero and Harris's statement " . . . may not be typical of every company's approach to its work force, yet it describes a practice commonly in use till this very day."

5 Bergmann [7] makes a similar argument.

this qualification by restating my hypothesis as follows: racial inequality increases white inequality by benefiting capitalists and high-income whites and by hurting most white workers.

My predictions about who benefits from racial inequality contrast with the predictions of the major neoclassical models of racial discrimination: those of Becker, Krueger, Thurow, Bergmann, Welch, and Arrow.[6] The models of Becker and Krueger, each using an international trade approach, predict that racial discrimination benefits white workers and hurts capitalists. Thurow's eclectic model of seven different kinds of discrimination does not contain any uniform implications for the distribution of gain among whites resulting from discrimination. In Bergmann's crowding model, racial barriers to entry restrict the occupations open to blacks, consequently crowding those occupations and limiting the supply of labor to other occupations. Crowding produces greatest gains for unskilled whites, for whom blacks could otherwise most easily substitute, and smaller gains for skilled whites; it has no effect on employers. In other words, the greater the crowding, the more compressed the white occupational wage structure and, therefore, the more equal the white income distribution. Welch's model predicts that the effects of racism on the white income distribution are neutral, as black workers fully absorb the efficiency losses of racial antagonisms. In contrast, racial discrimination in Arrow's variant of Welch's model produces gains for skilled whites while leaving unskilled whites and employers unchanged. Arrow's model thus does not predict any clear effect on overall white inequality, but does predict a smaller share of white income going to capitalists as discrimination increases.

II. SPECIFICATION OF THE MODEL

In this section I introduce market variables into my model, discuss the statistical technique that I use, and present the empirical counterparts of the variables I have discussed.

Building Market Variables into the Model

In a competitive capitalist economy, the income distribution is not a result of bargaining-power variables alone. Market forces also affect the income distribution. While workers and capitalists generally bargain over the money wage, this conflict occurs in a context that appears to be regulated by labor market conditions, that is, the relative supply of and demand for

6 See Reich [31, Ch. 3] for a fuller discussion of the distributional implications of these models.

workers of various skill levels. The state of technology, initial endowments of labor-power, skills, and capital, the supply of money, and (if there are nonconstant returns to scale) individual preferences for commodities also play a role.[7] To take these into account, equation (A) must include market variables. I have modified it accordingly,

$$(A') \qquad I_w = f(B/W, M_1, \ldots, M_n)$$

where $M_1, \ldots, M_n$ refers to the relevant market variables.

These market conditions are themselves partly the outcomes of prior conflictual class struggles between labor and capital, fought on both economic and political terrains. For example, Marxists have often argued that capitalists use technology as an instrument to control workers. In this study I do not attempt to assess the extent to which market variables are functions of bargaining-power variables. I note that insofar as racial divisions in bargaining do affect these market outcomes, controlling for market variables may produce an underestimation of the true effect of racial inequality on inequality among whites.

The Statistical Technique

There are several methodologies that can be employed to test the hypothesis that racial inequality increases inequality among whites. One could attempt a historical analysis and see whether the weight of the historical evidence is consistent with the hypothesis and inconsistent with competing hypotheses. Alternatively, one could employ a statistical time-series approach and examine whether times of greater racial inequality are associated with times of greater inequality among whites. A third technique, the one that I employ here, is to use cross-sectional regression analysis. My unit of observation is a local urban labor market area, defined operationally as a Census-defined Standard Metropolitan Statistical Area (SMSA).

The cross-sectional technique allows exploitation of the substantial variation that exists across SMSAs in both racial inequality and income inequality among whites. The cross-sectional variation in these variables is greater than is the time-series variation. Some problems of controlling other influences arise, but I believe these problems are simpler than in a time-series approach. My cross-sectional methodology does limit me, however, to explain only the variation in white inequality that exists *within* metropolitan areas. Since a substantial portion of total white inequality in the United States exists *between* metropolitan areas, my regressions will not

7 See Sraffa [36] or Eatwell [11] for an elucidation of the determination of the profit rate and the income shares along these lines. Medio [25] shows that demand factors play a role in the case of nonconstant returns to scale.

capture the effect of racial inequality on these intermetropolitan differences. Consequently, my empirical results may understate the overall impact of racial inequality on white inequality.

Specification of the Variables

I use several measures of income inequality among whites as dependent variables: G_w, the Gini coefficient of white family income; *S*1, the share of income received by the top 1 percent of white families; *B*20, the share of income received by the bottom 20 percent of white families; and *Smid*50, the share of income received by white families in the 20th to 70th percentiles.[8] Each of these variables sheds light on a different aspect of white income distribution. *S*1, for example, is a reasonable proxy for income from capital, since more than two-thirds of total money income among the top 1 percent of the population is income from capital.[9] *B*20 is

8 Results for a number of additional dependent variables, including the share of income received by the top 5 and 10 percent of white families, are presented in Reich [31, Ch. 7]. The basic source for the data in this study is the *U.S. Census of Population, 1960.* In Parts 2-51, Table 76 presents the total number of families in an SMSA in each of 13 income classes; Table 78 presents the same data for nonwhites only. The white income distribution was obtained by subtracting nonwhite data from the total.

To compute the Gini coefficient and percentile shares, I estimated first the mean income for each income interval for each SMSA. Class means for intervals below the median were based on estimates in Oshima and Ono [27]. Class means for the six income intervals above the median were computed by fitting a Pareto distribution for each SMSA,

$$\log N = k + a \log Z$$

where Z = income level and N = number of recipients with incomes $\geq Z$. The fits were excellent; the average R^2 for the 48 SMSAs was .997. This estimate of the Pareto coefficient, a, using six observations, appears to be more reliable than the two-point method used by Miller. The class mean $m_{x,y}$ for each closed interval (x,y) is calculated as follows:

$$m_{x,y} = (\int_x^y N dz)/(\int_x^y N' dz) = [a/(a+1)][x^{a+1} - y^{a+1})/(x^a - y^a)]$$

The class mean for the upper open-ended interval (x, ∞) is:

$$M_{x,\infty} = [a/(a+1)] \cdot x$$

With these class means, the total income received by families in each interval was calculated, permitting as well calculation of a cumulative Lorenz distribution. The Gini coefficient, decile and percentile shares were then obtained from the Lorenz distribution. Further details are presented in Reich [31, Ch. 6 and the appendix to Ch. 6].

9 This calculation is based on the wage and salary share of total taxable income, as reported in Internal Revenue Service, *Statistics of Income, 1966: Individual Income Tax Returns,* Tables 7, 11, and 19. Gurley [16, pp. 319-27] estimates that returns to property account for 80 percent of the income (including all capital gains) of the top one-third of 1 percent of all families.

Since owners of capital do not necessarily reside in the same SMSA as the physical capital they own, the *S*1 variable will include some returns to capital located elsewhere and will omit some returns to capital located in the SMSA. However, studies of financial interest groups [9, 26] have shown that controlling interests of many major corporations are located

more of a proxy for earnings of the low-wage working poor and for transfer income, which is concentrated in the bottom fifth of the population. *Smid*50 consists almost entirely of earnings from wages and salaries, and includes most of the members of labor unions.

My principal measure of racial inequality is the ratio of median black family income (more precisely, the income of the median family with a nonwhite household head) to median white family income (*B*/*W*).[10] By using this measure I deliberately do not control differences in black and white individual characteristics nor separate out the various discriminatory mechanisms that produce racial inequality. As I argued in Section I, these are irrelevant to my model. I do experiment with one measure of racial discrimination: an index of residential segregation in a city (*SEGR*). A number of recent studies have shown that very little of the variance in residential segregation within and between cities can be explained by socioeconomic variables such as income or by voluntary self-segregation.[11] In other words, residential segregation by race is a result of racial discrimination in the housing market and so provides a measure of the overall extent of racial discrimination in the SMSA.

To avoid spurious results, I include a number of control variables as right-hand variables. Other factors beside racial inequality determine the degree of white income inequality within SMSAs. Within the limitation of data availability, I include control variables to account for alternative hypotheses that have been suggested by the literature, by earlier cross-SMSA income inequality studies, and by discussants of earlier versions of this study (see [1, 2, 42]). A brief discussion of the major control variables follows.

The mix of industries in an SMSA—the distribution of employment among agriculture, construction, manufacturing, transportation, trade, finance, insurance and real estate, services, and government—will be a significant determinant of the overall income distribution. These industries vary widely in their mean labor earnings, in intraindustry occupational mix

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in the same city as the corporation. This suggests that some of the variance in the location of physical capital is related to the variance in the location of the capital owners. If the remaining variance is random, *S*1 retains usefulness as a proxy for capital income in the SMSA. I would have preferred to separate income more directly into property income, earnings, and transfers, but such data are not available at the level of disaggregation I am using.

10 The data on median family incomes by race and by SMSA are taken from *U.S. Census of Population, 1960,* Part I, "Detailed Characteristics," Table 301. Black families are more likely to have a female head or more than one wage earner, but the variance in these dimensions across SMSAs is not substantial and therefore does not bias my results.

11 Taeuber and Taeuber [40, p. 94], Kain [18, pp. 136–61], Pascal [28], and Masters [24, pp. 31–36]. The segregation index I used was calculated for central cities on a block basis by Taeuber and Taeuber [40].

and earnings differentials, and in the share of industry income received by labor. If some cities provide more employment opportunities for both blacks and unskilled whites, the industrial structure and other related control variables should pick up this influence. In the empirical work I utilize all the potential variables of industrial structure and occupational mix that are available. One crude but highly convenient measure of the industrial structure of an SMSA is the percentage of all employment in manufacturing (*PCTMFG*). I control the occupational structure of the SMSA by including as a control variable the share of SMSA employment in white-collar occupations (*WHICOL*). The average income level is another important control variable; it reflects aspects of the industrial structure not captured by other industrial-structure variables as well as the effects of migration of labor from low-income to high-income areas. I use the median income of white families (*MDWINC*).[12]

III. EMPIRICAL RESULTS

Table 1 presents linear regression estimates of equation (A′), using as the sample the 48 most populous SMSAs in 1960. The results for 1960 are especially interesting because they indicate the structural relations that existed prior to the mass civil rights protests and federal legislation of the 1960s. In equation 1, with G_w as the dependent variable, the coefficient of B/W has the negative sign predicted by my hypothesis and is significant at the 1 percent level. At the sample means of the variables, a 1 percent increase in the B/W variable (a decrease in racial inequality) is associated with a 0.2 percent decrease in the Gini coefficient of white income (a decrease in white inequality). The control variables also are significant and have their expected signs. The elasticity and beta coefficient for the B/W variable are of the same order of magnitude as for the market-control variables.[13]

12 In addition to the variables mentioned in the text, I report results in Reich [31] for the following control variables: two measures of capital per worker in manufacturing; the concentration of manufacturing employment in durable goods industries; specialization of manufacturing in four industries; managerial and professional employment; employment in the public sector; the female labor force participation rate; and an explicit migration variable.

13 I am currently undertaking similar tests of my hypotheses using data from the 1970 Census; I will present the final complete result as well as some additional tests in a forthcoming paper. The preliminary 1970 results indicate the same general patterns as are presented in Table 1. The sign and magnitude of the coefficient of the B/W variable are similar; the coefficient is significant although not as highly as in 1960. Comparisons with 1960 may indicate effects of the civil rights activities and federal legislation of the decade, as well as the continuing northward migration of blacks and the changes in overall labor market tightness.

TABLE 1
TOTAL SAMPLE (n = 48)

Equation Number	Dependent Variable	Constant	*B/W*	*SEGR*	*PCTMFG*	*WHICOL*	*MDWINC*	R^2
1	G_w	.492	−.097		−.134	.066	−.012	.685
			(−3.29)		(−5.50)	(1.89)	(−3.49)	
			−.19		−.11	.09	−.21	
			−.31		−.50	.25	−.29	
2	G_w	.370		.069	−.153	.055	−.010	.642
				(2.09)	(−6.01)	(1.50)	(−2.58)	
3	*S*1	.094	−.059		−.043	.029	.001	.511
			(−4.32)		(−3.80)	(1.81)	(0.72)	
			−.55		−.19	.19	.10	
			−.48		−.44	.19	.07	
4	*B*20	.020	.010		.0363	−.0137	.0049	.666
			(1.20)		(5.10)	(−1.35)	(4.94)	
			.105					
5	*SMID*50	.353	.059		−.0536	−.0536	.0033	.510
			(3.13)		(3.48)	(−2.43)	(1.54)	
			.095					

Note: Numbers in parentheses refer to *t*-statistics, elasticity at the mean is given below the *t*-statistic, and the beta coefficient is below the elasticity.

These results are very encouraging. The percent of variance "explained" is more than two-thirds, very high for cross-sectional analyses. The results compare well with other cross-SMSA or cross-state income inequality studies: the R^2s are slightly lower than those reported by Thompson and Matilla [41] and Farbman [13], and slightly higher than those of Aigner and Heins [1] or Al-Samarrie and Miller [2]. Moreover, the coefficients of the variables that also appear in these other studies are of the same sign as in mine. It seems safe to conclude that the most important "structural" determinants of SMSA income distribution are incorporated in this simple equation, and it is doubtful that a major systematic but unidentified control factor has been omitted. This conclusion is reinforced by the results when additional control variables are included in the regression.[14]

The results using a specific measure of racial discrimination, the Taeuber residential-segregation index, are reported in equation 2 of Table 1. The *SEGR* variable is significant at the 1 percent level. Its positive sign is consistent with my hypothesis: the greater the degree of residential segregation, the greater is income inequality among whites.

These results further support my basic hypothesis, and in two different senses. First, these equation estimates themselves are consistent with the propositions made in Section I. Second, the observed statistical relation in equation 1 between B/W and G_w may be influenced by an omitted class factor that affects both variables. However, the *SEGR* variable is not likely to be influenced by class variables. These results in equation 2, therefore, cast considerable doubt on the likelihood that the observed partial correlation between G_w and B/W is spurious.[15]

Szymanski [38] also presents results of tests of my hypotheses using 1970 data; his results are strikingly similar to and support my 1960 findings. However, Szymanski presents no statistical significance tests, does not control for more than two variables at a time, and uses states as his unit of analysis, although SMSAs better approximate single local labor market areas. Therefore, his results, while suggestive, must be treated circumspectly and not taken as final.

14 The inclusion of the additional control variables mentioned in fn. 12 has no downward impact on the coefficient or significance level of the B/W variable. Additional details are presented in Reich [31] and are available from the author upon request. Unionism and schooling inequality variables are omitted from these equations for reasons discussed in the next sextion. The inclusion of these variables does not affect the results, however. I also examined the residuals in equation 1 to see what patterns could be discerned. Details are provided in Reich [31].

15 Another variable often discussed by writers on discrimination is the relative proportion of nonwhites in the population (*PCTNW*). Becker, for example, argues that discrimination against any minority group will increase with an increase in the relative size of the group. Moreover, occupational crowding models predict that the proportion of nonwhites affects the crowding of nonwhite occupations and thereby affects the white income distribution. See [7, 8]. If the crowding hypothesis is valid, a greater proportion of nonwhites narrows

Equation 3 in Table 1 presents results with $S1$ as the dependent variable. The coefficient of B/W is again negative and significant at the 1 percent level. The signs and significance of the control variables are the same as in equation 1, with the exception of *MDWINC*. The R^2, although lower, is still high for cross-sectional data.

The relative importance of the B/W variable, as measured by the beta coefficient or by the elasticity at the mean, is greater in the $S1$ equation than in the G_w equation. The elasticity at the means more than doubles, while the beta coefficient increases by over 50 percent. In other words, the disequalizing effect of racial inequality on whites is concentrated in redistribution to the top 1 percent of white families.

In the $B20$ equation, the coefficient of the B/W equation is positive as expected by my hypothesis, but is not significant. As equation 5 indicates, the effect of racial inequality on "middle America," the half of the white population in the second to seventh deciles, is significant: the coefficient of the B/W variable in this equation is positive and is significant at the 1 percent level. A 1 percent increase in racial income inequality decreases by about one-tenth of 1 percent the income share of middle-income families. This elasticity, to compare with the results in equations 1 and 2, is about half that obtained in the G_w equation, and one-fifth the elasticity of B/W in the $S1$ equation.

These results reinforce an observation made earlier. An increase in racial inequality (i.e., a *decrease* in B/W) substantially increases the income share of the richest 1 percent of white families, with a lesser increase in white inequality overall. On the basis of these findings, the redistributive benefits of racial inequality appear to be concentrated primarily among the very rich.

It is possible that the empirical results reported so far reflect only regional differences between the South and the rest of the nation. This would occur if the independent variables are proxies for regional differences, with most of the variance in white income inequality between and not within regions. In fact, the variation of both G_w and B/W within just the non-South is substantial. But of the 11 SMSAs ranking lowest in B/W, nine are southern (the exceptions are St. Louis and Washington, D.C.). To check for regional differences, I present regression estimates for a subsample of 36 nonsouthern SMSAs in my sample. The results are presented in Table 2.

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the white wage distribution and lowers the B/W ratio. The crowding model thus suggests that B/W is only an intervening variable between *PCTNW* and G_W; therefore the inclusion of *PCTNW* should reduce substantially the coefficient of B/W. However, the *PCTNW* variable does not enter significantly into my equations, nor does its inclusion affect the coefficient of the B/W variable. The crowding hypothesis is not supported.

TABLE 2
NON-SOUTH (n = 36)

Equation Number	Dependent Variable	Constant	*B/W*	*SEGR*	*PCTMFG*	*WHICOL*	*MDWINC*	R^2
1	G_w	.400	−.098 (−2.10)		−.088 (−3.00)	.078 (2.14)	−.0022 (−0.46)	.319
2	G_w	.313		.017 (0.43)	−.283 (−.50)	.144 (1.17)	−.0077 (−1.15)	.209
3	*S*1	.067	−.062 (−2.80)		−.028 (−2.0)	.034 (2.0)	.0043 (1.9)	.355
4	*B*20	.036	.005 (0.47)		.021 (1.45)	−.012 (−0.40)	.0039 (2.35)	.332
5	*SMID*50	.403	.065 (2.37)		.027 (1.57)	−.063 (−2.93)	−.0027 (−0.95)	.304

Note: The 12 southern SMSAs excluded to form the nonsouthern subsample are: Dallas, Fort Worth, Houston, San Antonio, Birmingham, Miami, Tampa-St. Petersburg, Atlanta, Louisville, New Orleans, Memphis, and Norfolk. The 25 percent proportion of southern SMSAs in my overall sample corresponds closely to the proportion of the overall population of the nation living in the South.

In both the G_w and $S1$ equations, the sign and magnitude of the coefficient of the B/W variable is unaffected by the exclusion of the southern SMSAs. The t-statistic of B/W is somewhat lower than for the entire sample, but it is still significant at the 5 percent level in the G_w equation and at the 1 percent level in the $S1$ equation. Similar remarks apply to equations 4 and 5. These results again provide support for my hypotheses. The disequalizing effect of racial inequality on whites is significant even within the more limited variance of the non-South.

IV. SOME MECHANISMS

Within my model, I specify and test a number of mechanisms that further support the statistical finding that racial inequality increases income inequality among whites. I shall consider two mechanisms here: (1) the effect of racial inequality on worker solidarity, as manifested in the extent of unionization; and (2) the effect of racial inequality on the solidarity of coalitions of black and low- and middle-income whites in the political arena, as manifested in the extent of inequality in public schooling and the level of public-welfare payments in the Aid to Families with Dependent Children (AFDC) program.

Racial Inequality and Unionism

My hypothesis here is straightforward: the greater the extent of racial inequality, the more limited the extent of unionization (U):

$$\text{(B)} \qquad U = g(B/W, M_1, \ldots, M_n) \qquad \text{and} \qquad \partial U/\partial(B/W) > 0$$

The hypothesis that unions are hurt by racial inequality may seem surprising to some, given the egregious racism of much of organized labor. Indeed, many students of the labor movement have demonstrated that discriminatory policies have been practiced by organized labor from its earliest history (Taft, [41, pp. 665-70], Spero and Harris [35], Marshall [22], Hill [17]). In their early years, for example, the constitutions of many craft unions expressly prohibited blacks from joining. It is often argued that union pressure is one of the primary forces compelling otherwise profit-seeking employers to conform to prevailing white social customs and attitudes against blacks (for example, Rapping [30]). An exclusionary racial policy, goes the argument, benefits white union members because it increases their bargaining power and income.

It is important, however, to distinguish between craft unions and industrial unions. Racial exclusion increases bargaining power only when entry into an occupation or industry can be limited effectively. Industrial

unions are much less able to restrict entry than are craft unions or organizations such as the American Medical Association. Historically, racial exclusionism has been most practiced by and probably benefited skilled craft unions, but it has often weakened and destroyed industrial unions. Historians have argued that many CIO unions would not have grown so rapidly in the late 1930s had they not stressed racial equality in their internal organization [34]. While some skilled craft and professional white workers may benefit economically from racism, the majority may not.

Some economists have pointed to greater racial inequality to explain why the extent of unionization is much lower in the South than elsewhere in the United States. Differences in industrial structure between the regions do not account for this lower extent of unionism. Southern unionization is significantly lower within nearly every industry that has an appreciable number of employees in both the South and the rest of the nation [21, Ch. 18].

The unionization measure that I use is imperfect. Reliable data on union membership are not available, and it is difficult to classify unions as craft or industrial with the data we have for SMSAs. I use the only data available for SMSAs: the percentage of plant workers in all industries who are employed in establishments where a majority of workers are covered by a labor-management contract.[16]

Table 3 presents results for a series of tests of the unionization hypothesis, using the subsample of 41 SMSAs for which unionization data are available. Equation 1 indicates the impact of racial inequality and the market-control variables on the extent of unionization. The *B/W* variable is positive, as expected, and significant at the 5 percent level. At the sample means, a 1 percent increase in the ratio of median black to white incomes (reduction in racial inequality) is associated with a .5 percent increase in the degree of unionization. The control variables *PCTMFG* and *MDWINC* are also positive and significant in these equations, as one would expect.

These results both support my hypothesis and contradict much conventional wisdom. The positive sign of *B/W* in equation 1 indicates that, at least as far as degree of organization is concerned, unions are on the whole better off when there is less racial inequality. Although some unions may benefit from discriminatory practices and racial exclusion, such policies do not appear to produce gains for unions in the aggregate.

Table 3 also presents estimates of the same equation for the non-South subsample. The industrial-structure variables continue to be significant in equation 2, but the *B/W* variable is not. The hypothesized relation between

16 These data are taken from U.S. Department of Labor, Bureau of Labor Statistics, *Wages and Related Benefits: 82 Labor Markets, 1960–61*, Bull. No. 1285, Table 8-336, p. 121. Data are available for 41 of 48 SMSAs in the sample and for 31 of 41 SMSAs in the non-South subsample.

TABLE 3

Equation Number	Dependent Variable	Constant	*B/W*	*PCTMFG*	*WHICOL*	*MDWINC*	R^2	n
1	*UNIONISM*	−.637	.646	.863	.291	.086	.544	41
			(2.20)	(3.58)	(0.90)	(2.55)		
	(elasticity)		.52	.31	.16	.75		
	(beta)		.29	.17	.06	.36		
2[a]	*UNIONISM*	−.104	.347	.821	.621	.017	.171	31
			(0.73)	(1.69)	(0.57)	(0.29)		
3	*EDGINW*	.563	−.563	−.185	−.117	−.014	.566	48
			(−6.22)	(−1.86)	(−1.25)	(−1.30)		
4[a]	*EDGINW*	.541	−.264	−.033	−.087	−.059	.500	36
			(−3.30)	(−2.90)	(−3.69)	(4.45)		
5	*AFDC*	−173.	243.1	.071	−.779	25.0	.685	34
			(4.28)	(0.09)	(−0.38)	(2.69)		
6[a]	*AFDC*	−207.	300.0	.272	−.655	23.0	.521	22
			(3.47)	(0.24)	(−0.25)	(3.47)		

a Nonsouthern SMSAs only.

unionization and racial inequality apparently holds only on an interregional level. As the institutional literature cited earlier suggests, the regional differences in unionization may be related to the greater degree of racial inequality in the South.

Evidence on the relation between unionism and racial inequality is also provided by Ashenfelter [4], using data from the 1967 Survey of Economic Opportunity. His results suggest that craft unions depress the black/white wage ratio, while industrial unions increase it. The effect of craft unions is twofold. They discriminate more in membership than do industrial unions, and they increase the interoccupational wage differential, whereas industrial unions narrow it. Ashenfelter concludes that unions on net tend to narrow racial wage differences. These results are not inconsistent with mine.

Both Ashenfelter and I find similar correlations between unionism and racial inequality, but we draw opposite causal inferences. In my view, both inferences have some validity, although I have not tried to assess their relative importance. Both inferences are consistent with the class-bargaining-power model I have proposed. Neither inference is consistent with the Becker hypothesis that capitalists lose and white workers gain from discrimination.

Racial Inequality and Public Services: Schooling Inequality and Welfare

Racial inequality not only creates division in working-class solidarity in economic bargaining over wages and income shares; it also creates divisions in working-class solidarity in the political arena where the level and distribution of public expenditures are determined. These racial divisions reduce the ability of blacks and low- and middle-income whites to join in a united political movement that would press for the public services that benefit these groups. Two of the most important of these publicly provided services are schooling and welfare.

In the case of schooling, I hypothesize that greater degrees of racial inequality cause increased inequality in schooling among whites.[17] To test

17 The effects of racial hostilities surrounding school busing in Boston and other cities in the past two decades provide examples of the phenomenon I am discussing. White working-class education has deteriorated because racial antagonisms have prevented interracial political coalitions that could demand more resources for education. Another illustration was provided recently by the Governor of Florida, Reuben Askew [5]:

"Because of our persistent preoccupation with race-related issues, we have all too frequently neglected the real economic and environmental problems of the people, black and white alike. In this way, we have not been fair to ourselves. When people are divided against themselves on racial grounds, they have no time to demand a fair share on taxes, utility bills, consumer protection, government services, environmental preservation, and

this hypothesis, I have constructed for each SMSA an output measure of schooling inequality: the Gini coefficient of years of schooling completed for a cohort of white males aged 25 to 29 (*EDGINW*).

The test of this hypothesis is reported in Table 3. As equation 3 shows, the coefficient of *B/W* is negative, as predicted, and is significant at the 1 percent level. *PCTMFG* has a negative sign and is the only other variable that enters significantly into this equation. More than half the variance is explained by the equation. The hypothesis is also sustained in the non-South subsample (see equation 4). *B/W* again appears with a negative coefficient, significant at the 1 percent level. The market-control variables' significance in this equation is again much lower than in the G_w or *S1* equations.

The high association between schooling inequality among young white males and racial income inequality in these equations is consistent with the specific hypotheses concerning the effects of racial inequality or schooling inequality. The results also further support the validity of *B/W* as a measure of racial antagonisms. It is much more unlikely that a spurious correlation might develop between *B/W* and *EDGINW* than might develop between *B/W* and G_w, yet the association of the former pair is much greater.

My hypothesis in the case of welfare is that racial inequality reduces the ability of poor blacks and whites to press for higher welfare stipends. Piven and Cloward [29] have argued that political demands by the poor are a major determinant of legislator-determined welfare stipends. An average monthly stipend variable was derived from a survey of state welfare agencies; data were available for 34 SMSAs in my sample.[18]

The results are presented in Table 3, equations 5 and 6. The important control variable here is *MDWINC*, for it measures the general wage level of the SMSA and the capacity of the state and city to fund welfare programs. The *B/W* variable has the expected positive sign and is significant at the 1 percent level in both equations. The results indicate that SMSAs with less racial inequality have more generous transfer programs. It is possible that the causation really works in the reverse direction: that higher AFDC benefits cause a higher *B/W*. This might happen if (1) AFDC stipends are

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other problems. In this session of the Florida legislature . . . while the legislature and the news media are focusing attention on the busing debate, lobbyists and special interests were hard at work undermining programs that would put money into people's pockets, things that would help protect people and the other living things which make Florida a worthwhile place in which to live.

"This is probably the greatest reason why the South has been lagging behind other regions on issues such as wages, distribution of the tax burden, health, medical care, and aid to the elderly and others in need. So often when someone attempts to do something about people's needs, the race issue is resurrected in one form or another."

18 I am indebted to Marjorie Honig for providing me with these data.

high relative to median black incomes, and (2) a high proportion of black families are on AFDC, and this proportion is much higher among blacks than among whites. But the underlying data indicate that in 1960 neither the average AFDC stipend nor the mean percentage of black families receiving AFDC payments were sufficiently high to produce a spurious correlation between median black income (the numerator of B/W) and the AFDC variable.

Once again, the results confirm the hypotheses of this study: higher levels of AFDC stipends are associated with lower levels of racial inequality.

V. SUMMARY AND CONCLUSIONS

The above results can be summarized as follows: 1. The empirical results are consistent with the hypothesis that racial inequality has a disequalizing effect on the white income distribution. 2. I have controlled for the principal "structural" variables that would impart a spuriously significant coefficient for B/W if they were not included in the equations. 3. The disequalizing effect of racial inequality is most pronounced at the upper tail of the white distribution and least pronounced at the lower tail. The hypothesis that high-income whites benefit most from racial inequality is supported. 4. The hypotheses are also sustained when a residential-segregation index is substituted for B/W. 5. The results are also consistent with the main hypothesis within the more limited variance of the non-South. 6. The results show that more unionism is associated positively (in the aggregate) with less racial inequality, not more, as is often assumed. 7. The degree of schooling inequality among young white males is strongly associated with B/W; more racial inequality is correlated with more schooling inequality. 8. Higher welfare payments are associated with less racial inequality. Thus, the hypothesis that racial inequality weakens the ability of blacks and poor whites to unite around local political issues is also not contradicted.

How do these empirical results compare with the predictions of various neoclassical models? As my summary review in Section I indicates, none of the neoclassical models mentioned predicts my empirical results. Only the Thurow model is not inconsistent with these results and only because his model does not specify any clear distributional implications. Insofar as my equations constitute a fair test of the predictions of the neoclassical models, they refute those predictions, while confirming the predictions of my own bargaining-power model.

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