

CHAPTER 4

Economic Inequality Among Racial and Ethnic Groups

THIRTY-FOUR YEARS AGO the signing of the Civil Rights Act of 1964 set the Nation on a course toward racial equality. As the economy surged, income differences narrowed for a full decade. The sharp recessions of the mid-1970s and early 1980s hit black and Hispanic Americans particularly hard, however. And in the expansion of the 1980s, economic growth was accompanied by sharp increases in overall income inequality. As a result, despite the economic growth of this period, income differences between black and Hispanic families on the one hand, and non-Hispanic white families on the other, did not diminish. The recession of the early 1990s brought further economic hardship, as the poverty rate climbed to near a 30-year high.

Since 1993, incomes have once again been rising. But the present recovery differs from those of the 1970s and 1980s in one important respect: economic growth has not been accompanied by sharp increases in income inequality. Moreover, this recovery has been accompanied by a narrowing of some measures of racial inequality. The median black family income reached a new high, and the poverty rate for blacks fell to a new low. After nearly 20 years of stagnation, these developments have again raised hope for sustained progress toward economic equality among racial and ethnic groups.

This chapter reviews statistics on the differences in economic status among racial and ethnic groups—whites, blacks, Hispanics, Asians, and American Indians—and evaluates various explanations for those differences (Box 4-1). Three themes are developed in this review. First, although some narrowing of gaps in economic status among racial and ethnic groups has occurred, it has been uneven—faster in some periods and for some groups than others—and substantial differences persist. The median incomes of non-Hispanic white families and of Asian families are nearly double those of black and Hispanic families. The median wealth of non-Hispanic white households is 10 times that of blacks and Hispanics. Poverty rates among Hispanics and blacks are more than triple those of non-Hispanic whites. Unemployment rates for blacks are twice those for whites.

Second, the sources or causes of current differences in economic status across racial and ethnic groups are numerous and complex. The economic status of a person, a household, or a family reflects a

mixture of current conditions, such as the state of the economy, and more permanent characteristics, such as educational background, occupational experience, and family background, which have antecedents in constraints faced in childhood and by previous generations. This commingling of short-term and long-term influences poses a challenge for the interpretation of trends in racial inequality. For example, current progress toward racial equality is due both to the recent effects of the strong economy and to longer term developments such as improvements in educational attainment and reduced discrimination over the past half-century. The complexity of these social and economic processes cautions against a simple explanation of trends in racial and ethnic economic equality.

A third theme of the chapter is that racial inequality and related policy issues are intertwined with the long-term general increase in economic inequality that extends beyond racial differences. Lack of progress toward racial economic equality between the early to mid-1970s and the early 1990s coincided with marked increases in inequality both overall and within racial and ethnic groups.

Box 4-1.—Racial and Ethnic Identity and Classification

The identification and classification of persons by race and ethnicity are complex and controversial issues. The concepts of race and ethnicity lack precise and universally accepted definitions. Their economic significance depends on a variety of factors, including how individuals identify themselves racially or ethnically, and how others identify and treat them. Most of the data presented in this chapter classify persons by race or ethnicity on the basis of responses to questions about race and Hispanic origin in the decennial Census and other household surveys.

Whenever possible, data for five mutually exclusive racial and ethnic groups are presented in this chapter:

- Hispanics, who may be of any race
- Non-Hispanic whites
- Blacks not of Hispanic origin
- Asians, including Pacific Islanders, not of Hispanic origin
- American Indians, including Alaska Natives (Alaskan Eskimos and Aleuts), not of Hispanic origin.

The term "black" rather than "African American" has been used in government statistics for more than two decades. The tables, charts, and references to statistics in this chapter that rely on these classifications use the term "black."

Hispanic identification is determined by responses to a question about Hispanic origin. Therefore, in tables, figures and discussion of related statistics the term "Hispanic" is used.

The increase in income inequality has two major implications. First, since blacks, Hispanics, and American Indians are disproportionately represented at the bottom of the income distribution, they are affected disproportionately by developments that make all those at the bottom worse off relative to the middle or the top. A second and more subtle implication is that inequality within racial and ethnic groups has grown relative to inequality between such groups. Growing income inequality within the previously largely impoverished black population is partly a product of black economic progress: by some measures more than half of black families have attained middle-class incomes or higher. Despite persistent gaps in income between blacks and whites, the growth of the black middle class, combined with widening inequality within the white population and the general slowdown of economic growth in the 1970s and 1980s, may have fueled opposition to measures or programs perceived to benefit members of minority groups without regard to individual economic circumstances.

Box 4-1.—continued

The terms "American Indian" and "Native American" are often used synonymously in speech and writing. In this chapter "American Indian" rather than "Native American" is used to avoid confusion caused by the use in some Federal programs of the term "Native American" to include Native Hawaiians and Pacific Islanders.

On October 30, 1997, the Office of Management and Budget announced its decision to revise the standards for classifying Federal data on race and ethnicity. The new standards recognize the growing diversity of the American population by permitting respondents to mark more than one race on survey questionnaires. In addition, the "Asian or Pacific Islander" category has been divided into two categories, "Asian" and "Native Hawaiian or Other Pacific Islander," making a total of five racial categories ("Hispanic" is an ethnic category). The "black" category has been changed to "black or African American." The ethnicity question will include two categories: "Hispanic or Latino" and "Not Hispanic or Latino." Federal agencies will produce data on the number of individuals who mark only one racial category, as well as those who mark more than one.

Published statistics are not always available for all the groups listed above. At times statistics are lacking because survey sample sizes are too small to yield reliable estimates for small populations such as American Indians or Asians. Specialized surveys or samples are required to remedy this problem.

The chapter begins with a brief description of recent and projected changes in the racial and ethnic composition of the population. The most prominent of these changes are the increase in the proportion of the population that is Asian or Hispanic and the decrease in the proportion that is non-Hispanic white. The chapter then provides a detailed description of differences among racial and ethnic groups in traditional indicators of economic status: family income, poverty, and wealth. The next two sections of the chapter review the evidence and the economic literature in two arenas critical to the determination of economic status: education and the labor market. The chapter ends with a review of evidence of contemporary racial discrimination.

Although it is difficult to quantify the precise contribution of contemporary acts of discrimination to the wide economic disparities across racial and ethnic groups, there is substantial evidence that such discrimination persists in many areas of the economy. Such evidence highlights the need for racial reconciliation, as promoted in the President's Initiative on Race as well as the President's proposals to strengthen enforcement of the civil rights laws (Box 4-2).

POPULATION COMPOSITION

Since 1970 the percentage of the population that is non-Hispanic and white has fallen substantially; the percentages that are Hispanic, American Indian, and Asian (including Pacific Islanders) have risen rapidly, and the percentage that is black has risen slowly (Table 4-1). The large increases in the Hispanic and Asian populations are largely due to immigration and reflect changes in immigration laws, especially the 1965 Immigration Act, which raised the ceiling on admissions and ended the system of national origin quotas that had restricted immigration from the developing world. The Immigration Reform and Control Act of 1986, which legalized a large number of immigrants, also contributed to these changes. Under the assumption that these trends will continue, the non-Hispanic white population, currently the majority, is projected to fall to about half of the total population in the middle of the next century. (These projections assume there will be no change in rates of intermarriage, although these rates have been increasing.)

These national population changes mask differences across and within regions. The geographic distribution of racial and ethnic groups is important both because it influences the potential for social and economic interaction among them, and because it affects their economic fortunes. For example, over this century employment has shifted from rural to urban areas and, within urban areas, from the central cities to the suburbs.

Hispanics and American Indians are heavily concentrated in the West and, to some extent, the South. Asians are concentrated in the West. Within the South, Hispanics are concentrated in Florida, Texas,

Box 4-2.—The President's Initiative on Race

On June 14, 1997, the President announced a new Initiative on Race. The President envisions an America based on opportunity for all, responsibility from all, and one community of all Americans. Race relations remains an issue that too often divides our Nation. The President's vision is to have a diverse, democratic community in which all Americans respect and even celebrate their differences while embracing the shared values that unite them. To reach this goal the President has launched a national effort to deal openly and honestly with our racial differences. The effort includes study, dialogue, and action to address the continuing challenge of how to live and work more productively together.

To further the goals of expanded opportunity and fairness for all Americans, and in conjunction with the President's Initiative on Race, the Vice President announced on January 19, 1998, in a Martin Luther King, Jr. Day address at the Ebenezer Baptist Church in Atlanta, a package of new civil rights enforcement initiatives. These proposed initiatives place an emphasis on prevention and nonlitigation remedies for discrimination, and on strengthening the ability of the Federal civil rights agencies to enforce antidiscrimination law. The Administration's plan increases resources for compliance reviews and technical assistance, and offers alternatives to litigation by funding expansion of alternative dispute resolution mechanisms. The plan would set performance goals for the Equal Employment Opportunity Commission to speed the processing of complaints and reduce case backlogs, and would provide for better coordination across Federal agencies and offices. The Administration's 1999 budget proposal contains \$602 million for civil rights enforcement agencies and offices—an increase of \$86 million, or more than 16 percent, over 1998 funding.

TABLE 4-1.—*Racial and Ethnic Composition of the U.S. Population*
[Percent of population]

Year	American Indian	Asian ¹	Black	Hispanic	Non-Hispanic white
1970	0.4	0.7	10.9	4.5	83.5
1997 (estimated) .....	.9	3.8	12.1	10.3	72.9
2050 (projected)	1.1	8.7	13.6	23.8	52.8
1990 by region ² :					
Northeast .....	.2	2.5	10.3	7.4	79.4
Midwest .....	.5	1.3	9.5	2.9	85.8
South .....	.6	1.3	18.3	7.9	71.8
West	1.6	7.3	5.1	19.1	66.7

¹ Includes Pacific Islanders.

² Detail may not add to 100 percent because data for the category "other" are not shown.

Source: Department of Commerce (Bureau of the Census).

and Washington, D.C. And despite massive outmigration over much of the 20th century, the majority of blacks continue to live in the South. In fact, net black migration from the South to the North ended some time in the 1960s.

There are also differences within regions in the racial and ethnic distribution of populations. In 1990 Hispanics, Asians, and blacks were much more likely than whites or American Indians to live in the central cities of metropolitan areas. Hispanics, Asians, and whites were much more likely than blacks or American Indians to live in the parts of metropolitan areas outside the central city. Nearly half of American Indians lived in rural areas; 37 percent lived on reservations or other American Indian and Alaska Native areas.

ECONOMIC STATUS

FAMILY INCOME

Annual income is the most widely accepted indicator of current economic status. This section reports incomes for families, where a family is defined as two or more persons related by birth, marriage, or adoption who reside together. In 1996 the median income of Asian families was about \$49,100, the highest among the groups considered in this chapter. Asians are followed closely by non-Hispanic whites (\$47,100) and, with a \$20,000 gap, by blacks (\$26,500) and Hispanics (\$26,200; Chart 4-1). Because of the smaller size of the American Indian population, reliable national data on their incomes are not available for every year. However, according to the most recent data (from the 1990 Census), American Indians had the lowest median family income (and the highest poverty rate) of the five racial and ethnic groups. With few exceptions these rankings have been stable over the past 25 years.

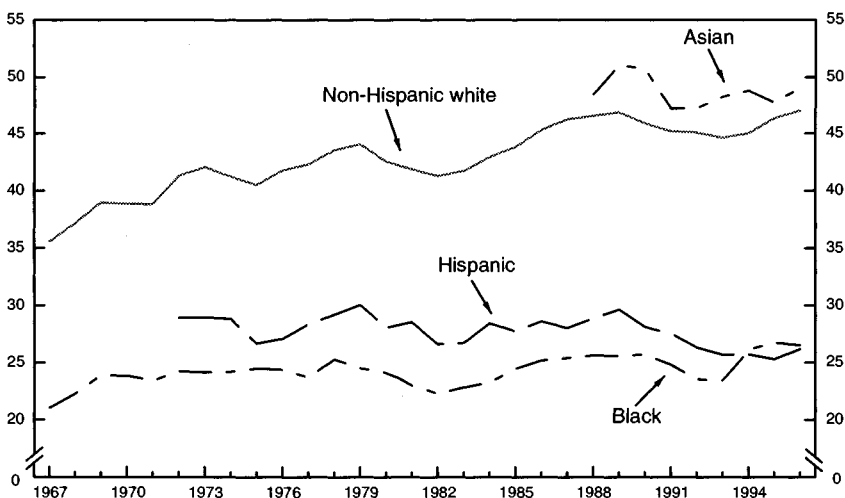
Black and non-Hispanic white real median family incomes are somewhat higher than they were 25 years ago, and Hispanic incomes are somewhat lower. Since 1972, when data for Hispanics first became available on an annual basis, real median family income has increased 14 percent among non-Hispanic whites and 9 percent among blacks, but has fallen 9 percent among Hispanics.

As a result of faster income growth for non-Hispanic whites, the Hispanic median family income has dropped sharply relative to non-Hispanic white income over the past 25 years, and the relative incomes of blacks has also dropped somewhat over the same period. However, the Hispanic population has grown tremendously over this period, primarily because of immigration. The relative decline in the Hispanic median income reflects, at least in part, compositional changes in the Hispanic population resulting from the immigration of persons with relatively little education. The median incomes of both

Chart 4-1 **Median Family Income**

Family income of non-Hispanic whites and Asians has been well above that of blacks and Hispanics.

Thousands of 1996 dollars



Note: Prior to 1972, data for whites include Hispanic whites and data for blacks include Hispanic blacks.

Source: Department of Commerce (Bureau of the Census).

black and Hispanic families are about 56 percent of the non-Hispanic white median, lower than in 1972. Because these ratios vary by a fair amount from year to year, it is difficult to identify turning points precisely. But it is clear that, between the early to mid-1970s and the early 1990s, black and Hispanic family incomes declined relative to non-Hispanic white family incomes. Since 1993, however, black family incomes have increased faster than those of non-Hispanic white families.

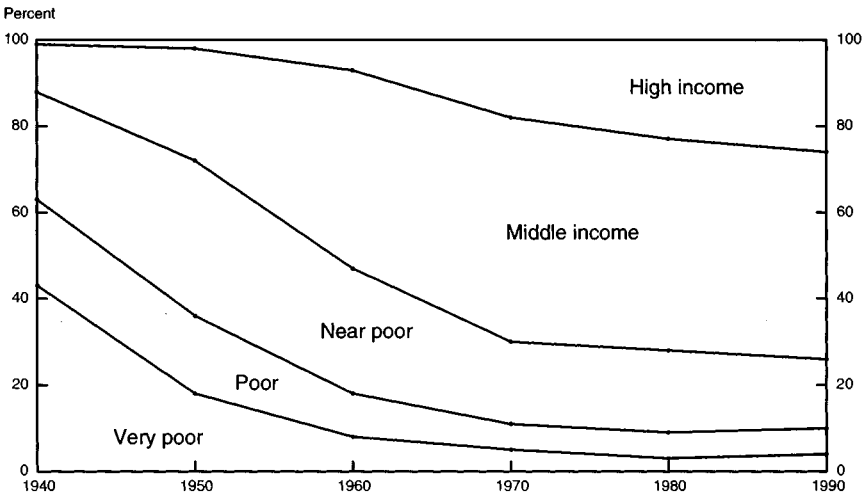
Inequality Within Groups and the Growth of the Middle Class

Although a useful summary measure, median family income is an incomplete indicator of the economic status of entire groups. For example, trends in median income do not reveal the dramatic increases in overall income inequality between the early 1970s and the early 1990s, nor do they speak to inequality within groups. Consideration of other indicators of economic status may alter conclusions about the nature of economic inequality among racial and ethnic groups. For example, despite their higher median family income, the poverty rate for Asians exceeds the rate for non-Hispanic whites by nearly 6 percentage points, indicating that this population is economically heterogeneous.

Definitions of “middle class” are necessarily arbitrary. By one indicator—household income between two and five times the poverty line—a large middle class emerged among both blacks and whites between 1940 and 1970 (Charts 4-2 and 4-3). The poverty line used

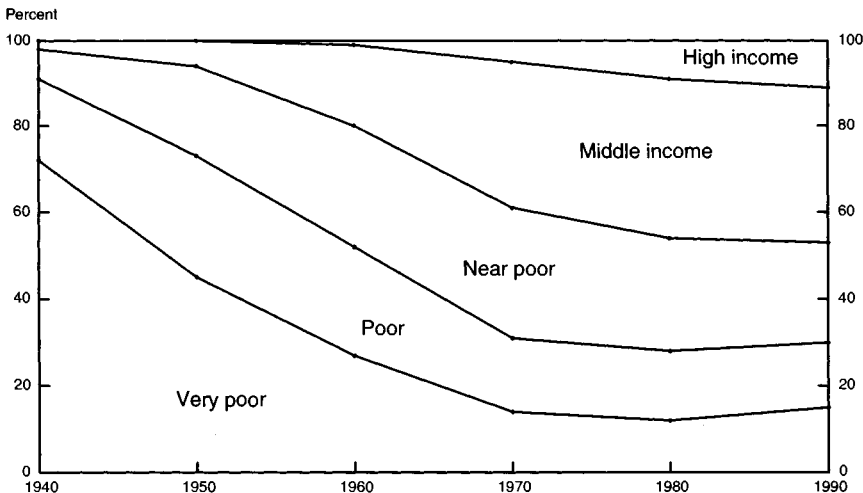
here to adjust income corresponds to a 1960s' standard, since the poverty line was developed in the early 1960s and reflects societal standards of economic need at that time.

Chart 4-2 Distribution of White Persons by Household Income
Between 1940 and 1970 the white middle class grew. Since 1960 the percent of high-income whites has also grown substantially.



Note: "Very poor" is household income less than 50 percent of the poverty line, "poor" is 50 to 99 percent, "near poor" is 100 to 199 percent, "middle income" is 200 to 499 percent, and "high income" is 500 percent or higher.
Sources: University of Michigan Population Studies Center and Reynolds Farley, Russell Sage Foundation.

Chart 4-3 Distribution of Black Persons by Household Income
Between 1940 and 1970 the proportion of blacks who were poor or very poor fell, and the black middle class grew.

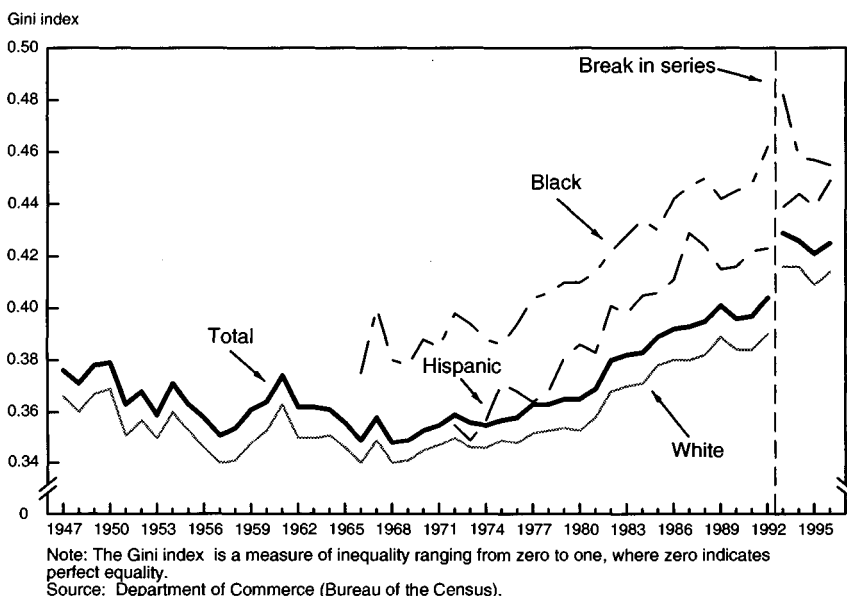


Note: "Very poor" is household income less than 50 percent of the poverty line, "poor" is 50 to 99 percent, "near poor" is 100 to 199 percent, "middle income" is 200 to 499 percent, and "high income" is 500 percent or higher.
Sources: University of Michigan Population Studies Center and Reynolds Farley, Russell Sage Foundation.

According to this measure, the white middle class expanded considerably in each decade from 1940 to 1970, whereas the expansion of the black middle class was greatest in the 1960s. Some scholars have pointed to figures such as these as evidence of tremendous black economic progress since 1940. However, that progress has not been steady. Progress clearly slowed in the 1970s and 1980s. Furthermore, although Chart 4-3 suggests that moderate growth of the black middle class continued over the 1970s, annual data show little growth between the early to mid-1970s and the early 1990s. In sum, a substantial economic expansion of the black middle class between the 1940s and the early 1970s was followed by 15 to 20 years of stagnation between the mid-1970s and the early 1990s, with perhaps a resumption of growth in the mid-1990s.

Chart 4-4 Gini Index for Family Income

Overall and within-group inequality grew steadily from the early 1970s to the early 1990s. Inequality has been consistently higher for blacks than for whites or Hispanics.



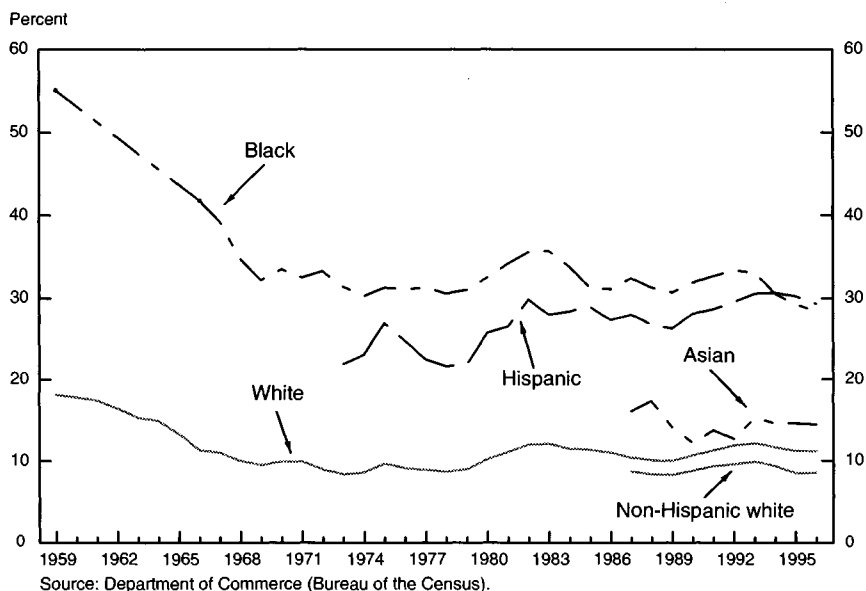
Since the early 1970s, income inequality has increased not only overall but also within racial groups (Chart 4-4). However, only among Hispanics has increased inequality taken the form of growth in the proportions of both upper income and poor families at the expense of the middle. Although both whites and Hispanics experienced declines in the proportion of middle-income families, among whites there was rapid growth in the proportion at the top, and a small decline in the proportion at the bottom. The proportion of black families in the middle- and upper income groups combined has changed little since the mid-1970s, but by some measures there has been movement of families from the middle of the income distribution to the top.

Poverty

Gaps in poverty rates between non-Hispanic whites and Asians on the one hand, and blacks and Hispanics on the other, remain substantial (Chart 4-5). However, the gaps in poverty rates between blacks and whites have decreased since 1993, after remaining largely stagnant from the mid-1970s to the early 1990s. In 1996 the black poverty rate reached its lowest level ever, as did the difference in poverty rates between blacks and whites. The decline in the black poverty rate in the current recovery exceeds slightly the declines recorded in the recoveries of the 1970s and 1980s. The poverty rate for Hispanics fell slightly from 1993 to 1996, although it is still high, exceeding the rate for blacks. The poverty rate for Asians has been flat since 1994.

Chart 4-5 **Poverty Rates for Persons**

Poverty rates fell over the 1960s and early 1970s, and since then differences across groups have been relatively stable.



Child Poverty

Differences across racial and ethnic groups in the prevalence of child poverty not only indicate inequality in the current well-being of children, but also represent differences in economic opportunity that contribute to future inequality among adults and in subsequent generations. Although child poverty is associated with health, developmental, and educational disadvantages, the importance of low family income per se as compared with parental education, family structure, or other characteristics associated with poverty remains in dispute (see Chapter 3).

Since 1993, child poverty rates have generally fallen, but they remain too high, and differences in child poverty rates across racial and ethnic groups are stark. Between 1993 and 1996 the poverty rate for white children fell 1.5 percentage points to 16.3 percent. The rate for black children fell even more, from 46.1 percent to 39.9 percent, the lowest rate in more than 20 years but still very high. The rate for Hispanic children fell marginally after 1993 and stood at 40.3 percent in 1996, higher than the rate for black children. The poverty rate for Asian children rose 1.3 percentage points, to 19.5 percent, between 1993 and 1996.

HOUSEHOLD WEALTH

Household wealth—the total value of a household’s material and financial assets, minus its liabilities—contributes to economic well-being independently of income. Greater wealth allows a household to maintain its standard of living when income falls because of job loss, family changes such as divorce or widowhood, or retirement. Financial wealth may also be particularly important in the presence of borrowing constraints. For example, evidence that the receipt of an inheritance increases entry into self-employment suggests that a lack of personal financial capital limits small business ownership.

Wealth has been measured less frequently than income in government statistics. There are two major Federal sources of data on household wealth for the population: the Survey of Income and Program Participation (SIPP) and the Survey of Consumer Finances (SCF). Figures are not comparable across the two surveys for many reasons: for example, the SCF and the SIPP employ different definitions of “family” and “household.”

Measures of wealth show even greater disparities across racial and ethnic groups than do measures of income. For example, according to data from the 1993 SIPP, the median net worth of white households (\$47,740) was over 10 times that of black or Hispanic households (\$4,418 and \$4,656, in 1993 dollars, respectively). Figures from the 1995 SCF are \$73,900 for non-Hispanic whites and \$16,500 for all other groups combined (in 1995 dollars). Very substantial wealth gaps between whites on the one hand and blacks and Hispanics on the other are found even among families with similar incomes.

Differences in wealth result primarily from differences in lifetime labor market compensation, differences in saving rates and the return on those savings (including appreciation of the value of assets), and differences in inheritances or other transfers from relatives. Holdings among non-Hispanic whites in all major categories of wealth exceed those of blacks and Hispanics. Three important components of wealth for families are housing equity, holdings of stocks and mutual funds, and private pension wealth.

Home Equity

The most important asset for most households is the equity in their home. Differences in home equity arise from differences in homeownership rates, in home values, and, among homes of a given value, in the level of equity accumulated. Since 1993 there have been increases in homeownership among all groups, but the homeownership rate among non-Hispanic whites is more than 50 percent higher than that of blacks or Hispanics.

Some evidence suggests that gaps among racial groups in home values, although large, are narrowing. For example, between 1992 and 1995 the median value of the primary residence was unchanged at about \$92,000 for non-Hispanic whites but increased from \$54,200 to \$70,000 for all other groups combined. In 1993 the median equity among homeowners was about \$50,000 for whites (in 1993 dollars), \$29,000 for blacks, and \$36,000 for Hispanics. These values were \$3,000 to \$5,000 higher in 1993 than in 1991 (in 1993 dollars).

This Administration's efforts may have contributed to recent increases in homeownership and home values among blacks and Hispanics. The Administration has strengthened regulations under the Community Reinvestment Act and has stepped up enforcement of fair lending laws. Data collected under the Home Mortgage Disclosure Act show that, between 1993 and 1996, conventional home mortgage lending to blacks has increased 67 percent; such lending to Hispanics has increased 49 percent. These increases are much larger than the percentage increase in conventional home mortgage lending overall in this period.

Discrimination in Mortgage Lending

There are a variety of possible explanations for differences in homeownership rates among racial and ethnic groups. Research has documented substantially higher denial rates in applications for home mortgages among blacks and Hispanics than among whites. An analysis of lending practices in Boston found that applications from blacks and Hispanics were rejected about 28 percent of the time, compared with 10 percent for whites. However, applications from whites, blacks, and Hispanics differed along many economic dimensions—including income, loan-to-value ratios, and the presence of private mortgage insurance, as well as other characteristics of properties and applicants—which together explained about two-thirds of the difference in rejection rates. Still, about one-third of the gap remained unexplained by these factors.

The remaining gap has three possible explanations. The first is that some relevant economic characteristics correlated with race are observed by the lender but not by the analyst, and average differences in those characteristics across racial and ethnic groups account for the higher denial rate among minorities. However, the Boston study

was careful to incorporate extensive controls, including all factors that lenders, underwriters, and others reported to be important in making lending decisions. The second explanation is that the higher denial rate reflects lenders' expectations of higher default rates among minorities with similar qualifications and other characteristics. This practice—rejecting applications on the basis of group characteristics—is known as statistical discrimination and is illegal. The third possible explanation, “noneconomic” or prejudice-based discrimination, in which lenders discriminate against minorities and lower their profits as a result, is also illegal.

The authors of the Boston study argue that no clear-cut evidence exists of differences by race in default rates, after adjusting for other characteristics of applicants and properties such as those measured in the study. However, this argument and the study itself have been challenged in subsequent studies, which claim to find evidence of higher default rates among minorities. Other researchers have argued in response that differences in default rates between minorities and whites may not be a good indication of their creditworthiness because, for example, whites might be treated more favorably in foreclosure proceedings. As discussed in the concluding section of this chapter, audit studies provide additional evidence of discrimination in home mortgage lending, although continued research is needed on the extent and nature of discrimination in this area.

Holdings of Major Financial Assets

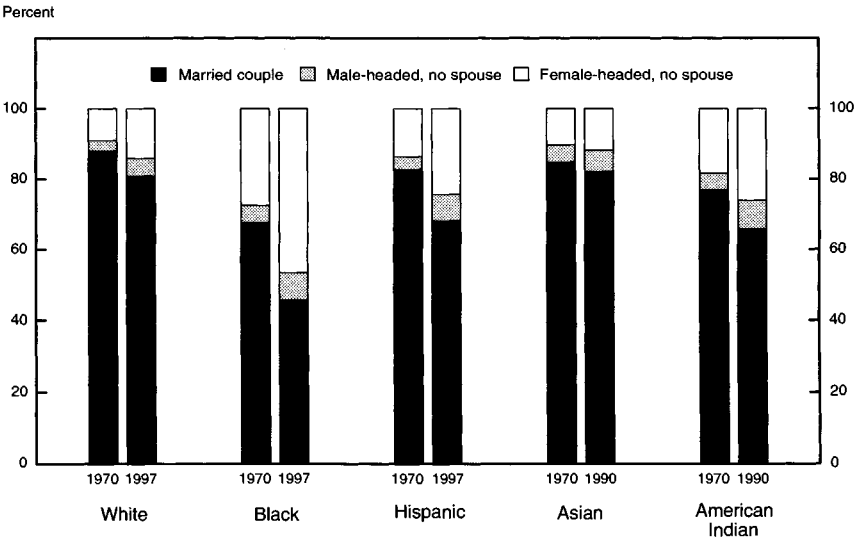
Whites have higher rates of ownership of every kind of major financial asset than do blacks or Hispanics, and among those holding each kind of asset, holdings by whites are much more valuable. This is not surprising given whites' greater median wealth. But some gaps are particularly striking. For example, as of 1993 nearly 95 percent of black households owned no stocks or mutual funds, and 95 percent reported owning no private pension wealth (the corresponding figure for whites is about 75 percent in each category). Differences in stock ownership in 1993 are particularly important because between 1993 and 1997 the value of common stock appreciated enormously: for example, the Standard and Poor's 500 index roughly doubled in value. Another striking difference is in transaction accounts (such as checking accounts), which are held by the vast majority (92 percent) of non-Hispanic white families but by only 69 percent of all other racial and ethnic groups combined.

THE ROLE OF FAMILY STRUCTURE IN INCOME AND POVERTY

Increases in family income and decreases in poverty rates for both blacks and whites were rapid in the postwar period, especially in the 1960s. Blacks also made progress relative to whites in the 1960s. But

black family income was flat from the early to mid-1970s to the early 1990s, and the ratio of black to white family income generally fell over this period. For example, since 1967 the ratio of black to white average income for all families has fallen slightly, from 0.65 to 0.62. However, black-white ratios of income *within* family types have increased, from 0.71 to 0.80 among married-couple families, and from 0.63 to 0.73 among female-headed families. (The overall ratio of income is lower than the ratios among these subgroups because a larger proportion of black families are female headed, a group with much lower average income than other family types.) During this period the shift toward female-headed families was faster for blacks than for whites (Chart 4-6). Some observers have suggested that these trends—particularly the rise of female-headed families—may largely explain the persistence of differences in family income and poverty rates among racial and ethnic groups. However, an adjustment for changes in family structure since 1967 suggests that such changes explain only about one-fifth of the income and poverty gaps between blacks and whites observed today. Moreover, this adjustment may overstate, perhaps greatly, the adverse effects of family structure on income if those with lower income or lower expected income are less likely to marry or to stay married.

Chart 4-6 Family Structure
 Since 1970 all groups have experienced increases in the proportion of families headed by single women. The rise has been most pronounced for black families.



Source: Department of Commerce (Bureau of the Census).

The adjustment amounts to taking a weighted average in which the average income or poverty rate specific to a racial group and family type in 1996 is weighted by the corresponding percentage of

families of that racial group and family type in 1967. The adjustment shows that if family structure for blacks and whites had not changed since 1967, in 1996 the black-white ratio of family income would have been 0.70 rather than 0.62, and the ratio of poverty rates would have been 2.6 rather than 3.0. Thus, these ratios indicate that roughly one-fifth of both the income gap and the poverty gap in 1996 is explained by changes in family structure after 1967. These are surprisingly modest effects when one considers that since 1967 the proportion of female-headed families increased from 28 percent to 47 percent among black families and from 9 percent to 14 percent among white families. (Results are similar if the difference in family incomes rather than their ratio is used to measure the income gap between blacks and whites; differences in poverty rates rather than ratios suggest a somewhat larger effect of family structure changes since 1967 on the poverty gap. Also, similar adjustments demonstrate that family structure can account for only a small portion of the difference in income and poverty between Hispanics and non-Hispanic whites.)

If the dramatic changes in family structure since the 1960s account for only a modest portion of current income gaps among whites, blacks, and Hispanics, what accounts for the remainder? Since the labor market is the most important source of family income, a later section of this chapter investigates gaps among racial and ethnic groups in labor market outcomes such as earnings and employment. However, such outcomes are linked to the skills that workers bring to the labor market, many of which are developed prior to labor market entry. The next section therefore discusses differences in education across racial and ethnic groups.

EDUCATION

Education is one of the most powerful predictors of economic status. Many dimensions of education are important, including the quality of schooling, the quantity of schooling (often called "attainment," for example the number of years completed), and student achievement or learning. The link between educational attainment and earnings has been well established, in part because data on attainment have been collected in the Census and in labor market surveys over a number of years. There is less agreement on the measurement and economic importance of other dimensions of education. Furthermore, the economic importance of a college education has increased dramatically over the past 20 years, as the relative demand for highly educated workers has risen sharply. The focus of this section is on secondary and postsecondary educational attainment. Of course, differences in later educational attainment among racial and ethnic groups can result from effects of discrimination and social and economic disad-

vantages experienced in early childhood or in elementary education. (Chapter 3 discusses early childhood and elementary education.)

DIFFERENCES AND TRENDS IN EDUCATIONAL ATTAINMENT

Differences

Substantial gaps in educational attainment persist among racial and ethnic groups. The most recent year for which comparable national data are available for all groups discussed in this chapter is 1990. Asians had the highest average attainment: in 1990, 40 percent of Asians 25 years and older had completed 4 or more years of college, compared with 22 percent of whites, 11 percent of blacks, and about 9 percent of Hispanics and American Indians. About 80 percent of whites and Asians had at least completed high school, versus two-thirds of American Indians and blacks and about half of Hispanics. For Hispanics, attainment also varies considerably between immigrants and the native-born. For example, Hispanic immigrants have much lower rates of high school completion than native-born Hispanics. Asian immigrants, on the other hand, have educational attainment similar to that of their native-born counterparts.

Trends

To provide an indication of recent changes in educational attainment across racial and ethnic groups, this section examines attainment for younger persons (those aged 25-29 years).

High school. High school completion rates have increased steadily over the 20th century. As educational attainment has increased, gaps in high school completion among racial and ethnic groups have generally narrowed, at least among the native-born. In 1967 the gap between blacks and whites in high school completion rates was 20 percentage points. This gap has narrowed considerably, but a 7-percentage-point difference remains between blacks and non-Hispanic whites (Chart 4-7). And although their high school completion rate has risen since the early 1970s, Hispanics lag far behind and have not gained ground relative to non-Hispanic whites. In interpreting these trends, however, it is important to recall that the composition of the Hispanic population has changed rapidly. The Hispanic population has roughly doubled in size between 1980 and 1996, and the fraction that is foreign-born has been growing. In fact, the slow progress in high school attainment among Hispanics is in large part explained by the increasing representation of immigrants with less education. For example, between 1980 and 1990 the proportion of 18- to 21-year-old dropouts (those who were neither enrolled in nor had completed high school) fell from 30 percent to 23 percent among native-born Hispanics, but remained at 47 percent for foreign-born Hispanics.

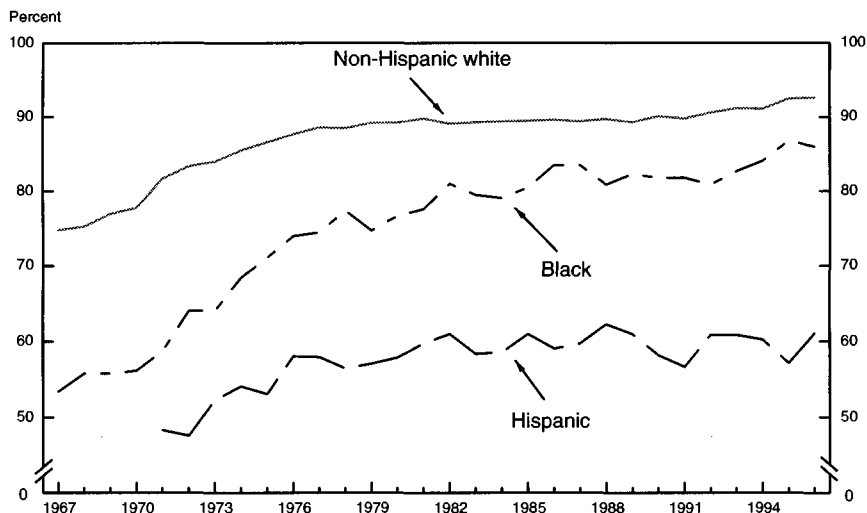
Still, as of 1990 a substantial gap in high school completion rates remained between native-born Hispanics and non-Hispanic whites.

Postsecondary education. Educational attainment beyond high school has increased dramatically for blacks, Hispanics, and whites over the past 30 years, although Hispanics have shown little increase in the 1980s and 1990s. The percentage of non-Hispanic whites with a bachelor's degree or higher is more than twice that of their black and Hispanic counterparts. High school completion rates, college enrollment rates among high school graduates, and college completion rates among college enrollees combine to determine rates of college completion. Some of the gaps in college completion rates reflect differences in high school completion rates. For example, the gap between blacks and Hispanics in completing 1 or more years of college is explained almost entirely by lower high school completion rates among Hispanics. But even among those who have completed high school, non-Hispanic whites are more likely to enter and to complete college than blacks or Hispanics. Again, Hispanics' low college attainment rates appear to be due partly to low rates among immigrants: between 1980 and 1990 the proportion of 18- to 24-year-olds enrolled in college increased from 18 percent to 28 percent among native-born Hispanics, but remained at about 16 percent for foreign-born Hispanics.

Among women aged 25-29, college completion gaps widened between whites on the one hand, and blacks and Hispanics on the other, over the 1980s. In fact, except among white women, there was

Chart 4-7 High School Completion Rates for 25- to 29-Year-Olds

High school completion rates have risen since the late 1960s, and blacks are closing the gap with whites. The completion rate for Hispanics remains low.



Note: Prior to 1971, data for whites include Hispanic whites, and data for blacks include Hispanic blacks.

Sources: Department of Commerce (Bureau of the Census) and Department of Education (National Center for Education Statistics).

relatively little increase in college completion rates over the 1980s for men or women of these ages (Charts 4-8 and 4-9). However, in the 1990s rates of college completion among black men and women began to pick up, reflecting an increase in college enrollment rates of black high school graduates in the mid-1980s. College completion also increased among white men in the early 1990s.

EXPLAINING EDUCATIONAL ATTAINMENT GAPS

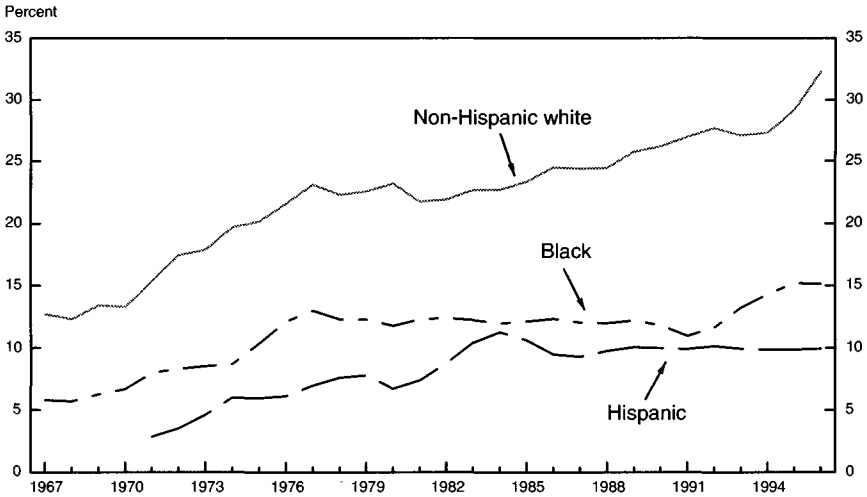
High school completion rates increased sharply in the postwar period. Compared with the rather steady increase in high school completion, college attendance and completion have fluctuated, especially for males, although they have increased steadily since the mid-1980s. Increases in college attainment have been attributed to two developments. First, since the late 1970s growth in demand for highly educated workers has raised the relative wages of college graduates. Second, because educational attainment has generally increased over time, the parents of recent high school graduates tend to be better educated than the parents of high school graduates some years ago. This is important because parents' and children's education levels are highly correlated. Federal financial aid has also expanded dramatically in the 1990s, doubling in real terms since 1993. This expansion is expected to increase college enrollment and attainment among low-income students, but it is too early to assess the magnitude of this effect.

Levels

Most studies in the economics literature of gaps in college-level educational attainment among racial and ethnic groups have focused on college entry. Parental education and family income are important determinants of gaps in college entry among racial and ethnic groups. Both factors affect high school completion as well. For example, one detailed recent study concluded that differences among blacks, whites, and Hispanics in family background (primarily parental education and income) can account for all the gaps in rates of high school completion and college entry among racial and ethnic groups. The study found that among young people with similar family income and parental education, rates of college entry appear to be higher among blacks and Hispanics than among whites. The importance of family background and income differences is reduced when achievement test scores are controlled for, but the interpretation of this finding is the subject of great controversy. For example, low test scores result at least partly from disadvantages relating to family background and may therefore be a mechanism whereby such disadvantages are translated into low educational attainment.

Chart 4-8 Women Aged 25-29 with 4-Year College Degree or Higher

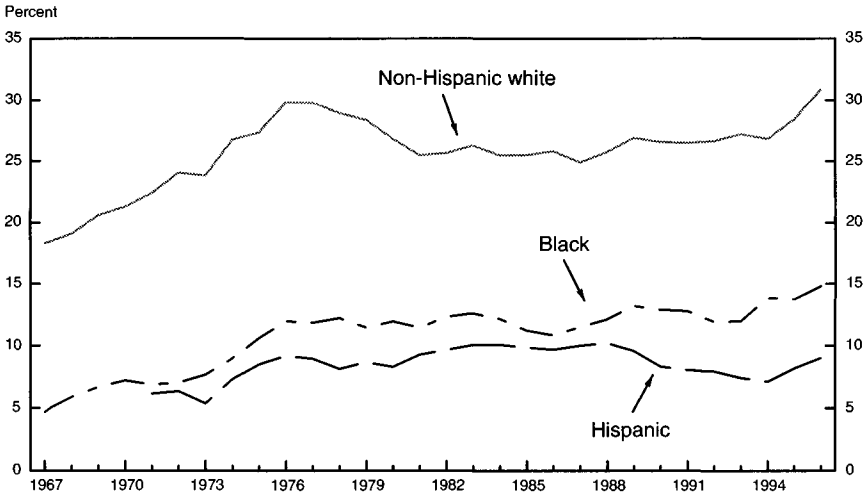
The fraction of women with at least a 4-year college degree has increased for non-Hispanic whites, blacks, and Hispanics, but considerable gaps persist.



Notes: Prior to 1971, data for whites include Hispanic whites, and data for blacks include Hispanic blacks. Data for blacks and Hispanics are 3-year centered averages. Prior to 1992, series shows fraction of women completing 4 or more years of college.
Sources: Department of Commerce (Bureau of the Census) and Department of Education (National Center for Education Statistics).

Chart 4-9 Men Aged 25-29 with 4-Year College Degree or Higher

The fraction of men with a 4-year college degree or higher has tripled for blacks and nearly doubled for whites and Hispanics, but considerable gaps persist.



Notes: Prior to 1971, data for whites include Hispanic whites, and data for blacks include Hispanic blacks. Data for blacks and Hispanics are 3-year centered averages. Prior to 1992, series shows fraction of men completing 4 or more years of college.
Source: Department of Commerce (Bureau of the Census) and Department of Education (National Center for Education Statistics).

Trends

More attention has been paid to explaining differences in educational attainment among racial and ethnic groups than to explaining their trends. Large inflows of less educated immigrants have kept the average educational attainment of Hispanics relatively flat. As noted above, high school graduation rates have increased for native-born Hispanics but continue to be much lower among immigrants. The narrowing of differences in high school attainment between blacks and whites over the past 30 years can be largely explained by increases relative to whites in black parental educational attainment.

As high school completion gaps between blacks and whites were decreasing steadily, differences in earnings between college and high school graduates of all races were increasing markedly. Naturally, attention has turned to explaining differences among racial and ethnic groups in college enrollment and completion. College attendance among high school graduates has increased for all groups. However, the enrollment rate among recent graduates began to increase for whites around 1980, about 5 years before the rate for blacks began to increase. Therefore, the disparity in college enrollment rates widened in the early 1980s and translated into wider differences in college completion among racial and ethnic groups in the late 1980s or early 1990s (Charts 4-8 and 4-9).

One possible explanation of these differences is the increasing direct costs of college. A recent study found that the schooling decisions of blacks are more sensitive than those of whites with similar incomes to tuition and other direct costs, perhaps because of lower wealth among blacks than among whites with similar incomes. It also found that the rise in the direct cost of higher education explains some, but no more than one-third, of the lower propensity of blacks to enter college in the 1980s. However, college tuition and other costs continued to increase in the late 1980s, a time when black college enrollment began to increase. The study concluded that the positive effects of rising parental education appear to have more than offset the negative effects of rising costs.

AFFIRMATIVE ACTION IN HIGHER EDUCATION ADMISSIONS

The term "affirmative action" encompasses a variety of activities and programs, ranging from outreach and recruitment efforts to programs that consider race as a factor in an evaluation process, which are intended to increase minority representation in employment, education, or contracting. Under the law, and as reflected in Department of Education guidelines, colleges and universities may not establish quotas for admission or set aside a certain number or percentage of admissions slots based on race. However, they may consider race or national origin as one factor in making admissions decisions, for the purpose of remedying the effects of past discrimination or achieving a diverse student body.

Affirmative action in admissions has been the subject of recent contention. The Board of Regents of the University of California voted in 1995 to prohibit universities within its system from considering race in admissions. The California Civil Rights Initiative, known as Proposition 209, prohibits the State from utilizing race- or gender-based affirmative action programs in State employment, public contracting, and education. In *Texas et al. v. Hopwood* the Court of Appeals for the Fifth Circuit held that the admissions procedure used by the University of Texas Law School in 1992 was unconstitutional. However, this Administration strongly supports affirmative action in higher education, and the practice remains widespread.

Such programs are intended to serve a variety of societal purposes, including to remedy past or present discrimination, to secure the educational benefits of a diverse campus community, to compensate for educational or other disadvantages faced by promising applicants, to prepare students for an increasingly diverse society, and to train students to serve the needs of diverse communities. But what are the more narrow economic effects of affirmative action in higher education admissions?

A recent study found that black and Hispanic students are more likely to be admitted to “elite” institutions of higher education (that is, those with average Scholastic Aptitude Test, or SAT, scores in the top 20 percent of 4-year institutions) than non-Hispanic white or Asian students with similar grade point averages (GPAs) and test scores. Of course, in assessing student merit and making admissions decisions, universities consider many criteria, such as letters of recommendation, extracurricular activities, region of residence, and adverse personal circumstances. The study also found no evidence of differences by race, after controlling for test scores and grades, in admissions to the less elite institutions where 80 percent of college students are educated. Nonetheless, admission to elite institutions is of interest because of the strong link between college selectivity and later earnings.

Critics of affirmative action programs in higher education admissions argue that some of the intended beneficiaries may actually be harmed by such policies. (The same criticism could also be made of programs for children of alumni or faculty.) They contend that affirmative action programs impede the academic performance of minority students and increase their college dropout rates by encouraging them to enter colleges for which they may not be well prepared. However, the study discussed above found little evidence of economic harm to these students, as measured by graduation rates and earnings. The key question this criticism raises is whether students admitted to elite institutions because of affirmative action would have fared better had they instead attended less selective institutions. In fact, attending an elite institution is associated with a lower college GPA, but a higher graduation rate and higher earnings, for all

students, after controlling for SAT scores and high school GPA. The relationship between college selectivity and both college completion and earnings is similar for blacks and Hispanics and others.

The higher graduation rate among similar students attending more elite institutions raises questions about which practices at elite institutions increase graduation rates. Possibilities range from more engaging professors or classes to better support services. It is also possible that students expect a higher economic return to additional investment in education at an elite college and are therefore more highly motivated to obtain a degree.

The authors of the study argue that the number of applicants denied admission because of affirmative action programs is small. But many other students who are rejected may erroneously conclude that they would have been admitted in the absence of such programs. As a result, affirmative action in admissions may generate resentment far in excess of its actual aggregate effects. Nonetheless, individuals denied admission as a result of these policies may bear some costs—even if those individuals are difficult to identify and are few in number.

As an alternative to race-conscious admissions policies, some have called for “color-blind” policies that might target low parental income or education. Blacks and Hispanics are, of course, a minority of the population and account for a small minority of the population of youths with high SAT scores. As a result, although blacks and Hispanics are much more likely than whites to be poor, they make up a relatively small share of the low-income population with the SAT scores or GPA needed to gain admission to elite colleges. Therefore, targeting low-income applicants alone would very likely result in a dramatic reduction in minority representation at elite colleges. Class-based, color-blind admissions standards would not yield substantial numbers of blacks and Hispanics at most top-ranked institutions at present. Some commentators have therefore concluded that race-conscious admissions policies are needed to retain a semblance of racial diversity on elite college campuses.

LABOR MARKETS

The largest share of most families’ income is derived from earnings from labor. Changes in labor markets can therefore have considerable effects on economic inequality across racial groups. Differences in labor market outcomes among racial and ethnic groups are intertwined with general developments in labor markets. Among the most important recent developments are technological changes that have increased the demand for highly educated labor, growing immigration and international trade, declining trade union membership, increased participation of women in the labor market, and, most

recently, increases in the minimum wage and expansions of the earned income tax credit. (See Chapter 7 for a discussion of the effects of international trade on labor markets.) Developments that appear race-neutral may nonetheless affect racial and ethnic groups differently. For example, since Hispanics, on average, have much lower educational attainment than whites and blacks, they are more likely to be harmed by falling demand for less educated workers. However, lower demand for less skilled workers would not necessarily be expected to increase wage gaps among racial and ethnic groups for workers with similar levels of education.

In analyzing changes in racial inequality in labor markets it is important to bear in mind the growing economic diversity within racial groups that began to be observed in the mid-1960s. For example, the growing income inequality among blacks described above is mirrored in the labor market, with college-educated professionals at one extreme and labor force dropouts at the other. Although both groups face substantial barriers in the labor market related to race, the nature of these barriers could be quite different. The growing labor market diversity within racial groups cautions against the search for a single explanation for changes over time in differences among racial groups.

Three periods mark changes in black-white inequality in the labor market since 1960: a period of rapid progress from 1965 to the mid-1970s; a period of stagnation or erosion of gains between the mid-1970s and the early 1990s; and a period of mixed results since the early 1990s. The beginnings and ends of these periods are difficult to determine precisely because focusing on different data series and different subgroups can yield somewhat different results.

TRENDS IN LABOR MARKET OUTCOMES

Unemployment and Employment Gaps

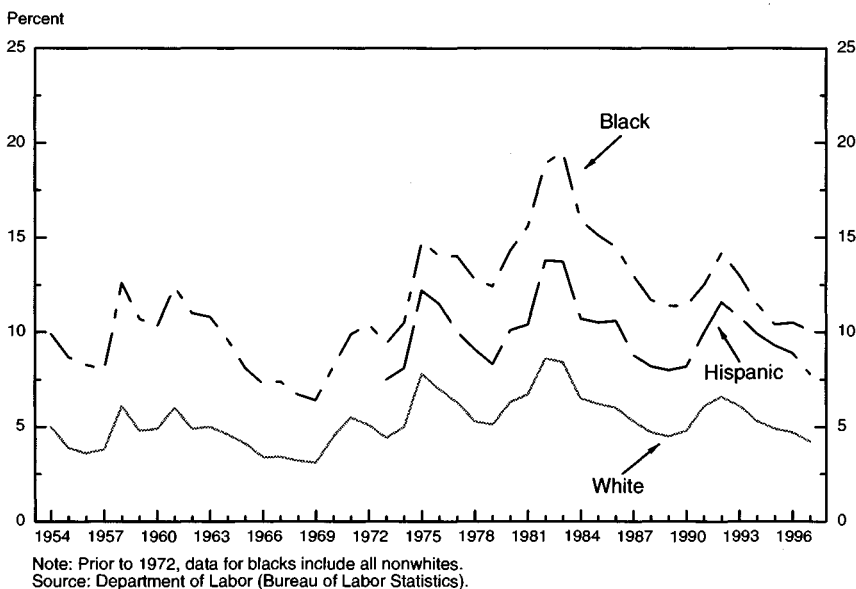
The current economic recovery has reduced unemployment substantially for all groups. The overall unemployment rate has been below 6 percent for over 3 years and has been at 5 percent or below since April 1997. Improvement in the employment situation overall has been accompanied by a reduction in the difference in the unemployment rate between blacks and Hispanics on the one hand, and whites on the other. The proportion of black women employed has risen above that for white women in recent months. However, unemployment rates for blacks are more than double those for whites and fluctuate more sharply over the business cycle (Chart 4-10).

Men. In 1997 the unemployment rate for black men 20 years and older was 8.4 percent, its lowest annual average since 1974. At 3.6 percent, the white male unemployment rate for 1997 was also near a 20-year low. Although the ratio of black unemployment to white unemployment is thus more than 2 to 1, as it has been for many

years, for the past 3 years the difference in rates has been roughly 4 to 5 percentage points, smaller than the gaps that prevailed from 1975 to 1994. Among men aged 25-54, the labor force participation rate for blacks is about 84 percent, about 9 percentage points lower than the rate for whites. These rates have fallen in the past 25 years for both blacks and whites, although the decline has been somewhat larger among blacks.

Chart 4-10 Unemployment Rates

Unemployment rates for blacks and Hispanics are higher and increase more in recessions than unemployment rates for whites.



Women. Labor market outcomes for women are important for understanding differences in economic well-being among racial groups, for two reasons. First, women's earnings have historically made up a larger proportion of two-parent family income among blacks than among whites. Second, because of their much higher rate of single parenthood, black families rely more heavily on female earnings than do white families. For women aged 20 and above the most striking employment trend is a long-term increase in labor force participation. Participation rates for black women have long exceeded rates for white women, but the difference has narrowed considerably and nearly disappeared by the early 1990s. However, beginning in 1995, participation rates of black women accelerated, reaching 64 percent in 1997. The rate for white women appears to have reached a plateau at about 60 percent. But because black women also have higher unemployment rates than white women, their employment-to-population ratios are much more similar than are their participation rates. Still, the black female employment-to-population ratio sur-

passed the white ratio in 1996. Labor force participation rates for Hispanic women are lower than those for either blacks or whites.

Gaps (both ratios and differences) among racial groups in unemployment rates for women are similar to those for men. The black-white unemployment ratio for women has remained above 2, but the difference has been somewhat smaller in the 1990s than in the 1980s.

Occupations

Like educational attainment, occupation is regarded as an indicator of more permanent economic and social status than are wages or income in a single year or month. Workers in different occupations are affected differently by changes in the economy. For example, workers in blue-collar occupations are more likely than white-collar workers to be laid off in recessions.

Over the postwar period black men and women have both experienced tremendous change in the occupations in which they work. Some of these changes were experienced by all workers, black and white, but some are specific to blacks, due, for example, to reduction in the most overt forms of discrimination and to large migration flows out of the rural South.

Women. In 1940, 60 percent of employed black women worked in domestic service occupations, more than triple the percentage among all employed women. The proportion of black women employed in domestic service fell to 35 percent by 1960 and to 2 percent by 1996. Over the same period, black (and white) women moved in large numbers into other service occupations, as well as into clerical and sales jobs. The proportion of black women in managerial and professional occupations increased slowly between 1940 and 1960, then jumped in the 1960s and 1970s, reaching about 19 percent in 1980.

A major revision of the occupational classification system, implemented after 1982, makes tracking changes over the entire 1980s difficult. Since 1983 the fraction of black women employed in managerial and professional occupations grew steadily, but increased less than that of white women. As a result, the gap between white and black women in the percentage working in managerial and professional occupations widened by more than 2 percentage points over the past 15 years. Hispanic women are less likely than black or white women to be employed in managerial and professional occupations, and more likely to be employed in private household service and in the relatively low skill blue-collar occupations of operators and fabricators.

Men. In 1940, 41 percent of black men worked as farmers or farm laborers; that share had fallen to only 14 percent in 1960. (The corresponding percentages for all men were 22 percent and 8 percent, respectively.) By 1970 employed black men were more likely than other employed men to work in blue-collar occupations (60 percent compared with 48 percent). Black men were therefore concentrated in

those occupations that were the most affected by the severe cyclical downturns of the 1970s and early 1980s, and at least until recently by the long-term decline in manufacturing employment. By 1996 only about 45 percent of employed black men and 38 percent of all employed men worked in blue-collar jobs.

In the period between 1960 and 1980 the percentages of black men and black women who worked in professional and managerial occupations were roughly equal, and both increased by about 10 percentage points. But since 1980 black men have not moved into professional and managerial occupations as rapidly as black or white women. In 1996 the share of black men working in managerial and professional occupations stood 6 percentage points behind that of black women, 11 percentage points behind that of white men, and 15 percentage points behind that of white women.

Hispanic men are the least likely of all the groups considered here to work in managerial and professional occupations. They are far more likely than black or white men to work in farming and related occupations, more likely than black men to work in precision production ("craft") occupations, and slightly less likely than black men to work in the lower skill blue-collar occupations.

Earnings Gaps

Black-white earnings gaps. By all available measures, the wages of blacks increased rapidly relative to those of whites in the 1960s and early 1970s, but progress slowed or reversed between the mid-1970s and the early 1990s (Charts 4-11 and 4-12). Trends in earnings inequality among racial groups in the 1990s are less clear. Most wage series show little progress in the pay of blacks relative to that of whites. However, one wage series—median annual earnings for full-time, year-round male workers—does show substantial recent progress among black men relative to white men, with the black-white ratio reaching a new high of about 0.8 in 1996. Firm conclusions about black-white pay gaps for men in the 1990s are therefore difficult to reach. Explanations for the narrowing of the pay gap in the 1960s, as well as the widening between the mid-1970s and the early 1990s, are discussed below. Researchers have just begun to examine the record of the 1990s.

Wage growth in the 1960s and early 1970s was faster for black women than for black men, both relative to white women (Chart 4-12) and relative to white men. Between 1967 and 1975 the gap in median wages between white and black women fell from about 20 to about 5 percentage points. Among younger women the differential disappeared, and there is even evidence that young, college-educated black women were paid more than comparable white women in the 1970s. But the earnings gap increased starting in the mid-1970s and stood at about 17 percentage points in 1997. Black and white women have both gained relative to white men.

Chart 4-11 Ratios of Median Weekly Earnings of Male Full-Time Workers
 Since the 1970s, black men's earnings have held roughly constant relative to those of white men, while Hispanic men have lost ground.

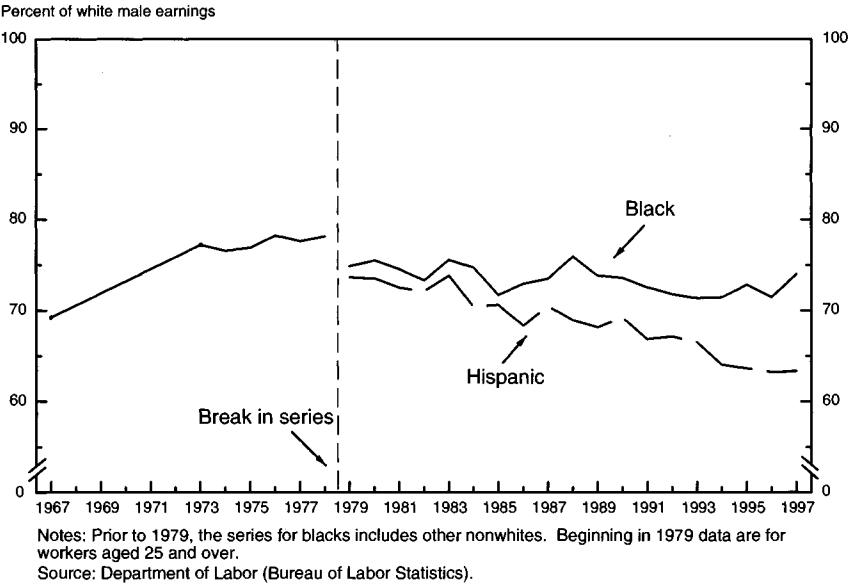
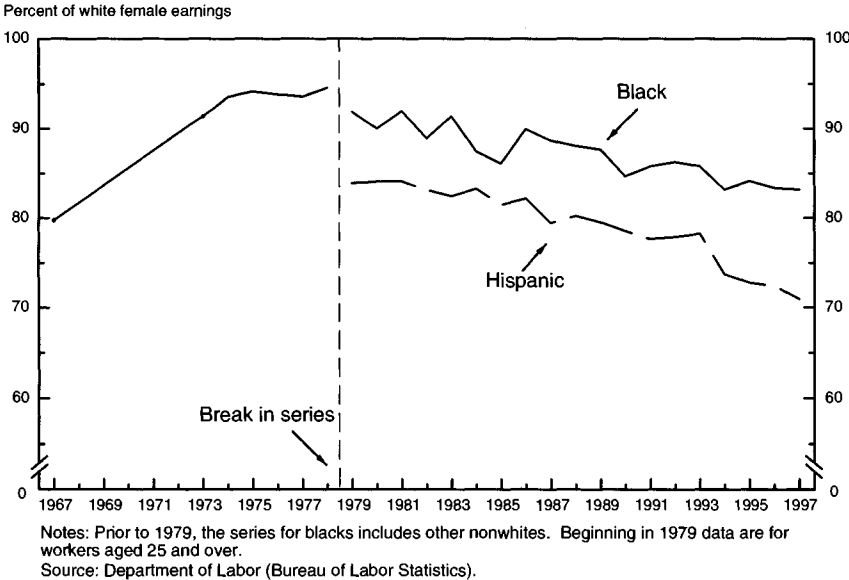


Chart 4-12 Ratios of Median Weekly Earnings of Female Full-Time Workers
 Black women nearly closed the pay gap with white women by the early 1970s, but relative wages of black and Hispanic women have been falling since then.



As noted above, whites on average have higher educational attainment than blacks. But sizable pay gaps among racial and ethnic

groups remain for workers with similar educational attainment (Table 4-2). At least until the 1990s, these trends in black-white pay gaps were more pronounced for younger workers, who tend to bear the brunt of labor market adjustment. For example, the pay gap between blacks and whites narrowed most among young college graduates in the 1960s and early 1970s, and then widened most among this group after 1975.

TABLE 4-2.—*Ratios of Black and Hispanic to White Median Weekly Earnings, 1997*

Sex	Black-white ratio			Hispanic-white ratio		
	All workers	Workers with high school diploma only	Workers with bachelor's degree only	All workers	Workers with high school diploma only	Workers with bachelor's degree only
Men	0.74	0.75	0.74	0.63	0.78	0.86
Women .....	.83	.85	.90	.71	.86	.94

Note—Data are for full-time workers aged 25 and over.

Source: Department of Labor (Bureau of Labor Statistics).

Earnings gaps for other groups. Less information is available about differences in pay between whites and other minority groups. The pay of Hispanic men and women fell relative to that of whites over the 1970s and 1980s. Much of the deterioration in the pay of Hispanics is linked to educational differences and immigration. For example, differences in pay between Hispanics and whites with similar educational attainment are much smaller than the overall differences (Table 4-2). In fact, a recent study reported that, between 1980 and 1990, differences in pay between whites and minorities living in the same metropolitan areas, with comparable levels of schooling and working in similar occupations, widened by 2.5 percentage points for blacks and 4.1 percentage points for American Indians, but by less than 1 percentage point for Hispanics and Asians.

EXPLAINING EARNINGS GAPS

Differences in pay among racial and ethnic groups can result from differences in the average quantities of factors related to labor market success, such as educational attainment, and from differences in the “prices” of such factors, that is, their value in the labor market. Differences among racial and ethnic groups in the prices these factors command have been attributed to labor market discrimination. But differences in the quantities of these factors may also reflect discrimination outside the labor market or even within it. For example, if blacks with higher educational attainment are discriminated against in the labor market, their returns to investing in education may be artificially reduced. Facing a lower return, blacks may invest less in higher education.

Historically, blacks have received less schooling and attended schools with larger class sizes and smaller budgets than those attended by whites. Largely as a result of the 1954 Supreme Court decision in *Brown v. Board of Education*, the Civil Rights Act of 1964, and the 1968 decision in *Green v. County School Board*, which required active integration of schools, schools became increasingly integrated in the late 1960s and early 1970s. Schooling gains can account for perhaps 20 percent of the gains in black workers' relative earnings in the 1960s and early 1970s.

Other factors that explain trends in wage gaps among various racial groups include migration (especially before the 1960s), regional and industry demand conditions, macroeconomic shocks, and government intervention. Government intervention to increase economic opportunities for disadvantaged minorities has taken many forms, including education and training programs, the enactment and enforcement of civil rights and equal opportunity laws, requirements (under Executive Order 11246) that Federal contractors engage in affirmative action programs, and court-monitored affirmative action programs intended to remedy past practices of discrimination.

Changes to the Mid-1970s

Between 1920 and 1990 blacks experienced two periods of rapid progress relative to whites in the labor market: the first was during the wartime economy of the 1940s, and the second was the period from 1965 to 1975. Migration from the South was substantial in the 1940s, 1950s, and into the 1960s: 10 to 15 percent of all blacks and roughly 20 to 25 percent of young black men migrated in each of these decades. Wage gaps between blacks and whites were much larger in the South than in other regions. For example, in 1960 the black-white gap in wages was about twice as large in the South (50 to 60 percent compared with 20 to 30 percent outside the South).

Following passage of the Civil Rights Act of 1964, the relative wages of black workers increased sharply—more than can be explained by macroeconomic factors such as growth in gross domestic product. The improvement in relative wages was by far the greatest in the South, where State fair-employment laws were weakest, where institutional discrimination was greatest, and where Federal antidiscrimination efforts were focused. Although there was some progress in the relative earnings of blacks before 1964, the evidence is overwhelming that progress accelerated substantially in the period from 1964 to 1975, and that Federal attacks on racial exclusion in the South were critical to this acceleration.

As noted above, gains in years of schooling and school quality explain perhaps 20 percent of the gain in relative wages for blacks in this period. There were large increases in the economic returns to schooling for blacks. In principle, these could result from either increased quality of schooling or decreased discrimination in the labor

market. However, decreased discrimination is the more compelling explanation, since returns to education increased even among older cohorts whose education had been completed prior to 1965.

But part of the improvement in schooling and school quality is also attributable to Federal actions. The Supreme Court ruled in the *Brown* decision that segregated schools are unconstitutional. Yet despite the *Brown* decision and provisions of the Civil Rights Act that threatened to cut off Federal aid to segregated schools, in the mid-1960s black children in the South still overwhelmingly went to segregated schools. The dramatic changes came after the 1968 and 1969 Supreme Court decisions that required immediate integration. Therefore, improvements in school quality that resulted from school desegregation do not explain improvements in black wages in the South between 1965 and 1975.

Demand forces seem responsible for much of the improvement in relative wages between 1964 and 1975. Partly because Federal actions coincided with a strong economy, the precise role of Federal action, including the associated voluntary compliance, has been difficult to establish statistically. However, the observation that the most rapid progress came in the South, where Federal efforts were concentrated, supports the importance of the Federal role. Detailed studies show that blacks moved into industries in the South from which they had previously been excluded. For example, after 55 years of near-total exclusion, black employment advanced rapidly in South Carolina's textile industry from 1965 to 1975.

A recent evaluation of the impact of the Equal Employment Opportunity Act of 1972 confirms earlier findings of the importance of Federal equal opportunity law to the labor market progress of blacks. The act expanded civil rights coverage of Title VII of the Civil Rights Act to employers with 15 to 24 employees (previously only larger establishments were covered), as well as to State and local governments. Blacks employed in the newly covered small establishments in States where small employers were not already covered by State fair-employment practice laws, largely in the South, were most affected by this legal change. Blacks gained in relative employment, earnings, and occupational status in small establishments in Southern States after 1972.

Changes Since the Mid-1970s

Men. In the mid-1970s and 1980s, wages for less educated workers and for black and Hispanic workers deteriorated. Wage differences between blacks and whites grew fastest in the North Central region, where employment and earnings declined more generally. On the demand side, the heavy concentration of blacks in central-city manufacturing jobs in the Midwest in the 1970s made them particularly vulnerable to recessions and the decline of manufacturing employment. Ironically, then, the movement out of the South and into

manufacturing employment that had contributed so much to black economic progress in the 1960s and early 1970s also contributed to the deterioration of the late 1970s and 1980s.

Labor supply responses such as migration and training can help offset the effects of reductions in labor demand. Lower mobility will produce larger wage and employment declines in response to demand shocks. There appears to have been slower adjustment out of declining areas and industries among blacks and less educated workers, on average, although it is unclear whether this supply adjustment was slower for minorities than for whites with similar educational attainment.

Perhaps the most important change in the labor market over the past 25 years has been the increase in the demand for more educated workers. But wage inequality has generally increased even for workers with the same educational attainment. Although growing wage differences between blacks and whites could be a symptom of increased discrimination, the increase in general wage inequality makes this inference more difficult. The increase in general wage inequality for workers of the same age and educational attainment could lead to widening differences in wages between blacks and whites, as the following example illustrates. Suppose that in 1975 the median wage for black men aged 30 with a high school degree stood at the 35th percentile of the distribution of wages for the corresponding group of white men. Suppose further that wage inequality increased generally after 1975, so that by 1990, wages at the 35th percentile of the white wage distribution had fallen 10 percent relative to the white median (for this group). Then, even if the black median wage remained at the 35th percentile of the white wage distribution, the general growth of wage inequality would have resulted in a 10-percent decline in the black-white ratio of median wages.

Scholars have recently attempted to quantify these effects. Estimates vary, however, regarding the extent to which the widening of pay gaps between blacks and whites is accounted for by increasing general wage inequality. One early study concluded that such effects could account for the entire increase in black-white wage differences among young workers in the 1980s. But this conclusion has been challenged. For example, the increase in wage gaps between blacks and whites has been greatest among young, college-educated workers. But the median wages of black and white workers for this group were similar in the mid-1970s. Therefore, a general decline at the bottom of the wage distribution relative to the median cannot account for the fall of the black median relative to the white median for this group. For other groups of workers, however, increases in general wage inequality appear to be more important.

Researchers have also hypothesized that the increase in general wage inequality among workers of similar ages and education levels is due to the growing value in the labor market of "unmeasured skills" (skills not measured by years of schooling or age). Some have hypoth-

esized further that the growth in wage differences between blacks and whites is related to differences in unmeasured skills between blacks and whites. For example, skills differences between blacks and whites with the same years of schooling might result from differences in the quality of the schools that blacks and whites attend. Some studies have attempted to explore this issue by directly examining school quality or measures of "skill" such as performance on tests of cognitive achievement or ability. However, important aspects of school quality may be difficult to measure. Studies find that differences in test scores can explain a substantial portion of black-white differences in wages in a given year, but have not been able empirically to account for the reversal in black-white wage convergence since the mid-1970s.

In addition, a recent study concludes that growing returns to unmeasured skills are simply not large enough to account for the stagnation of black economic progress after the mid-1970s. First, changes in school quality cannot explain the widening of pay gaps over time *within* cohorts whose schooling is of fixed quality over their lifetimes. In principle, an increase in the labor market return to school quality could lead to a widening of pay gaps between blacks and whites even within cohorts, if blacks attended lower quality schools. But second, the study found that even after differences in schooling, age, location, and unmeasured skills are taken into account, young, college-educated black men experienced at least a 13-percent drop in wages relative to their white counterparts in the 1980s.

In sum, black men's earnings fell relative to those of white men of similar age and educational attainment in the late 1970s and 1980s. The evidence available indicates that increasing overall wage inequality may have contributed to this deterioration and may be linked to unmeasured skill differences, but these explanations are incomplete. For example, this explanation does a poor job with young, college-educated black men, for whom the erosion of relative pay was substantial. These investigations therefore provide indirect evidence that discrimination also contributed to widening pay gaps across racial groups.

Women. Less attention has been paid to recent increases in the wage gap between black and white women. Since the early 1970s, working women have made substantial gains in earnings relative to men. The narrowing of the gender pay gap has been attributed to greater lifetime labor force participation among women and the dramatic increase in the value of education and work force experience.

As noted above, black women reached virtual pay parity with white women in the early 1970s, after a long period of steady improvement (Chart 4-12). Since the mid-1970s, however, the wages of young black women have fallen about 10 percentage points relative to those of young white women. The relative decline was more rapid among

young college graduates. Chart 4-12 shows only ratios of weekly earnings of full-time workers, but the trends in pay gaps among racial and ethnic groups for women are similar in other data series (such as annual earnings of full-time, year-round workers) and for workers of similar ages and educational attainment.

Both labor force participation rates and attainment of a college degree rose more for white women than for black women in the 1980s. Over the 1980s the returns to education also increased. Changes in demand for specific occupations and the decline in unionization rates appear to have hurt black women relative to white women. Black women were also more likely to be employed in declining industries than white women.

Studies document a widening of pay gaps among racial groups for women of similar ages and educational attainment. But since white women's labor force participation rates have increased relative to those of black women (at least until the mid-1990s), their labor market experience at any age may also have increased relative to that of black women. And pay tends to rise with greater labor market experience. Thus, a possible yet unexplored explanation for the decrease in the pay of black women relative to white women since the mid-1970s is the increasing relative attachment of white women to the labor force. Discrimination could also have contributed to the decline in the black-white earnings ratio among women.

Affirmative Action in Employment

Aside from labor market changes that increased the demand for more skilled labor, weaker enforcement of antidiscrimination laws during the 1980s may have contributed to the decline in black workers' relative earnings between the mid-1970s and the late 1980s. There is evidence that enforcement of equal opportunity and affirmative action laws has an effect on hiring decisions.

Affirmative action programs have proved controversial, but their aggregate effects remain unclear. Because a variety of civil rights and antidiscrimination measures were undertaken in a relatively short time, it has been difficult to distinguish the effects of affirmative action from those of broader civil rights enforcement. The Office of Federal Contract Compliance Programs (OFCCP) is responsible for monitoring the hiring and promotion practices of Federal contractors. Large government contractors (those with 50 or more employees and \$50,000 or more in Federal contracts) must develop an affirmative action program to remedy any underutilization of minorities and women and must make good faith efforts to implement the program. One approach to assessing the effects of affirmative action on employment, therefore, is to compare government contractors (who are covered by OFCCP enforcement) with firms that are not government contractors (noncontractors). This approach, however, is subject to biases that can lead it to overstate or understate the effects of affir-

mative action plans. On the one hand, noncontractors often take steps to ensure diversity and compliance with equal opportunity laws, even though they are not covered by OFCCP rules. This would lead the method to understate the effects of affirmative action. On the other hand, increased employment at contractor firms could also result from a shift of employment from noncontractors to contractors. In this case the difference between contractor and noncontractor hiring could overstate the employment effects of affirmative action.

According to these studies, active enforcement by OFCCP during the 1970s appears to be related to government contractors' increasing their hiring of minority workers, although the effect is relatively modest. For example, one study found that the employment share of black males in contractor firms increased from 5.8 percent to 6.7 percent between 1974 and 1980. In noncontractor firms the share increased from 5.3 percent to 5.9 percent. The literature also finds that OFCCP had a significantly positive effect on the employment of black females and a smaller but still positive effect on white females.

A 1996 study concluded that, in contrast to findings for the 1970s, there was no consistent evidence of the success of government antidiscrimination efforts in the 1980s. As noted, in the 1980s OFCCP enforcement was greatly weakened. Debarments of contractors found to be noncompliant, awards of back pay to affected employees, and conciliation agreements following violations all decreased during the decade. Enforcement has apparently increased in the 1990s as new initiatives have been adopted that focus enforcement on the worst offenders, target areas of obvious noncompliance, and strengthen sanctions.

DISCRIMINATION

No discussion of differences in economic status among racial and ethnic groups would be complete without a consideration of the ongoing importance of discrimination. Two statements appear to be true. First, discrimination is far less pervasive and overt today than it was before the Civil Rights Act of 1964. Second, audit studies and significant judgments in favor of victims of discrimination make it clear that discrimination against members of racial and ethnic minority groups persists in many areas of the economy. However, there is far less agreement about the degree to which current acts of discrimination are responsible for differences in economic status among racial and ethnic groups.

Many States' laws dictated a system of race-based classifications that placed blacks at a disadvantage in the economy, in education, and before the law. As late as the early 1960s overt racial discrimination was common. For example, newspaper advertisements clearly stated employer preferences for whites or blacks for specific jobs. The

practice was common even in States like New York, where antidiscrimination legislation predated national civil rights legislation.

Evidence of continued racial discrimination takes a variety of forms. Perhaps the most convincing evidence comes from audit studies, in which similar white and minority candidates are sent to the same sources to seek jobs, rent apartments, or apply for loans for home mortgages. For example, a white and a black job seeker may be given similar résumés and sent to the same set of firms to apply for a job. These studies typically find that employers are less likely to interview or offer a job to minority applicants, and that minority applicants are treated less favorably by real estate agents and lenders and in some types of consumer purchases (such as automobiles and meals in restaurants). For example, one national study found that the incidence of unfavorable treatment in the housing market was 23 to 30 percentage points higher for a black or Hispanic auditor than for his or her "matched" white counterpart. In the area of housing discrimination the Department of Justice recently launched a national program to test housing developments, seeking evidence of discriminatory practices. Pairs of black and white persons are trained to pose as prospective tenants and sent to ask about the availability of units. In a case brought using evidence developed with this technique, the Department of Justice obtained a consent decree against housing providers in suburban Detroit that resulted in a \$125,000 civil penalty paid to the Treasury and required the defendants to make \$225,000 available to the victims of their discrimination.

Various Federal agencies also receive and resolve thousands of discrimination complaints each year. On the one hand, although a settlement of charges does not always involve admission of discriminatory practice, at a minimum the bringing of a charge indicates the perception that discrimination has occurred. On the other hand, only a portion of employees who experience discrimination actually bring charges. In fiscal 1996 alone, the Equal Employment Opportunity Commission, which is responsible for enforcing the principal Federal statutes prohibiting employment discrimination including Title VII of the Civil Rights Act of 1964, obtained \$145 million in monetary benefits (excluding litigation awards) for parties bringing discrimination charges, through settlement and conciliation. From 1993 to 1997 the OFCCP conducted 19,852 compliance reviews and 3,192 complaint investigations and obtained over \$158 million in financial settlements, including over \$60 million in back pay for 30,171 victims of employment discrimination by Federal contractors. During the first term of this Administration, the Department of Housing and Urban Development (HUD) reached out-of-court settlements on 6,517 housing discrimination cases. HUD took enforcement action on 1,085 cases, either issuing housing discrimination charges or referring cases to the Department of Justice. During this period HUD obtained \$17.8 million in compensation for victims of housing discrimination.

The Department of Justice settled major mortgage lending discrimination suits in the 1990s, including suits against large lenders in the Atlanta and Boston areas. In fiscal 1997 the Department of Education's Office of Civil Rights received 1,422 complaints alleging discrimination based on race, color, or national origin in access to equal educational opportunities. The office facilitated a change in 249 of these cases.

Less direct evidence of discrimination comes from earnings comparisons such as those described earlier in this chapter. As noted there, even after adjusting for many characteristics that affect earnings, these studies typically find that blacks are paid less than their white counterparts. The traditional interpretation is that the unexplained differential reflects discrimination in pay. However, these studies are not uniformly accepted as providing evidence of discrimination in the labor market: some researchers have argued that the studies fail to control adequately for differences in average characteristics between groups. Others argue that controlling for such characteristics may not be appropriate if differences in characteristics such as education and labor market experience are themselves partly the result of discrimination both outside and within the labor market.

More direct evidence of labor market discrimination, in addition to that from audit studies, comes from lawsuits that prove in a court of law a pattern and practice of discriminatory behavior. But these narrow, albeit powerful, pieces of evidence do not translate easily into estimates of the aggregate economic impacts on employment or economic well-being of discriminatory behavior. Significant analytical challenges, requiring a combination of approaches, remain in assessing the contribution of current acts of discrimination to current differences in economic status among racial and ethnic groups. For example, minorities who face discrimination by one employer may be able to find employment with another, nondiscriminatory employer. (But even in this case, discrimination imposes psychological costs and additional job search costs on minorities.) This example also suggests that, especially where discrimination is prevalent, reducing discrimination can yield substantial economic benefits, by increasing the number of nondiscriminatory employers.

It is an important goal of social and economic policy to ensure that discrimination does not limit the economic opportunities available to members of racial and ethnic minority groups. This Administration remains committed to ensuring equal opportunity for all Americans.