



“Summary of article by John Bound and Richard B. Freeman: What Went Wrong? The Erosion of Relative Earnings and Employment Among Young Black Men in the 1980s” in Frontier Issues in Economic Thought, Volume 4: The Changing Nature of Work. Island Press: Washington DC, 1998. pp. 283-286

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"From the mid-1960s to the mid-1970s black Americans made large gains in the labor market relative to whites... [but] the era of relative black economic advance ended in the mid-1970s." (201-202) Thereafter, racial earnings and employment gaps widened rapidly for male workers. This article explores what went wrong beginning in the late 1970s, based on the annual Current Population Survey and other data on individual workers. The analysis focuses on young men (defined as those under 28, and less than 10 years out of school) because they are more affected by current labor market conditions; older workers are protected to some extent by seniority and the accumulation of human capital.

The changes since the 1970s can be attributed to a variety of factors, including the economic decline of inner cities, the loss of manufacturing jobs, the fall in the real value of the minimum wage, and the decline in union membership for those with less education. The declining relative position of black college graduates may reflect the weakening of affirmative action, occupational downgrading, the decline in government employment, and the huge increase in the ratio of black to white college graduates.

DIMENSIONS OF CHANGE

Among young men, all major categories of blacks suffered earnings and/or employment declines relative to comparable whites in the late 1970s and 1980s. For young men as a whole, the racial earnings gap (controlling for education) narrowed rapidly from the mid-1960s to the mid-1970s, then began to widen. The employment rate, or ratio of employment to population, also showed a widening gap at many levels of education and experience. For example, for men with 12 years of education who had been out of school for five years, the black employment rate was 9 percentage points lower than the white rate in 1973, and 15 points lower in 1989.

The decline was particularly steep for two groups: those in the Midwest with high school education or less, and college graduates nationwide. In these groups, the racial earnings gap had essentially disappeared in the mid-1970s; in fact, in 1975, young black men were earning 8% more than whites in the Midwest, and 6% more among college graduates. By 1989, blacks were earning 19% less than whites in the Midwest, and 16% less among college graduates -- a remarkably rapid change.¹ In contrast, among high school dropouts nationwide, there was no significant increase in the earnings gap (which remained substantial throughout the period), but a rapid increase in the employment rate gap.

EXPLAINING THE TRENDS

To assess the importance of potential explanatory factors, regression analysis was used to estimate the time trend in racial earnings gaps with and without additional factors. The starting point was the trend found when controlling only for education and experience. Subsequent regressions also controlled for location, industry, occupation, union membership, and the real value of the minimum wage. In most cases the inclusion of these additional variables reduced the magnitude of the time trend, thus "explaining" some of the worsening position of blacks. The regression analysis explains 62% of the trend in the earnings gap for all young men, 72% for those in the Midwest with high school degrees or less, and 41% for college graduates.

For the Midwest, by far the most important factor was the change in industries in which blacks were employed. Other significant effects were due to changes in occupation, union membership, and the value of the minimum wage (industry and union membership are highly correlated, and therefore their effects overlap). In the 1970s over 40% of young black men in the Midwest were employed in durable manufacturing; by 1989 this had fallen to 12%, a drop of 28 percentage points. For young white men in the Midwest, the comparable drop was just 10 percentage points. Controlling for education and industry, the unionization rate for young black men was 10 percentage points higher than for whites in the Midwest and the Northeast in 1973, but no higher than for whites by 1989. The decline in the real minimum wage had only a modest effect in the Midwest; it was much more important in the South, where many young workers were at or near the minimum wage.

The causes of decline were somewhat different for black college graduates. Changes in occupation were the most important, though changes in industry also mattered. In the 1970s, 68% of young black college graduates, and 69% of comparable whites, were in professional and managerial jobs. By 1989 these figures had fallen to 46% for blacks and 59% for whites. These declines -- 22 percentage points for blacks, 10 for whites -- are very similar to the declines in the percentage of college graduates working in education and public administration², suggesting that cutbacks in public sector employment may have accounted for much of the change. The ratio of black to white young college graduates grew rapidly in the 1970s and 1980s, perhaps reflecting increased equality of educational opportunity; thus the supply of black college graduates may have grown faster than the demand.

THREE OTHER POSSIBILITIES

Three other possible explanations are often suggested for the widening racial gaps of the 1980s. First, unmeasured labor market skills of young blacks may have deteriorated, due to poor schooling, family breakdown, increased drug use, or other factors. This is difficult to maintain in the face of the evidence: black students' standardized test scores rose slightly relative to whites in the period; and older cohorts of black workers, whose skills were presumably established in earlier, better times, suffered declines in earnings relative to whites that paralleled those of young workers. The survey data used as the basis for statistical analysis in this article is unlikely to include serious drug users.

A second possibility is more serious: the tremendous increase in crime among young black men may have caused some of the erosion in employment of black high school dropouts. Statistical analysis using a different data set allows estimates of the effects of a criminal record on the probability of employment for young high school dropouts. A history of incarceration had a highly significant effect, reducing the probability of employment by 21 percentage points in 1983 and 17 points in 1988. Having being on probation, but never having been incarcerated, caused 16 and 11 percentage point reductions in the employment probability in the two years. Less serious records (only convicted or only charged) caused smaller, and usually not statistically significant, reductions in employment.

Census and Justice Department figures imply that the percentage of young (ages 18-29) black male high school dropouts in prison or jail at some time during the year rose from 7% in 1980 to 20% or more (one estimate suggests 26%) in 1989. Since there is turnover in the incarcerated population, even more have criminal records. The surge in the number of young blacks with criminal records did not begin until the 1980s; using the estimates presented here, it could account for 71% of the declining employment rate for young black high school dropouts from 1979 to 1989. The employment rate for young white high school dropouts remained roughly constant in this period, and the number with criminal records was comparatively small.

A final factor that is not captured in the statistical analyses is the change in the government's role, particularly the weakening pressure for affirmative action. Past studies have shown that the rise of affirmative action contributed to the increased relative earnings of black college graduates in the late 1960s and early 1970s. Correspondingly, the decline of government effort and expenditure on affirmative action in the 1980s undoubtedly allowed the relative decline of black college graduate earnings. This occurred at a time when other analysts have suggested that the overall distribution of earnings was becoming wider (i.e., less equal); this widening differentially hurt blacks both because they began at a lower point in the distribution, and they were losing the government support that had helped them move up in earlier times.

Notes

1. Calculated from Table 1, p.209. There and throughout the original article, comparisons are expressed in "log points," or differences in natural logarithms, which are roughly equal to percentages for small differentials, and slightly greater than percentages for bigger differentials.
2. The share of young black college graduates working in education and public administration fell from 38% in the 1970s to 17% in 1988-89, a 21-point drop; the comparable decline for whites was from 28% to 14%, a 14-point drop.