

The Costs of Racial and Ethnic Labor Market Discrimination and Solutions that can Contribute to Closing Employment and Wage Gaps

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Chairman Himes, Ranking Member Steil and distinguished members of the Select Committee on Economic Disparity and Fairness in Growth, thank you for the opportunity to testify today. My name is Valerie Wilson and I am a labor economist and director of the Program on Race, Ethnicity and the Economy (PREE) at the Economic Policy Institute (EPI) in Washington, DC. EPI is a nonprofit, nonpartisan think tank created in 1986 to include the needs of low-and middle-wage workers in economic policy discussions. EPI conducts research and analysis on the economic status of working America, proposes public policies that protect and improve the economic conditions of low-and middle-wage workers, and assesses policies with respect to how well they further those goals. In 2008, EPI launched PREE to provide a more focused and integrated approach to exploring and explaining how race, ethnicity, gender and class intersect to affect economic outcomes in the United States.

According to the Center for Assessment and Policy Development, racial equity is the condition that would be achieved if one's racial identity no longer predicted, in a statistical sense, how one fares. In reality, statistical analysis often reveals that racial identity is a measurable, significant, and persistent predictor of economic outcomes, including employment, income and wealth.

My testimony will focus primarily on racial and ethnic disparities in labor market outcomes. This is motivated by the fact that the bottom 80 percent of non-elderly households in the United States get about 73 percent of household income as labor income. Earnings and employment inequalities limit labor income for affected workers of color, undermining the economic well-being of those households, and by extension, the U.S. economy as a whole. According to an April 2021 report from the San Francisco Federal Reserve Bank, labor market disparities are associated with significant economic losses for the U.S. economy. Specifically, the authors estimate that 2019 output would have been \$2.6 trillion dollars higher if race and gender gaps in labor market opportunities and returns were eliminated. Further, they estimate that race and gender gaps cost the U.S. economy a collective \$70.8 trillion (in 2019 dollars) between 1990 and 2019¹. My remarks will center Black-white disparities in unemployment and wages, which have been the

¹ Buckman, Shelby R., Laura Y. Choi, Mary C. Daly, Lily M. Seitelman. 2021 "The Economic Gains from Equity," Federal Reserve Bank of San Francisco Working Paper 2021-11. <https://doi.org/10.24148/wp2021-11>

most persistent and often the largest measured differences in these economic outcomes, but I will also reference disparities faced by Hispanic workers throughout my testimony. This in no way minimizes the challenges and struggles of other racial and ethnic groups, but in many cases reflects data limitations. I will conclude by discussing solutions that can contribute to closing the gaps.

Unemployment disparities

One of the most defining features of the U.S. labor market is the large and persistent disparity in unemployment that exists between Black and white workers. This disparity is well-documented in decades of official estimates from the Bureau of Labor Statistics, dating back to 1954 when the agency first began reporting rates of unemployment for whites and “non-whites”. Nearly seven decades worth of data can be summed up in one simple ratio: 2-to-1. It means Black job seekers are about half as likely to secure employment during a consecutive 4-week period as are white job seekers. This has been true across multiple periods of economic expansion and recession, and is observed for all age cohorts, at every level of education, and for men and women alike.

Over the last four and a half decades, only the most highly educated and most experienced Black workers have approached anything near unemployment rate parity with their white counterparts, and only during periods of exceptionally low unemployment.

These empirical data are consistent with multiple field experiments revealing that Black job applicants with equivalent, and sometimes superior, credentials to white applicants are less likely to receive job call backs. All of these things point to structural factors that go far beyond an individual’s ability to narrow employment gaps by acquiring additional skills or education. While education and skills can promote better individual outcomes, they do not create equal outcomes.

Since the 1980s, when data first became available, unemployment rates for Hispanic workers have also consistently been higher than those of white workers. Starting in the mid-1990s, the gaps between Hispanic and white unemployment rates began narrowing. By 2006, the unemployment rate of Hispanic men almost reached parity with that of the overall male workforce, falling to 4.9 percent, and the unemployment rate of Hispanic women dropped to 5.9 percent². However, the Hispanic unemployment rate rose rapidly after 2006 (during the Great Recession) and would not fall below its 2006 low again until 2018. Yet, even at the lowest levels of unemployment in 2019, in each education category, high school through advanced degree, Hispanic workers had higher levels of unemployment than similarly educated white workers³.

² Mora, Marie T. and Alberto Davila. 2018. The Hispanic-white wage gap has remained wide and relatively steady: Examining Hispanic-white wage gaps in wages, unemployment, labor force participation and education by gender, immigrant status, and other subpopulations. <https://www.epi.org/publication/the-hispanic-white-wage-gap-has-remained-wide-and-relatively-steady-examining-hispanic-white-gaps-in-wages-unemployment-labor-force-participation-and-education-by-gender-immigrant/>

³ Gould, Elise. 2020. State of Working America Wages 2019. <https://www.epi.org/publication/swa-wages-2019/>

The ongoing COVID-19 crisis continues to highlight the many layers of racial inequality in the U.S. labor market. In contrast to the nearly uniform rise in unemployment rates between February and April 2020, since that time, the white unemployment rate has fallen fastest, while the AAPI, Hispanic and Black unemployment rates have declined more gradually. In December 2021, the white unemployment rate was the lowest at 3.2%, followed by 3.8% among AAPI workers, 4.9% among Hispanic workers and 7.1% among Black workers.

Wage inequality

Another defining feature of racial inequality in the labor market are the large disparities in pay between Black and white workers. These racial pay gaps persist even after accounting for factors commonly associated with individual productivity, such as education or skills, and have in fact gotten worse over the last forty years. In fact, less than half of the observed Black-white difference in average hourly wage is explained by differences in education, experience, or region – some of the main factors presumed to determine pay. Again, this finding contradicts the idea that individual skills accumulation will eliminate the gaps. One of the most troubling aspects of growing Black-white wage gaps is the fact that they have grown most among college-educated workers; those presumed to have done all the “right” things, yet still receive lower returns on their investment in higher education than their white counterparts. Attaining a college education has also failed to close the Hispanic-white wage gap.

In 1979, Black and Hispanic bachelor’s degree holders were paid an average hourly wage that was 86.4% and 86.1%, respectively, of what white bachelor’s degree holders were paid. For advanced degree holders, the Black-white ratio was 89.9% and the Hispanic-white ratio was 94.5%. Fast forward to 2019, and the ratio between Black and white bachelor’s degree holders was down 8.9 percentage points to 77.5% and the Hispanic-white ratio was down to 84.4%; the Black-white ratio for those with advanced degrees was down 7.5 percentage points to 82.4% and the Hispanic-white ratio was down to 90.1%.

These patterns are consistent with the fact that college-educated Black and Hispanic workers are less likely to be employed in positions and industries that have seen the most wage growth in recent decades. In 2019, Black workers with a college or advanced degree were more likely than their white counterparts to be underemployed based on their skill level—almost 40% were in a job that typically does not require a college degree, compared with 31% of white college graduates⁴. Only 3 percent of all chief executives are African American, and a disproportionate number of them are employed in the public or private nonprofit sectors, where salaries are lower and more likely to be capped than they are in the private for-profit sector where CEO pay has soared in recent decades⁵. Moreover, Black and Hispanic workers are largely underrepresented

⁴ Williams, Jhacova and Valerie Wilson. 2019. Black workers endure persistent racial disparities in employment outcomes. <https://www.epi.org/publication/labor-day-2019-racial-disparities-in-employment/>

⁵ Mishel, Lawrence and Jori Kandra. 2021. CEO pay has skyrocketed 1,322% since 1978.

<https://www.epi.org/publication/ceo-pay-in-2020/>

in professional occupations where the median wage is 44% higher than the median earned by workers in all occupations. This underrepresentation is compounded by the fact that Black and Hispanic professional workers still earn less than their white workers in similar occupations⁶.

Unlike unemployment rates that are characterized by a nearly constant 2-to-1 Black-white ratio, there have been 4 distinct periods of change in Black-white wage inequality. These periods of change have often been consistent with distinctive shifts in policy that benefited or harmed other marginalized groups in similar ways.

For example, the narrowing of the gap from the late 1960s through the 1970s can be traced to the passage of important Civil rights legislation, and active enforcement of anti-discrimination and affirmative action policy which also contributed to narrowing of the educational attainment gap between Blacks and whites.

On the other hand, the widening of the gap since the 1980s is associated with retrenchment on anti-discrimination policy, in combination with policies and practices that fueled growing wage inequality, including failure to increase the federal minimum wage as the cost of living rose, a decline in union representation, and weaker macroeconomic conditions.

Since 2000, the Black-white wage gap has widened and the Hispanic-white gap has changes very little amid sluggish economic growth, two jobless recoveries, the Great Recession and subsequent recovery that was needlessly hampered by premature fiscal austerity. Fiscal austerity has been especially harmful to Black workers who are a disproportionate share of those employed in the public sector where they have historically been drawn by better job opportunities and greater pay equity.

The data I have presented is just a sample of a larger body of compelling empirical evidence and a solid historical record that points to discrimination as a significant factor in the persistence of racial disparities in the labor market. These disparities also erode the leverage of Black and Hispanic workers to hold out for a better job match or to challenge unfair or unsafe working conditions given concerns about the chances of finding a better job. Undocumented workers are particularly vulnerable to wage theft and unsafe working conditions given their precarious legal status. Racial disparities in income & wealth can also make the consequences of leaving or losing a job greater for Black and Hispanic workers.

Race and Policy

In the United States, the identification of race is primarily based on skin color – an arbitrary, superficial and fixed characteristic. This begs the question of why there should be any statistical correlation with one’s likelihood of being employed or how much they are paid for their labor? The ugly truth of the matter is that throughout our country’s history, race has been used to

⁶ Wilson, Valerie, Ethan Miller and Melat Kassa. 2021. Racial representation in professional occupations. <https://www.epi.org/publication/racial-representation-prof-occ/>

systematically exclude, marginalize, exploit, and generate unequal economic outcomes, while also being used to justify and normalize those unequal outcomes. These objectives have often been supported by federal policies, in both explicit and implicit ways. For example, the exclusion of agricultural and domestic workers (predominantly Black workers at the time) from the Social Security Act and National Labor Relations Act (Wagner Act) in 1935, as well as from the Fair Labor Standards Act in 1938 disproportionately disqualified Black workers from the benefits of greater economic security and essential labor protections.

While those are specific policy examples, all policy essentially shapes how the nation's income and wealth will flow, and as a result, how access and opportunity will flow. Given that race is part of the scaffolding upon which social and economic mobility are built, equitably shared opportunity and prosperity starts with a careful assessment of social and economic conditions across all affected communities so that policy serves to restructure systems and institutions in ways that prevent discriminatory outcomes rather than enable them. This requires that we bolster our data infrastructure such that instances of disparate treatment can be better monitored, documented and addressed. This is particularly important among populations for which limited data are currently available, including Native Americans and subpopulations of the AAPI community.

Policies geared toward maximizing employment and limiting the depth and duration of recessions are essential to making workers less vulnerable to limited job prospects and low wages. These policies are particularly important to improve outcomes for workers of color who are disproportionately harmed by economic downturns. While excessive and premature fiscal austerity limits opportunities for growth, prioritizing investments that create good jobs in high unemployment and high poverty communities will help to promote racial equity.

Labor unions play an important role in giving workers a stronger, collective voice to advocate for higher pay, better benefits, training and promotional opportunities, as well as protections against discrimination and harassment. In a unionized workforce, for example, collective bargaining results in labor contracts that help to create greater transparency and consistency through clearly defined policies and pay structures. These contracts play a critical role in reducing the potential for pay discrimination by limiting an employer's discretion in paying different wages to comparably qualified individuals doing the same job and providing workers with critical protections and recourse against other forms of exploitation or mistreatment. Still, the labor movement, like any other U.S. institution, is not immune to racism and unions must continue to grow as more diverse, inclusive, and dynamic organizations as they serve the vital role of leveling the playing field for all workers.

Finally, the fact that labor market discrimination has persisted well beyond the passage of Title VII of the Civil Rights Act of 1964 and the Equal Pay Act should not be overlooked or taken lightly. Meaningful accountability for discrimination requires solutions that confront the power and information asymmetries that weaken our enforcement system. This includes policies that encourage employer transparency, funding of federal, state, and local enforcement agencies that

is consistent with the tens of thousands of discrimination charges filed annually, revising legal doctrines to better align with the purpose of anti-discrimination laws in order to relieve the overly onerous burden of proof that workers face, and protection for all workers against practices that coerce employees to waive their rights to legally challenge unfair or unequal treatment.

In closing, while this hearing is focused on the collective economic costs of structural racism, it is also important to remember that there is a collective moral cost that may not be as easy to quantify but is essential to the American ideals of freedom, justice and democracy. As the committee considers ways to convert those collective economic costs into collective economic benefits, I encourage members to adopt a holistic vision of racial equity that includes racial justice -- the redress of past exclusion and injustice -- as a vehicle for also converting moral costs into moral benefits.