Racial Inequality in the U.S. Labor Market

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In an ideal world, if two people possess the same skillset for a specific job, regardless of age, ethnicity, or gender, they would have the same, equal level of qualification for said job. However, studies have shown this is not always the case. If two applicants for a job were, for all intents and purposes, identical; both were male, both had the same skillset, the same training, the same education, the only difference being that one was Caucasian with the name "John Smith" and the other applicant was African American with the name "DeShawn Washington," who would the hiring manager be more inclined to hire?

In the economics documentary, *Freakonomics: The Movie,* Dr. Sendhil Mullainathan, Professor of Economics at Harvard University, conducted a research study in which he sent out 5,000 identical résumés – half were under the common African American name of Tyrone, and the other half were under the common Caucasian name Greg. The result was: the resume with the African American name was 33% less likely to get a callback from prospective employers than was the more "white" sounding name. If it takes a white male ten weeks to find a job, it would take an additional five weeks for an equivalently skilled black male to find a job (*Freakonomics*, 2010). Racial inequality, to this day, is still prevalent within the U.S. labor market.

Inequality is defined as, "the unequal allocation of benefits" (Cohn, 2000). Racial inequality in the American workplace has been a topic of much debate, with ongoing research aimed at determining how it is produced and reproduced. "The most popular mode of explanation for racial inequality, in the minds of white Americans, is character – or rather, a lack thereof; blacks have less of the 'good things in life' than

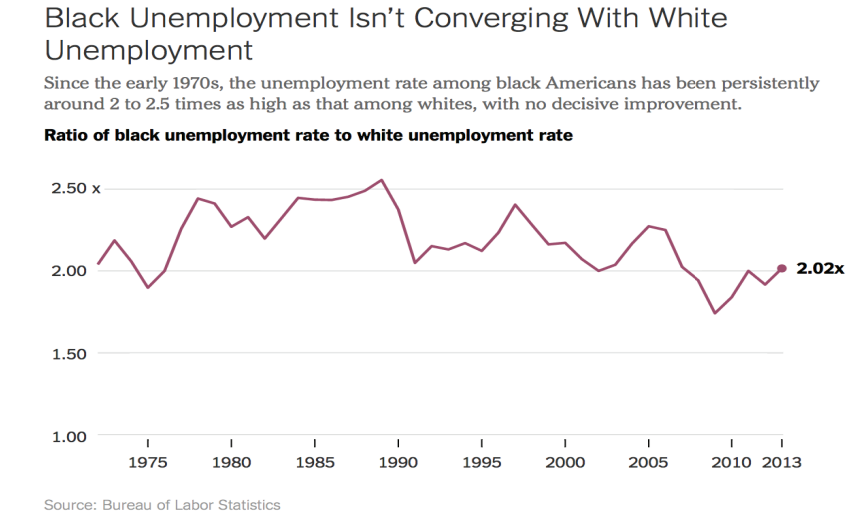
whites because they try less than whites" (Sniderman & Hagen, 1985). The manifestation of racial inequality is evident in a wide range of societal issues including, but not limited to, unemployment rates, wealth distribution, education and career opportunities, and incarceration rates.

The history of black slavery and legal segregation proves the racial disadvantages faced by the African American race within the United States. From the early 1600s, African Americans were used as slaves, creating a system of racial economic inequality. The Emancipation Proclamation and the Thirteenth Amendment helped put an official end to black slavery and inequality; however, to this day, we continue to see traces of discriminatory semblance. Decades later, the continuing lack of true freedom and opportunities further hinder and suppress the African American class in the United States, and many would argue that the adverse effects of slavery still contribute to the racial inequality within the labor market.

According to data gathered by the U.S. Bureau of Labor Statistics (2014), in 1970, black men made approximately 69% of what the average white male population earned, assuming both groups worked full-time, hourly wage jobs. With the most current data, gathered in 2013, the black male population makes 75.1% of the earnings made by the average white male population. Although there is a 6% improvement, there is still a prominent wage differential gap between white and black male classes. Correspondingly, the wealth inequality is similar within the female classification. In 1960, black women made 48.2% (a percentage of white men's median annual earnings). In the latest statistical data found in 2013, black women now earn approximately 68.5%, reducing the overall wage gap by 20.3%.

The unemployment rate between various races can be a signal of either a cause or an effect of other inequalities within society. For most

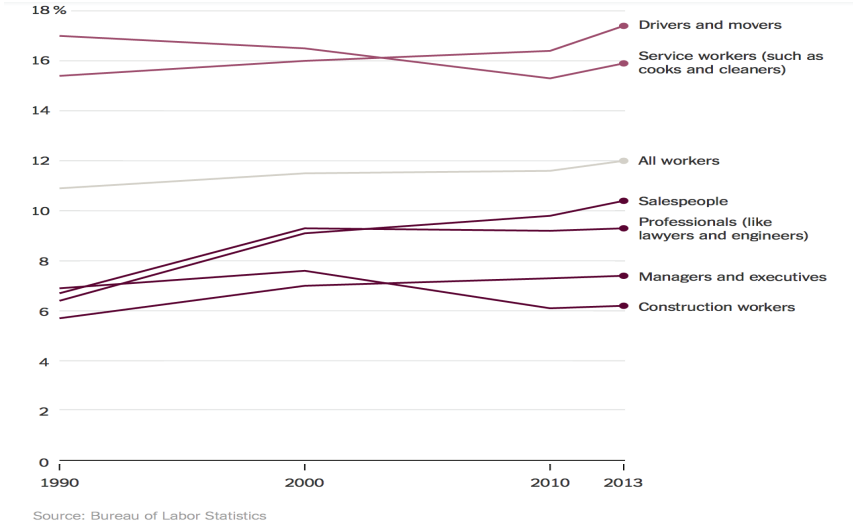
of the past six decades, data from the U.S. Bureau of Labor Statistics has shown that the average unemployment rate for blacks is consistently over twice (2.2 times) that of whites.



The widest gap, when the black unemployment rate was 2.77 times greater than the white unemployment rate, was in the late 1980s, as manufacturing sectors consolidated and eliminated various positions and left many African Americans jobless. The smallest gap was during the Great Recession in 2009; the white unemployment rate increased at a rapid pace in a short amount of time, thus the black jobless rate was 1.67 times higher (DeSilver, 2013). Some factors that could impact the higher black unemployment rate could be varying levels of skillset, education levels, or an underrepresentation in high-income, professional career fields and an overrepresentation in low-income, entry-level fields.

The level of job security progressively increases as the jobs increase in professional class and prestige. As illustrated on the graph below, "black people are underrepresented in high-income fields like business, law and medicine, and overrepresented in lower-income jobs like food preparation and driving. That might be one reason why the rise

of a black professional class has not been sufficient enough to reduce the overall income gap between white and black workers" (Irwin, Miller, & Sanger-Katz, 2014).



Not only does a job of higher professional class yield higher job security, it also provides socioeconomic upward mobility and stability. An hourly, entry-level job, on the other hand, is easier to acquire, as little job-specific skills are required; however, the disadvantages outweigh the benefits. Entry-level jobs tend to be the lowest paying jobs in the market, have a higher turnover rate, rarely offer competitive benefits for the employee, and upward mobility is limited. Therefore, with the overrepresentation of the black population in these low-income fields, the statistics will be skewed toward the trends observed within this market. The level of blacks within these fields is in correlation to the level of education obtained. Furthermore, the statistics of unemployment by level of education between blacks are still higher than the corresponding level of education earned by whites.

According to the U.S. Bureau of Labor Statistics, the 2013 unemployment rates between blacks and whites contrasted at comparable

education levels still yielded a higher differential. The unemployment rates for whites and blacks, respectively, are as follows for various education levels: less than a high school diploma, 9.7% and 20.5%; high school graduates with no college background, 6.6% and 12.6%; some college (or associate degree), 5.6% and 9.8%, and lastly, bachelor's degree (or higher), 3.5% and 5.7% (Irwin, Miller, & Sanger-Katz, 2014). Therefore, although the level of unemployment decreases as a higher level of education is obtained, the overall trend for blacks is consistently higher than that of whites. In 1970, the percentage of male and female whites, respectively, over the age of 25 who completed four years of college or more was 15% and 8.6%, and the percentage of male and female blacks, respectively, was 4.6% and 4.4%. With the current data from 2013, the percentages have increased for male and female whites to 32.4% and 31.6%, respectively, and for male and female blacks to 19.8% and 23.3%. Despite the fact that these figures have increased over the past four decades, the racial gap is still discernible.

Instead of bridging the gap of racial inequality within the American workplace, the gap remains, and in some aspects, it has only grown wider. This begs the question: Why hasn't the African American community caught up to their Caucasian counterpart? Nancy DiTomaso, vice dean for faculty and research and professor of management and global business at Rutgers Business School, believes that it is not prejudice or discrimination against the race, but rather it is favoritism displayed among and within each racial group. She wrote, "…while exclusion or discrimination is illegal, inclusion or favoritism is not – meaning it can be more insidious and largely immune to legal challenges. Favoritism is almost universal in today's job market. In interviews with hundreds of people on this topic, I found that all but a handful used the help of family and friends to find 70 percent of the jobs they held over their lifetimes; they all used personal networks and insider information…" (2013). It is an innate part of human nature to migrate toward groups or individuals that provide a sense of

belonging, whether it is due to shared values, beliefs, and/or skillsets. Therefore, although whites may not *discriminate* against blacks, and vice versa, it is plausible that there still exists an undefined division between various racial groups that hinders those with less knowledge and resources available.

Conversely, economist Gary Becker's Theory of Labor Market Discrimination is based off the conviction of racial prejudice on the perceived price of labor among various races. For instance, in a competitive market, if two types of labor, black workers and white workers, possessed the same skillset and level of qualifications, it would cost the employer the same amount (labor market wage paid) to hire from either group. In other words, the cost of hiring a white worker (would be equal to the cost of hiring a black worker (. However, if the employer faced a situation in which he had to hire one worker between the two groups of applicants, and he is prejudiced against blacks, he may feel inclined to hire the white applicant. A prejudice against blacks would cause the employer to perceive the cost of hiring blacks to be: * (1 + d), where "d" is the Discrimination Coefficient. The higher the coefficient is, the higher the disutility is from hiring a black worker. It is important to note that the cost of hiring black workers, with the discrimination coefficient, is only a perceived cost, and the actual cost remains equal to the cost of hiring a white worker. In effect, Becker's theory shows that not only are racial inequalities present in the modern day workforce, but discrimination could potentially affect the way the employers view the cost of hiring various people, depending on their race. Oftentimes, this could be a result of unconscious racial bias within the hiring practices.

Between DiTomaso's research on favoritism versus discrimination and Becker's Theory of Labor Market Discrimination, there seems to be some correlation between the two studies. While "favoritism" seems to be a generous depiction of the reality in the workplace, it is a common phenomenon for people to congregate toward groups or individuals who

share common interests and similarities as their own. Not only does it provide a sense of acceptance, but it also builds upon a default subliminal connection, and that, in turn, provides a type of mental validation. "Favoritism" does not consider the potential negative perceptions that an individual might impose on someone of a different race. Additionally, the boundaries of "favoritism" are unclear. Where does it become too excessive and cross over to "discrimination" toward the unfavored party?

From the research study conducted in *Freakonomics: The Movie*, it is apparent that there exists some level of discrimination that begins during the hiring process – even before the individual is hired into the workforce. A classification of "favoritism" can quickly manifest into a case of discrimination and racial inequality. Becker's Theory of Labor Market Discrimination is exemplified through this case study. Considering the only difference between the résumés was the white-and-black sounding names, the two hypothetical applicants should have been seen on an equal level of qualification for said job. However, the hiring managers clearly perceived a higher cost of interviewing and hiring the applicant with the name "Tyrone" in comparison to the applicant whose name was "Greg".

Many workplaces strive to have their employee composition well diversified. Affirmative Action policies, defined as, "those in which an institution or organization actively engages in efforts to improve opportunities for historically excluded groups in American society," (NCSL, 2014) help to keep diversity as a key component in the labor force. As affirmative action policies are a requirement to compensate for years of racial and economic oppression, much more is needed than simply a policy requiring people to be receptive of different races. It is not only within the actions of the people, but it ~~is~~ also the mindset of how people perceive different races other than their own. Unconscious bias has become an inherent disservice to diversity in the workplace and hiring

practices, and it will continue to be a problem until addressed.

Racial equality and the absence of racial barriers in the workforce will be the start of a more united and equal society. People, regardless of race, should be able to have access to the same opportunities as their counterparts. Racial bias, whether it is conscious or unconscious, is still, very much alive in society today. The lack of diversity within social groups has proven to be detrimental and a hindrance to society, as a whole. If African Americans earned the same wages as the Caucasian population who had equal qualifications, then they could progressively minimize the poverty gap in comparison to their counterparts. Lower poverty levels could potentially lead to a more stable home environment, where more kids could have access to quality education, which, in effect, could increase the labor force participation rate, as well as the future presence of the black population in the high-income, professional fields. Not only does this phenomenon apply to the African American community, but it also affects each and every race. The removal of racial barriers, regardless of magnitude, will be the first step in moving our country toward the full embodiment of what many people refer to as "the land of equal opportunity".

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