UC BERKELEY OPPORTUNITY LAB

RESEARCH IN BRIEF

Minimum Wages and Racial Inequality

Summary of research by Ellora Derenoncourt and Claire Montialoux

Background

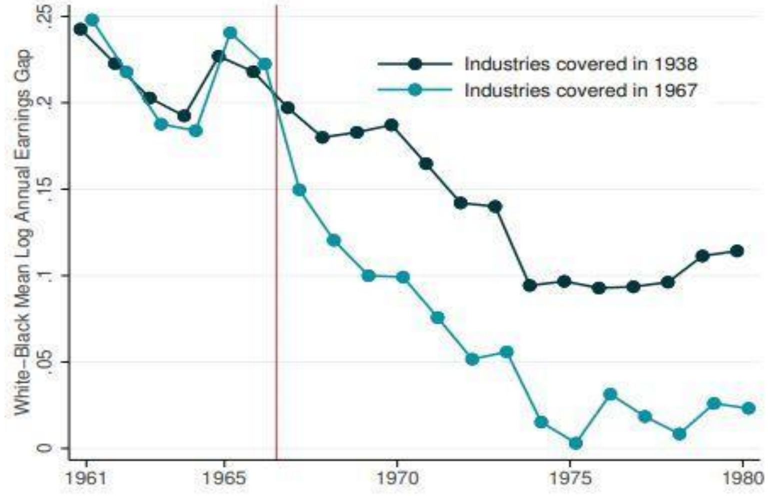
The earnings gap between white and black Americans has proven to be one of the most persistent and stubborn forms of inequality in the United States. On average, black workers today earn about 25% less than white Americans, and since World War II, this gap has only once significantly narrowed, during the late 1960s and early 1970s, when it was reduced by a factor of two. Why did it fall? Scholars have put forward various explanations for the decline, from the effect of anti-discrimination legislation to school desegregation. In this O-Lab *Research in Brief*, we present new evidence from Ellora Derenoncourt and Claire Montialoux showing that the 1967 extension of the minimum wage to new sectors of the economy can explain more than 20% of the reduction in the racial earnings and income gap during the Civil Rights Era. The contribution of the minimum wage to the decline in racial inequality is comparable in size to the effect of school desegregation. Their research provides valuable evidence of the power of the minimum wage to serve not only as a tool for improving the economic security of low-income earners, but as a tool for promoting racial equity as well.

Research and Findings

The Fair Labor Standards Act (FLSA) of 1938 introduced the federal minimum wage in the United States. The coverage of the Act, however, was incomplete: it only covered workers in the manufacturing, transportation and communication, wholesale trade, finance and real estate sectors. The 1966 FLSA amendments introduced the federal minimum wage (as of February 1st, 1967) in sectors that were previously excluded: agriculture, nursing homes, laundries, hotels, restaurants, schools, and hospitals. These sectors employed about 20% of the workforce and a disproportionate share of black workers. Derenoncourt and Montialoux examine the effects of this minimum wage expansion on earnings, racial gaps and employment.

Their analysis uses a variety of data sources and research designs. They conducted a large scale digitization of previously unused tabulations from the Bureau of Labor Statistics (BLS) on hourly wages. These new data reveal clear evidence of an immediate and sharp hourly wage increase for low-paid workers in the sectors where the minimum wage was introduced in 1967. To quantify the magnitude of the wage effect, their empirical approach is to compare the trends in wages for low-wage workers in newly covered industries (treatment group) in the Current Population Survey with those of workers in industries covered in 1938 (control group): they find that wages increased by 6% in the newly covered industries relative to the previously covered industries in 1967, and that this effect is persistent throughout the 1970s. The minimum wage expansion increased earnings for 16% of workers in the affected industries by an average of 34%. The wage increase is, as expected, concentrated among low-education workers, and is twice as large for black workers as for white workers. The adjusted racial earnings gap fell dramatically in the newly covered industries relative to the previously covered industries, and by the mid-1970s, it was almost zero in the newly covered industries (Figure 1).

Figure 1: Adjusted Racial Earnings Gap, by Treatment Status



Source: March CPS, 1962-1981

The authors find no significant effect of this large reform on employment, and can in particular rule out employment elasticities of more than -0.1 (and -0.2 for black workers). To show this, they compare the trends in the number of workers paid strictly below the minimum wage to the number of workers at or slightly above the minimum wage in the observed BLS hourly wage distributions (treatment group) and in counterfactual distributions, absent the minimum wage reform (control group). They reached a similar conclusion when comparing the probability of being employed in states that are more or less affected by the minimum wage expansion around the time of the reform.

Finally, the authors stress the effect of the minimum wage expansion on black economic status. Since the reform boosted the wages of black workers, without adverse effects on their employment status, they conclude it was not only effective at reducing the racial earnings gap (the difference in earnings for employed individuals) but also the racial income gap (the difference in income between black and white individuals, whether employed or not). A number of factors likely contributed to the minimum wage advancing black economic status during this period: racial discrimination and monopsony power by firms, particularly in the South; a booming economy and tight labor markets; improvements in education for the black population; and the complementary nature of anti-discrimination and voting rights legislation passed at the time.

Policy Implications

This research provides valuable insight into the extent to which the minimum wage can be an effective tool for addressing racial inequality. The findings--that the expansion closed the earnings gap, disproportionately benefited black Americans and the most economically vulnerable, and that it did so without decreasing hiring or employment levels--should be considered in any debate around the benefits of expanding and raising the minimum wage.