The Determinants of Black and White Earnings Inequality in the U.S., 1976-2008

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**Introduction**
- Income inequality in the U.S. has increased rapidly since the 1970s
- Currently the subject of intense policy debate
- Less attention has been given to income inequality between races
- Blacks are overrepresented at the bottom of the income distribution and whites at the top
- Since the 1970s earnings for blacks have increased relative to whites in some U.S. jurisdictions but have decreased in others
- What factors contribute to these differential trends among jurisdictions?

**Methods**
- Goal is to analyze the impact of explanatory variables on the black/white earnings ratio
- But there are likely unobserved state-specific characteristics that are time-invariant and influence the explanatory variables
- Could include things like culture, societal norms, etc.
- Leads to omitted variable bias
- Fixed Effects regression removes the effect of these characteristics

**Data**
- Individual-level earnings and demographic data from March Supplement of the U.S. Census Current Population Survey
- Earnings data includes median wages for full-time year-round male workers
- Educational attainment defined by mean years of schooling (1-18) for full-time year-round male workers
- Jurisdictions include the 22 states with 9% or more black population, plus CA and D.C.

**Results**

<table>
<thead>
<tr>
<th>Independent Variable</th>
<th>$\beta(t)$</th>
<th>Prob &gt; F</th>
</tr>
</thead>
<tbody>
<tr>
<td>B/W Education Ratio</td>
<td>.657***</td>
<td>.0000</td>
</tr>
<tr>
<td>B/W Mfg. Earnings Ratio</td>
<td>.226***</td>
<td>.0000</td>
</tr>
<tr>
<td>% Economy in Mfg.</td>
<td>.106</td>
<td>.0000</td>
</tr>
<tr>
<td>% Pop Black</td>
<td>.218</td>
<td>.0000</td>
</tr>
<tr>
<td>Full set of year dummies included in specification but omitted here due to space constraints</td>
<td></td>
<td></td>
</tr>
<tr>
<td>R-Squared</td>
<td>.3396</td>
<td></td>
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</tbody>
</table>

**Interpretation**
- Educational attainment ratio and manufacturing earnings ratio are both positive and highly significant
- 1% increase in educational attainment for blacks relative to whites is associated with a 0.66 percentage point increase in total earnings for blacks relative to whites
- 1% increase in manufacturing earnings for blacks relative to whites is associated with a 0.23 pct. point increase in total earnings for blacks relative to whites

**Conclusions**
- The largest increases in the black/white earnings ratio occurred in jurisdictions that began the period most unequal (mostly in the South)
- Improvements in educational attainment and manufacturing wages for blacks appear to be influencing these gains
- Sharpest drops occurred where black/white earnings were most equal at beginning of the period
- Decline in manufacturing wage ratio appears to have largest influence in those jurisdictions
- What are the policy implications of these results?

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