

# **Econ 133 – Global Inequality and Growth**

## **Racial economic disparities**

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## Roadmap

- The racial wealth gap
- The racial labor income gap
- The role of the minimum wage in the dynamic of the racial wage gap

- Persistence of large racial economic disparities: striking dimension of inequality in the US and in many countries
- Major disparities for both wealth and labor income

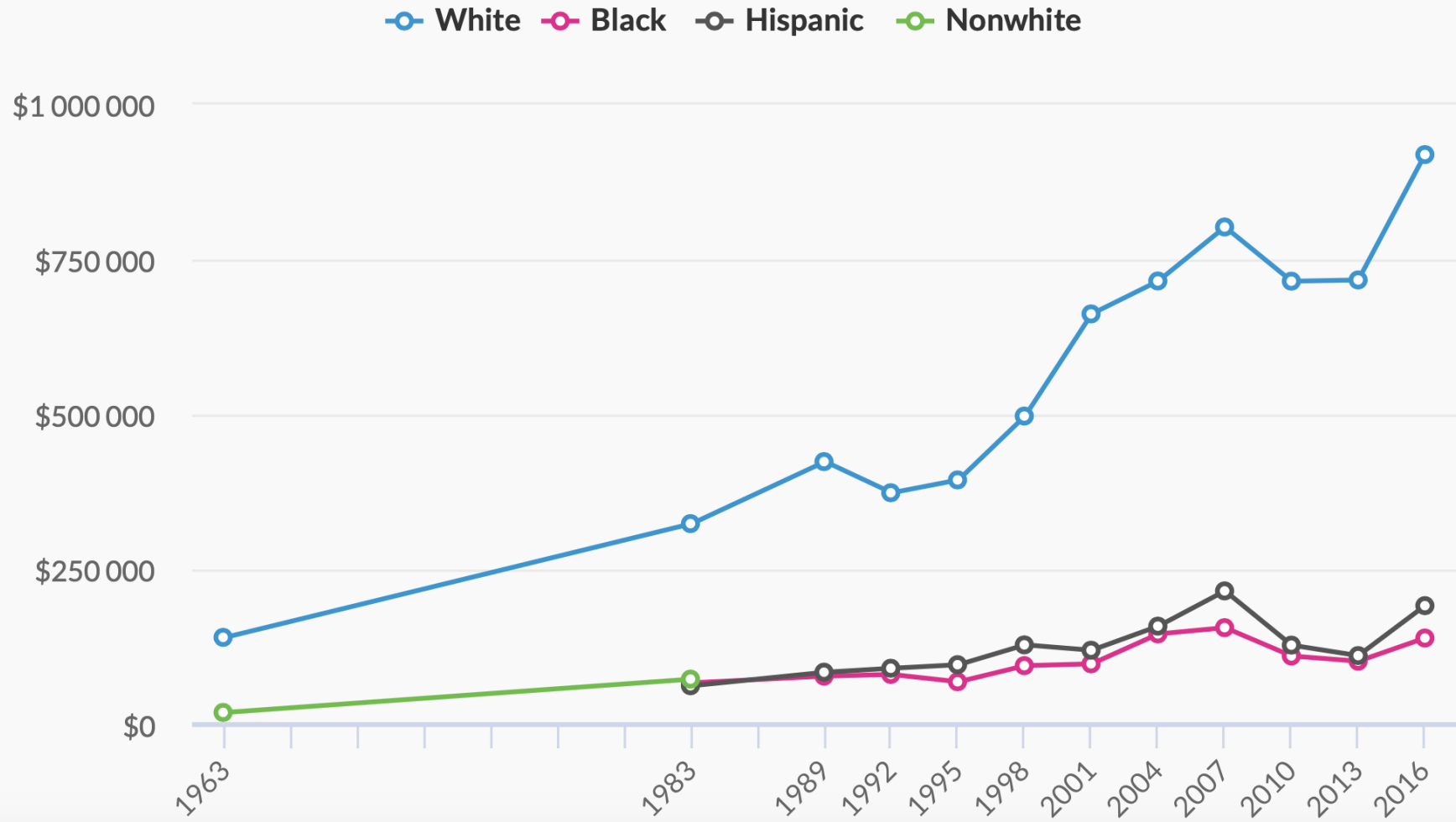
## **1 The racial wealth gap**

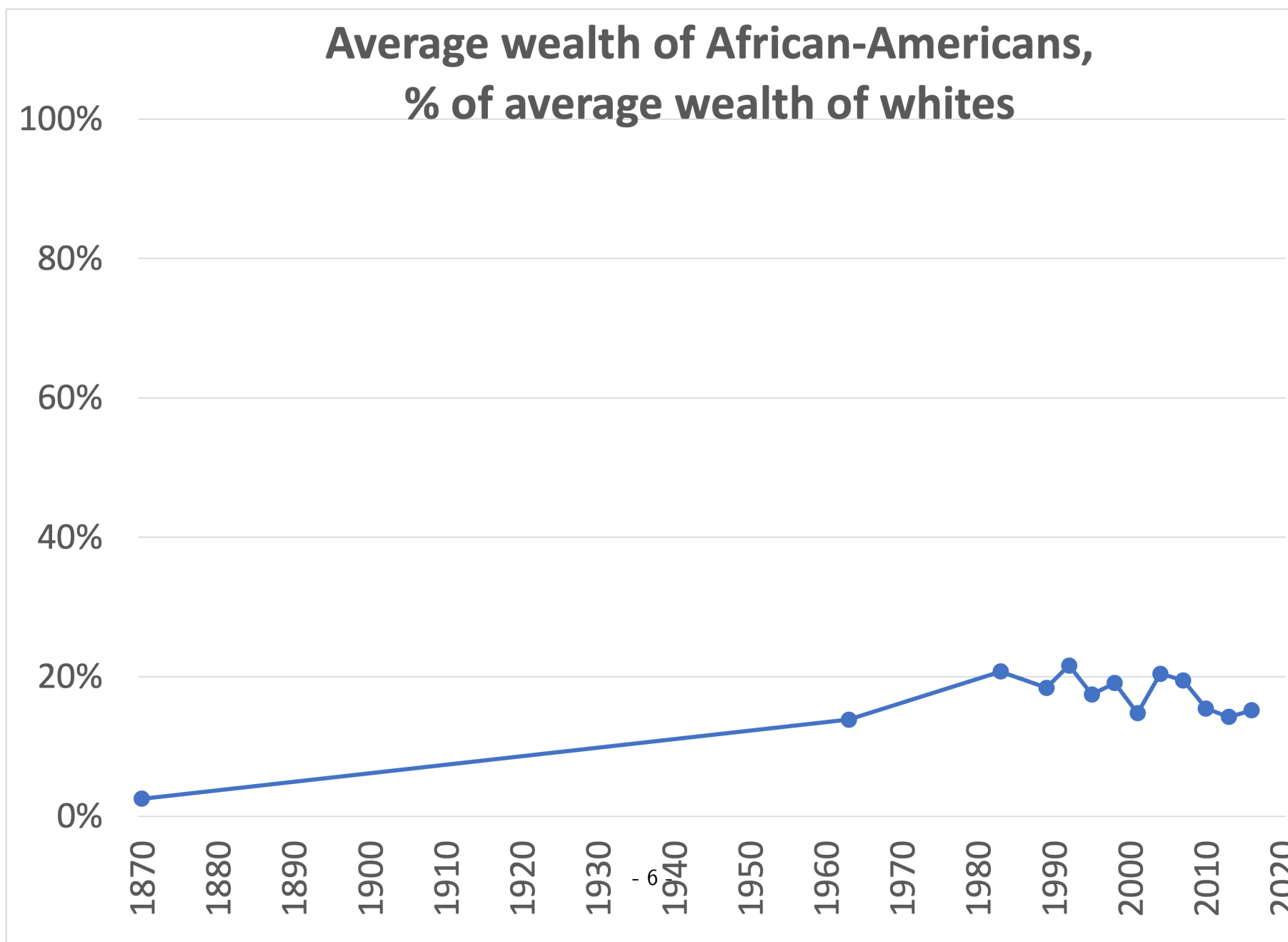
The broken promises of reconstruction:

- Promise of 40 acres and a mule during Civil War, but no federal land redistribution

- Promise of political equality betrayed by series of Supreme Court rulings in late 19c (most famous: Plessy v Ferguson, 1896)
  - Exclusion of African-Americans from high-paying jobs, lack of access to education, segregation in housing (Rothstein, 2017)
- persistence of considerable wealth disparities more than 150 years after the end of slavery

### Average Family Wealth by Race/Ethnicity, 1963–2016

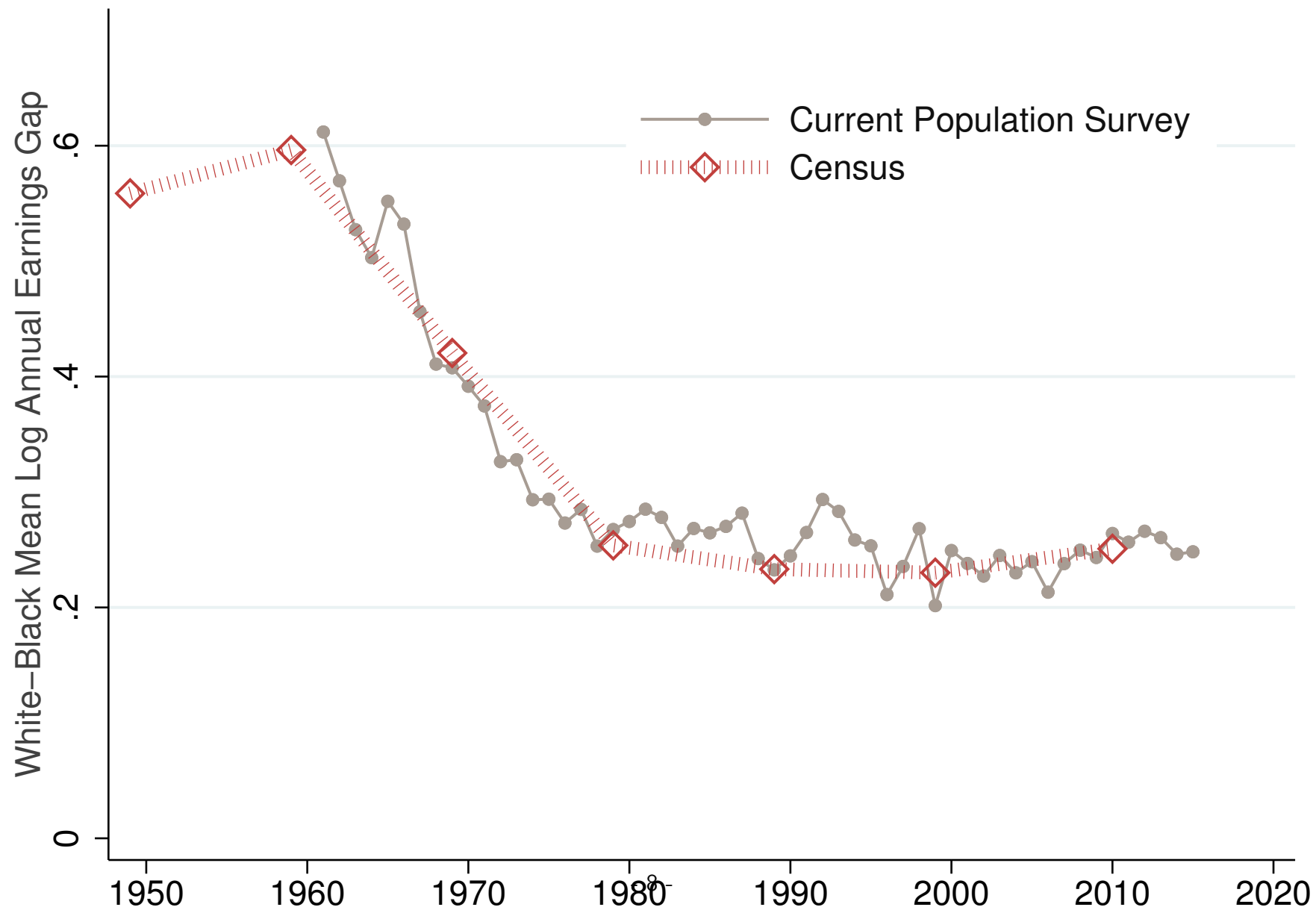




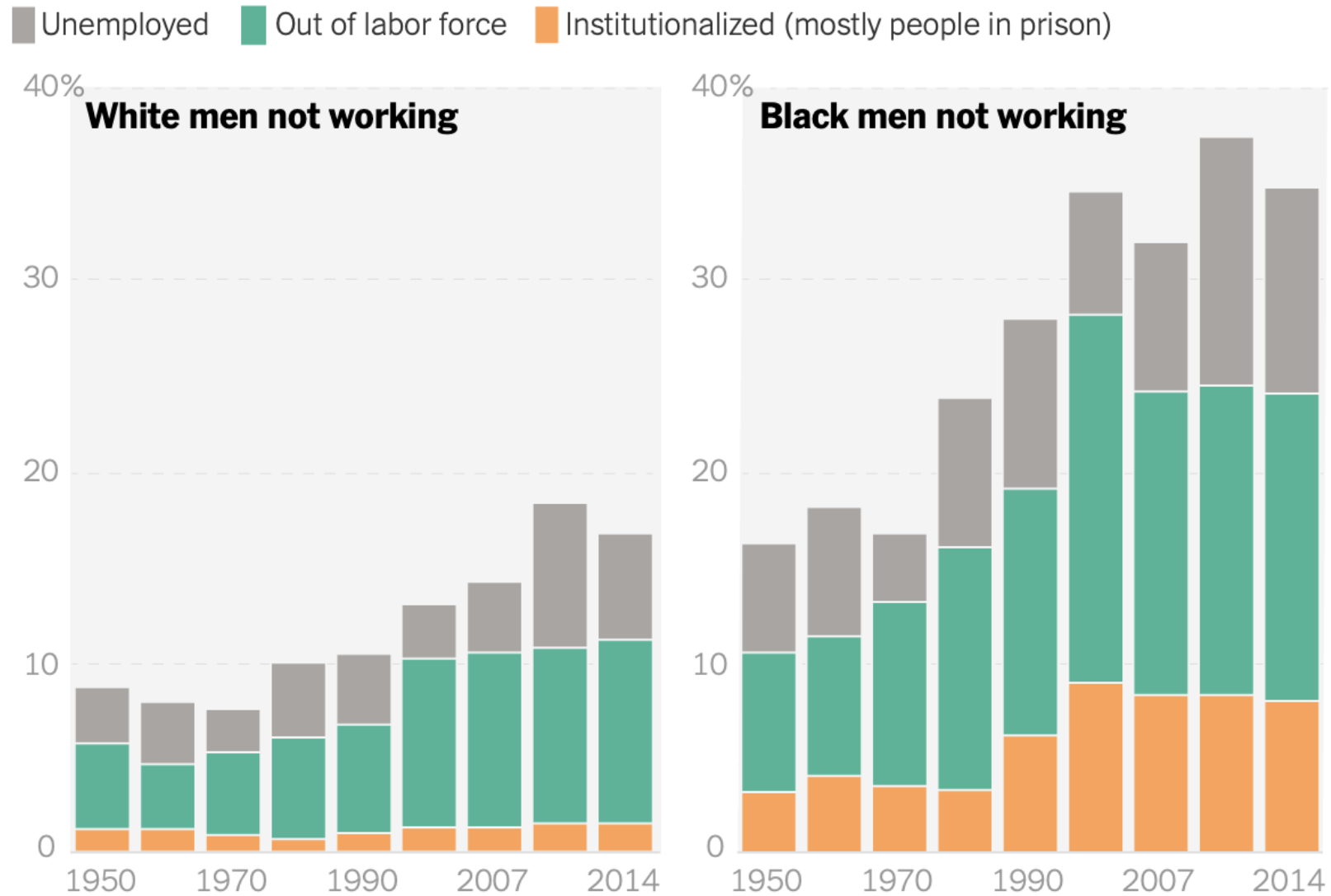
## 2 Differences in labor income between whites and African-Americans

- Decline in racial wage gap in 1960s–1970s, then stabilization
- Increase in racial employment gap since 1980s (Bayer and Charles 2018), role of mass incarceration

→ stagnation in racial labor income gap (capturing wage + employment probabilities) for men since WW2



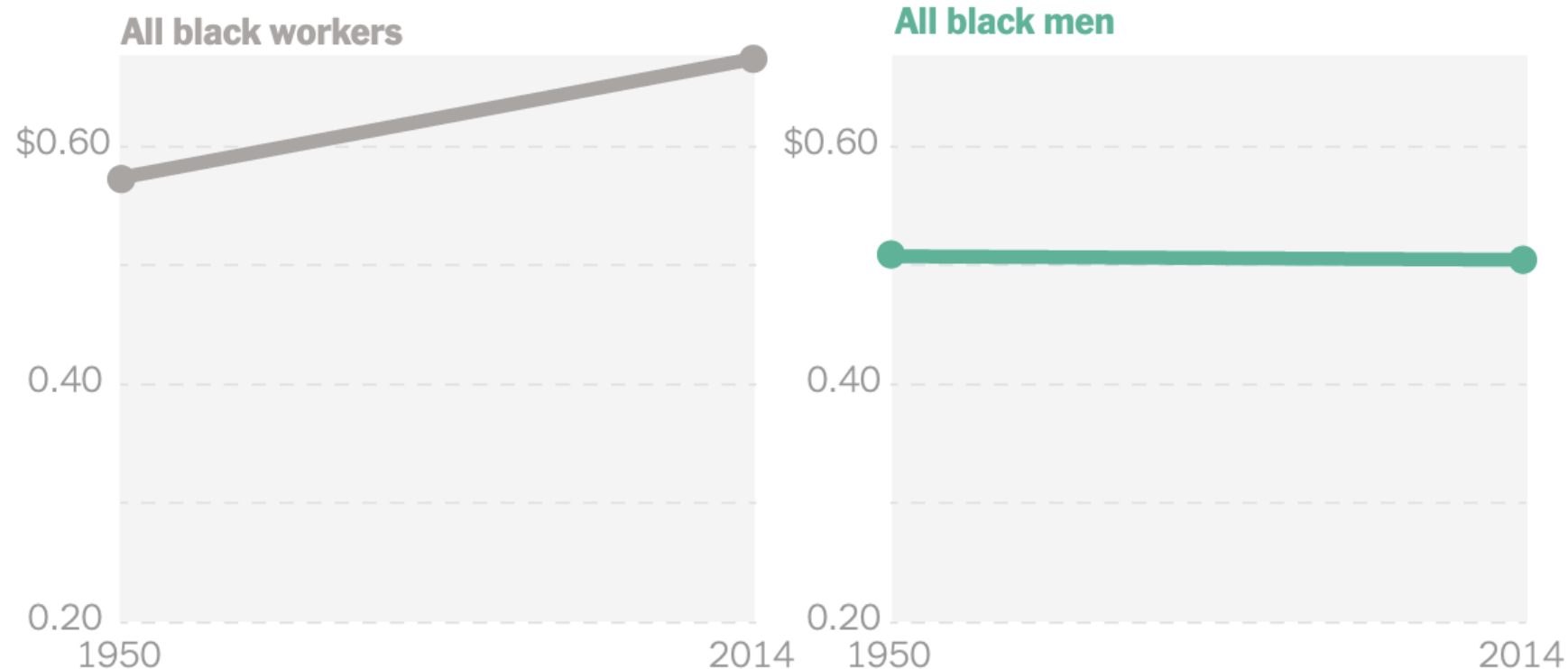




Source: Patrick Bayer and Kerwin Kofi Charles, "Divergent Paths." Note: Men aged 25-54. | The New York Times

The wage gap between black and white men is virtually unchanged when including all black men.

### Black male earnings for every \$1 earned by white men

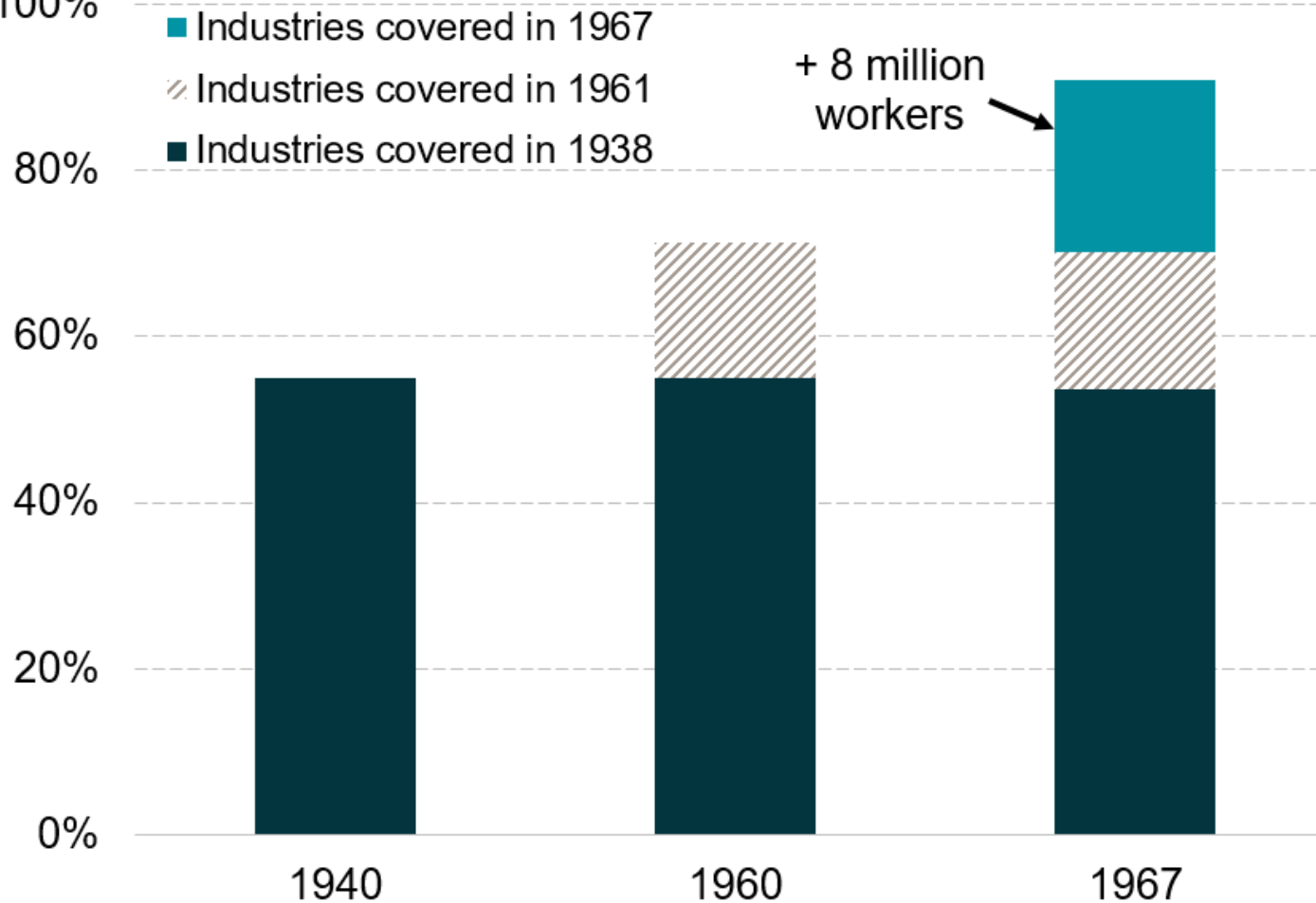


Note: Data shows the median for each group. Source: Patrick Bayer and Kerwin Kofi Charles, "Divergent Paths." | By The New York Times

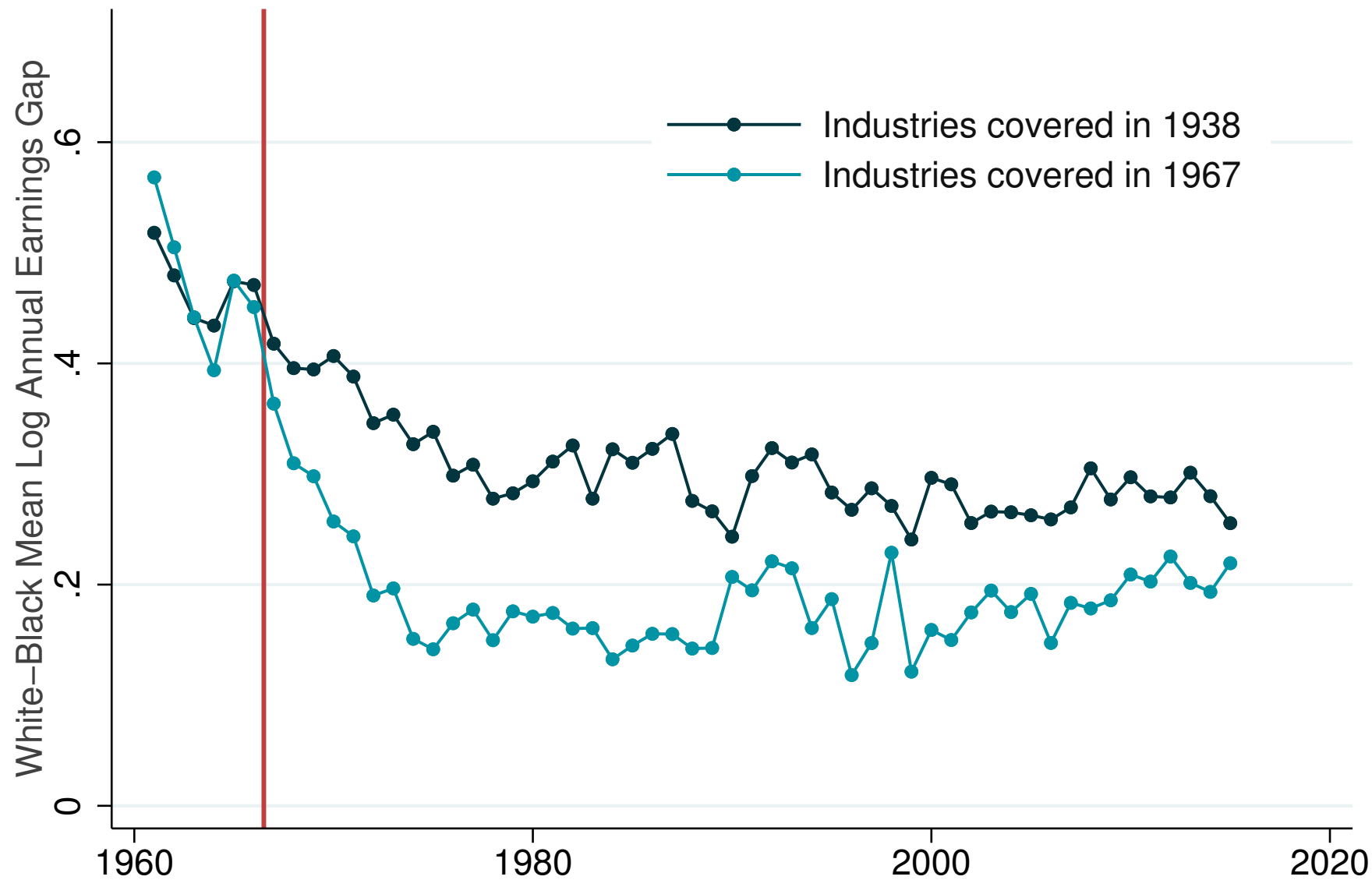
### 3 Explaining the dynamics of racial earnings gap: the role of the minimum wage

Racial wage gap fell only once since 1950: in 1960s and 1970s. Why?

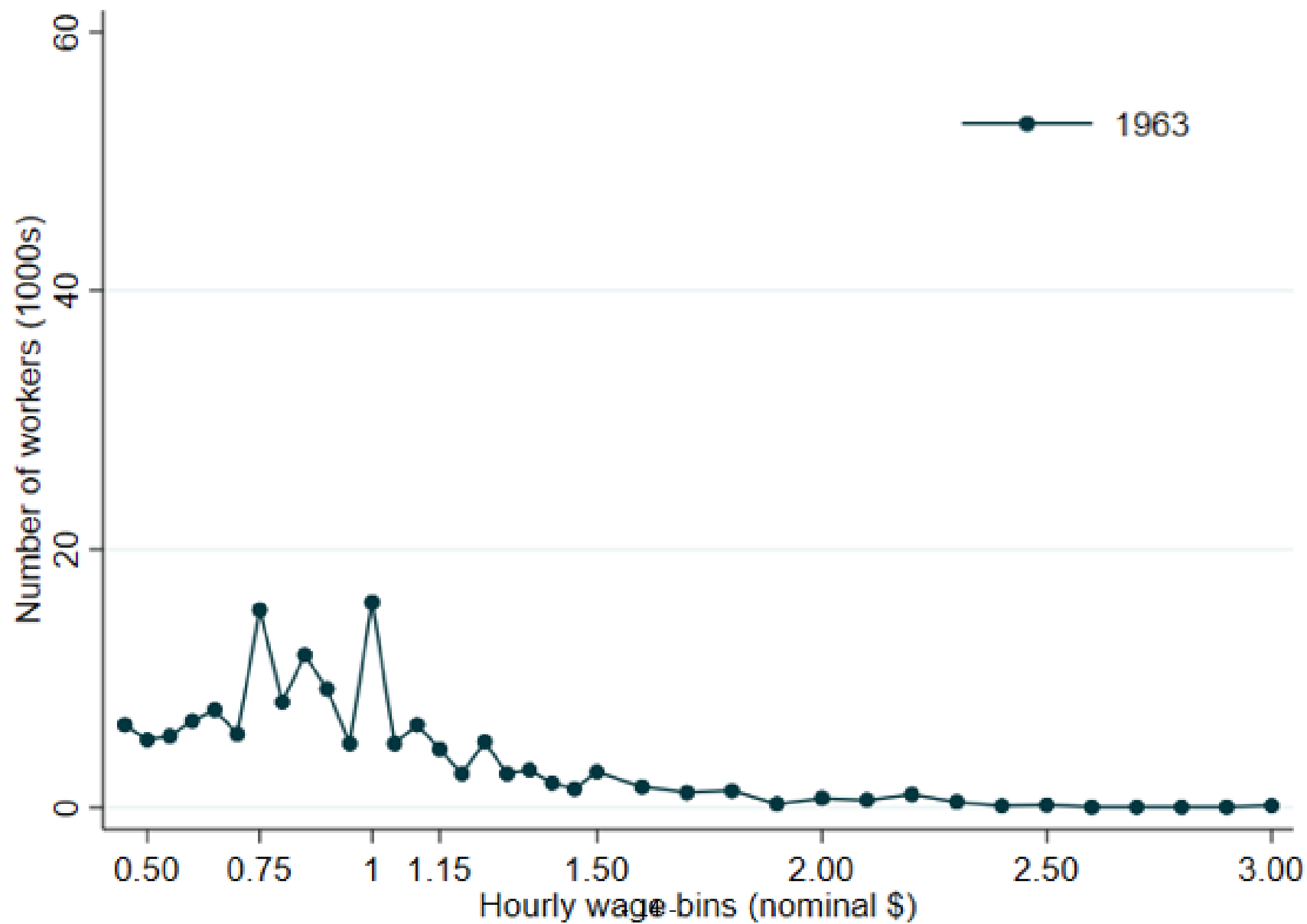
- Demand factors ( $\sim 30\%$ ): Anti-discrimination policies
- Supply factors ( $\sim 50\%$ ):  $\nearrow$  in schooling
- Minimum wage rise ( $\sim 20\%$ ) [Derenoncourt and Montialoux, 2021].

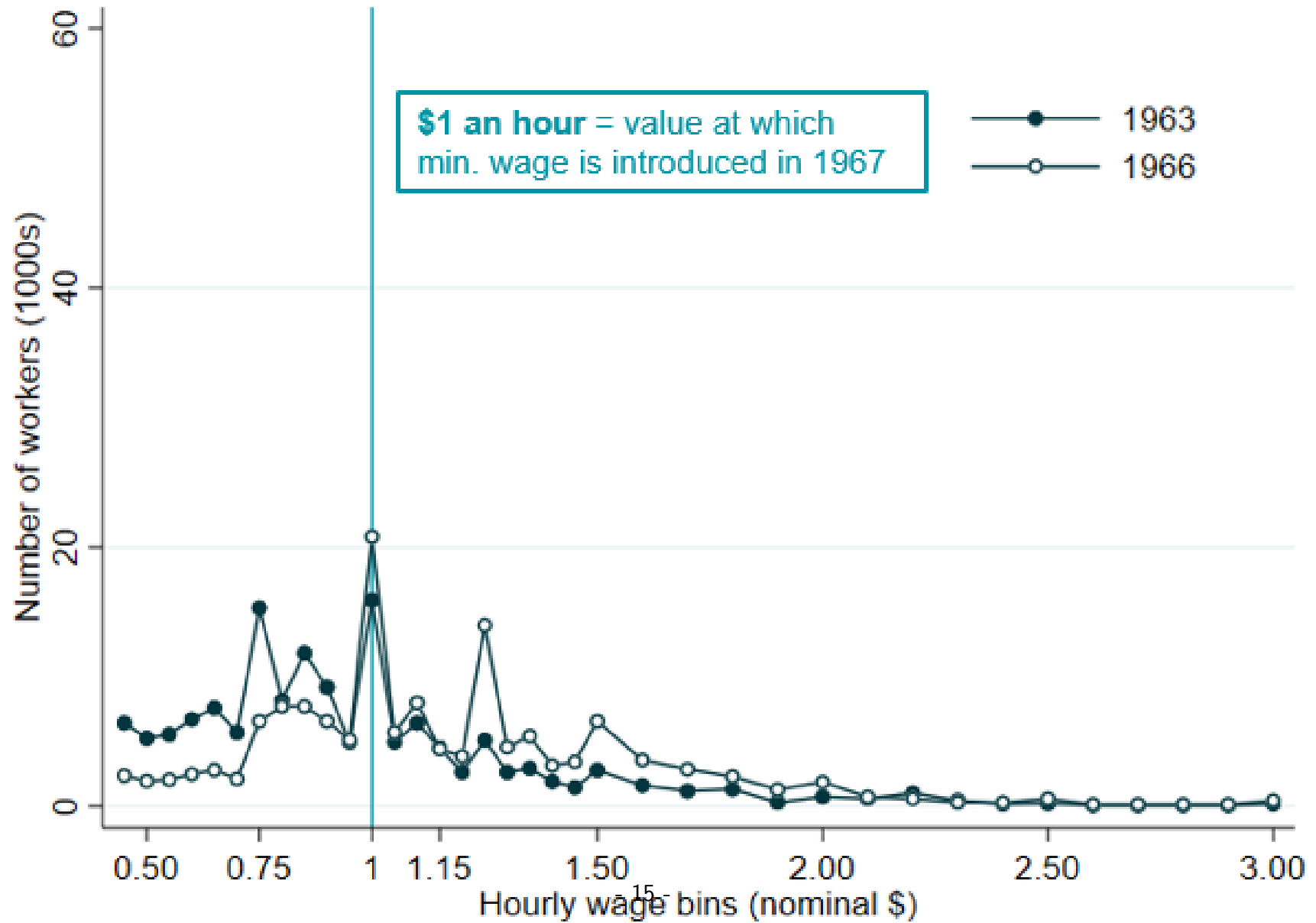


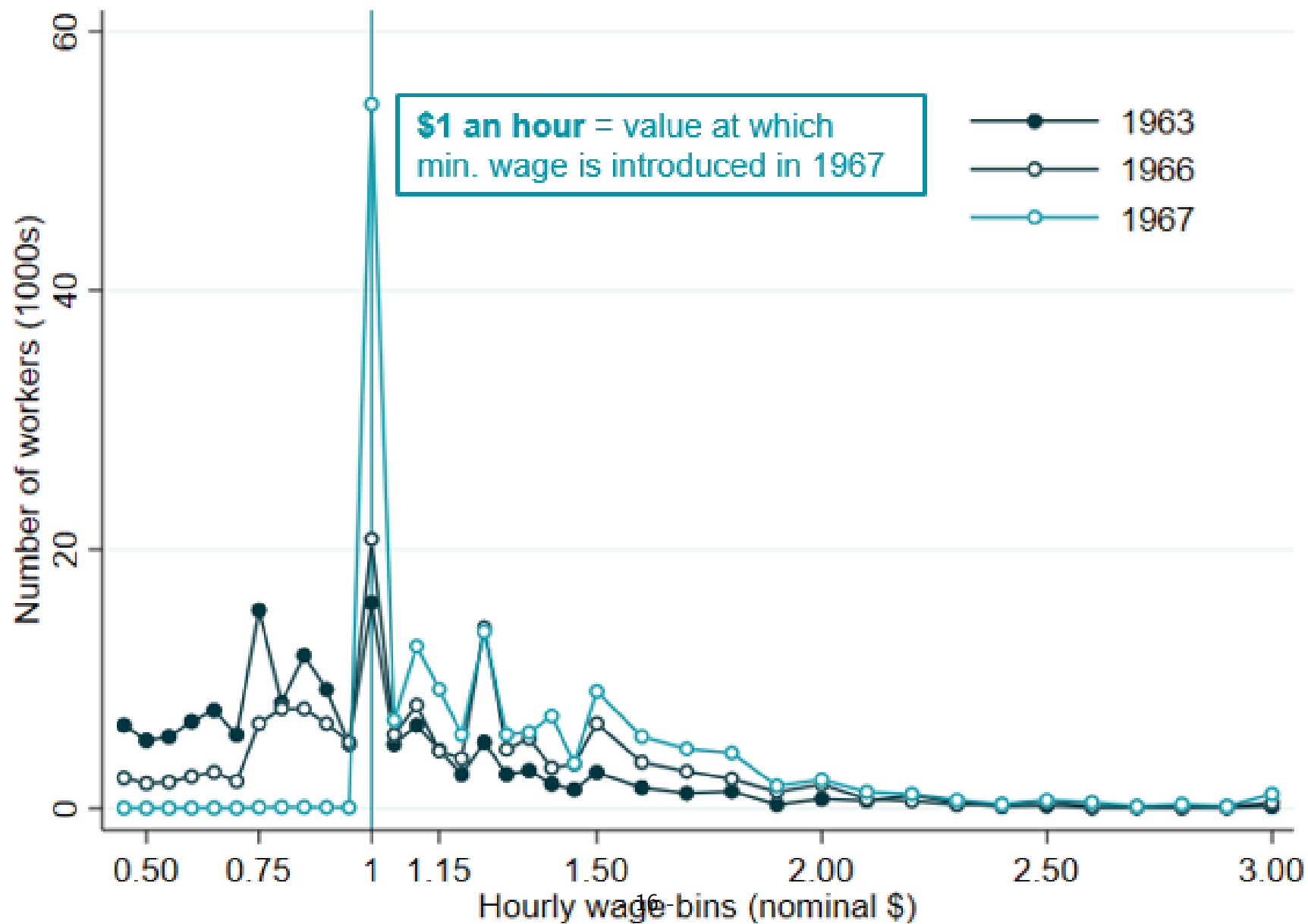
→ Industries covered in 1967 represent  $\sim$  **20% of economy** and **30% of black workers**.



Sample: Adults 25–65, black or white, worked more than 13 weeks last year, worked more than 3 hours last week, not self-employed, not in the armed forces.









## 4 Summary

- Persistence of large racial economic disparities
- But public policies can be effective at reducing racial gap
- Key role of education, anti-discrimination policies, minimum wage

## References

Bayer, Patrick and Kerwin Kofi Charles, “Divergent Paths: A New Perspective on Earnings Differences Between Black and White Men Since 1940”, *Quarterly Journal of Economics* 2018.

Derenoncourt, Ellora, and Claire Montialoux, “Minimum Wages and Racial Inequality”, *Quarterly Journal of Economics* 2021 (web)

Rothstein Richard, *The Color of Law: A Forgotten History of How Our Government Segregated America*, Liveright, 2017.