
TWO VIEWS ON INEQUALITY AND DISCRIMINATION

A GLIMPSE AT DISCRIMINATION

Julie lives in a section of New York City called Harlem. She is 20 years old, shares a tiny apartment with her two young children, and completed high school with a “B” average. Like most residents of Harlem, Julie is black. She receives a monthly stipend called Temporary Cash Assistance (New York City’s welfare program using Temporary Assistance to Needy Families—TANF—funds) that she uses for rent and bills; she buys milk and cereal for her children with coupons from the Women, Infants, and Children (WIC) program; and she uses Food Stamps to buy the rest of her groceries.¹ Her family receives medical coverage through the Medicaid program. Still, putting it all together, Julie’s family is officially below the U.S. government’s poverty line.

To receive help from the government, and particularly TANF payments, Julie is required to look for, and ultimately hold down, a job. TANF payments are time-limited, so she cannot depend permanently on government help, regardless of how poor her family is. Fortunately, her mother volunteers to care for her children if Julie finds a job, and Julie decides to apply for a job at a burger joint around the corner called Burger Hut. Surely, Julie thinks, they will give her a chance.

While this story is fictitious, we know the likely ending because of research undertaken by anthropologists Katherine Newman and Chauncy Lennon (1995) on job applicants for fast-food restaurants in Harlem. Julie will probably be turned down for the job.

Two things work in Julie’s favor, however. Julie has a high school degree, as do most employees at the Burger Hut in Harlem. Julie also has an advantage in that she is older than many applicants. This factor alone doubles her chance of getting the job compared with an 18-year-old’s.

So, why is Julie likely to be turned down? First, she lives in Harlem, and local fast-food employers do not like to hire people from that area. Maybe their friends will come in to hang out or get free food. If Julie lived 3 miles from Burger Hut, her chances of getting the job would more than triple, but then she would have an expensive commute and couldn’t get to

her children immediately in an emergency. Second, because so many employees commute to the store from elsewhere, Julie doesn't know anyone working at the store. Her chances would almost triple if she knew a current Burger Hut employee. Third, while few whites will apply for the job, and although most of Burger Hut's customers are black, Julie suffers because of her skin color. Indeed, a foreign-born applicant would be almost three times more likely to get the job, even though Julie undoubtedly would communicate more effectively with the customers. Fourth, Burger Hut tends not to hire welfare recipients, and this cuts in half Julie's chance of getting the job. Finally, even if we ignore all the specifics regarding Julie, jobs at Burger Hut are hard to land; there are far more applicants than openings, a situation that has only gotten worse in recent years as the economy has entered a recession.

Having lost out at Burger Hut, Julie may be frustrated and confused. Part of her says that it was her own fault for not getting the job. If only she had prepared better for the questions they asked, applied at a different time of day, or been an "A" student, maybe it would have worked out. Even if Burger Hut doesn't want to hire a young black woman from Harlem, she'll show them. She'll find a job with someone else. Besides, with so many people applying for so many jobs, she is likely to get one eventually if she just keeps trying. Further, she *must* get a job, because the government will not support single mothers like her for much longer.

Another part of Julie says that she is not alone in her frustration. She lost the job not because of anything she did but because of who she is, the color of her skin, and where she was born. This part of her is angry. Why should some white guy from the suburbs make money by owning Burger Hut, selling to a black clientele, and discriminating against people like her? And even if she had gotten the job, why should she need a high school degree to flip burgers or punch pictures of hamburgers on a cash register just to get the legal minimum wage?

Julie is also very worried. She loves her children and works hard to be a responsible mother, but the job she is likely to get won't pay much, probably won't have health insurance, and will keep her away from her children for long hours. She knows that she can't rely on her mother to take care of her children all the time but also that she won't make enough to afford child care. This part of Julie recalls Martin Luther King's "dream" of equality and tells her that to change things, she needs to be part of an organized movement telling employers, the government, and white America that she and others like her will not put up with such inequalities, unfairness, and injustice anymore.

TWO VIEWS FROM ECONOMICS

Julie's situation highlights important issues that confront workers in our society. Economists use two main approaches to understand her situation. These approaches are termed *neoclassical economics* and *political economy*. Both views admit that Julie's individual actions count and that Julie is operating on an unlevel playing field that works against her. Both approaches provide explanations for why women and blacks earn less than white men, and both explanations are consistent with their general approach to economic phenomena. Beyond these commonalities, however, the emphases of neoclassical economics and political economy diverge. The former views competitive markets, individual initiative, and government policies that leave the market alone as being sufficient to level the playing field. The latter views Julie as being caught in a web of oppressive class, race, and gender relations that can be changed only by fighting alongside others who are committed to her cause.

We can introduce these two views by casting our glance backward in time to two founders of economics: Adam Smith, an 18th-century Scottish scholar; and Karl Marx, the 19th-century German scholar and social activist. Smith argued that competitive markets caused

people to serve the common good—increasing the wealth of the nation—by acting in their own self-interest. As he put it in what is probably the most famous single line of *The Wealth of Nations*, an individual functioning in a market economy is “led by an invisible hand to promote an end which was no part of his intention” (Smith, 1910; 400). If the market works, then there is no obvious role for the government except to print money and defend the country militarily. Those who followed in Smith’s footsteps—called *neoclassical economists*—extended this argument to suggest that the market will take care of discrimination and will ultimately help to provide opportunities for Julie so long as she is willing to work hard and persist.

On the other end of the political spectrum, we find Karl Marx. Marx believed that capitalism—a profit-driven, market economy where some people own businesses while others work for them—serves the interests of the few at the expense of the many. Marx’s most well-known line appears in the *Communist Manifesto*, which he coauthored with Frederick Engels. It concerned the need for collective action against capitalists: “working men of all countries, unite!” By extension, economists following in Marx’s footsteps argued that the end of capitalism was required to alleviate the problems of discrimination. This is the origin of the voice calling Julie to band together with others against oppression.

Most economists fall somewhere in between these two extreme views (indeed, many economists would be offended if you called them by either label).² There are several reasons for relatively few economists fitting our “neoclassical” and “political economy” molds. As economics has developed, economists have discovered greater complexity in the world than is suggested by these two views. Some economists respond by using neoclassical tools but challenging key assumptions, and by arguing that people are concerned with fairness, that they cannot accurately forecast the future, or that markets usually are not competitive. Other economists believe that a detailed examination of history is more important than using the tools of either neoclassical or political economy. Nonetheless, we present these two views alone, because they provide logical and compelling frameworks for gaining an initial understanding of economic approaches.

This book looks at how the two economic approaches understand wage discrimination. *Discrimination* is defined as adverse treatment based on one or more defining characteristic of an individual, such as race, ethnicity, gender, sexuality, or religion. *Labor market discrimination* means adverse treatment in hiring, firing, and treatment in a job. Labor market discrimination could mean not being able to get a job, limited job opportunities, or being paid less than others based solely on characteristics that have nothing to do with a person’s ability or effort.

Discrimination: Adverse treatment of people based on group identity

Neoclassical economists focus on how individuals discriminate and how that discrimination is translated into labor market outcomes. Political economists focus on how institutions in society (e.g., firms, unions, schools, government) have rules and regulations that are discriminatory, even if the individuals in those institutions do not personally discriminate.

Economists have often noted that women and blacks face very different labor market situations than whites and men do. Typically, women and black writers have called attention to the role of gender and race discrimination as a cause of these differences, but their work has rarely been widely or well received.³ Only relatively recently have a substantial number of neoclassical and political economists extended their work to include a more thorough investigation of women’s domestic work and blacks’ exclusion in wage labor.

Discrimination entered the economic lexicon in reference to blacks, and particularly black men, during the 1940s and 1950s. In this area, economists were led by the pioneering works

of neoclassical economist Gary Becker (1957) and political economist Gunnar Myrdal (1972), both of whom eventually won the Nobel Prize. Their research forms the bedrock upon which the theories of discrimination presented here were built.

The neoclassical view looks at discrimination from the standpoint of supply and demand within markets, while the perspective of political economy emphasizes the interplay of economic, social, and political forces. To simplify, Becker argued that individuals of one type may object to associating with individuals of another type, which can result in discrimination by employers, employees, and/or customers. Neoclassical economists put an individual's likes and dislikes, loves and hates, and so forth under the heading "tastes." While you might think of taste as concerning goods—as in, "I have a taste for tofu"—the meaning is here broadened to include such things as having a "taste" for discrimination. Discrimination then is like tofu in that it is something you are willing to pay for—if you have the "taste." Becker was presenting an alternative to Myrdal's theory, in which prejudice creates discrimination and discrimination in turn reinforces prejudice. According to Myrdal, discrimination is a vicious cycle between white perceptions and black behaviors that results from economic exploitation, social hierarchy, and political repression.

When women made their initial entrance as a proper subject for economic study, the issue of discrimination was far from central to the debate. After all, if you work in the home, how could you experience discrimination? Becker's and Myrdal's theories of discrimination rest on the notion that whites do not "like" blacks. This idea might be right as far as it goes, but it simply doesn't wash when we ask about discrimination against women. How many men would admit to "disliking" their mother, wife, sisters, or daughters? In her trailblazing work on women's wages, economist Barbara Bergmann (1971) noted this problem and argued that a theory of social roles, socialization, or appropriate social behavior was needed to understand discrimination against women. Similar arguments have been extended to blacks. Instead of thinking about discrimination in terms of an irrational prejudice, many economists now emphasize the incentives that encourage discrimination both inside and outside of the marketplace.

Indeed, until the 1960s, women hardly appeared in economists' models. Part of the reason for this historical absence of research on the topic is hinted at in the fact that both the Smith and Marx quotations cited earlier refer only to "men." This was not a fluke of language; when Smith or Marx wrote about the economy, they pictured men going about the business of buying, selling, and working. When women make their rare appearances in these works, it often is as a homemaker or sexual object. So, it is not surprising that when women did begin to appear explicitly in much of the economics literature during the last few decades, it was largely in the role of homemaker.

Until recently, Julie's situation would have been ignored by most economists, but the fact that over half of all U.S. women of working age are currently employed means that theories based on women as homemakers and men as breadwinners are flawed. In response, research and writing on women in the workplace have grown explosively during the last two decades, and you will see much of that literature cited in later chapters.

While both neoclassical and political economists have made great strides toward understanding discrimination against black men and white women, there remains a kind of uncomfortable gap regarding black women. A large segment of black women have worked for wages since shortly after the end of the Civil War, suggesting this group might be thought of as similar to black men. On the other hand, the situation of black women in terms of occupations and wages is fairly close to that of white women, suggesting that we should analyze the group as women. Discrimination against black women is not a simple mix of the particular barriers

that face black men and white women, and this implies that the story of “Julie” is one that we cannot fully explain even today.

The study of discrimination contains many such conundrums and complexities. Because we are not here to advance novel theories, we have taken what exists at present on the neoclassical and political economy sides of the fence and tried to present it as clearly and simply as possible. The references at the end of each chapter suggest further readings that explore some of the problems beyond the scope of this book.

WHAT'S AT STAKE HERE

This book explains why blacks⁴ and women earn less than white men; however, our focus on blacks and women relative to white men clearly restricts our view and understanding of the world. Where are Native Americans and Asians, Mexicans, and Persians—or gays and lesbians? Haven't they experienced discrimination? For many members of these groups, the answer is “yes,” but we ignore those groups here for two reasons. First, the economic literature on white–black relations and on gender is far more developed than for these other groups. Second, we believe that theories of discrimination built to explain white–black and female–male differences do not provide good explanations for discrimination in other contexts. For example, a gay male may experience little overt discrimination at work if he “pretends” to have a girlfriend or a wife, which is a situation with little relevance to the experience of heterosexuals, whether male or female, black or white. We have purposefully kept this book short so that in relevant courses it can be supplemented with material on other groups that have experienced discrimination. Stated differently, we hope to give readers a good idea of how economists view discrimination against women and blacks, but we urge readers to extend their horizons beyond these two groups.⁵

Turning to the two groups of interest, we believe there are sound political and moral reasons to examine discrimination against blacks and women. Blacks were brought to this country in chains and enslaved, segregated and disenfranchised by the system of U.S. apartheid called “Jim Crow,” systematically terrorized by lynchings and mob violence, and isolated as sharecroppers in the South and in ghettos in the North. Arguably, the black poor of today are more segregated from society at large than any other minority group (Massey and Denton, 1993). Black Americans have not simply given up in the face of such violence, oppression, deprivation, and discrimination, however. The civil rights struggle of blacks over the course of the 20th century made it impossible for the rest of the country to ignore the contradiction between racism and democracy that Myrdal emphasized. The election of Barack Obama to President of the United States helped America realize that truth; nonetheless, we have not achieved racial equality.

Women also bring a crucial historical perspective to the question of inequality, although one that is quite different from that of blacks. Women also were disenfranchised and considered to be the property (although they could not be sold) of their owners (i.e., their husbands) until the 20th century. Often, they were the victims of violence in the home and on the street—as they are today in shocking numbers. Their lives were limited by deeply rooted gender roles that created a sexual division of labor inside the home and the workplace. However, in contrast to the social segregation that is characteristic of race relations, gender relations are defined by the integration, and often the intimacy, of men and women within most households. This curious and combustible mixture of oppression and love makes it clear that discrimination and inequality are not a simple issue of “us-against-them.” Instead, they have more to do with the systems in which all of us live and work—the market system, production system, and the

reproduction system. These systems may work with us and allow us to express our individual preferences and abilities, or they may work against us and limit our opportunities.

Thus, the issues of race and gender inequality are at heart issues of morality, of democracy, of family, and of opportunity. They are deeply embedded in our social soul. They also are political issues, in part because slavery, Jim Crow, and disenfranchisement existed by governmental decree and in part because the political struggles of women and blacks changed that history. Debates over inequality and discrimination are also debates over the proper role of government and its relation to the market. For this reason, the differing interpretations of inequality and discrimination offered by neoclassical economists and political economists are at the same time differing interpretations of the meaning of life in the United States, and that is the larger theme of this book.

PLAN OF THE BOOK

The introductory section (of which this is part) concludes in Chapter 2 with a look at the numbers that are relevant to discrimination. For each of the four groups we address—black women, white women, black men, and white men—the chapter details historical trends in terms of differences in wages, unemployment, and occupations. The data in Chapter 2 urge us to look for reasons why blacks and women suffer economically.

The following section contains three chapters explaining the neoclassical view of discrimination. Chapter 3 outlines the basics of neoclassical economics—utility maximizing individuals, supply and demand, competition, efficiency, and a look behind the scenes at the division of labor. An appendix is provided for those who want to know the source of these ideas. Chapter 4 takes the neoclassical vision into the labor market, looking at the supply and demand for labor, reasons other than discrimination for wage differences, and unemployment. Chapter 5 goes to the heart of the matter, with the neoclassical view of discrimination. We present Becker’s “taste for discrimination” as well as the “statistical” theory of discrimination, and then we address the role of competitive markets in ending discrimination, measures of wage discrimination, why discrimination persists, and what the government might do to alleviate its ill effects.

The third section discusses the political economy approach. We begin as before with the basics, as captured in the “Four Cs” of political economy—*context*, *collective behavior*, *conflicting interests*, and *change*—then apply these to relations of class, race, and gender. These in turn are connected to various forms of oppression—exploitation, exclusion, and domination—that keep some people in power at the expense of others. The role of the marketplace and why oppression might end are discussed at the end of Chapter 6; again, an appendix is provided for those who want a look back to the origins of this theory. Chapter 7 takes the political economy view into the labor market and the workplace; starting with the notion of wages reflecting a customary standard of living, it explores the roles of the labor theory of value, work in the home, and government services in explaining wage levels. The chapter then turns to the impact of the business cycle on wages and looks at how capitalists get people to work hard. The chapter concludes with political economy’s model of why wages differ among workers. Chapter 8 presents the political economy view of discrimination, starting with the role of context and the notion of “institutional discrimination” (which often is unconscious). We then look at the economic incentives for firms and workers to discriminate, how the economy perpetuates discrimination through “positive feedback,” and why firms abandon discriminatory practices only slowly—if at all. The chapter looks at how discriminatory outcomes and attitudes change both over the business cycle and in the long run. It concludes with a discussion of government

policies to reduce wage discrimination.

For those who are wondering where the authors fall along the “neoclassical” and “political economy” divide, we consider ourselves to be political economists. The reasons for our position are explained best, we believe, in Chapters 6 through 8. We do not accept neoclassical economics’ emphasis on individual tastes and preferences as a guiding principle for economic behavior and outcomes, nor do we have much faith in the ability of markets to correct glaring inequalities. Nonetheless, we have worked hard to present a positive and clear exposition of the neoclassical view.

This book does not provide a critique of either neoclassical economics or political economy. We wrote this book because when we teach this material, there is an absence of texts that clearly and simply describe the general elements of *both* views, explaining how the economy in general, labor markets, and discrimination operate. This approach is not meant to downplay the importance of critical thinking. Rather, we encourage teachers and students to use what follows as a springboard for analyzing the shortcomings of each theory. We also encourage readers to supplement this book with other materials that focus on specific groups who face labor market discrimination.

Discussion Questions

1. If you were in Julie’s position and were turned down for the job at Burger Hut, what would you do?

2. Referring to Julie’s story, do you think the ending might have been different if the government abolished the minimum wage? Are there reasons why Julie might have found it easier to get a job if the minimum wage was *increased*?

3. Economic historians have found evidence of discriminatory wages for women and blacks dating back at least 100 years, and often earlier. Why do you think it took U.S. economists so long to begin studying this phenomenon seriously?

4. Myrdal called his famous book on racism *An American Dilemma* to highlight the conflict between U.S. ideals and the denial of civil and economic rights to blacks a half-century ago. Do you think that a similar dilemma exists today? What evidence can you cite to support your opinion?

5. Why do you think that neoclassical economists tend to run the political gamut from conservatism to liberalism, while political economists tend to run the political gamut from liberalism to radicalism?

6. Have you ever observed an incident of discrimination? Describe the incident, and explain why you think it occurred.

7. How do you respond to people when you hear them make racist or sexist remarks?

Suggested Readings

- Amott, Teresa L. and Julie A. Matthaei. 1991. *Race, Gender & Work*. Boston: South End Press.
- Badgett, M.V. Lee. 1995. “The Wage Effects of Sexual Orientation Discrimination.” *Industrial and Labor Relations Review* 48(4).
- Becker, Gary. 1957. *The Economics of Discrimination*. Chicago: University of Chicago Press.
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- Blandford, John M. 2003. “The Nexus of Sexual Orientation and Gender in the Determination

of Earnings.” *Industrial and Labor Relations Review* 56(4).

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Edgeworth, F.Y. 1922. “Equal Pay to Men and Women for Equal Work.” *Economic Journal* 32(128).

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Gilman, Charlotte Perkins. 1898. *Women and Economics*. Boston: Small, Maynard & Co.

Marx, Karl and Frederick Engels. 1972 (originally 1848). “Manifesto of the Communist Party.” In *The Marx-Engels Reader*. Robert C. Tucker, ed. New York: W.W. Norton & Co.

Massey, Douglas and Nancy Denton. 1993. *American Apartheid: Segregation and the Making of the Underclass*. Cambridge, MA: Harvard University Press.

Myrdal, Gunnar. 1972 (originally 1944). *An American Dilemma: The Negro Problem and Modern Democracy*. Two volumes. New York: Harper and Row.

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Whitehead, John and Cobie Kwasi Harris (editors). 1999. *Readings in Black Political Economy*. Dubuque IA: Kendall/Hunt Publishing.

ENDNOTES

¹ The Food Stamp Program was recently changed names and is now called SNAP—Supplemental Nutritional Assistance Program.

² For example, only 5% of graduate students in six of the top economics programs disagree with the statement that “Neoclassical economics is relevant for the economic problems of today.” Nonetheless, the *laissez faire* policy conclusions associated with neoclassical economics do not necessarily follow, since fewer than 20% of these same students disagree that “The income distribution in developed nations should be more equal.” Source: David Colander, “The Making of an Economist Redux,” *Journal of Economic Perspectives* 19(1), 2005.

³ At the turn of the 20th century, W.E.B. DuBois, a black economist who received his Ph.D. from Harvard, wrote extensively on the labor market conditions of black workers. Charlotte Perkins Gilman wrote on women’s unequal and unfair status, as did Karl Marx’s colleague, Frederick Engels. See books by DuBois [1939], Gilman [1898], and Engels [1884], or Francis Edgeworth’s [1922] paper in the list of suggested readings at the end of this chapter.

⁴ We use the term “black” rather than “African-American” throughout the book. Both terms are commonly used in the literature (both by neoclassical and political economists) but “black” is simpler to write or speak. Our apologies to anyone who is offended by the term (as would be true, for example, in Australia, where “black” is considered a racial slur against Aboriginal people).

⁵ To look at discrimination against other ethnic groups in the United States, a good place to start is Teresa Amott and Julie Matthaei [1991]. On sexual orientation, see Lee Badgett [1995] or John Blandford [2003].

LABOR MARKET INEQUALITY BY THE NUMBERS

INTRODUCTION: LIES, DAMN LIES, AND STATISTICS

Julie's predicament in Chapter 1 gave us a glimpse of a few of the problems that people face in U.S. labor markets. To broaden our view, we need to look at some numbers on overall inequality. For many economists, numbers are the central tools used to describe, think about, and explore a society. However, there are diverse ways to look at numbers describing inequality, so disagreements among economists about the extent and causes of, as well as cures for, labor market inequality abound. Economists continue to debate the best way to measure inequality and interpret its trends.

These debates are not merely academic. The issue of wage growth occasionally finds its way into the discourse of U.S. presidential campaigns. One candidate typically argues that Americans are better off now because per-capita income, the average amount of income each person gets each year, adjusted for the overall level of prices, has risen steadily over the last 30 years. The other candidate often argues that most workers are not much better off now than they were 30 years ago; the evidence given here is the lackluster change in average inflation-adjusted wages since the mid-1970s. Typically, one candidate wants to emphasize people's continued prosperity as a reason for the electorate to stick with a particular set of policies while the other candidate is trying to convince the American people that they need new leadership to move the country toward a path of high-wage growth.

Whose facts are right? Both are! Because more and more people are working in the first decade of the 2000s than in the 1970s (as a percentage of the population) and the economy has grown, there is more income generated per person, which by definition means per-capita income has risen. The increase in the percentage of the population working stems almost entirely from more women working outside the home and the coming of age of the post-World War II baby boomers. Over the same period, however, average real wages (measured in terms of what you can buy with them) are lower in 2009 than they were in the 1970s: a typical person made more per hour in terms of purchasing power in 1970s than in the first decade of the 21st century.

This chapter looks more carefully at the extent of employment inequality in recent years by looking at three labor market areas: wages, unemployment, and the distribution of jobs by occupation and industry. We also take a look at wealth inequality, as it also has an impact on labor market outcomes. You may ask, if social scientists cannot agree on the extent of inequality, does it make sense to argue there is a set of “facts” about labor market inequality? The answer is yes—for two reasons. First, it is crucial to see what the numbers are, as well as what they do and don’t say when it comes to differences by race and gender, so you can become a more critical consumer of these numbers. Second, believe it or not, there is almost universal agreement among economists on some points: 1) white men, on average, make more than anyone else; 2) average real wages, especially for men, fell from the 1970s through the mid 1990s and have risen slightly since then; 3) white unemployment rates (for men and women) are much lower than black unemployment rates; and 4) men and women typically work in different jobs. Familiarity with these facts brings you up to speed with what economists and policy makers already know and debate.

You may be wondering why we present data on unemployment, occupational and industry distribution of jobs, and family wealth in a book about wage inequality. The answer is simple. The ability to get a particular type of job is a crucial factor in determining anyone’s wage. Because lower wages for women and blacks can result from being in different kinds of jobs than white men, the occupational and industry distribution of jobs is important. Investment in quality education, even very early ages, is an increasingly important factor in determining the type of job one can and will get, so patterns of family wealth (and with it the ability to purchase education) also matters. We present this data here because throughout the book we will refer to the definitions, trends, and statistics on wages, unemployment, job distribution, and wealth distribution provided in this chapter.

WAGES: THE BASICS OF WAGE INEQUALITY

Most adults have income because they have a job that provides a paycheck for the work they perform. The Census Bureau refers to this form of income as earnings. Technically, there are three kinds of earnings: wages (usually an amount paid per hour worked), salaries (paid as lump sum regardless of hours worked), and self-employment income.² Earnings are not the only form of income most people have, although they usually are the most important. Other types of income include interest, dividends, rent, government assistance, alimony, and things like lottery winnings and profits on things you sell on Ebay. Together, non-earnings income accounts for 25% of all income generated in the United States every year.

While wages are the primary source of income, not all people in the United States work for wages—nor does society necessarily expect them to. People who gain their income from property—in the form of profit, interest, dividends, capital gains, rent, etc.—do not, of course, have to work for wages. Additionally, in the United States, and many other countries, children are not expected to earn wages. We do, however, expect them to be supported by their parents or other family members. Furthermore, we typically expect people to retire from paid work when they are about 65 years of age, and we typically do not expect severely disabled persons to work. However, society’s expectations about who should work for wages, and how to support those who do not, have changed considerably over time. One hundred years ago, it was not uncommon or unexpected to see children in poor families working. Until the passage of the Social Security Act in 1935, every adult male was supposed to work until he died (or be supported by his adult children). And, until fairly recently, we as a society did not expect women with children to do paid work. Now, as debates around government assistance to low-

income families make clear, we are a society that expects every non-elderly, able-bodied adult to earn a wage and not to receive public assistance.

Earnings: Income from employment, including hourly wages, salaries, and money from self-employment

The Minimum Wage

Perhaps the most important distinction for understanding wages is the difference between *real* and *nominal* wages. Nominal wages are the actual amount that people get paid at any given point in time, while real wages correct for inflation. For example, suppose you receive \$10 an hour for a job without any raises for a period of 10 years. Your nominal wage is always \$10 because that is what you receive. But wait—if there is inflation during this period, meaning a general rise in prices, then the amount your paycheck will buy falls over time. Suppose that inflation during the period is 10% per year. In that case, your wage will purchase 10% less by the end of the first year, an additional 10% less by the end of the second year, and so forth. At the end of the 10 years, your “real wage” will have fallen and you will only be able to purchase \$3.87 worth of the ten dollars in goods you could purchase at the beginning, so inflation acts like a negative interest rate on the value of your pay. Real wages, then, are adjusted by some measure of the change in prices from year to year. The most common index of price changes currently used is the Consumer Price Index (CPI) for urban dwellers. That is the index we use for all the data presented in this chapter.

Nominal wage: the actual hourly wage at any given point in time

Real wage: the hourly wage corrected for inflation, reflecting purchasing power

To see this difference in action, consider the Federal minimum hourly wage. As shown in Figure 2.1, in 1938, the government started with a minimum wage of only 25 cents. That does not sound like much, but if we apply the Consumer Price Index (CPI) with 2008 dollars as the base to correct for inflation, the real value of the minimum wage in 1938 was over \$3.82 in 2008 dollars. In 1950, the government raised the minimum wage to 75 cents an hour. While this was triple the nominal wage of 1938, it is \$6.70 in 2008 dollars, after adjusting for inflation, or less than twice the inflation-adjusted (real) value of the 1938 rate. The real minimum wage hit its highest level in 1968 (\$9.90 in 2008 dollars) and then got eroded by inflation through to the 1990s. Since then, it has hovered around \$6.00 in real dollars, about where it was in the early 1950s.

The Rise and Fall of Real Wages

Documenting wage inequality can be a tricky business. First, each researcher must decide which workers’ wages to compare. Two of the thorniest choices are: 1) whether to compare wages of all workers, regardless of how many hours a week or weeks per year they work, or instead to only compare workers who work comparable hours; and 2) whether to compare wages received for the entire year or those received for an hour’s worth of work. These choices matter because some workers (e.g., teens, college students, mothers) are more likely to work fewer hours or fewer weeks per year than other workers. Because women, for example, are

much more likely to work fewer hours than men, comparing all women workers with all men workers would show substantial wage differences; however, their hourly wages may not differ as greatly.

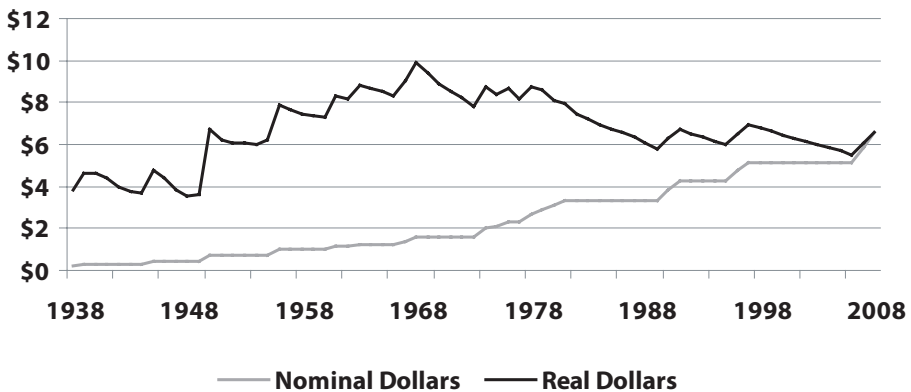
A second difficulty that researchers face is the availability of data. Economists typically rely on nationally collected data from government-sponsored wage surveys, which provide extensive information on a random sample of all workers. We look at wage data from two surveys in this section. Each survey has certain data limitations and forces researchers to make decisions about which workers to compare. Still, the picture emerging from both is consistent on one front: workers (particularly men) have faced declining wages over the last several decades.

One of the two most widely used surveys is the Current Employment Statistics (CES), which is undertaken by the U.S. Labor Department's Bureau of Labor Statistics (BLS). The sample size is large: about 400,000 worksites are surveyed monthly. Employers are asked how much they pay workers on an hourly and weekly basis.³ Data from this survey have the advantage of comparing wages earned per hour worked, which avoids the problem of variations in total hours worked per year. However, these data exclude about 20% of all workers, mainly supervisors in private service-providing industries and the self-employed. Figure 2.2 depicts average weekly earnings from 1959 through 2008 for all private-sector workers using data from the CES and adjusting for inflation.

From 1959 until 1973, average real earnings for all workers in the CES climbed steadily. From the mid-1970s through the mid-1990s average weekly earnings fell. Since 1997, real wages have begun to rise, but have only reached their early 1980s level. In 2008, at \$607.99 a week, average weekly earnings were lower in purchasing power than they were from 1962 to 1986.

There are some specific benefits of looking at CES data. First, they are not self-reported but rather come directly from payroll information. The advantage of employer-reported information is that it avoids the problem of people either over-reporting or (as is more likely) underreporting their income. Both rich and poor people might have an incentive to underreport to a government agency collecting data (some rich people might fear the Internal Revenue Service (IRS), while some low-income people might fear losing government aid). Further, the

FIGURE 2.1
NOMINAL AND REAL VALUE OF THE MINIMUM WAGE, 1938-2008 (IN 2008 DOLLARS)



Note: Corrected for Inflation for 2008 Dollars

Sources: U.S. Statistical Abstract 2009, U.S. Bureau of Labor Statistics, Table 629; U.S. Census Bureau (www.census.gov/compendia/statab/cats/labor_force_employment_earnings/compensation_wages_and_earnings.html); and U.S. Bureau of Labor Statistics, Consumer Price Index History Table (<ftp://ftp.bls.gov/pub/special.requests/cpi/cpiat.txt>, retrieved October 2009).

data give a truer measure of all workers' wages when they actually do work, because the data are weekly rather than annual.

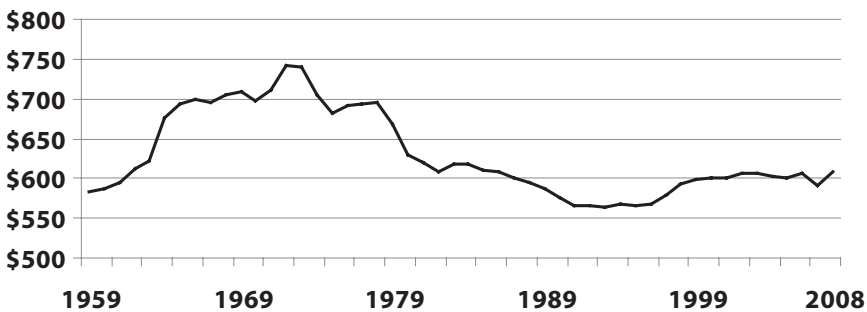
There are drawbacks to the CES as well. First, the survey collects information only on nonsupervisory workers (except in manufacturing, mining, and construction). This is a problem, because over the last several decades, the number of supervisory and self-employed workers has increased as a percentage of all workers and there are good reasons to believe that supervisors' wages have also increased over that time. Therefore, the trends depicted in Figure 2.1 might be overstated. Second, the wage data don't necessarily tell you how well off a particular worker might be, just how much he or she made on a weekly basis. For example, how much you get from earnings over the year depends on whether you had a job the week that the survey was taken, whether you work full- or part-time, and whether you have more than one job. The CES only provides a snapshot from the employer's view.

The second commonly used source of data on earnings comes from the BLS and the U.S. Census Bureau Household Data, collected in the Annual Social and Economic Supplement of the Current Population Survey (CPS). Each March, about 50,000 U.S. households (0.05% of all households, or one out of every 2,000) are interviewed at length about income sources and work experiences from the previous year. Income information from that survey is published by the Commerce Department.⁴

The advantage of the CPS data is that they include annual income, including earnings from work. Further, CPS data include all workers. However, this data source also has disadvantages. Because the data are self-reported, they likely suffer from underreporting by earners at both the low and the high ends of the wage scale. Further, the data are "top-coded" so people earning millions appear like people earning considerably less (whatever the level of the top code is for that year). Hence, data from the CPS often are considered to be inaccurate at the two ends of the income scale. Second, because they are annual data based on each person's memory of the previous year, the data are not considered to be as reliable a source for hourly earnings information as the BLS data,⁵ making comparisons of annual earnings less meaningful unless they first are adjusted for hours and weeks worked. Finally, income data are reported separately for men and women. While this is extremely useful for examining differences by gender, it makes the overall picture of the "average worker" unclear.

Figure 2.3 depicts the median annual earnings from the CPS for men and women who are black or white. The median earnings is the exact midpoint, with half of the workers making

FIGURE 2.2
AVERAGE WEEKLY EARNINGS, 1959 TO 2008 (IN 2008 DOLLARS)



Note: Corrected for Inflation for 2008 Dollars

Source: *Economic Report of the President*, 2000, Table B-45 and B60, and 2009, B-47-5 and B-60-2 (www.gpoaccess.gov/eop/download.html). Data for 2008 retrieved from BLS (<ftp://ftp.bls.gov/pub/special.requests/cpi/cpiait.txt> and <ftp://ftp.bls.gov/pub/suppl/empst/ceseeb2.txt>).

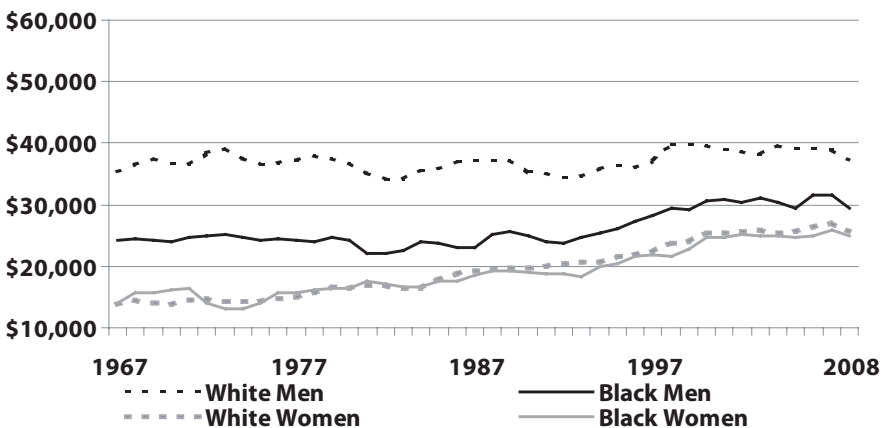
more than that amount and half making less. White men earn the most, and have for a long time. However, their earnings have been stagnant for a long time as well. Black men experienced a substantial rise in their earnings during the 1990s. Even so, they currently earn about 80% as much as white men. Black and white women continue to have the lowest earnings. Both groups experienced significant increases in their earnings but continue to make around two-thirds of what white men do.

Figure 2.4 depicts the median annual earnings of male workers who worked year-round (50 or more weeks a year) and full-time (35 hours or more a week). Looking at those who work year-round and full-time adjusts for hours worked. It is this wage ratio that is most often mentioned in media reports. Because women (especially white women) are more likely to work part-time, and because those who work year-round and full-time make more than workers who do not, wage levels for all groups are higher and, once adjusted for hours per week and weeks per year, the wage gaps with white men narrow. White women workers who work full-time, year round consistently make more than comparable black women, and have recently caught up to black men.

The same data for Hispanics can be found in Figure 2.5. As explained in Box 2.1, “Hispanic” is a separate and overlapping category, including mainly white, but also black Americans. Hispanic men (all workers and those who worked year-round and full-time) found their wages falling until around 1990, when all male Hispanic workers saw median earnings rise back to just around the level where they started in 1974. Those men now earn incomes that are lower than those of black males. The pattern for Hispanic women is similar to that for white or black women, with steady increases over time. However, Hispanic women now earn less than white or black women (around 30 % less for year-round, full-time workers and 23 % less for all women workers).

There are two key points to take from this analysis. First, although equality across the dividing lines of race and gender has decreased, it remains the case that white men rule when it

FIGURE 2.3
MEDIAN ANNUAL EARNINGS FOR BLACK AND WHITE,
MALE AND FEMALE WORKERS, 1967-2008 (IN 2008 DOLLARS)

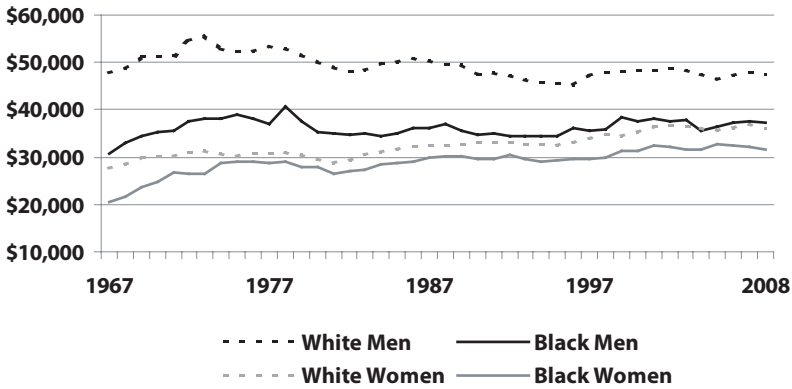


Source: U.S. Census Bureau, Historical Income Tables - People, Table 41, www.census.gov/hhes/www/income/histinc/p41W.xls and www.census.gov/hhes/www/income/histinc/p41B.xls, retrieved October 2009).

Note: For 2001-2008, data are for White Alone and for Black Alone, for prior years includes White and Black men and women of mixed-race.

FIGURE 2.4

MEDIAN ANNUAL EARNINGS FOR YEAR-ROUND, FULL-TIME WHITE AND BLACK, MALE AND FEMALE WORKERS, 1967-2008 (IN 2008 DOLLARS)

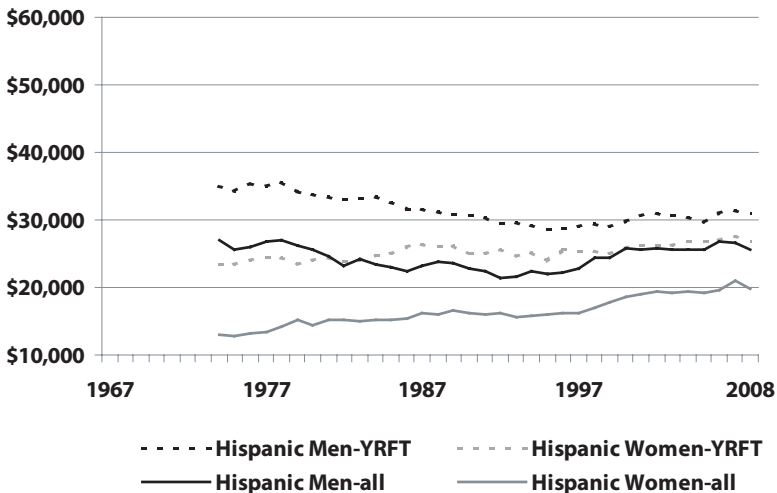


Source: U.S. Census Bureau, Historical Income Tables—People, Table 38 (www.census.gov/hhes/www/income/histinc/p38W.xls and www.census.gov/hhes/www/income/histinc/p38B.xls, retrieved October 2009).

Notes: For 2001-2008, data are for White Alone and for Black Alone, for prior years includes White and Black men and women of mixed-race. All data are adjusted for inflation using the CPI-U series.

FIGURE 2.5

MEDIAN ANNUAL EARNINGS FOR ALL AND YEAR-ROUND, FULL-TIME HISPANIC MALE AND FEMALE WORKERS FOR SELECTED YEARS, 1974-2008 (IN 2008 DOLLARS)



Source: U.S. Census Bureau, Historical Income Tables—People, Tables 38 and 41 (www.census.gov/hhes/www/income/histinc/p38H.xls and www.census.gov/hhes/www/income/histinc/p41H.xls, retrieved October 2009).

Note: For 2001-2008, data are for White Alone and for Black Alone; for prior years includes White and Black men and women of mixed race. All data are adjusted for inflation using the CPI-U series.

comes to earnings or wages. Second, race and gender effects are not additive. If they were, we would expect that, since black men and white women earn less than white men, black women should earn even less than black men or white women. The fact that black women earn almost the same amount as white women shows that difference and discrimination are complex, and anything but additive.

The Increase in Wage Inequality

Over the same period that real earnings for men have declined, the distribution of earnings has become more unequal. The gap between low- and high-wage workers has grown, and the gap between wages and profits also has grown. The old saying that “the rich get richer while the poor get poorer” has become ever more true. A large fraction of Americans have seen their economic fortunes fall faster than the trends in overall earnings would suggest.

Table 2.1 shows the earnings that wage earners at the 20th, 40th, 50th (median), 60th, and 80th percentiles earned for five different years that correspond to peak years (for earnings) over the last several business cycles. The 20th percentile includes the lowest-earning fifth of all workers, the 40th percentile includes the lowest-earning 40% of all workers, and so on. The wages of workers at the low end of the distribution grew much more slowly than the wages of workers at the high end. For example, the highest-paid worker among the bottom

BOX 2.1

RACE ISN'T JUST BLACK AND WHITE

During the 1990s, the U.S. Census Bureau received complaints from individuals who believed that the race and ethnicity categories used in the census administered every 10 years were too confining. So, starting with the 2000 census, the government allowed people to enter multiple race categories. Some people took advantage of the option. Out of over 281 million people in the U.S. population, almost 7 million (2.4%) reported two or more races.

At that time, 75.1% of the population self-reported as white only, 12.3% as black only, 0.9% as American Indian or Alaska Native, 3.6% as Asian, 0.1% as Native Hawaiian and other Pacific Islander only, and 5.5% as some other race only. Looked at this way, 87.4% of the population reported being exclusively black or white.

In addition, four large cross-over groups accounted for over half of the 7 million reporting multiple race categories: white and American Indian or Alaska Native, white and Asian, white and black, and black and American Indian or Alaska Native.

To complicate things, the Census Bureau approaches Hispanic, Latino, or Latina background not as a racial characteristic but as a matter of ethnicity. Hispanics can come from any race or a variety of races. In 2000, 12.5% of the population reported Hispanic background, with most (58%) reporting Mexican origin. Looking at the overlap between the Hispanic and race categories, it turns out that the vast majority (93.7%) of Hispanics classify themselves as white alone. This implies that the non-Hispanic, white-only population represents 63.4% of the total population.

By 2030, the Census Bureau projects that the nation will be considerably more diverse. People reporting as white only will represent 76.6% of the population. Only 55.4% of the population will report white only and non-Hispanic origin. And white, non-Hispanic males are projected to represent only 27.4% of the population.

Sources: U.S. Bureau of the Census, Census 2000 Briefs, Overview of Race and Hispanic Origin C2KBR/01-01 March 2001, and The Hispanic Population C2KBR/01-3 May 2001. Projections from U.S. Bureau of the Census, Population Projections released 2008, www.census.gov/population/www/projections/summarytables.html.

20% of wage earners in 1973 made \$8.78 per hour (measured in 2007 dollars). In 1989, after adjusting for inflation, the highest-paid worker in that group made only \$8.37. The long economic expansion of the 1990s helped low-wage workers, and by 2000 wages at the 20th percentile grew to \$9.35. During the early 2000s, low-wage workers saw only a slight increase to \$9.45 an hour. In the longer term, workers at the bottom 20% of all wage earners saw their real wages increase by 67 cents an hour—a 7.6% increase—between 1973 and 2007. Workers at the top 80th percentile of wage earners saw their wages increase by 23.9% between 1973 and 2007. The top-earning 80% of workers made \$12.42 more per hour than the best-paid workers in the bottom 20% of earners in 1973; by 2007, this gap had almost grown to \$16.82. In short, the workers in the bottom half of all workers, those with the most need, had the smallest gains.

Growing Family Income and Wealth Gaps

As wages grew more unequal, it is not surprising that family income grew more unequal too, since earnings comprise a large component of income. However, other trends have increased family income inequality as well. The growth in single-adult households, especially among those with children, coupled with the increased participation of women in the labor market, has meant that two-adult families often have two earners, leaving those with one adult further behind. If we lined up all the households in the United States in the order of their income (from those with the least to those with the most) we would see that the income of those households at the 20th percentile saw their real household income increase from \$19,348 in 1979 to \$20,712 in 2008, a 7.1% increase. The income for the households at the 80th percentile saw an inflation-adjusted increase from \$80,156 in 1979 to \$100,240 in 2008—a 25% increase. Those at the top 5% saw an even large increase of 39% over the same time period.

The ratio of median income for white families to that of black and Hispanic families over time has changed very little, despite some increases in median earnings of black men and women. Black families have a median income that has hovered around 60% of that of white families (59% in 1979 and 62% in 2008), while the median family income of Hispanics compared to that of whites has fallen slightly since the mid 1970s (when this data was first

TABLE 2.1
HOURLY WAGES FOR WAGE WORKERS (IN 2007 DOLLARS)

Year	Percentile				
	20th	40th	50th	60th	80th
1973	\$8.78	\$12.14	\$13.91	\$15.96	\$21.20
1979	\$8.97	\$12.39	\$14.02	\$16.26	\$22.39
1989	\$8.37	\$11.99	\$13.93	\$16.27	\$23.25
2000	\$9.35	\$12.63	\$14.74	\$17.44	\$25.12
2007	\$9.45	\$12.94	\$15.11	\$17.93	\$26.27
Change 1973-2007	7.6%	6.6%	8.6%	12.3%	23.9%

Note: Corrected for inflation for 2007 dollars.

Source: Lawrence Mischel, Jared Bernstein, and Heidi Shierholz, *The State of Working America, 2008-2009* (Ithaca, NY: Cornell University Press, 2008), Table 5 (www.stateofworkingamerica.org/tabfig/2008/03/SWA08_Chapter3_Wages_r2_Table-3.5.jpg, retrieved October 2009).

TABLE 2.2**MEDIAN FAMILY INCOME AND NET WORTH AND RATIOS BY RACE AND ETHNICITY, 2004**

	Non-Hispanic White	Non-Hispanic Black	Hispanic	Non-Hispanic Black as a % of Non-Hispanic White	Hispanic as a % of White
Income	48,000	28,000	26,000	58.3%	54.2%
Net Worth	118,300	11,800	5,500	10.0%	4.6%

Source: Edward Wolff, *Recent Trends in Household Wealth in the United States: Rising Debt and the Middle-Class Squeeze* (2007), Working Paper No. 502, The Levy Economics Institute, Annandale-on-Hudson, NY.

collected) from 66% in 1976 to 64% in 2008.⁶

In addition to growing income inequality, inequality also grew between those with assets (wealth) and those without. In 1983, the richest 20% of all households owned 81.3% of all the wealth (household assets minus their debts); by 2004, their share of the nation's wealth grew to 84.7%. Conversely, the poorest 40% held 1.2% of all the wealth in 1983; by 2004 that fell to 0.7%.⁷ The causes of this increase in inequality are debated, but the consequences are clear: low-wage workers gained very little, while the rich made out quite well.

Although black and Hispanic median family income is about 60% of that of white families, this difference pales compared to differences in median wealth. Table 2.2 depicts median family income and median family wealth for non-Hispanic white, non-Hispanic black and Hispanic families in 2004. The median net worth of non-Hispanic black families is one-tenth that of non-Hispanic white families, and Hispanic families' net worth is one-twentieth.

The combination of very slow-growing wages for workers in the bottom 60% of all earners since the early 1970s and the increase in income from ownership (e.g., stock dividends) in the 1980s and 1990s has resulted in a dramatic redistribution of all income in the United States. In 1973, the poorest 40% of U.S. families got 17.4% of all the income, compared with the 15.5% of all income received by the richest 5% of families. By 2006, there was a distinct reversal of fortune:⁸ the poorest 40% received 13.4% of total income, while the richest 5% garnered 21.5%.

UNEMPLOYMENT TRENDS SINCE THE 1950s: PERSISTENT INEQUALITIES

If you don't work at a job, you won't have any earnings; it's that simple. Therefore, the ability to get a job, if you want one, is going to be an important factor in your overall economic well-being. In the United States, there are two important facts about unemployment. First, it gyrates wildly with the ups and downs of the economy. Second, whites (both men and women) face far less unemployment than other racial and ethnic groups. We will discuss each of these phenomena, but first, it is useful to get a look at how unemployment is defined.

Measuring Unemployment and Employment

The BLS is the government agency that tracks unemployment. Every month, as part of the CPS survey, 50,000 households are asked questions on the employment status of household members over the age of 16. Based on this, analysts at the BLS decide whether household members are employed, unemployed, or out of the work force altogether. The first Friday of every month, the Labor Department announces the results of the previous month's survey.

The BLS considers you employed if during the week of the survey:

- You worked at all for pay
- You worked 15 or more hours without pay in a family business
- You did not work because you were on vacation, involved in a labor dispute, ill, on parental leave, or you were prevented from working because of bad weather or other personal reasons

Being employed is pretty easy to determine, but how does the BLS decide if you are unemployed? Being without a job is not necessarily being unemployed. The BLS classifies someone as unemployed only if the person was jobless during the interview week, available to work, and made some specific effort to find a job in the preceding month. Anyone who is not working for pay because of a long-term disability, or who is home taking care of children, in school full-time, or just discouraged from looking for work, is considered to be out of the labor force altogether, and he or she is not classified as unemployed. Box 2.2 defines some of the key terms economists use in discussions on employment and unemployment.

Before turning to more facts about unemployment, it is worthwhile to think about why unemployment rates are important and what they do and don't tell us about labor markets and the economy. Politicians and economists typically look to unemployment rates as a crucial indicator of how the economy is working. When unemployment rates are low, they indicate that the economy is generating a high demand for workers, which is assumed to be a sign of a healthy, or at least a growing, economy. Conversely, high unemployment rates are one indication of a sluggish economy. However, there are reasons to be cautious about looking at unemployment rates as an indicator of economic health.

The BLS is criticized for both overestimating and underestimating unemployment rates. People who work informally and in the underground economy usually are not counted as employed. If they were, unemployment rates would be lower than they are. People who are working “under the table” or who are engaged in illegal activities would be reluctant to give that information to the BLS (or the IRS!). Further, some of those who are not working may exaggerate their job search efforts. For these reasons, the official measures may overstate unemployment.

The BLS also underestimates unemployment rates for two reasons. First, there are people who would like to work and have been looking for a while but can't find work. If they give up even temporarily and don't actively look for work that month, the BLS classifies them as being out of the labor force. Economists refer to this as being a “discouraged worker.” In 2008, there were just under half a million (462,000) discouraged workers. Second, the BLS counts workers as being employed regardless of whether they are working part-time or full-time. People who can only find part-time work but want full-time work and are working at a job in which they are overqualified probably consider themselves at the very least to be “underemployed.” In 2008, there were 5.9 million workers who were working part-time involuntarily.

If you are both unemployed and looking for work, or if you are employed or self-employed, then you are in the labor force (see Box 2.2). Other individuals are not looking for work. Figure 2.6 provides information on labor force participation for men and women according to whether they are white or black or Hispanic (recalling that Hispanics overlap with both the white and black categories). As the figure shows, there has been increasing equality across race and gender groups over time. The Hispanic, white, and black men at the top of the figure all showed decreases in labor force participation, with black men giving up on employment more often than the others. The Hispanic, white, and black women all increased their labor force participation.

BOX 2.2**SOME LABOR MARKET TERMS**

Measures of employment and unemployment not only provide a wealth of information for labor economists, they also provide the tools necessary to understand some common labor market terms:

The **labor force** is defined as the sum of the number of people employed and the number of people unemployed (16 years old and over) at any given point in time:

$$\text{Labor Force (LF)} = \# \text{ of Employed} + \# \text{ of Unemployed} \quad (2.1)$$

The **labor force participation rate** is the percentage of the entire noninstitutional population 16 years and older that is either employed or unemployed:

$$\text{LF participation rate} = \frac{\# \text{ in LF} \times 100}{\# \text{ in Noninstitutional Population}} \quad (2.2)$$

The **employment-to-population ratio** is given as the percentage of the noninstitutional population 16 years and older that is employed:

$$\text{Employment/Population ratio} = \frac{\# \text{ Employed} \times 100}{\# \text{ in Noninstitutional Population}} \quad (2.3)$$

Finally, the **unemployment rate** is defined as the percentage of the labor force that is unemployed:

$$\text{Unemployment rate} = \frac{\# \text{ Unemployed} \times 100}{\# \text{ in LF}} \quad (2.4)$$

Table 2.3 gives the labor force, employment, and unemployment statistics for all black and white workers (men and women) for 2008. In that year, the United States was experiencing a recession (which got worse in terms of unemployment in 2009) and had 154.3 million people in jobs and 8.9 million people “pounding the pavement”—wanting to work but unable to find a job. You can see from the table that there are large differences in labor force participation rates between men and women and in unemployment rates between blacks and whites.

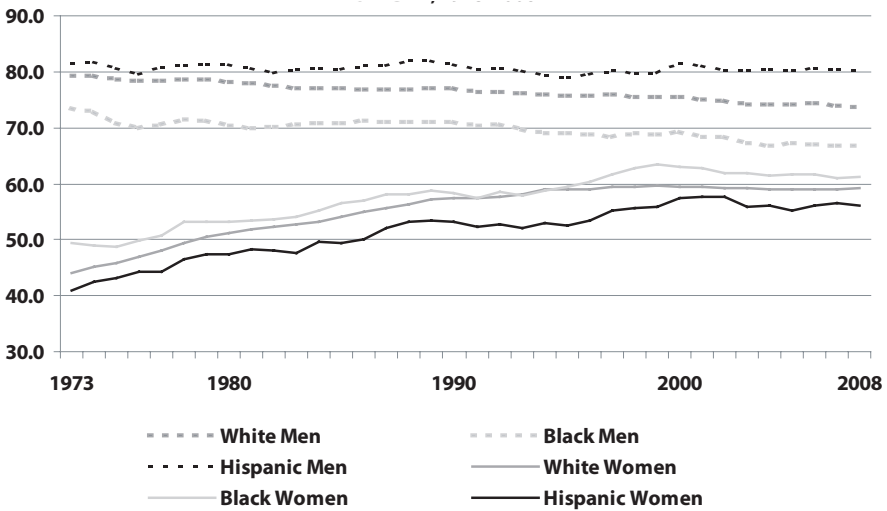
TABLE 2.3:
LABOR FORCE, EMPLOYMENT, AND UNEMPLOYMENT STATISTICS FOR
CIVILIAN POPULATION 16 YEARS AND OLDER, 2008*

Category	Total	White Men	White Women	Black Men	Black Women	Hispanic Men	Hispanic Women
Civilian, Non-Institutional Population	233,788	92,725	96,814	12,516	15,328	16,524	15,616
Labor Force	154,287	68,351	57,284	8,347	9,393	13,255	8,769
Employed	145,362	64,624	54,501	7,398	8,554	12,248	8,098
Unemployed	8,924	3,727	2,782	949	839	1,007	672
LF Participation Rate	66%	74%	59%	67%	61%	80%	56%
Employment-Population Ratio	62%	70%	56%	59%	56%	74%	52%
Unemployment Rate	5.8%	5.5%	4.9%	11.4%	8.9%	7.6%	7.7%

*Numbers in thousands

Source: U.S. Dept. of Labor, Bureau of Labor Statistics, CPS Tables Annual Averages Table 3 and 4 (www.bls.gov/cps/tables.htm#charem, retrieved October 2009).

FIGURE 2.6
LABOR FORCE PARTICIPATION RATES FOR WHITE, BLACK AND HISPANIC
MEN AND WOMEN, 1973-2008



Source: Bureau of Labor Statistics. Created from Labor Force Statistics from the Current Population Survey (www.bls.gov/cps/data.htm)

Unemployment and the Business Cycle

The periodic ups and downs of economic activity in market economies are referred to as business cycles. The downswings are called recessions (with the lowest point being the *trough*), and the upswings are called expansions (with the highest point being the *peak*). No one really knows exactly why a bust turns into a boom, or vice versa, although there are lots of theories. However, everyone knows that it will happen—like the sun rising and setting every day. Unlike the position of the sun in the sky, however, business cycle movements are virtually impossible to predict with accuracy. It is even harder to figure out exactly when the economy is—or was—in a recession. To deal with this problem, there is a group of economists who officially pronounce when a recession or expansion is over. The Commerce Department has charged the National Bureau of Economic Research (NBER), a private research organization, with calling the business cycle play-by-play. The NBER's Business Cycle Dating Committee consists of seven economists who judge the beginning, middle, and end of a business cycle. The committee looks at a variety of economic indicators—including unemployment rates—but really has no hard and fast rules to decide the precise dates of peaks and troughs. The NBER defines a recession as a recurring period of decline in total output, income, employment, and trade, usually lasting from six months to one year, and marked by widespread contractions in many sectors of the economy.

Business cycles: Periods of three or more years during which the economy busts or has a recession and then booms or has a recovery

Table 2.4 lists the nine business cycles the NBER has tracked from 1945 to 2008. Until the mid-1970s, the entire business cycle (from peak-to-peak or from trough-to-trough) lasted anywhere from three to five years. Since that time, however, the length of business cycles has been

far less predictable. There have been some very short business cycles and some very long ones, one lasting most of the 1960s, another most of the 1980s, the third lasting for almost all of the 1990s and into 2001, and the one that began in 2007 and continues as we write this book.

When the economy expands, there is increased demand for workers. As a result, unemployment falls. At this point, wages should rise, because as firms need new workers, they are willing to pay a little more for them if they are hard to find. Figure 2.7 gives unemployment rates from 1947 to 2008, and it shows that peak business cycle years are associated with lower unemployment rates. The spikes represent recessions, with small spikes in 1968 and 1972, and larger spikes in 1978, 1988, and 2000. These spikes represent millions of workers losing their jobs, and millions of others unable to find work.

Figure 2.7 also illustrates an important trend. Besides moving with business cycles, unemployment rates show a secular or long-run trend as well. Over the entire post-World War II period, unemployment rates have crept upward. The trend line in Figure 2.7 shows this upward creep, the unemployment rate moved from a 4% average in the late 1940s to a 5.6% average in the 1990s.

The Race Gap

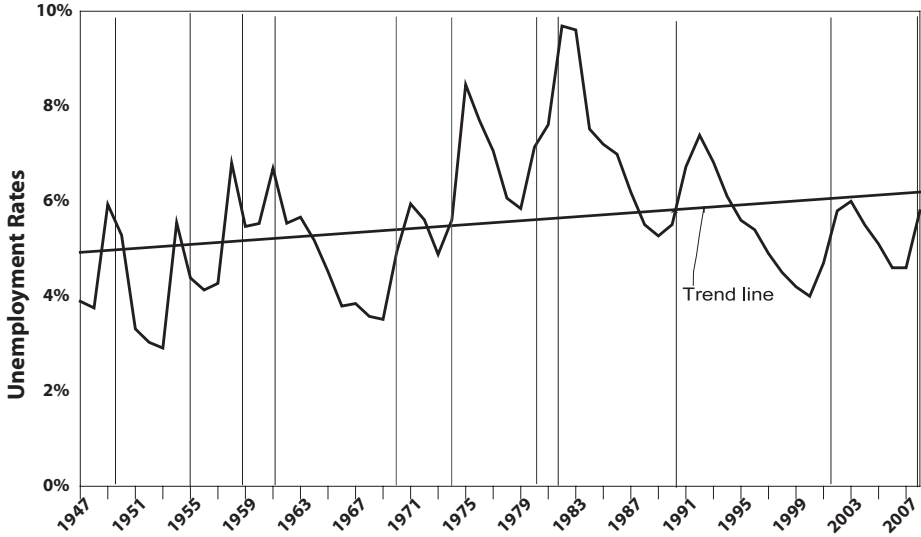
Unemployment is not spread evenly across the economy, and one striking and persistent difference is by race. Generally, black workers are twice as likely to be unemployed as white workers, with Hispanic workers having unemployment rates that fall in between those of whites and blacks. Figure 2.8 depicts Hispanic, black, and white unemployment rates from 1947 to 2008 (there are only data from 1973 for Hispanics). Table 2.5 further breaks down

TABLE 2.4
NBER BUSINESS CYCLE PEAKS AND TROUGHS 1945-2008

Peak Month	Year	Trough Month	Year
November	1948	October	1949
July	1953	May	1954
August	1957	April	1958
April	1960	February	1961
December	1969	November	1970
November	1973	March	1975
January	1980	July	1980
July	1981	November	1982
July	1990	March	1991
March	2001	November	2001
December	2007		

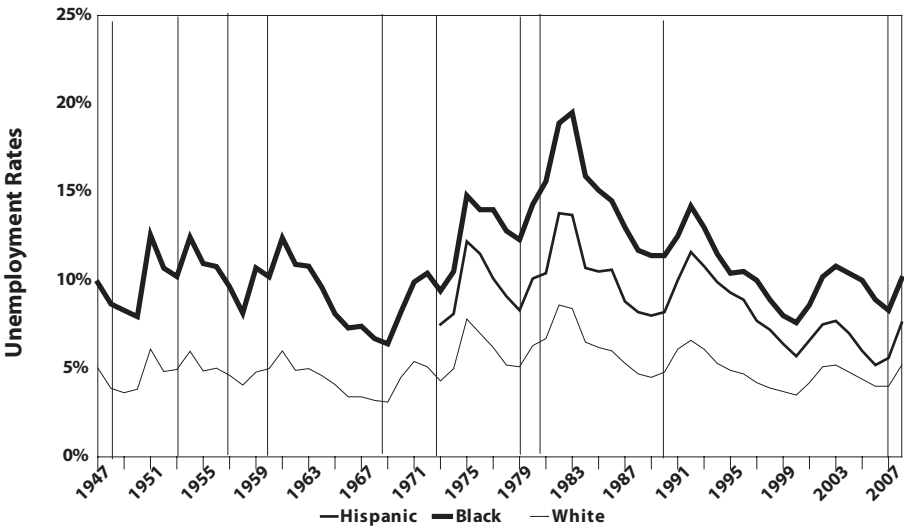
Source: National Bureau of Economic Research, Inc., 1050 Massachusetts Ave., Cambridge, MA 02138, retrieved from www.nber.org/cycles.html (October 2009). A complete list of NBER Working Papers and Reprints can be accessed on the Internet: www.nber.org.

FIGURE 2.7
UNEMPLOYMENT RATE, 1947-2008



Source: *Economic Report of the President*, 1995 and 2009. Vertical lines indicate peak year of business cycle.

FIGURE 2.8
HISPANIC, BLACK, AND WHITE UNEMPLOYMENT RATES, 1947-2008



Source: *Economic Report of the President*, 1995 and 2009. Vertical lines indicate peak year of business cycle.

*Includes Black and others through 1971, otherwise Black only.

TABLE 2.5UNEMPLOYMENT RATES AND RATIOS BY GENDER, RACE, AND AGE
IN TROUGH AND PEAK YEARS OF BUSINESS CYCLE

Year	Men			Women			16-19 year olds		
	White	Black*	Ratio	White	Black*	Ratio	White	Black*	Ratio
Trough Years									
1954	4.80%	10.30%	2.1	5.50%	9.20%	1.7	12.10%	16.60%	1.4
1958	6.10%	13.70%	2.2	6.20%	10.80%	1.7	14.40%	27.40%	1.9
1961	5.70%	12.80%	2.2	6.50%	11.90%	1.8	15.30%	27.70%	1.8
1970	4.00%	7.90%	2	5.40%	9.30%	1.7	13.50%	29.00%	2.1
1975	7.20%	14.80%	2.1	8.60%	14.80%	1.7	17.90%	39.40%	2.2
1980	6.10%	14.50%	2.4	6.50%	14.00%	2.2	15.50%	38.50%	2.5
1982	8.80%	20.10%	2.3	8.30%	17.60%	2.1	20.40%	48.10%	2.4
1991	6.50%	13.00%	2	5.60%	12.00%	2.1	16.50%	36.20%	2.2
2001	4.20%	9.30%	2.2	4.10%	8.10%	2.1	12.70%	29.00%	2.3
Peak Years									
1957	3.60%	8.30%	2.3	4.30%	7.30%	1.7	10.60%	19.10%	1.8
1960	4.80%	10.70%	2.2	5.30%	9.40%	1.8	13.50%	24.30%	1.8
1969	2.50%	5.30%	2.1	4.20%	7.80%	1.9	10.70%	24.10%	2.3
1973	3.80%	8.00%	2.1	5.30%	11.10%	2.1	12.60%	31.50%	2.5
1980	6.10%	14.50%	2.4	6.50%	14.00%	2.2	15.50%	38.50%	2.5
1981	6.50%	15.70%	2.4	6.90%	15.60%	2.3	17.30%	41.40%	2.4
1990	4.90%	11.90%	2.4	4.70%	10.90%	2.3	13.50%	30.90%	2.3
2001	4.20%	9.30%	2.2	4.10%	8.10%	2	12.70%	29.00%	2.3
2007	4.20%	9.10%	2.2	4.00%	7.50%	1.9	13.90%	29.40%	2.1

*For the years 1954–1970, data are for blacks and others; after 1970 data are for blacks only.

Source: *Economic Report of the President*, 2009.

unemployment rates by gender and age and includes the black (and other)/white unemployment ratio for men, women, and youth in peak and trough years of the business cycles between 1954 and 2008.

The figure, however, hides some important facts. First, even though black men are more likely to be unemployed than black women, those who are employed earn more than black women (see Figures 2.3 and 2.4). Second, the steady decline in labor force participation rates for black men, shown in Figure 2.6. Over the last 20 years, many men have simply given up on finding jobs in the labor market, but black men have been particularly hard-hit—and if you are not in the labor force, you do not count as unemployed.

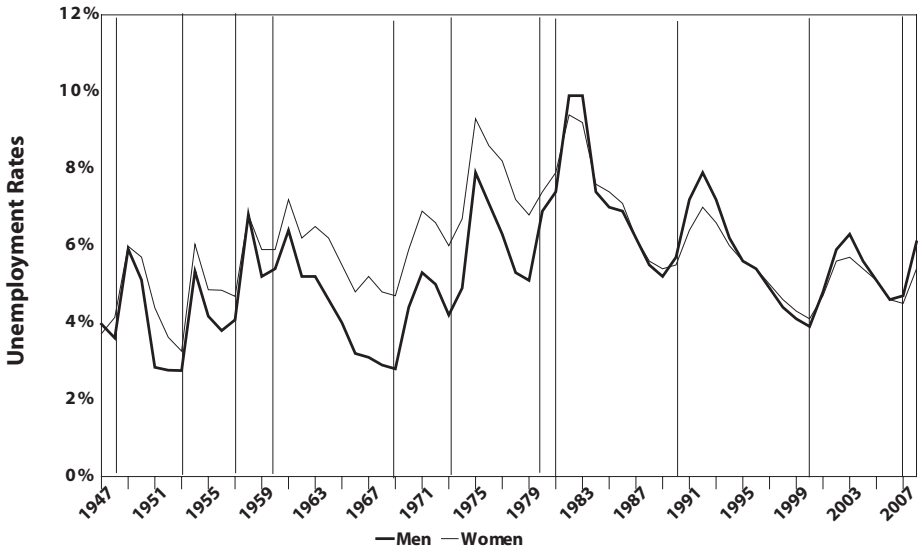
The current recession is expanding race inequality even further. By August of 2009, the unemployment rate for black men had risen to 17.9%, a level not seen in over two decades. Ironically, the rate for black women is not rising so rapidly because these workers tend to be concentrated in low-wage jobs. Nonetheless, as the figure shows, black women remain twice as likely as either white men or white women to face unemployment.

The race gap has important economic implications in the United States. First, it means that one of the harshest aspects of a market system—unemployment—is not shared equally among whites and blacks. Second, because of residential segregation, the impact of high black unemployment rates is deeply felt on a community-wide basis in black communities. To the degree that government policies can affect unemployment rates, there are political implications to the racial disparity in unemployment rates as well. If whites, with their large electoral majority, do not perceive unemployment as being a major problem in this country, they may be more likely to vote in officials who are willing to accept higher average rates of unemployment.

Gender Differences

Women and men are equally susceptible to the business cycle in that unemployment rates move in the same direction for both; up in recessions, and down in recoveries. However, there has been a recent important change in the relationship between men's and women's unemployment rates, as shown in Figure 2.9. Until the 1980s, women's unemployment rates always exceeded men's for both blacks and whites, but since that time, women's unemployment rates have often been lower than men's, especially in economic downturns. One possible explanation for this is that women are more likely than men to fall back on their spouses' wages if they become unemployed. As a result, women are more likely than men to leave the labor force and become discouraged workers, so it appears that they are out of the labor force, when in fact they are "unemployed" in the everyday sense of the word. Another important explanation has to do with the specific ways in which the economy has changed since the mid-1970s and the fact that many jobs are sex-segregated. Over time, jobs in industries that are more likely to hire women have experienced tremendous growth while industries that tend to hire men have experienced steady declines in employment. Furthermore, the last several recessions have hit hardest the industries that are most likely to hire men and been less harsh in the industries in which women predominate. Now, we turn to the distribution of jobs, which also has important implications for wage differences.

FIGURE 2.9
UNEMPLOYMENT RATES FOR MEN AND WOMEN, 1947-2008



Source: *Economic Report of the President*, 1995 and 2009. Vertical lines indicate peak year of business cycle.

THE DISTRIBUTION OF JOBS: NICE WORK IF YOU CAN GET IT

Everybody knows that some jobs pay better than others. For example, doctors make more money than orderlies in the same hospital. This makes sense, because doctors have to train for many years while orderlies don't necessarily need a high school diploma. In other cases, however, it is hard to understand why one job pays better than another. For example, mean hourly earnings of truck drivers were \$18.63 in 2008, while mean hourly earnings for bank tellers were \$11.66. These jobs are very different and require different skills, but in terms of the education and training needed to be good in either field, the jobs are comparable. A more vexing comparison is that between child-care workers and animal trainers. Median hourly earnings for child-care workers were \$7.79, while median hourly earnings for animal trainers were \$14.99!⁹

Industry Differences

Social scientists who are interested in understanding wage differences and trends watch both the occupation and the industry in which workers are employed. Industrial employment figures tell us the total number of people who are employed, categorized by the type of good or service they produce. There are several broad industrial sectors. One that receives a lot of attention because it is shrinking and has traditionally paid high wages is the manufacturing sector, which includes the automobile and steel industries. A particularly fast-growing sector is the service industry, which includes health care, education, personal services, and entertainment. Table 2.6 provides employment by industry for 1970, 1980, 1990, and 2000.

In 2002, the Census Bureau implemented major changes to the way it classifies jobs by industry, limiting the ability to make good comparisons. Still, the data in Table 2.6 reveal an important trend—an increasingly smaller percentage of the workforce is employed in

TABLE 2.6
EMPLOYMENT BY INDUSTRY 1970, 1980, 1990 AND 2000*

	1970		1980		1990		2000	
	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage
TOTAL	78,678	100.0%	99,303	100.0%	118,793	100.00%	135,208	100.00%
Agriculture	3,463	4.4%	3,364	3.4%	3,223	2.71%	3,305	2.4%
Mining	516	0.7%	979	1.0%	724	0.6%	521	0.4%
Construction	4,810	6.1%	6,215	6.3%	7,764	6.5%	9,433	7.1%
Manufacturing	20,746	26.4%	21,942	22.1%	21,346	18.0%	19,940	14.0%
Transportation and Communications	5,320	6.8%	6,525	6.6%	8,168	6.9%	9,740	7.2%
Wholesale Trade	2,672	3.4%	3,920	3.9%	4,669	3.9%	5,421	4.0%
Retail Trade	12,336	15.7%	16,270	16.4%	19,953	16.8%	22,411	16.6%
Finance, Insurance, Real Estate	3,945	5.0%	5,993	6.0%	8,051	6.8%	8,727	6.5%
Services	20,385	25.9%	28,752	29.0%	39,267	33.1%	49,695	36.8%
Public Administration	4,476	5.7%	5,342	5.4%	5,627	4.7%	6,015	4.4%

Source: U.S. Census Bureau, Statistical Abstract 1994 (Table 641) and 2002 (Table 591).

*Numbers in thousands.

manufacturing. This shift is often referred to as deindustrialization, a phrase made popular by economists Bennett Harrison and Barry Bluestone in their 1982 book *The Deindustrialization of America*. In 1970, 26.4% of employed persons worked in the manufacturing sector, but by 2002, only 13.3% did so. Note that deindustrialization took place between 1970 and 1980 even though the absolute number of people employed in that sector increased. The relative decline in manufacturing occurred because employment in other industries increased faster. However, between 1980 and 2000 there was both a relative and an absolute decline in the manufacturing sector, with fewer people employed in that sector in 1990 than in 1980, and even fewer in 2000.

Deindustrialization: The long-term decline in employment in blue-collar jobs in manufacturing industries

Table 2.7 depicts the composition of employment by industry for women, blacks, and Hispanics in 2008. That year, women represented 46.7% of all persons employed. If they were equally distributed in jobs across all industry sectors, we would expect to see 46.7% of those employed in the craft industry or the service industry to be female. This is not the case. Instead, we find that women were only 9.7% of all persons employed in the construction industry but just over 59% of those in services. Women are overrepresented in retail trade, financial activities, and services.

TABLE 2.7
COMPOSITION OF INDUSTRIAL EMPLOYMENT BY GENDER, RACE,
AND ETHNICITY, 2008

	Total (in 1,000s)	Percent of total		
		Women	Black	Hispanic
Total, 16 years and over	145,362	46.7	11	14
Industry:				
Agriculture, forestry, fishing, & hunting	2,168	23.9	2.5	20.4
Mining	819	12.9	5.5	15.5
Construction	10,974	9.7	5.6	24.6
Manufacturing	15,904	29.3	9.5	14.6
Wholesale trade	4,052	29.5	8.3	14.5
Retail trade	16,533	48.8	10.4	13.6
Transportation and utilities	7,727	23.1	15.9	15
Information	3,481	41.6	11.7	9.1
Financial activities	10,228	54.8	9.8	10.6
All Services	79,481	59.1	11.8	14
Professional and business services	15,540	42.4	9.3	13.8
Education and health services	31,402	75.2	14.2	9.7
Leisure and hospitality	12,767	51.5	11.0	18.4
All other services	19,772	51.5	10.5	18.0
Public administration	6,763	45.2	15.3	9.3

Source: Bureau of Labor Statistics, Labor Force Statistics from the Current Population Survey, Table 18 (www.bls.gov/cps/tables.htm, retrieved October 2009).

Similarly, in 2008 one out of every ten workers was black and almost one out of every seven workers was Hispanic, yet these differences were not evenly distributed among industry sectors. Blacks were overrepresented in the areas of transportation and utilities, most services, and public administration. They were underrepresented in agriculture, mining, construction, manufacturing, and retail and wholesale trade. Hispanics were overrepresented in agriculture, mining, construction, and some services. They are underrepresented in financial activities, information; education, and health services, and public administration.

The industrial distribution of jobs seems to matter in terms of wages paid. Average hourly earnings in 2008 were \$21.87 in construction and \$17.74 in manufacturing while they were \$10.84 in the leisure and hospitality sector. Because wages depend in part on the level of technology workers use, certain industries with high levels of technology will probably have higher wages than labor-intensive, low-technology industries. Further, if workers in some industries are more likely than others to be represented by unions, it might help them to bargain successfully for higher wages.

Occupational Differences

We tend to have an image of the kinds of jobs that people do in different industries. For example, in the mining industry we think of people actually extracting minerals from the ground, and the retail trade industry conjures up a sales clerk. However, the industrial

TABLE 2.8
EMPLOYMENT BY OCCUPATION FOR MEN, WOMEN, WHITES, BLACKS,
AND HISPANICS, 2008

	Men	Women	White	Black	Hispanic	Median Weekly Earnings
Total, 16 years and over (thousands)	77,486	67,876	119,126	15,953	20,346	\$722
Percent	100%	100%	100%	100%	100%	
Management, professional, and related occupations	33.5	39.5	37.0	27.4	18.3	\$1025
Service occupations	13.5	20.6	15.7	24.4	24.2	\$475
Sales and related occupations	10.6	11.9	11.4	9.9	9.3	\$656
Office and administrative support occupations	6.3	21.2	13.1	15.7	12.1	\$601
Farming, fishing, and forestry occupations	1.0	0.3	0.7	0.3	1.9	\$420
Construction and extraction occupations	10.9	0.3	6.5	3.4	12.6	\$688
Installation, maintenance, and repair occupations	6.4	0.3	3.7	2.7	3.7	\$774
Production, transportation, and material moving occupations	17.8	5.9	11.9	16.2	17.8	\$594

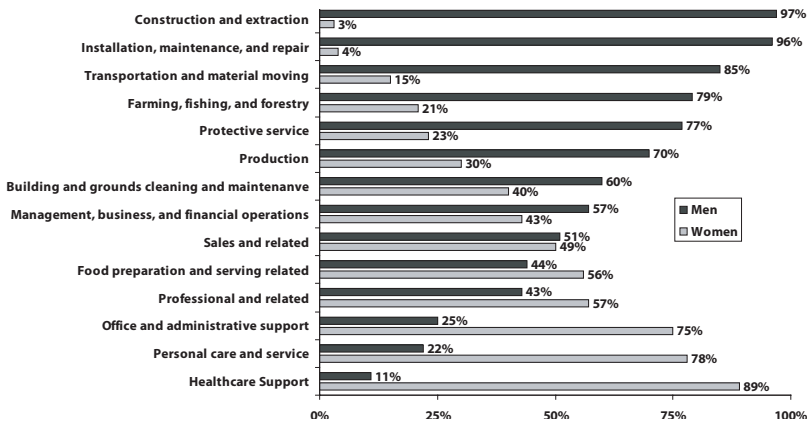
Source: Bureau of Labor Statistics, Labor Force Statistics from the Current Population Survey, Table 10 and 39, (<http://www.bls.gov/cps/tables.htm> retrieved October 2009).

distribution of jobs includes everyone who works in that industry, regardless of the work they do there. For example, a clerical worker or nurse at General Motors will be included in the manufacturing sector, while the machine repair technician or plumber who is employed by a hospital complex will be included in the service industry.

Occupational distributions classify jobs by the type of work performed, regardless of the industry. So, for example, managers are listed in the managerial occupation category whether they manage a McDonald's, supervise a farm equipment factory, or work as a Chief Executive Officer (CEO) in a hospital. The Census Bureau revised how it classifies occupations in the early 1980s and again in 2002, making meaningful comparisons over time difficult. However, reflecting the deindustrialization trends just discussed, there has been a decrease in the share of workers in "blue collar" occupations (Production, Installation, Maintenance and Repair Occupations). There has also been a decline in office administration's share of jobs, but a rise in managerial and professional jobs.

Table 2.8 shows the occupational distribution for all male, female, white, black, and Hispanic workers in 2008, and the median weekly earnings in those occupations for year-round, full-time workers. More than one out of every three workers was in a managerial or professional occupation, with one out of every six worker in a service related occupation. Less than 10% of jobs combined are in farming, fishing and forestry; construction and extraction; and installation, maintenance and repair occupations. The rest of workers are almost evenly divided among the following three broad occupational categories: sales, administrative work, and production, transportation and material moving. The table reveals some of the key differences in the gender and racial distribution of jobs. Men's and women's distribution in "white collar" jobs (managerial and professional occupations) is both high and similar to one another. This is good news for women, since this is the highest paying occupational category. However, one out of every five women works in services, which is a low-paying occupation. The percentage of white, black, and Hispanic workers in sales and administrative occupations are similar. But for all other occupations, the distribution of white workers differs substantially from that of black and Hispanic workers. Black and Hispanic workers tend to be under-represented in the high paying professional and managerial occupations and overrepresented in the lower paying service and production, transportation, and material moving occupations.

FIGURE 2.10
OCCUPATIONAL COMPOSITION BY GENDER, 2008



Source: Bureau of Labor Statistics, Labor Force Statistics from the Current Population Survey, Tables 11.

Figure 2.10 provides a different way of looking at occupational distribution; it shows how employed men and women were distributed within each occupational category in 2008. In 2008, women held 48% of all jobs, but there are only four of the fourteen occupational categories in which women's representation is close to that. For three of the major occupational categories, women hold 70% or more of jobs in those occupations. For six major occupational categories, men hold 70% or more of the jobs.

Occupational Segregation

Both the CPS and the BLS collect data on occupational and industrial categories that are much more detailed than those presented in the previous tables and figures. For example, there are just over 500 detailed occupations included in the CPS data, and Tables 2.9 and 2.10 present a closer look at the ten detailed occupations that account for the greatest share of women's and men's employment, respectively. For women, the top ten occupations employ almost 30% of all women. There is a distinct bunching of women into a small number of occupations. Three of those occupations are over 90% female, and another two are at least 80% female. Social scientists refer to the crowding of a large number of women or men into a small number of occupations as occupational segregation.

TABLE 2.9

TOP 10 DETAILED OCCUPATIONS FOR ALL FULL-TIME EMPLOYED WOMEN, 2008

	Total number of women (in thousands)	Percent of all women employed	Percent women of all employed in occupation	Median weekly earnings
Secretaries and administrative assistants	2,485	5.3%	96.5%	\$614
Elementary and middle school teachers	2,127	4.5%	81.0%	\$871
Registered nurses	1,904	4.0%	90.1%	\$1,011
Nursing, psychiatric, and home health aides	1,201	2.5%	87.7%	\$424
First-line supervisors/ managers of retail sales workers	1,050	2.2%	43.2%	\$556
First-line supervisors/ managers of office and administrative support workers	1,029	2.2%	68.6%	\$688
Cashiers	1,018	2.2%	73.9%	\$349
Customer service representatives	1,015	2.2%	67.2%	\$568
Accountants and auditors	904	1.9%	60.5%	\$908
Receptionists and information clerks	896	1.9%	93.3%	\$502
Total top ten	13,629	28.9%	75.9%	
Total women employed	47,209	100.0%	44.3%	\$638

Source: Bureau of Labor Statistics, Labor Force Statistics from the Current Population Survey, Table 39 (www.bls.gov/cps/tables.htm).

Occupational segregation: When groups are disproportionately overrepresented in some types of jobs and underrepresented in others

A clearer picture of occupational segregation emerges if we look at more detailed occupations rather than just at broad occupational categories.¹⁰ For example, men and women are equally represented overall in professional, technical, and sales occupations, yet a closer look reveals distinct women's and men's jobs within these categories. Consider nursing and teaching, which together account for one out of every three women employed in the professional occupational category. As Table 2.9 indicates, these two occupations are highly segregated by sex.

Occupational segregation is important because of the striking differences in pay that are associated with men's and women's jobs. As Tables 2.9 and 2.10 show, average weekly earnings for full-time workers in the ten top occupations for men are significantly higher than for the ten top occupations for women. This is not the only source of pay differentials, however. Large pay gaps also exist within many detailed occupational categories. Consider the figures on "management-related occupations" shown in Table 2.11.

Management-related occupations are narrowly defined occupational categories, a subset of all managerial occupations. The people in these positions are likely to have similar amounts of education, and these jobs do not require any attributes linked to sex differences or physical strength. Nonetheless, female financial managers make less than two-thirds the weekly wage of male financial managers. Female accountants and auditors make 71% of their male

TABLE 2.10
TOP 10 DETAILED OCCUPATIONS FOR ALL FULL-TIME EMPLOYED MEN, 2008

	Total number of men (in thousands)	Percent of all men employed	Percent men of all employed in occupation	Median weekly earnings
Driver/sales workers and truck drivers	2,613	4.4%	95.7%	\$709
Managers, all other	1,477	2.5%	62.6%	\$1,359
First-line supervisors/managers of retail sales workers	1,382	2.3%	56.8%	\$781
Laborers and freight, stock, and material movers	1,194	2.0%	85.8%	\$508
Construction laborers	1,180	2.0%	97.5%	\$558
Retail salespersons	1,148	1.9%	57.5%	\$623
Janitors and building cleaners	1,096	1.8%	72.6%	\$493
Carpenters	975	1.6%	98.9%	\$655
Sales representatives, wholesale and manufacturing	844	1.4%	73.8%	\$1,064
Cooks	832	1.4%	63.4%	\$404
Total top ten	12,741	21.4%	74.6%	
Total men employed	59,439	100.0%	55.7%	\$798

Source: Bureau of Labor Statistics, Labor Force Statistics from the Current Population Survey, Table 39 (www.bls.gov/cps/tables.htm).

TABLE 2.11

Median Earnings of Full-Time Workers by Sex in Management-Related Occupations, 2008

Occupations	Male	Female	Female/Male
Financial Manager	\$1,457	\$945	0.65
Accountants and Auditors	\$1,384	\$979	0.71
Management Analysts	\$1,391	\$1,139	0.82
Food Service Manager	\$739	\$628	0.85
All Management related Occupations	\$1,178	\$908	0.77

Source: Bureau of Labor Statistics, Labor Force Statistics from the Current Population Survey, Table 39 (www.bls.gov/cps/tables.htm).

counterparts' weekly wage. Overall, women in management-related occupations (of which we list only a subset) make 74 cents for each dollar made by men in management-related occupations.

The Possibility of Discrimination

Differences in job distributions and wage disparities between men and women in similar occupations suggest the possibility that discrimination is occurring. If women's and men's wages were equal, there would be little reason to believe that discrimination was at work. However, as we will see in the remaining chapters, social scientists offer many possible explanations for such differences, and discrimination is only one.

SUMMARY AND CONCLUSIONS

A lot of facts and statistics have been presented in this chapter, but concluding that discrimination exists from the data presented here would be hasty. Even so, the evidence does point to large and persistent labor market inequities based on race and gender. The rest of this book examines two very different approaches to why white men fare better in labor markets than women and blacks. As you begin to consider the explanations for inequality, here are several main points to keep in mind:

- Real wages rose steadily from World War II until the early 1970s. After that, wages fell through the early 1980s, stagnated through the mid 1990s and have risen only slightly since then.
- Over the same period, inequality has increased. Low-wage workers have seen the smallest gains in their wages.
- Black men still earn only about 80% of the wages of white men.
- The wage gap between black and white women fell over the 1960s and 1970s to less than 10%. Since then, it has risen slightly.
- The male-female wage gap has fallen steadily since the early 1970s; however, female earnings are still only a little more than three-fourths of male earnings.
- There has been a slight upward trend in overall unemployment rates in the post-World War II period. Black unemployment rates have consistently been over twice as high as white unemployment rates. In contrast, female unemployment rates have usually been lower than male rates since the early 1980s.

- Blacks, Hispanics, and women are much more likely than white men to work in low-wage industries and occupations. Nonetheless, race and gender wage gaps result from differences within as well as between occupations.
- Race and gender wage gaps persist even when age, education, and labor force commitment are comparable.

As you consider these trends, it is important to bear in mind that some inequality is not necessarily bad for the economy. If working harder or more intelligently pays off, inequality will result in economic growth with widely dispersed benefits. Further, some degree of inequality is inevitable in a world where individuals have distinct tastes and talents—nor would one expect groups to be automatically equal, as cultural, social, and even biological differences can have economic effects. In other words, it is quite possible to look at the numbers in this chapter without getting upset.

On the other hand, it is possible to look at these same numbers and get very upset. As Robert Frank and Philip Cook argue in their book *The Winner-Take-All Society*, too much inequality can reduce opportunity and hope—and we certainly have a lot of inequality. While groups will never automatically be equal, it is disturbing that today’s losers are the same groups that lost yesterday, yesteryear, well into the last century, and often beyond. It is hard to believe that the racism and sexism that have run through U.S. history have disappeared without a trace. If inequality results from past or present discrimination, then our society is unjust. That would be a bitter pill to swallow.

Each of these interpretations is backed up by a substantial body of theory and evidence. We will explore both interpretations and related debates in detail in the chapters that follow.

DISCUSSION QUESTIONS

1. If discrimination is not responsible for inequality, how might differences in wages, unemployment rates, and occupational distributions by race and gender be explained?
2. If we were to equalize wages between blacks and whites as well as between men and women, does this mean that white men’s wages must fall further?
3. If discrimination has declined, why has the black–white unemployment gap widened?
4. If discrimination has not declined, why did the black-white wage gap among women decline until the 1980s?
5. If discrimination exists now but is reduced in the future, would inequality necessarily remain?
6. Using Figures 2.3 and 2.4, explain what has happened to the wage ratios between black and white men and women over the last several decades? Given what you already know about the labor force history of women and blacks, what might explain the wage ratio trends?
7. What reasons might explain the high unemployment rates for persons 16 to 19 years of age (see Table 2.4)?
8. Why do you think unemployment rates for blacks are so high?
9. Explain why unemployment rates rise during economic contractions and fall during expansions.
10. Between 1980 and 2000, the number of persons who were employed rose by just over 35%. Which industries experienced relative, but not absolute, declines in employment?

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ENDNOTES

¹ These differences persist even after adjusting for the age, education, and experience of individual workers. Studies that make those adjustments are explored in Chapter 5.

² In much of this book, we use the term wage to refer to both wages and salaries. Because self-employment income is a relatively small portion of earnings, the trends in earnings and wages are similar.

³ Each year the annual results of the Establishment Data survey are published in the January issue of the U.S. Labor Department, Bureau of Labor Statistics, *Employment and Earnings*. Monthly tables from *Employment and Earnings* can be found at <http://www.bls.gov/web/empsit.supp.toc.htm#header1>.

⁴ The income data collected from the March CPS are available annually from the U.S. Census Bureau’s website on income (www.census.gov/hhes/www/income.html).

⁵ A subset of people are asked about their weekly and hourly earnings, however.

⁶ U.S. Census Bureau 2009b.

⁷ Mishel, Bernstein, and Shierholz, 2009, Table 5.2

⁸ *Ibid.*, Table 1.7

⁹ May 2008 National Occupational Employment and Wage Estimates, Bureau of Labor Statistics retrieved from www.bls.gov/oes/current/oes_nat.htm (October 2009).

¹⁰ There are similar, although not as pronounced, differences to be found by looking at detailed industrial breakdowns. For example, while women are 29% of all workers in manufacturing, 55% of those employed in textile manufacturing are female, while only 14% of those who work in steel and iron foundries are women (see U.S. Department of Labor, Bureau of *Labor Statistics, Labor Force Statistics from the Current Population Survey*, Table 18, retrieved from www.bls.gov/cps/tables.htm (October 2009)).