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A NOTE ON UNEMPLOYMENT DIFFERENTIALS BETWEEN BLACK AND WHITE WORKERS IN THE UNITED STATES

By Murray Wolfson* and Ze'ev B. Orzech**

I

In a carefully drawn statistical study of the US labor market which appeared recently in *Economica*, Strauss and Horvath¹ suggest that the difference in incomes between black and white workers in the United States reflects barriers to entry to higher paying professions rather than discrimination in wages for the same work. They show that when the labor force is properly stratified by industry and occupation, there is no significant difference in wage rates by race. When the occupational normalization is not undertaken, the difference is significant, although the gap is narrowing somewhat in recent years. It is clear from this and other studies² that as anti-discrimination laws are progressively enforced, and win higher levels of voluntary acceptance, it becomes less reasonable to explain racial income differences solely in terms of wage discrimination.

It is much more likely that the inequitable distribution of income is related to the high levels of unemployment among blacks, the greater variability in their employment, the inaccessibility of higher paying jobs for many black workers, and the crowding of black labor into lower paid occupations.³ In this note we focus our attention on differential employment rates for black and white men for the period 1953–74 as an index to the demand for labor of black compared to white workers. Our belief is that the occupational distortions we have mentioned will move more or less in inverse relationship with the relative demand for black labor. This simplification permits us to construct a tractable dynamic model which formalizes the contention of black workers that they are “last hired and first fired.” The mathematics of this view is shown to imply that the relative employment of blacks is positively related to the rate of growth of aggregate demand. This accelerator-

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like model is tested, and long run measures of the responsiveness of the employment
differential to growth in national income are advanced.

Earlier efforts at testing the “last hired, first fired” thesis produced one negative conclu-
sion by Gilman,4 and a somewhat more positive result by Bergmann.5 After correcting:
for occupation, skill, locational and related differences between workers of the two races,
Gilman found that he was unable to observe a significant time lag between their hiring rates.
There is a striking similarity between this outcome, and the result of the Strauss-Horvath
article; they were unable to observe wage differences once the social characteristics of the
races were eliminated. This prompts us to adopt a different methodological approach which
relates “last hired” not so much to clock time, as to changes in aggregate demand. We suggest
that acceleration in demand is the agent which not only overcome bias in advancing blacks
to higher paid and stable employment, but also provides the skills, experience and union
seniority which make them more employable. For this reason, our study is carried on for
male adults, black and white, without otherwise normalizing the data, except of course for
seasonal variation. The very normalization, we suggest, has tended to wipe out the
mechanism through which racially differentiated demand operates.

One immediate consequence is that those who emphasize the “costs of growth” from
an environmental point of view, tend to ignore the costs of “no growth” in the exacerba-
tion of inequity in the distribution of employment and income. Man clearly has problems
as a social as well as a biological animal. The existence of socially identifiable groups who
receive an inequitably small share of labor income is one of those problems. Patently this
is not confined to the United States, where the situation of the blacks is most familiar
to the authors. Mutatis mutandis, similar analyses could doubtlessly be made of the
sectarian schism in Ulster, the tribal tensions in Nigeria, or, writ large, the “north-south”
world division.

II

Discrimination, in the static sense defined by Gary Becker,6 reflects the degree to which
blacks suffer current racist attitudes in employment policy. In this sense, discrimination
consists of a discounting of the actual marginal product of black workers by a discrimina-
tion coefficient reflecting the bias of white employers and fellow workers. Thus there is a
lowered effective demand for black workers. But we contend that insofar as the present
situation reflects the difficulty of entry by blacks into occupations due to maldistribution
of human capital or lack of seniority, it is a function of past as well as current attitudes. As
a result, blacks are more likely to be unemployed than whites, even if static discrimination
were completely eradicated. The model we propose deals with dynamic discrimination,
concerned with the acquisition of the features of employability over time.

Let total employment in time period \( t \) be \( N_t \), taken as proportional to the level of

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4 Gilman, H.J., “Discrimination and the White-Nonwhite Unemployment Differentials,” Ph.D. disserta-
tion, University of Chicago, August 1963.
5 Bergmann, B. and Kaun, D., Structural Unemployment in the United States, U.S. Department of Com-
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economic activity in that period, \( Y_t \). Therefore, \( N_t = a Y_t \), where \( a \) is the labor-output ratio. Total employment is divided between the black and white labor force, \( N_t = N_{bt} + N_{wt} \), leading to the expression for employment of blacks, \( N_{bt} = a Y_t - N_{wt} \). We shall argue that the white employment is largely determined by the tightness of the labor market in the period previous to the current one, so that the employment of the blacks is in large measure residual. Blacks are “last hired and first fired” because, to a considerable degree, they are used to fill in the gap between total employment, \( N_t \), and white employment.

In making this specification we are effectively saying that relative to the jobs to be performed, the whites are the preferred workers; they are presumed to have the skills, union seniority, as well as skin color more pleasing to white employers and fellow workers. Employers are presumed to estimate their anticipated need for labor in year \( t \), on the basis of aggregate GNP demand in period \( t-1 \), and to attempt to hire white workers. As the pool of unemployed white labor diminishes, employers turn to black workers. This means that employment of blacks depends not only on the level of national income, but also on the exhaustion of the supply of white workers. The blacks, we assert, are hired with a lag, at a later time period as residual employees. Black employment is, therefore, a lagged function of a decaying pool of white labor.

Of course, this specification is an exaggeration. Clearly some white workers do not have skills that make them preferred candidates for the jobs available, so that they will fall in the residual category. The reverse is true of some black workers. Consequently, some blacks are hired first and some whites are hired last. Yet even though the specification of the whites as uniformly preferred, and the blacks as not-preferred, introduces an element of artificiality into our model, we retain formulation because it permits us to focus on the essential issues in a macroscopic way without becoming involved in a detailed disaggregation and matching of labor skills and job requirements. The proof of the pudding is that even the highly aggregated model we suggest survives statistical test.

The employment of whites, then, is supposed to respond positively to an increase in national GNP in the preceding year, \( Y_{t-1} \). However the impact of lagged GNP as a stimulus to further white employment is expected to decay as white employment asymptotically approaches full employment of the white labor force \( L_w \). For computational purposes, we suggest a convenient form for white unemployment, \( a^* Y_{t-1}^{d} \), where \( a^* \) and \( d \) are positive parameters. White employment, therefore is \( N_{wt} = L_w - a^* Y_{t-1}^{d} \), as illustrated in Figure 1. Black employment in year \( t \), as the residual after whites have already been hired as a function of GNP in year \( t-1 \), is therefore \( N_{bt} = a Y_t - L_w + a^* Y_{t-1}^{d} \).

Let us now define the relative employment differential as the ratio of the relative employment rates black to white:

\[
e = \frac{N_{bt}}{N_{wt}} \frac{L_b}{L_w}.
\]

If we now define the growth rate as \( g = (Y_t - Y_{t-1})/Y_{t-1} \), and the relative size of the labor forces as \( \lambda = L_b/L_w \), direct substitution gives us:

\[\lambda = \frac{N_{bt}}{N_{wt}} \frac{L_b}{L_w} \frac{a}{a^*} \frac{Y_t}{Y_{t-1}} \frac{1}{1 - a^* Y_{t-1}^{d}} \]

\[\lambda = \frac{N_{bt}}{N_{wt}} \frac{L_b}{L_w} \frac{a}{a^*} \frac{Y_t}{Y_{t-1}} \frac{1}{1 - a^* Y_{t-1}^{d}} \]

\[\lambda = \frac{N_{bt}}{N_{wt}} \frac{L_b}{L_w} \frac{a}{a^*} \frac{Y_t}{Y_{t-1}} \frac{1}{1 - a^* Y_{t-1}^{d}} \]

\[\lambda = \frac{N_{bt}}{N_{wt}} \frac{L_b}{L_w} \frac{a}{a^*} \frac{Y_t}{Y_{t-1}} \frac{1}{1 - a^* Y_{t-1}^{d}} \]
We see that the current level of the relative employment of blacks compared to whites depends on the ratio of their labor forces, the level of GNP in the preceding period, and the rate of growth of GNP. Important for our theory is the suggestion that GNP must continue to grow merely to maintain the relative employment position of the blacks.

To see how \( e \) responds to changes in \((g+1), \lambda, \) and \( Y_{t-1} \), we take partial derivatives:

1. **Relation to growth:** \( \frac{\partial e}{\partial (g+1)} = \frac{a_{Yt-1}}{\lambda(\lambda - a_{Yt-1})} \). This derivative is certainly positive; the relative employment of blacks increases with growth in GNP. Furthermore the magnitude of this response of \( e \) to \( g \) is seen to be directly proportional to the level of GNP and inversely proportional to the relative size of the black labor force compared to the white.

2. **Relation to relative size of labor force:** \( \frac{\partial e}{\partial \lambda} = -\frac{e}{\lambda} \); \( e \) is a rectangular hyperbola in the \( e-\lambda \) plane. This negative derivative agrees with Becker's thesis that discrimination is positively correlated with the relative size of the black population, although his theoretical basis differs from ours.

3. **Relation to levels of GNP:**
   \[
   \frac{\partial e}{\partial Y_{t-1}} = \frac{1}{\lambda} \left[ \frac{(g+1)a_{Yt-1}}{L_w - a_{Yt-1}(1+d)} \right].
   \]
   As \( Y_{t-1} \) increases toward a condition of white full employment the expression simplifies to \( \frac{(g+1)a}{\lambda L_w} \). The relative employment of blacks is seen as positively related to the level of GNP. However, the degree to which this condition of generally tight labor markets affects the blacks is directly proportional to the rate of growth in GNP, and inversely proportional to the relative size of the black labor force compared to white.

The basic thesis to be tested is that the relative employment of blacks to whites is positively correlated with the rate of growth of GNP, the level of GNP, and inversely correlated with the relative size of the black labor force.\(^8\) The relationship was approximated by a linear regression of \( e \) on growth and GNP. Since dynamic discrimination means that the current status of blacks depends on what happened to their employment in previous periods,

\(^8\) Due to the problems of collinearity it was only possible to test for the first two explanatory variables.
the current level of \( e \) was taken to depend on lagged values of the explanatory variables over some substantial interval. Various distributed lag structures were tested. Statistically meaningful results were obtained from two forms:

(a) \( e_t = a + b g_{t-1.5} + c Y_{t-1} \), where the growth variable was centered 1.5 years previous to the timing of \( e_t \); since the values for \( g_{t-1.5} \) were computed by averaging the annual data for \( g_{t-1} \) and \( g_{t-2} \), this explanatory variable was actually a rectangular form of distributed lag for the 8 quarters centered 6 quarters previous. \( Y \) was lagged simply for one year.

(b) A Koyck distributed lag regression model: 
\[
e_t = a + b g_t + l b g_{t-1} + l^2 b g_{t-2} + \ldots + l^n b g_{t-n} + c Y_{t-1} + l c Y_{t-2} + l^2 c Y_{t-3} + \ldots + l^n c Y_{t-(n+1)}
\]
where \( l \) is some positive number less than unity to be determined by the regression.

Summing the infinite series, the equation becomes:
\[
e_t = le_{t-1} + a(1-l) + bg_t + c Y_{t-1}.
\]
The Koyck form conforms to our notion dynamic discrimination. Growth must extend over considerable periods of time to permit the acquisition of human capital and seniority by blacks.\(^9\) The weights of the coefficients of \( g \) and \( Y \), lagged indefinitely into the past, diminish geometric progression. The statistical advantage of this form is that only \( l \) must be estimated, even though there is actually an infinite number of lagged explanatory variables. The parameters of the equation were estimated in a "stepwise" fashion by first introducing \( g \), the variable which made the greatest contribution to the reduction of the residual variability.

The results of Models (a) and (b) are summarized in Table 1.

**Table 1**

<table>
<thead>
<tr>
<th>Model*</th>
<th>( a )</th>
<th>( b )</th>
<th>( c )</th>
<th>( R^2 )</th>
<th>( DW )</th>
<th>( h^0 )</th>
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<tr>
<td>(a) Six quarter lag.</td>
<td>.886 (84.1)</td>
<td>.319 (2.38)</td>
<td>.000104 (5.77)</td>
<td>.737</td>
<td>1.138</td>
<td></td>
</tr>
<tr>
<td>(b) (1) Koyck distr. ( l = .933 )</td>
<td>.849 (8.46)</td>
<td>.219 (1.21)</td>
<td>.808</td>
<td>2.18</td>
<td>.45</td>
<td></td>
</tr>
<tr>
<td>(2) Koyck distr. ( l = .803 )</td>
<td>.858 (4.31)</td>
<td>.209 (13.20)</td>
<td>.00000208 (2.92)</td>
<td>.817</td>
<td>2.06</td>
<td>.22</td>
</tr>
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* \( t \) values in parentheses.


The reliability of the estimates in (a) were flawed by problems of autocorrelation. Although the regression coefficients appeared significant, the Durbin-Watson statistic was borderline and the more refined Von Neumann test revealed significant positive autocor-

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\(^{10}\) \( h \) is the statistic developed by Durbin to test for serial correlation in models such as ours where autocorrelation may have been introduced by using lagged values of the dependent variable as explanatory variables. See, J. Durbin, "Testing for Serial Correlation in Least-Squares Regression when some of the Regressors are Lagged Dependent Variables," *Econometrica*, Vol. 38, No. 3, May 1970.
relation. Nonetheless, the estimates are consistent with the more significant outcomes of (b). The Koyck model (b) improved the results markedly. The coefficient of growth was significant in both versions, and the best available test indicates that autocorrelation was not present.\footnote{The statistic \( h \) is standard normal for large samples. Its use for our sample, however, is in accord with current practice.}

The influence of \( Y \) on \( e \) is small in both models in which it occurs. It would require an increase of $100 billion in GNP to improve the employment of blacks vis-a-vis whites by one percentage point in model (a). In model (b), the coefficient of \( Y \) is not statistically significant; if the estimate were to be accepted, GNP would have to rise approximately $500 bil. to achieve a one percent improvement in \( e \).

All the models are remarkably unanimous in their conclusions as to the impact of an increase in the rate of economic growth on \( e \). A one percent increase in the rate of growth for one year would cause about a quarter of a percentage point improvement in the relative position of the blacks.

The influence of continuous growth on relative employment is even more substantial. Since prolonged periods of growth exert their influence not only through the current period but through the (diminishing) weight of all previous periods as well, a period of continuous expansion applies a multiplier effect on the increase in \( e \). The magnitude of this multiplier is \( \frac{1}{(1-I)} \) and the long-run coefficient of \( g \) becomes 1.06. It would take only a one percent increase in steady state growth to increase \( e \) by one percentage point.

This multiplier is likely to be an understatement of the long run effect. There are, after all, two interrelated aspects of the "last hired-first fired" effect. On one hand, workers who may not have all the skills desired, or who may be the victims of racial prejudice are drawn as residual workers into employment as aggregate demand increases. As long as their employability is not altered, they will be discharged just as rapidly when the business cycle turns down. But on the other hand, the fact of the employment experience increases employability by imparting human capital, acquiring seniority, and overcoming the xenophobic aspect of racist bias. It is this first aspect which is probably emphasized in the present model, based as it is on a multiplying up of shorter term effects into a long run coefficient. It proved difficult to segregate these effects statistically by measuring continuous years of employment with the aggregated data at our disposal, but the probable nature of the bias makes our case stronger than we have been able to demonstrate quantitatively.

III

We conclude that the intuition of blacks that they were "last hired and first fired" has a basis in fact. Moreover, it implies that the relative employment of blacks compared to whites is positively related to the rate of growth of GNP, and that such growth is a prerequisite to achieving the elimination of the dynamic aspects of discrimination. Finally, we are concerned to urge those who advocate limitations to growth on ecological grounds to consider the distributional aspect of their policies for minority and deprived groups.

(February 1977)