

Principles of Applied Microeconomics

Ross Summer Connection (2022)

Elird Haxhiu

Racial Wealth Gap

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Gaps in Economic Outcomes

- Δ_M wages between rich-country and poor-country workers
 - Δ_G wages between men and women (in the US)
 - Δ_R assets/wealth between white and Black people (in the US)
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- Today we define Δ_R and study role of discrimination as primary cause
 - Lang & Spitzer (2020) is an excellent review article!

Why is wealth important to study?

- Trevon Logan interview (2020)

A

We have to think about what wealth allows people to do. People who are wealthier are better able to handle an economic downturn, a shock to their income. **Wealth can be protective.** If you don't have wealth, you have nothing that can actually protect you.

Wealth also allows you to do things like **take risks.** It allows you to become an entrepreneur. When Jeff Bezos was starting Amazon, he needed a quarter of a million dollars from his parents to keep that company afloat. If you're a Black family and your median wealth is \$1,200 dollars, you don't have \$250 dollars to give to your kid let alone \$250,000 dollars to be an entrepreneur.

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- Think about what the “American dream” looks like...
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- Think about what the “American dream” looks like...
- The US government promotes this with various **policies** over the years
- Since wealth simultaneously
 1. Compounds interest like crazy
 2. Often left as a bequest to children at death...it plays a key role in perpetuating + exacerbating existing inequities

Wealth Gap is an Intergenerational Issue

- It is **not** an intra-generational (within) issue...
- Wealth is equal to whatever part of your income you don't spend
- Implication: can close the gap by “saving more” or “learning to budget”

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- Wealth is equal to whatever part of your income you don't spend
- Implication: can close the gap by “saving more” or “learning to budget”
- This implication is false because
 1. Everyone starts life with different levels of wealth (bequests!)
 2. Compound interest implies exponential growth
- When you start with zero, you'll always have zero

Wealth Gap is an Intergenerational Issue

- Why do Black Americans start their lives with low levels of wealth relative to White Americans?
- Answer: government policy over centuries...
- Slavery, legal segregation, illegal segregation, disparate land giveaways, redlining, differential subprime mortgage lending, more?

Wealth Gap is an Intergenerational Issue

- Why do Black Americans start their lives with low levels of wealth relative
- Answer:
- Slavery, redlining

H.R.40 - Commission to Study and Develop Reparation Proposals for African Americans Act
117th Congress (2021-2022) | [Get alerts](#)


BILL Hide Overview ✕

Sponsor: [Rep. Jackson Lee, Sheila \[D-TX-18\]](#) (Introduced 01/04/2021)

Committees: House - Judiciary

Committee Meetings: [04/14/21 10:00AM](#)

Latest Action: House - 04/14/2021 Ordered to be Reported (Amended) by the Yeas and Nays: 25 - 17. ([All Actions](#))

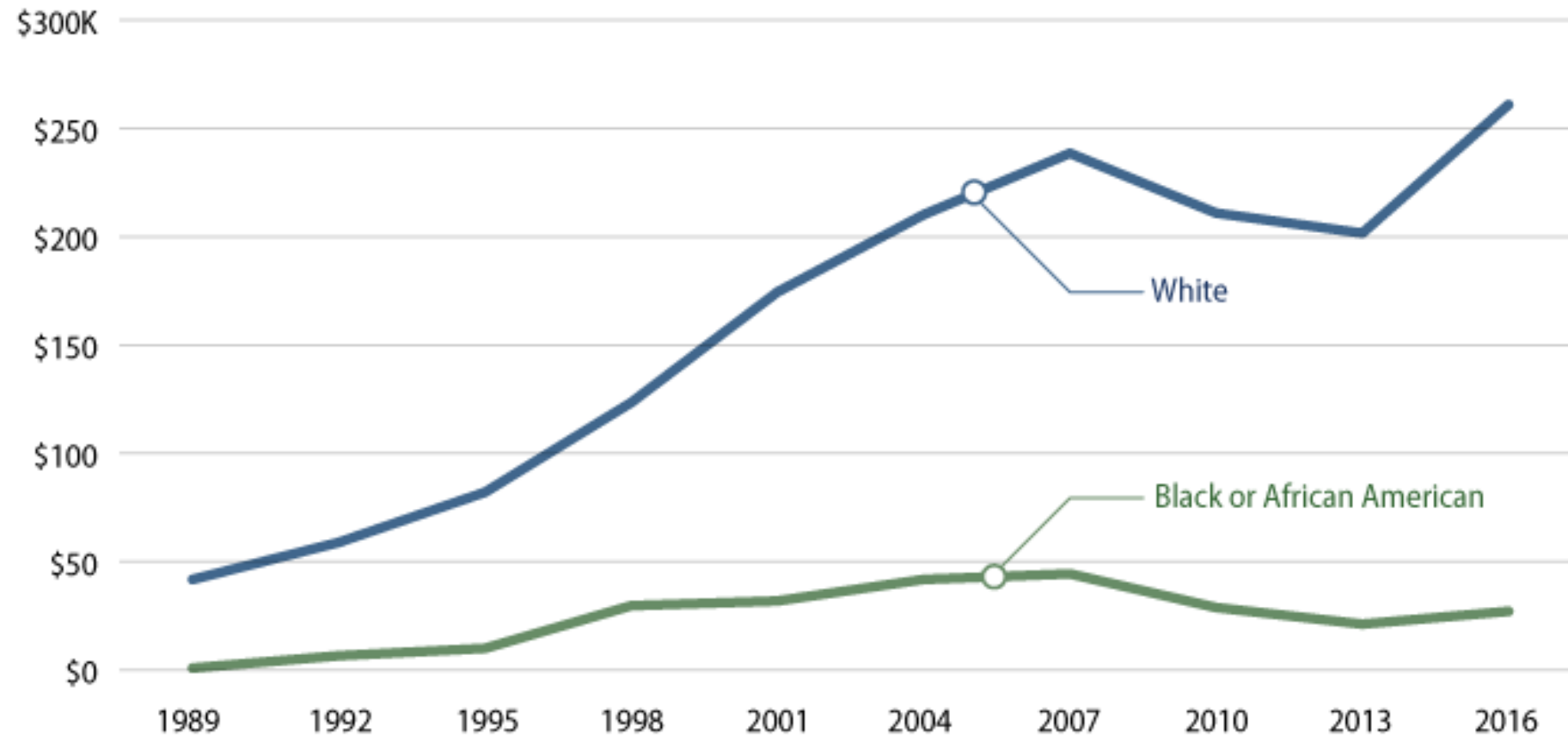
Tracker:  **Introduced** > Passed House > Passed Senate > To President > Became Law

- Solution: reparations

US racial wealth gap Δ_R over time

Median wealth for households as they aged, by race and year

Data: federal reserve survey of consumer finance (2016)



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- Another cause of the racial wealth gap: discrimination
 - Not as important for gender wage gap today
 - Still very important for racial gaps

Definitions

- Prejudice: preconceived opinion not based on reason, experience
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-
1. Where? Labor market, criminal justice system, housing, education*
 2. Who? Employers, coworkers, customers, the US government...
 3. Why? Tasted-based vs. statistical vs. systemic

Labor Market Discrimination

1. Compute gaps using raw data

- EX: Black men are 28% less likely to be employed relative to white men.

2. Decompose this gap into

- Part explained by human capital (HC) variables: education, experience, etc.
- Residual, or unexplained difference, potentially due to **discrimination**...

Discrimination by Employers

- Decomposition results show large residual gaps
- Subject to same criticism as gender wage gap: include all HC variables?

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- Subject to same criticism as gender wage gap: include all HC variables?
- Audit study: matched pairs of Black and white actors pose as workers interviewing for a job with similar fictitious resumes
- Bendick (2007) surveys this literature, nearly all of which finds disparities in call backs and job offers by race
- Some concerns about this approach, but I find it compelling

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- Correspondence study: matched pairs of identical resumes send to firms, only difference is the name on the resume
- Compare white-sounding to Black-sounding names on the resume
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- *How do they deal with **selection bias** (SB)?*

Discrimination elsewhere?

- Maybe **employers** aren't discriminatory, but face pressures from **incumbent workers** to discriminate against new hires
- Some empirical evidence: workers less likely to quit when their coworkers have the same race (Giuliano et al., 2009)
- Maybe the pressure comes from **customers** instead?
- Theoretically plausible, but evidence is scarce

Taste-based Discrimination

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- Becker (1957, 1961) model of **employer taste discrimination**
- Two types of firms: those who discriminate and those who do not
- If the labor market is competitive, model predicts that firms which discriminate must eventually die out...

Taste-based Discrimination

- Theoretical result only true under perfect competition
- With frictions in the labor market, Black workers cannot find firms which don't discriminate, and those that do won't die out
- Ex: information frictions in job search, increasingly less of an issue

Statistical Discrimination

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- EX: doctors typically discriminate between men and women regarding who should receive breast cancer screening
- Note: **invalid inference** = **prejudice**, at least in the econ literature
- Note: **valid inference** still = **discrimination**, but it's complicated...

Statistical Discrimination

- Discrimination based on **valid statistical inferences** about population
- EX: doctors typically discriminate between men and women regarding who should receive breast cancer screening
- Models are based on
 1. Differential underlying productivities between workers
 2. Differential observability by employers
 3. Self-enforcing disparities

Can new information correct wrong beliefs?

- Empirical test to distinguish taste-based and statistical discrimination
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- Wozniak (2015): Drug testing increases Black employment rates
- Implies statistical discrimination based on self-enforcing disparities exists

Statistical Discrimination in Judicial System

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- Agan and Starr (2018) \Rightarrow prohibiting firms from requesting this information reduced callback rates for Black workers
- Doleac and Hansen (2016) \Rightarrow banning the box reduced employment of “low skilled” Black and Hispanic workers

Conclusion

- We've focused on the labor market and mentioned the judiciary
- Discrimination also occurs in housing, education, medical care, and many other economic activities in life
- To the extent that **discrimination is a system**, efforts to prohibit discrimination in one institution will have only limited effect

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- We've focused on the labor market and mentioned the judiciary
- Discrimination also occurs in housing, education, medical care, and many other economic activities in life
- To the extent that **discrimination is a system**, efforts to prohibit discrimination in one institution will have only limited effect
- What about current segregation/apartheid?
- Some empirical support for **intergroup contact theory**

Next Time

- FINAL due Thursday @ 11:59pm, available after class today
 1. Take home exam, like homework but no human access
 2. Use our notes, homework, and general resources online
 3. Don't stress it too much, and don't spend too much time on it either
 4. Email me at haxhiu@umich.edu with any issues :)
- OH today @ 5:20pm, Lorch Hall M101
- After the break... Cook (2014)
- Netflix, Explained: <https://www.youtube.com/watch?v=Mqrrhn8khGLM&t=18s>