

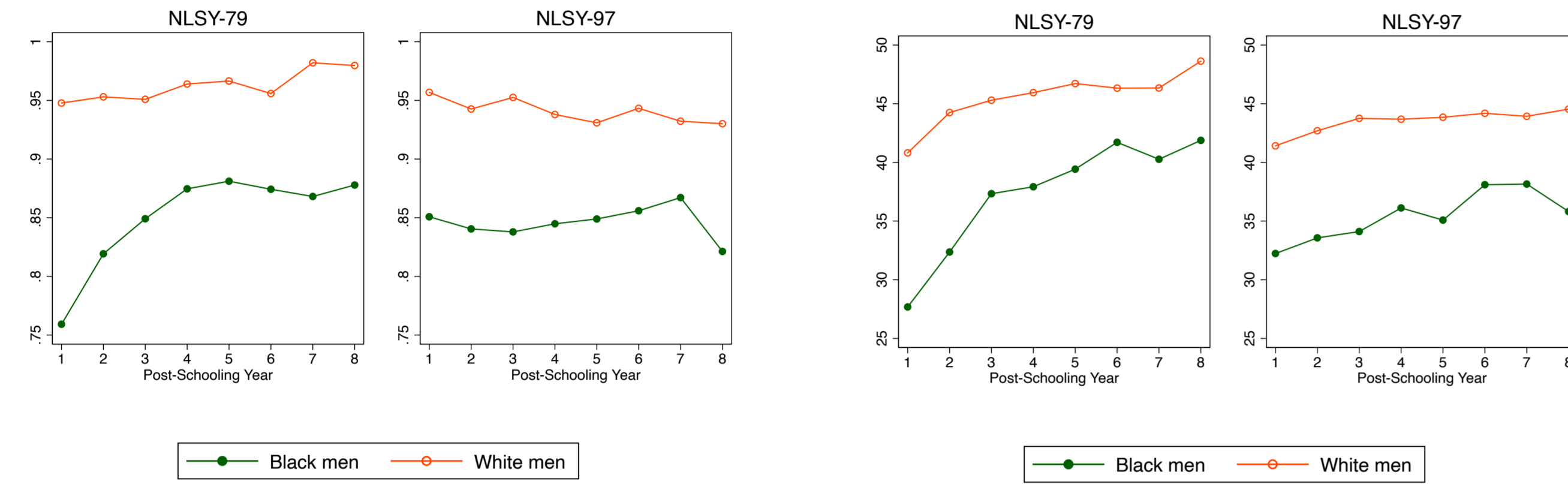
Racial Gaps in the Early Careers of Two Cohorts of American Men

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Motivation

More than fifty years after Civil Rights Act of 1964, substantial racial gaps still exist in today's U.S. labor market (CEA 2016, Bayer & Charles 2018, Chetty et al. 2020).



Any Employment

Weeks Worked

The narrative of the causes of racial labor market gaps is mainly based on studies from previous cohorts. Little is known about how the underlying forces behind the racial labor market gaps have changed across cohorts.

Data

The 1997 and 1979 cohorts of National Longitudinal Survey of Youth (NLSY-97, NLSY-79)

- Sample** Nationally representative of Americans born 1980-84 and 1957-1964
- Variable** Detailed individual and family variables (Altonji et al. 2012); Use geocode files to identify childhood neighborhoods
- Structure** Track Black and white men from early adulthood to their mid-thirties; Final sample includes Black and white men who have completed schooling for at least eight years

Education & Skills: schooling, cognitive skills (AFQT score), social & non-cognitive skills
 Family Background: mom education, family structure & income, parenting style*, teen mom*
 Childhood neighborhood: county soe conditions, living in central city/suburban/etc, county neighborhood quality (Chetty & Hendren 2018)*, homeownership*
 School-to-work transition: weeks worked in 1st year, local unemployment rates (LAUS) at place/year of school-exit (*available only in the NLSY-97)

Key Empirical Findings

Using a semi-parametric decomposition (DiNardo, Fortin, Lemieux 1996), I find:

- Skills:** Despite a broad convergence of racial skill gap across cohorts, Racial differences in skills still explain a crucial part of the racial labor market gaps in the younger cohort (NLSY-97). This is primarily driven by racial gap in measured cognitive skills (AFQT score) rather than schooling.
- Transition:** Black men initiated their careers in an inferior local labor market and with a worse outcome. Black disadvantage in transition has a particularly large contribution to racial labor market gaps in the younger cohort, but not in the older cohort.
- Neighborhood:** Conditioning on racial differences in family background and individual skills, the explanatory power of measured neighborhood characteristics is small or negligible.

The decomposition method focuses on racial differences in the "quantities" of the underlying characteristics. If due to discrimination, Black and white men receive different returns ("prices") to the same characteristics, the racial differences in returns will be left in the residuals.

Racial Gaps in Individual, Family, and Neighborhood Characteristics

To save space, I present a *subset* of variables that I include in the decomposition.

	NLSY-79			NLSY-97			97-79 Dif.
	W	B	W-B Gap	W	B	W-B Gap	
Education and Skills							
Schooling (HGC)	13.46	12.80	0.66 [†]	13.13	12.08	1.05 [†]	0.39
AFQT percentile	58.61	22.93	35.68 [†]	51.06	25.76	25.31 [†]	-10.37 [†]
Family Background							
Log parental income	11.56	10.85	0.72 [†]	10.96	8.94	2.01 [†]	1.30 [†]
Mother's HGC	12.07	11.13	0.94 [†]	13.03	12.45	0.59 [†]	-0.35
Living w/ both parents	0.85	0.56	0.28 [†]	0.62	0.32	0.31 [†]	0.02
Residence Type							
Central city	0.06	0.36	-0.30 [†]	0.21	0.36	-0.15 [†]	0.14 [†]
County Socioeconomic							
Log median income	10.93	10.78	0.15 [†]	10.95	10.87	0.08 [†]	-0.07 [†]
Poverty rate	0.11	0.17	-0.06 [†]	0.11	0.16	-0.04 [†]	0.02 [†]

[†] indicates a *p*-value below 0.05

The racial gap in measured cognitive skills (AFQT score) narrows across cohorts, while remains large and significant in the younger cohort (NLSY-97).

Decomposition of Racial Labor Market Gaps in Two Cohorts

Younger Cohort: **NLSY-97**

	W-B Gap	Share Explained by			Residuals
		Skill	Family	NBHD	
Sequential Ordering I					
Weeks worked per year	6.90	27%	32%	-7%	48%
Log avg annual earnings	1.54	30%	18%	13%	39%
Sequential Ordering II					
Weeks worked per year	6.90	34%	-6%	24%	48%
Log avg annual earnings	1.54	20%	9%	33%	39%

Outcomes are measured sixth to eighth years post-schooling.

Older Cohort: **NLSY-79**

	W-B Gap	Share Explained by			Residuals
		Skill §	Family	NBHD	
Sequential Ordering I					
Weeks worked per year	5.78	64%	18%	-8%	27%
Log avg annual earnings	1.37	67%	18%	-26%	41%
Sequential Ordering II					
Weeks worked per year	5.78	51%	59%	-37%	27%
Log avg annual earnings	1.37	67%	16%	-25%	41%

§ Neal & Johnson (1996) shows AFQT score alone accounts for ~ 60% of the racial wage gap in their data of NLSY-79.

Schooling or Measured Cognitive Skills? (NLSY-97)

	W-B Gap	Share Explained by			Residuals
		Skill	Family	NBHD	
Skill includes only HGC					
Avg weeks worked per year	6.90	14%	22%	-7%	70%
Log avg annual earnings	1.54	12%	10%	9%	69%
Skill includes only AFQT					
Avg weeks worked per year	6.90	34%	-6%	1%	70%
Log avg annual earnings	1.54	20%	9%	3%	69%
Skill includes only AFQT					
Avg weeks worked per year	6.90	28%	31%	-8%	49%
Log avg annual earnings	1.54	30%	16%	13%	41%
Skill includes only AFQT					
Avg weeks worked per year	6.90	34%	-6%	23%	49%
Log avg annual earnings	1.54	20%	9%	30%	41%

Open question: For the younger cohort, where does the racial gap in skills, especially cog skills, come from? What are the roles of family investment, school influences, and/or discrimination?

Role of School-to-work Transition

The contribution of transition is estimated conditioning on the pre-market characteristics.

	W-B Gap (1)	Pre-Market Factors (2)	Share Explained by		
			Weeks worked in 1st Year § (3)	Col (3) +State UR (4)	Col (3) +County UR (5)
NLSY-97					
Weeks worked per year	6.90	52%	13%	3%	18%
Log avg annual earnings	1.54	61%	13%	3%	21%
NLSY-79					
Weeks worked per year	5.78	73%	-5%	-14%	
Log avg annual earnings	1.37	59%	-14%	-4%	

§ Columns (3)-(5) are estimated conditioning on pre-market factors (Skill, Family, NBHD).

Why is the effect of transition more salient in the NLSY-97? Great Recession could be at play.

Relation to the Literature

- Re-emphasize the central role of skills in understanding racial gaps (Neal & Johnson 1996, Heckman et al. 2006), in the context of today's U.S. labor market
 - This is important given that the labor market structure has shifted dramatically over the past few decades.
- Shed light on the documented neighborhood effects in past studies (Chetty et al. 2020)
 - My findings do not contradict the causal estimates of neighborhood effects (Chetty et al. 2016, Chyn 2018).
 - Neighborhoods may affect racial labor market gaps via the channel of skill formation.

Key References

DiNardo, Fortin, and Lemieux. 1996. "Labor Market Institutions and the Distribution of Wages, 1973-1992: a Semiparametric Approach." *Econometrica*
 Altonji, Bharadwaj, and Lange. 2012. "Changes in the Characteristics of American Youth: Implications for Adult Outcomes." *Journal of Labor Economics*