Washington Center *for* Equitable Growth

Evidence for a stronger economy

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REPORT: LABOR

Wage discrimination and the exploitation of workers in the U.S. labor market

Policies to address racial and gender pay discrimination and boost worker power

September 2020 By Kate Bahn, Mark Stelzner and Emilie Openchowski

Washington Center for Equitable Growth

Evidence for a stronger economy

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Overview

The U.S. labor market can be daunting to navigate, and especially so in recent months, as the coronavirus pandemic and recession have created a public health crisis and fueled business closures and mass job layoffs—both temporary and permanent—across the country. The Commerce Department recently released data showing that the economy shrank by a stunning 9.5 percent from April through June of this year, or an annual rate of 32.9 percent—the sharpest drop in modern record-keeping.[1] Unemployment Insurance claims have been at a record-high since March, with weekly initial claims not dipping below 1 million through the end of July and hovering near 1 million in the weeks since then. At their peak, weekly initial UI claims hit more than 6.2 million for the week ending April 4; their previous weekly peak, in the week ending January 10, 2009, during the Great Recession, was 956,791.[2] The U.S. jobless rate jumped from its 50-year low of 3.5 percent in February to its highest rate since the Great Depression, at 14.7 percent in April.[3]

These numbers are astounding enough on their own, but are especially more so when broken out by race and gender. Black and Latinx workers and women are being hit especially hard in the coronavirus recession. While the overall unemployment rate peaked at 14.7 percent in April, it was 18.9 percent for Hispanic workers, 16.7 percent for Black workers, and 16.2 percent for women workers that same month.[4] These higher rates are likely a result of the specific industries that are being affected the most by this pandemic-induced downturn: hospitality, service, and care work. Women, and especially women of color, make up the majority of workers in these industries, thanks, in part, to occupational segregation, which pushes them into low-paying jobs, resulting in decreases in wages across these fields, as the proportion of women in a given occupation reduces earnings for all workers in those jobs.[5]

This is compounding existing disproportionalities in the U.S. labor market. Even in normal times, there are obstacles that restrict and prevent workers from finding well-paying, interesting jobs or moving from one job to the next, including, for example, racial disparities in access to wealth building as a result of centuries-long discrimination.[6] Higher wealth makes it easier for some workers to weather the income losses or gaps that can result from switching jobs. Likewise, socially constructed obstacles—such as the fact that women tend to shoulder more household responsibilities than men—further restrict women specifically from moving freely through the labor market.

Workers of color and women—and especially Black women and Latina workers—often experience distinct wage gaps between them and their otherwise-similar White and male counterparts, adding additional hurdles to navigating the labor market. Because Black women and Latina workers sit at the intersection of both racial and gender lines, they face different, intersectional barriers.[7] In fact, full-time, year-round Black women workers face a wage gap so wide that they had to work from January 1, 2019 until August 13, 2020 to earn the same amount that White men employed full time and year round earned in 2019 alone—an extra 7.5 months.[8] We have not yet reached Latina Equal Pay Day in 2020, indicating an even larger divide between Latinas and White men workers.

The common framework for explaining these racial and gender wage gaps is the human capital model. This says that wages are set by productivity levels, and thus, differences in wages must be explained by differences in productivity, which is shaped by a worker's educational achievement and skills levels. Accordingly, proponents of the human capital model argue, narrowing the skills gap and encouraging access to higher education will close the wage divides. The human capital model, however, ignores much of the empirical evidence surrounding wage gaps—for instance, the fact that Black women have significantly increased their rates of college completion over time, yet they are still paid less than their White male peers.[9]

To address the deficiencies in the human capital model and provide a better explanation for these wage disparities along racial and gender lines, the co-authors of this report have created a new theoretical labor market model that matches the empirical evidence.[10] We integrate firm competition for workers, worker movement between jobs as a response to market signals given wealth disparities, the potential income losses that can arise during a job transition, and the role of worker power via collective action. The model shows that characteristics specific to race and gender, such as the lower levels of wealth in Black and Latinx households and increased household responsibilities for women, make workers of color and women more susceptible to exploitation by employers, with Black women and Latina workers facing both race and gender penalties and thus being exploited even further. These hurdles reduce worker power by restricting their ability to seek other, better-paying, and more interesting jobs, which gives employers more power to lower wages for these particular groups of workers.

The new model also shows that government support for workers to act collectively boosts worker power, reducing employers' monopsony power—their ability to set and lower wages—and thus decreasing worker exploitation and wage differences that replicate discriminatory biases against these groups of workers. Because some groups of workers are more exploitable by employers, the marginal effect from increased worker power and collective action on these workers will be relatively larger than on White male workers. Increased worker power and collective action therefore actually reduces the racial and gender wage gaps between otherwise-similar workers—and, likewise, lessened worker power and collective action grows the wage gaps between these workers.

In recent years, government support for collective action and unionization has gone down, which has reduced the amount of power that workers have in the labor market. This reduction of worker power has grown the racial and gender wage gaps by allowing employers to capitalize on inequalities in wealth and household responsibility and to exploit certain groups more than others.

Thanks to the coronavirus recession, the labor market is more complicated than ever to navigate, especially for Black and Latinx workers and women. Not only have they faced higher rates of unemployment and layoffs, but it is also expected that racial, ethnic, and gender wage disparities will only get worse with this downturn. In fact, data are already showing growing gaps between the rich and the poor, and between White households and households of color, as a result of the recession.[11] And, due to current the child care crisis in which schools and child care centers are not reopening fully or at all, and because women tend to shoulder the burden of care work in the home,[12] women's gains in the labor market are likely to be set back a generation.[13]

But even without this particular crisis in mind, the trends and obstacles we observe in the labor market are clearly self-reproducing: Less wealth leads to lower wages for otherwise-identical workers because employers can exploit these workers more easily. And lower incomes lead to less wealth for a given savings rate. Given the distinct effects of previous recessions on wealth inequality, the current economic downturn will certainly exacerbate this dynamic—but it will not be unique to this crisis. Policymakers must act now to ensure that these obstacles do not continue to hold back workers of color and women from accessing the jobs and earnings that they deserve, in this and in future recessions.

This policy report starts by showing how the human capital model is insufficient in explaining the existence and persistence of wage gaps, and then explains why our new theoretical model is an improvement upon the human capital model. We then turn to how our findings relate to the racial and gender wage discrimination that occurs across the labor market and how declining worker power plays a role in the ongoing penalties faced by Black and Latinx workers and women. We conclude by giving several policy recommendations for how lawmakers can restore worker power and address racial and gender wage discrimination that align with our findings and our model's explanation for these divides.

The human capital model and its deficiencies in explaining wage gaps

The human capital model has long been a widely accepted framework for explaining why wage gaps exist in the labor force. This model assumes that differences in earnings reflect differences in productivity levels between workers that arise from differences in so-called capital allotments—for instance, years of education, past work experience, or industry and occupation. The human capital model assumes that these different capital allotments naturally result in different levels of productivity, which are not evident in the macroeconomic data on the workforce but nonetheless are used to justify wage gaps between workers.

In this model, wage differences are presumed to be fair determinations of the value of someone's work, and are not a reflection or a reverberation of the pervasive racism or misogyny in society. In fact, proponents of this model argue that the real cause of pay differentials between a White worker and Black worker or a male versus a female worker, for example, is not racial or gender discrimination or employer exploitation, but rather gaps in each one's skill levels or background, which typically leads these workers to be less productive. And, since workers are theoretically paid based on the value of what they produce, differences in wages along these lines are justified and accepted.

Particularly in today's increasingly digital and technologically focused economy, the skills-gap narrative is pervasive. It argues that there aren't enough people with the education level or technical expertise required for certain jobs, so those who do have those supposedly requisite characteristics are paid ever more than the rest of the workforce, contributing to the expanding wage divide and increasing inequality in the U.S. economy.[14] This narrative is even being pushed now, during the coronavirus recession, with calls for those who have lost jobs permanently due to the virus to simply explore new industries and gain new skills in order to get back to work.[15]

If the human capital theory is to be believed, then in order to close wage gaps, workers only need to increase their human capital through more education and training.

If those making less money than their peers just went back to school, got higher-education degrees, or had access to programs that grow their skillsets or teach them new trades, then their productivity would go up, and they would be paid more. In this model, systemic barriers and personal responsibilities do not severely limit workers' ability to find new, more suitable, better-paying job opportunities. In this model, employers are all assumed to be fairly and equitably responding to productivity and market forces, and setting wages accordingly, because the market is assumed to eliminate all motives that are not profit-pursuing, including employer discrimination. And in this model, in order to boost wages and productivity, policymakers would simply need to focus on funding additional skills-acquisition opportunities and making these programs accessible for all workers in the labor force.

Yet much of the empirical data on racial and gender wage divides shows that reality is more complicated than the picture this model paints. Within educational achievement levels, wage gaps still exist along racial and gender lines, and are particularly wide at the intersection of both, for women workers of color.[16] This inequality persists even for workers with higher educational attainment, with White workers with college degrees continuing to earn more in wages than Black and Latinx workers with college degrees.[17] The median college-educated White male worker earns $31.25 an hour, while their otherwise-identical Black counterpart only earns a median hourly wage of $23.08—just $5 more per hour than a White male worker with a high school degree.[18] While some of this wage gap is due to occupational segregation, the human capital model, by encouraging the skills-gap narrative, pushes policymakers to focus on college as a blanket solution for inequality, when, in fact, the majority of this wage gap is "unexplained" and can be attributed to discrimination.[19]

Income inequality is actually growing despite a more educated workforce: A university degree no longer guarantees a high-paying job.[20] This is despite the fact that many middle- and high-wage jobs increasingly require a college degrees—sometimes even when it isn't necessary to do the job well. Researchers observed that employers pushed up their education requirements during the Great Recession because there were so many more workers looking for jobs than jobs available, giving employers the power to require "unnecessary" degrees.[21] This has pushed more people to unnecessarily go into debt to get advanced degrees, resulting in a labor force saturated with highly educated workers who can't get high-paying jobs and who are struggling to pay back their loans or unable to participate in wealth-building activities such as homeownership.

The data clearly show that the wage gap will not be closed by getting an advanced education or acquiring additional skills. And while investing in education and training opportunities for workers is important, if the so-called skills gap is not what is behind wage discrimination, then these investments won't fully address the problem at hand. The human capital model focuses too narrowly on individual worker characteristics that define productivity, and fails to incorporate the role of monopsony and declining worker power in recent years, as well as larger structural hurdles faced by many workers in the labor market. These factors, however, are essential contributors to the distinct wage penalties facing Black and Latinx workers and women because of their impact on workers' access to wealth and on their job search capabilities, and they must be addressed alongside additional educational and training opportunities.

A new theoretical model

The ability of employers to set wages, or their monopsony power, can explain some of the persistent wage gaps and how they have changed over time.[22] When employers have monopsony power, they are able to exploit workers by paying them less than the value of their labor, and they exploit certain groups of workers specifically because of characteristics that make these workers more vulnerable to exploitation.

The original application of monopsony looked at wage gaps between women and men due to higher rates of unionization among men, showing that employers were less able to exploit male unionized workers and thus had to pay them more.[23] Some subsequent research has also found differences in labor supply elasticity between men and women and between Black and White workers, which allows for the differential rates of exploitation of these groups.[24] More recent studies show that monopsony exists across the U.S. economy, from large corporations to small firms, and across industries, from nursing to professional sports to manufacturing.[25]

Still, despite the various models and studies on monopsony's effect on various aspects of the labor market, no theoretical model had been developed using this monopsony model that also incorporated all of these various dynamics together to show the underlying forces in the labor market that result in wage discrepancies—until we created one in our recent working paper.[26] Likewise, no previous model has so clearly shown aspects such as the heightened intersectional wage gaps faced by women workers of color or the connection between collective action and wage discrimination. Integrating all of these dynamics into the model allows us to endogenously explain wage differences and how they change over time and, as a result, better understand how to address these wage gaps.

Our new theoretical model shows that pre-existing disparities in individual wealth influence job search behavior, if an employer recognizes these wealth disparities or holds opinions and behaves in ways that ultimately replicate the disparities. Essentially, workers with more wealth are better able to navigate the income losses that potentially arise in the job search process, and therefore are more likely to take the risk of changing jobs to find a higher-paying position that is better suited to their skillset or interests. Workers with less wealth are less likely to be able to weather these gaps in earnings and therefore are more likely to stay in jobs even if they don't earn as much money as they could in another job. Therefore, higher levels of wealth among job seekers enable them to be more responsive to market signals and will reduce an employer's ability to set their wages lower.

Our new model also shows that disparities in household responsibilities influence job search behavior, again if an employer knows about these disparities or holds opinions and behaves in ways that ultimately replicate the disparities. Workers who have more household responsibilities are constrained in their job searches geographically, needing to be located more conveniently near their homes and families, which yields fewer job prospects than if a worker does not have this geographic constraint.

Because certain groups are more exploitable due to decreased mobility resulting from less financial ability to weather job market shocks (which tends to comprise Black and Latinx workers) or greater household obligations (which tend to fall on women), employers' increased capability to wield monopsony power means increased wage differentials for workers of color and women. Alongside empirical research, our model shows that these job search constraints—less wealth and more household responsibilities—are greater than the sum of their parts, meaning women workers of color are particularly affected. Black women and Latina workers will see a greater wage gap than exists between a Black male or Latino worker and a White male worker, or between a White male and a White female worker.

The lower wages these Black women and Latina workers receive represent discriminatory pay at the intersection of two societal phenomena: racism and misogyny. We'll now briefly explain the role of these two systemic hurdles for workers of color and women, and especially women workers of color, in limiting their job search processes.

The role of racism in the job search process

Not only do Black and Latinx workers experience high levels of income inequality in the United States, they also face an even wider wealth divide with their White peers.[27] In 2016, White families had median wealth of $171,000, while Black families' median wealth was just $17,000—or almost 90 percent less—and Latinx families' median wealth was $21,000.[28] (See Figure 1.) This gap simply cannot be explained by differing levels of education or income: The wealth divide in the United States has not decreased over time, even as Black Americans have achieved higher levels of education and income. (See Figure 1 on next page.)

One contributor to the racial wealth divide is the lower rates of homeownership among Black Americans.[29] This divide in large part is due to the systematic blocking of Black homeownership through federal policies that fostered redlining and

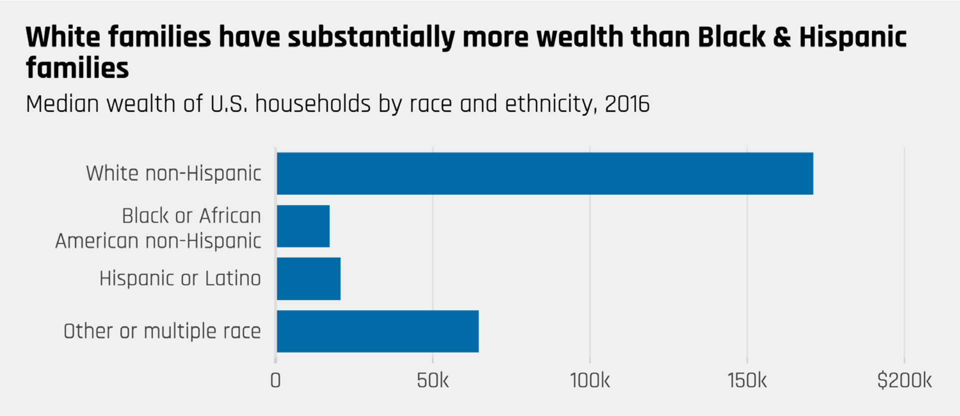

FIGURE 1

In 2016, White families had median wealth of $171,000, while Black families' median wealth was just $17,000, and Latinx families' median wealth was $21,000.

Note: Race/ethnicity classification based on survey respondent.

Source: Equitable Growth calculations using Federal Reserve Board, "Survey of Consumer Finances" (2017) available at https://equitablegrowth.org/the-distribution-of-wealth-in-the-united-states-and-implications-for-a-net-worth-tax/.

discrimination in housing, among other barriers to access—discrimination that began to diminish only beginning in the late 1970s and well after the wealth-creating housing boom of the previous three decades that accrued to White homeowners. And even today, while discrimination and prevention of homeownership based on race is technically illegal, the reality is that those Black and Latinx Americans who are able to purchase homes face higher property tax burdens than their White neighbors, even within the same local property tax jurisdictions.[30]

Black Americans also face lower rates of intergenerational mobility, or the likelihood that a child will earn more than their parents when they are adults.[31] And, of course, the disproportionate incarceration of Black Americans contributes to racial economic disparities, not only keeping a higher proportion of Black people out of the labor force for longer and more periods of time, but also lowering their credit scores and reducing their wealth-accumulation opportunities.[32]

All of these systemic hurdles put Black workers at a disadvantage in the labor market by lowering their access to wealth and wealth-building opportunities. Our new theoretical model shows that wealth is an important factor in a worker's ability to change jobs and weather the potential income shocks that come with searching for and switching to new jobs. These shocks can be as small as the lost wages from taking time off to interview or a delay in pay when transitioning to a new role, or as large as a longer period of time off resulting from an unexpected delay or issue with the transition to a new job.

As the persistent racial wealth gap in the United States indicates, Black and Latinx workers—who have less access to wealth—are less able to get through potential household financial crises than their otherwise-identical White peers. This means that similar workers of different races and ethnicities have different ease and ability to navigate the labor market, making Black and Latinx workers less sensitive to wage differences between their job and others when the cost and risk of leaving their job is too high. If an employer recognizes this disparity (or holds racist views, which leads to a similar low-wage outcome), then the employer will exploit Black and Latinx workers more by offering them lower wages than their White colleagues, expanding the racial wage divide.

The role of misogyny in the job search process

Wealth also plays a role for women in the job search process. While it is harder to measure the wealth gap between women and men due to shared household assets in heterosexual couples, women face significant obstacles to financial security. Some of this can be attributed to variations in stock market participation between genders, but women also face additional risks in the labor and housing markets.[33] They also are paid less than their male peers across demographic groups.[34] This gender wealth gap causes similar vulnerability for women to navigate income shocks as seen above with Black and Latinx workers, meaning women are similarly less sensitive to wage differences and similarly exploited more by employers.

Women also typically perform more household caregiving and other home responsibilities than men. In fact, a recent study shows that if women in the United States earned the minimum wage for the unpaid work they do around the house and caring for their children and relatives, they would have earned $1.5 trillion in 2019.[35] This disproportionate burden on women acts as a constraint on their job searches because they are more likely to limit their searches geographically in an effort to remain closer to their homes and families to be able to more easily perform these household tasks. As such, women's job search options are narrower. If an employer recognizes this disparity (or holds misogynistic views, which leads to a similar low-wage outcome), the employer will exploit women workers more by offering them lower wages than their otherwise-identical (but less or not at all geographically constrained) peers, growing the gender wage gap.

How worker power can counteract employer monopsony power

While increased wealth inequality and household responsibility are certainly large factors in wage discrimination in that they reinforce discrimination along race and gender lines, they alone cannot explain the full extent of the penalties faced by Black and Latinx workers and women. Our model also incorporates the effect of worker power in the form of collective action in the wage-setting process, including the ability to unionize and strike. We find that racial and gender wage disparities—as well as monopsony power along racial, ethnic, gender, and intersectional lines—are offset by workers' ability to act collectively, which is a function of institutional support for collective action. Since certain groups of workers are more exploitable and thus paid less, as seen above, a decrease in an employer's ability to wield monopsony power would help close the racial and gender wage gaps.

Over the past four decades, however, worker power has declined severely in the United States as a result of changes in judicial interpretations and administration of labor laws, as well as increasing business opposition and varying public support for unionization. The National Labor Relations Act—the main federal labor law in the United States—has been reinterpreted, to the detriment of workers, by the courts and the National Labor Relations Board, the body charged with administering the law, as one of the co-authors of this report has shown in previous research.[36]

Likewise, the length of time it takes to decide contested cases—either already-decided-and then-appealed cases of unfair labor practices, which are actions taken by an employer or union that are illegal under the NLRA, or cases on union election outcomes or coverage in a workplace—has gone up significantly in recent decades, thanks to decreases in funding, differing viewpoints of those running the NLRB, and outside political pressure. (See Figure 2 on next page.)

In the 1960s and 1970s, for example, the median number of days to review a contested unfair labor practice case was 131 days, but by the 1980s, it was close to 260

Funding for the National Labor Relations Board has declined since reaching its peak in the late 1970s

U.S. National Labor Relations Board budget, fiscal years 1936–2020, and total private-sector employees, 1939–2019

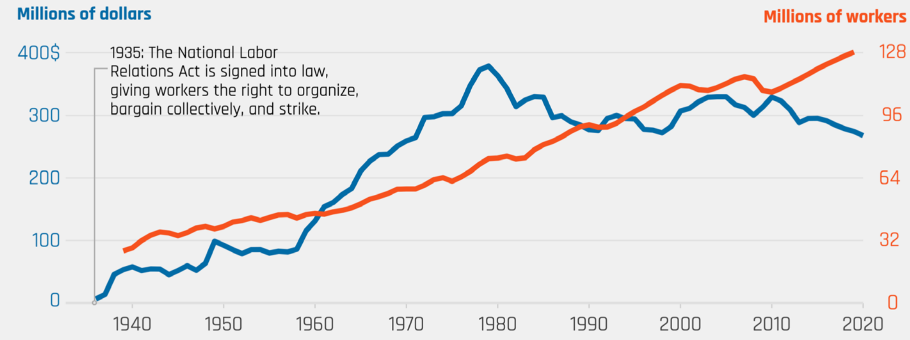

FIGURE 2

...the length of time it takes to decide contested cases...has gone up significantly in recent decades, thanks to decreases in funding...

Note: U.S. National Labor Relations Board funding is adjusted to 2019 dollars using the consumer price index.

Source: Bureau of the Budget and Office of Management and Budget, "Budget of the United States Government" (n.d.), fiscal years 1937–2010, available at https://fraser.stlouisfed.org/title/54; U.S. National Labor Relations Board, "Performance Budget Justification" (n.d.), fiscal years 2010–2020, available at https://www.nlrb.gov/reports/agency-performance-reports/performance-budget-justification; U.S. Bureau of Labor Statistics, "All Employees, Total Private (USPRIV)" (n.d.), available at https://fred.stlouisfed.org/graph/?id=USPRIV.

days. In the 2000s, the median number of days the National Labor Relations Board took to review a contested unfair labor practice case was 486 days.

As a result, unionization has also declined significantly in recent decades.[37] This impedes workers' bargaining power. There is a clear inverse relationship between union membership and income inequality, with periods of greater union density typically occurring alongside periods of less wage inequality. In fact, in the years between 1940 and 1970, when U.S. unionization rates were at their highest, research shows that larger numbers of workers of color and less-educated workers were represented by unions.[38] This more widespread unionization reduced wage inequality between the top and the bottom of the income ladder. But today, only about 10 percent of workers are members of unions, compared to 35 percent of the workforce in the 1950s.[39]

Changes in state-level labor laws have also hampered worker power. Many states, for instance, have right-to-work laws in place, which prohibit union contracts to compel workers to join the union and pay union dues or pay a so-called agency fee to cover the costs associated with collective bargaining for the pay and workplace benefits they receive. This not only makes effective collective action more difficult, but also signals to many workers that the government supports employers' rights over employee protections, disincentivizing unionization and collective action. Additional changes to franchise law and antitrust law have also had a negative impact on worker power.[40]

The reduction in worker power and support for collective action has empowered employers to exert their monopsony power more freely, regardless of changes in employer concentration. This has opened up opportunities for employers to not only increase exploitation in general but also reinforce racial and gender discrimination and more intensely take advantage of Black, Latinx, and women workers by lowering their wages to maximize their profits. Workers can act as an important countervailing force to stymie this monopsony power—but only if they have institutional support, from laws protecting the right to organize to strong enforcement of labor laws preventing workplace abuses to policies that support collective action such as strikes.[41]

Next, we will detail some policy recommendations for how lawmakers can restore worker power, as well as evidence-based policy proposals for reducing racial wealth inequality and reinforcing family economic security so as to minimize the influence of wealth access and geographical constraints on the job search process.

Policy recommendations

There are several concrete actions lawmakers can take in order to address the wage penalties faced by Black and Latinx workers and women, and especially those at the intersection of these demographic groups, Black women and Latina workers. As our model shows, policies to enhance worker power will be essential to ensure that employers are not able to wield their monopsony power freely and exploit these workers. Our model says that wage discrimination would be eliminated if workers can completely counteract employers' monopsony power. But because it is unlikely that such a high level of worker power will be achieved, policymakers will need to do more than boost worker power. Even if monopsony power is offset enough to eliminate racial and gender wage discrimination, this would not eradicate discrimination in other areas of U.S. society, such as the criminal justice system.

As such, policymakers also must tackle the systemic discrimination on racial and gender lines that fosters inequality in U.S. society. Below, we propose several policies in three areas:

- Restoring worker power
- Reducing racial wealth inequality
- Reinforcing family economic security

It is important to note briefly that these policies would have added benefits across society and the economy that were not explored with regard to our theoretical model. These benefits are significant and far-reaching; however, they fall outside the scope of this report.

Let's now examine each of the three areas in turn.

Restoring worker power

There are several policy options for restoring worker power in the United States. First, policymakers can strengthen unions, expand their ability to organize workers, and make it easier for workers to form unions by passing pro-labor policies such as the Protecting the Right to Organize Act, which passed in the U.S. House of Representatives but stalled in the U.S. Senate earlier this year. [42] In boosting worker bargaining power and collective action, unions limit employers' ability to exploit workers.[43] Unions are proven institutions through which workers can negotiate with employers for higher pay and better, safer working conditions.

The right to strike and act collectively remains incredibly important for workers to be able to demand better pay and working conditions or protest unfair treatment. Research on the types of unions and unionization benefits that the U.S. workforce wants shows how important the ability to organize and bargain collectively is to workers.[44] Not only does it help workers themselves, but direct contact with strikes and those striking can also lead to higher overall public support for organized labor.

One study of the 2018 teacher strikes in the United States, for instance, showed that parents who had firsthand exposure to the walk-outs were more likely to support the teachers who were striking and more likely to join a union or support unionization.[45] Only around 10 percent of private-sector workers are union members today, but studies now show that many more nonunionized workers want to belong to one.[46] Even those workers who are not union members benefit from strong unionization thanks to spillover effects,[47] wherein unions set job-quality standards that nonunion firms must meet in order to remain attractive and compete for workers.

Earlier this year, Harvard University's Labor and Worklife Program announced a set of policies designed to address economic and political inequality in the United States through a new legal framework that would rebalance power in the labor market.[48] The "clean slate for worker power" agenda proposals include new activities for organized labor to participate in and expansions of collective bargaining coverage in graduated representation levels, as well as a path to achieve sectoral bargaining across the economy. All of the policies proposed would enhance worker power and strengthen unions, ensuring that employers aren't able to freely take advantage of their workers in order to maximize profits.[49] Likewise, repealing state-level right-to-work laws would increase unions' power and ability to protect workers from exploitation. So, too, would repealing the Taft-Hartley Act, which allows states to pass right-to-work laws. [50]

Policymakers also can boost worker power through more effective administration of the current labor and anti-wage-discrimination laws. Expanding the capacity of the National Labor Relations Board would reduce the delays in processing unfair labor practice cases and increase the penalties for repeat offenders. As seen above, the board has become increasingly ineffectual to the point of taking well more than a year to decide cases, which acts as a deterrent for workers to bring such cases against their employers.[51]

Similarly, over the past four decades, and especially under the current administration, the United States has diminished its enforcement of anti-wage-discrimination laws. Moving back toward actively combatting wage discrimination on the basis of race, ethnicity, and gender by increasing funding for the Equal Employment Opportunity Commission would allow enforcement to resume and would reduce the ability of employers to profit from paying some groups of workers less than others.

Finally, policymakers can increase the federal minimum wage. Increasing the minimum wage lowers the poverty rate, increases earnings for workers (especially low-wage workers), and reduces government spending on welfare programs.[52] These increases also tend to have the largest benefits for workers of color. For example, as a result of the 1966 Federal Labor Standards Act, the federal minimum wage was extended to new industries such as agriculture, food service, and nursing homes—industries where almost one-third of Black workers were employed—leading to a considerable reduction in the Black-White wage divide in the 1960s and 1970s.[53] Studies also show that having a low minimum wage has not created more jobs in the United States, compared to countries with similar economies.[54] And several studies of state- and local-level minimum wage increases have shown no job losses as a result of the increases.[55]

These policies together would work to restore worker power and strengthen unions, two actions vitally needed in order to reduce racial and gender wage penalties in the workforce. But, as our model shows, additional policies are needed to specifically address racial and gender inequalities and discrimination in order to fully close the divides.

Reducing racial wealth inequality

Another important area of action for policymakers is reducing the racial wealth divide in the United States. Three specific ideas for lawmakers to undertake are distributing baby bonds, cancelling student loan debt, and implementing a broad system of reparations.

Baby bonds would reduce wealth differences between households by giving all children a starting point from which to build wealth.[56] All American children would receive a bond from the government when they are born that would be funded through a progressive taxation scheme. The value of the bond would vary inversely with family wealth, and could be as high as $50,000 or $60,000 for those children born into the lowest-income households. These bonds would thus work to equalize, to a degree, the wealth levels of Black and Latinx workers and their White counterparts, allowing the former groups to be more sensitive to market signals and more easily navigate potential income shocks that arise during the job search and transition process. This would work to reduce employers' ability to exploit workers of color more than their White peers by taking advantage of systemic wealth gaps constraining the job search process for Black and Latinx workers.

Another area in which policymakers could act that would help close the racial wealth divide is to cancel student loan debt.[57] While Congress did suspend payments on most federally owned student loans for 6 months in March 2020, lawmakers could extend the loan forbearance program permanently. Many workers are struggling to repay debts, particularly during the coronavirus recession, as they face extraordinarily high unemployment and are already having trouble just covering their basic living expenses.

But the student loan crisis is not new. In fact, many young people have been left out of traditional opportunities for wealth building, such as homeownership, because their student loans are too high. Debt levels are especially high for Black students, who, 4 years after completing their degrees, have average loans of more than $50,000, compared to White students' average of less than $30,000. This is, in part, because Black students have less household wealth to fall back on, and thus have to take out higher loans to pay for their education. Then, when starting their careers, they have a harder time paying off loans because they receive lower wages and are funneled into lower-paying jobs and industries. Cancelling student loan debt would go a long way to eliminating the racial wealth divide and reducing inequality in the United States.

Finally, a reparations program is one of the most sweeping proposals for addressing wealth disparities between Black and White Americans.[58] Reparations aim to redistribute wealth among the descendants of enslaved Black Americans, who have been systemically harmed not only by the legacy of slavery but also by the segregationist and oppressive policies of the post-Civil War era. Current wealth inequalities between White and Black families are a result of past inequalities being replicated throughout our nation's history, from denying slaves reparations to economic and political discrimination in the Jim Crow era, and from exclusion from White wealth-building policies during the New Deal and post-World War II era to present discriminations highlighted in our model above and the increased incarceration and institutionalized violence against Black communities to this day.

These discriminatory and harmful policies, and the ongoing systemic racism that they foster, prevent Black Americans from benefitting fully from U.S. economic growth. Reparations for past inequalities would both help atone—if only partially—for past sins and help eliminate current discrimination.

Policymakers should convene a commission to determine the scope and eligibility for reparations and the financing structure of the program, as well as the mechanics of distributing the funds.[59] Some suggested forms of a reparations program include cash payments, investments in social programs and impoverished communities, institutional reforms, and better public education about slavery and racial discrimination. The reparations commission could also examine the legacy of racial discrimination and its continuing systemic damage to propose institutional reforms that would address these ongoing structural harms to prevent the need for future rounds of reparations.

These and other policy recommendations to reduce the racial wealth gap are long overdue, but are ever more important now, during the coronavirus pandemic and recession, which has disproportionately harmed communities of color. Not only are Black and Latinx Americans getting sick at higher rates from the coronavirus and dying of COVID-19 in bigger numbers, but they are also being laid off from their jobs more. And, with less of a financial cushion to soften the blow of joblessness and emergency healthcare costs, these communities will be affected for years to come if nothing is done to address the racial wealth divide.

Reinforcing family economic security

In addition to policies that restore worker power and reduce the racial wealth divide, lawmakers must enact policies that reinforce family economic security in order to address gender wealth inequality. Two main areas where this would be especially effective are in paid family and medical leave and universal quality child care.

The United States is one of only a few countries in the world—and the only high-income one—that does not have a national paid family and medical leave program.[60] In fact, just 17 percent of private-sector workers have access to paid family leave through their employers, and much of that 17 percent is concentrated at the higher-income side of the spectrum. Though the 1993 Family and Medical Leave Act guarantees 12 weeks of job-protected unpaid leave, many workers are not eligible to access even this leave, thanks to overly stringent requirements that leave almost-half of workers ineligible.[61] What's more, many others cannot afford to take 3 months off without pay. Eight states and the District of Columbia have all enacted paid family leave programs for their residents, and at least 16 other states have introduced such legislation, but a federal program is needed to ensure that all workers are covered.

Paid family leave not only helps workers balance needs and responsibilities of work and home life; it also has proven benefits for child health and development and maternal well-being.[62] Studies show that both mothers and fathers take paid family leave when the option is available, and that shorter leave entitlements (those less than 1 year) tend to improve job continuity among women both immediately after and in the years following childbirth. Wage-replacement options allow new parents to focus on caring for their newborn or newly adopted children or workers to care for ill relatives without worrying about potential income shocks or losses. And studies of state- and local-level programs show that there are minimal negative financial impacts on employers and little resentment or extra stress reported by colleagues of those who take leave.

Similarly, providing universal quality child care to working parents is key to their ability to balance home and work life.[63] Typically, there is a gap of time between parental leave for a birth or adoption and a child's entry into preschool, which can be tumultuous for working parents to navigate and can deprive children of needed learning and development opportunities. Most children under age 6 live in households where all parents are employed.[64] This means that most parents require some kind of nonparental early care and education programs to watch their children while they work. Too often, these child care options are unaffordable and inaccessible. The average cost across the United States in 2017 for infant child care was $9,000 to $12,000 per year.[65] Or the quality of the child care is too low to properly promote child development and learning.

Universal early care and education programs allow parents to manage their own health and their children's needs while continuing to work to earn a living.[66] It allows families to become self-sufficient and increases labor force participation rates, especially among single mothers. While expensive in the short term, universal quality child care would likely pay for itself in the long term by enhancing children's and families' economic growth and stability, narrowing inequality, and providing long-term gains for children that continue to pay dividends into adulthood. Studies show that access to quality child care can decrease high school dropout rates, increase college attendance rates, and boost earnings, as well as reduce rates of criminal activity and reliance on public assistance.[67]

Because at least some of the job search constraints for women discussed above can be explained by increased household and caregiving responsibility, compared to men, enacting a federal, expansive paid family and medical leave program, along with a universal quality child care program, would have a disproportionate effect on women workers and their wages. These programs would help families better balance household care work with their job responsibilities and allow women workers to lift some of the geographical constraints that they put on their job searches. This effectively would decrease employers' monopsony power by reducing their ability to exploit women workers. Especially now, during the coronavirus recession—which has hit women workers hard enough to be nicknamed the “she-cession.”[68] These two policy areas are essential to eradicating the virus, reopening the economy, and expanding the economic recovery so it is felt by all Americans.

Conclusion

The racial and gender wage gaps in the U.S. economy are so pervasive, they cannot be denied. And the penalties levied on workers of color and women build on one another at the intersection of these groups, with women workers of color facing heightened discrimination. In fact, for every dollar that White men earn, White women earn 79 cents, Black men earn 76 cents, Black women earn 62 cents, Native American women earn 57 cents, and Latinas and Hispanic women earn 54 cents.[69]

While many scholars have tried to explain these gaps using the human capital model—which states that wage differences exist due to differences in skills or education that raise or lower a worker's productivity—the empirical evidence reveals that this prevalent narrative cannot fully account for wage gaps among U.S. workers. Even as Black women have increased their educational attainment rates, for example, they continue to be paid less than their White male peers. As such, many of the proposed solutions to wage penalties from proponents of the human capital model, such as closing the skills gap through training or more education—while important—cannot alone adequately address the issue at hand.

In looking at these wage gaps, we wanted to find a proper explanation for what was underlying the discrimination, so we created the first theoretical model of its kind that accurately reflects empirical research on labor supply elasticity differences by race and gender. We found that employers wanting to maximize their profits take advantage of the vulnerability of workers who are less flexible and less financial stable, and offer to pay them less than market value for their labor—not because these workers are less productive, but because systemic racism and misogyny enable them to do so. Black and Latinx workers and women tend to have less wealth to fall back on in case of income losses or shocks, and women have more household responsibilities, restricting these groups of workers from moving freely through the labor market and making them less responsive to market signals. These specific frictions give employers more power over Black and Latinx workers and women, therefore creating racial, ethnic, gender, and intersectional wage penalties.

But these forces alone cannot explain the full extent of wage discrimination in the U.S. labor market. Worker power has also been declining for decades, giving employers the constant upper hand. As worker power decreased and unionization rates went down since the 1980s, employers have had more freedom to wield their monopsony power, setting wages lower for certain groups of workers. But our model shows that institutional support for worker collective action can offset the ability of employers to exploit workers along demographic lines due to systemic differences in economic security reflected in wealth inequality and household responsibility levels.

Our findings indicate that to reduce wage differentials between otherwise-similar workers of different race, ethnicity, and gender, lawmakers should look to policies that work to fight wage discrimination, counterbalance employers' wage-setting power, reduce racial wealth inequality, and address gendered household roles. As detailed above, such policies would be most effective in eliminating racial, ethnic, gender, and intersectional wage penalties.

Even removing the twin public health and economic crises of today from the equation, policymakers must address racial and gender wage discrimination in the U.S. labor market in order to ensure broad-based economic growth that is experienced by all workers. But the coronavirus public health crisis and economic downturn provide a timely push for policymakers to act now, as workers of color and women continue to be among the hardest hit by the virus and recession. Workers face unsafe working conditions and, with high unemployment rates and profits soaring for large corporations, the likelihood and severity of worker exploitation will only continue to grow if no action is taken.

About the authors

Kate Bahn is the director of labor market policy and economist at the Washington Center for Equitable Growth. Her areas of research include gender, race, and ethnicity in the labor market, care work, and monopsonistic labor markets. **Mark Stelzner** is an assistant professor of economics at Connecticut College. His specializations are inequality and the political underpinnings of the economic system. **Emilie Openchowski** is a writer and editor at the Washington Center for Equitable Growth.

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1156 15th St NW Suite 700
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