Race and Ethnicity in the Labor Market:

Trends over the Short and Long Run

James P. Smith*

October 1998

Revised June 1999

* Senior Economist-RAND. This paper was prepared for a National Research Council conference on Racial Trends. I would like to thank David Rumpel of RAND and Joseph Lupton of the University of Michigan for expert programming assistance. Funds were provided by a grant from NICHD. Useful comments were made by Gerald Jaynes and an anonymous referee. Forthcoming in *America Becoming: Racial Trends and Consequences in the United States*, National Academy of Sciences.

Among the many disturbing labor market trends in recent years, the stagnation in the racial wage gap may be the most disheartening. Race remains America's most persistent social and economic disparity. Many Americans had been encouraged by the steady and significant black economic progress since the second world war. The recent stagnation challenges that optimism. Similarly, the average economic status of Latinos appears to be deteriorating at an even more alarming rate than that of African-Americans.

This paper describes the major trends that have impacted on the economic position of African-Americans and Latinos. In addition to long term trends which appear to be influenced mostly by skill related factors, I also evaluate alternative explanations for the recent stagnation in the economic position of minority households. These explanations include changing schooling, quality of students, affirmative action, and rising wage inequality. In addition, the unique role of immigration in altering the labor market position of Latino workers is analyzed.

This paper is organized into five sections. Section 1 summarizes long-term trends in the relative economic status of African-Americans and Latinos primarily using data obtained from the decennial U.S. Censuses. The next section examines in some detail more recent trends across the last three decades using data from the yearly March Current Population Surveys (CPS). The third section attempts to summarize the evidence concerning the major forces that have been put forth as

primary candidates for explaining these trends. These forces include schooling, affirmative action enforcement, and structural changes in the labor market. Section 4 presents evidence on three special immigration related issues that impact on the labor market performance of Hispanics--labor market quality, life-cycle assimilation, and generational assimilation. While most comparisons of relative economic status rely on income or wages, there are other equally relevant indices of economic resources. One of these measures is examined in section 5 which provides data on racial differences in household wealth.

Section 1- Long-Term Wage Trends

Since 1940, the American economy has enjoyed substantial economic growth, and inflation adjusted incomes of all its citizens have risen dramatically. For example, real incomes of white men expanded almost three-fold between 1940 and 1990. But this improvement was surpassed by even more rapid earnings growth among black men whose real incomes more than quadrupled over these 50 years.[1] Not only did the standard of living of black men improved as measured against earlier Black generations, it rose relative to their white contemporaries.

Table 1 points to a very impressive rise in the relative economic status of black men over this 50 year time span. In 1940, the typical black male worker earned only 43 percent as much as his white

[1]This section updates Smith-Welch (1989) on long-term racial trends.

counterpart. By 1990, the average black man in the labor force earned 75 percent as much as the typical white man.

The pace at which blacks were able to narrow the wage gap was far from uniform. The largest improvement occurred in the 1940s, but advances slowed considerably during the 1950s, when the narrowing of racial wage disparities was modest. The years after 1960 signaled a return to more rapid wage growth among black men. During both the 1960s and 1970s, the rise in black wages was more than 10 percent higher than for whites. After 1980, the pace of relative black labor market progress slowed considerably, a topic to which I return below.

Table 1
Minority Male Wages as a Percent of White Male Wages

Minority Group	1940	1950	1960	1970	1980	1990
Blacks	43.3	55.2	57.5	64.4	72.6	74.5
All Hispanics	64.2	73.8	70.2	73.7	70.7	67.3
Mexicans	55.6	71.3	70.0	70.1	68.0	63.0
Puerto Ricans	82.9	71.5	61.3	66.7	66.1	74.5
Cubans	n.a.	n.a.	n.a.	75.6	82.8	86.6
Other Hispanics	82.1	85.4	82.3	82.7	77.6	71.9
Blacks as a percent of Hispanics	67.4	74.8	81.9	87.4	1.03	1.07

The extent of the improvement in the relative economic status of blacks over these 50 years is impressive. However, even in 1990, black male incomes still significantly lagged behind those of whites. This last half century description of racial income differences has

two messages. The first part of the story emphasizes that considerable progress has been made in eradicating the wage gap between the races. The second part recognizes that even this progress has not eliminated race as an important predicator of an individual's income.

Table 1 also points to a remarkably constant Hispanic wage gap over the last 50 years. In 1990, for every dollar native white men earn, Latinos receive 67 cents, only slightly higher than the wage gap of 1940. This aggregate stability, however, hides important changes over time. For example, since 1970 there has been a steady deterioration in the relative economic status of Latinos as their wages fell by 16 percent compared to white men.

The lack of Hispanic economic progress is most apparent when compared to blacks in the last line of Table 1. Sixty years ago, black men earned two-thirds as much as the average Latino worker. In 1990, blacks actually out earn Hispanics by 7 percent. One tale of these two minorities is the significant progress achieved by black men over the last half century. No such story of progress seems possible for Latinos, who seem over the long term to have stagnated and, in recent years, to have deteriorated. This sharp contrast between Hispanics and blacks suggests that forces unique to Hispanics-their immigrant status or their language may have played a central role.

While often lumped together into one class, there has always been considerable economic heterogeneity within the Latino population. Among the major Latino subgroups, Mexicans have always fared the worse

economically. In 1940, while the other Hispanic ethnic groups were being paid more than eighty cents on the dollar compared to a native white man, Mexican men were earning only 56 percent of white men. During the 1940s, wages of Mexican men rose sharply relative to the white male majority. By 1950, the Mexican wage gap was 71 percent, a ratio to which it stayed anchored for the next 20 years. After 1970, however, Mexican relative wages declined steadily, expanding their wage disparity to its highest level in over 40 years.

The Poor, the Affluent and the Middle Class

The issue of the distribution of this long-term labor market progress is addressed in Table 2. Building on the simplicity of the poverty line, I divided all workers into three wage classes--poor,middle class, and affluent.[2] Using this simple three-way

[2]From the first attempts to measure poverty, debate has continued on whether poverty is an absolute or relative concept. To count the poverty population, I have adopted a middle ground using elements of both absolute and relative definitions. It turns out that my definition also corresponds more closely to people's notions of what poverty means. When asked in surveys over time about the income required not to be poor, the poverty threshold has increased roughly fifty cents by every dollar increase in real income. Based on that observation, my definition of poverty increases the poverty threshold income by half a percent for every one percent growth in real income.

The setting of the initial poverty threshold is arbitrary. I selected as the initial criteria an income level such that 11 percent of white male earnings were poor in 1979. This poverty threshold was then adjusted for any real income growth or contraction relative to that year. My definition of the elite is asymmetric. To be a member of the elite, one must have a income of 4/3 of the white median in that year. See Smith-Welch (1989) for details.

division, we can track overall labor market trends with white men as our benchmark.

Coming out of the depression, 31 percent of working white men had jobs that placed them in poverty in 1940. But the situation for Blacks and Latinos was far worse. In 1940, by any definition, the overwhelming majority of blacks were poor. Three quarters were destitute, with little hope that their lot or even that of their children would soon improve. The small black middle class in 1940 comprised only one in five black men. At the other extreme, the economic elite resembled an exclusive white club. Similarly, more than half of Latino men in 1940 worked in jobs that confined them within the ranks of the poor, and only one in three earned middle class wages. Among Latinos, Mexicans fared the worst. Almost two-thirds of working Mexican men earned wages below the poverty threshold.

The subsequent changes have been dramatic. Driven by economic growth and improvements in the skills of the workforce, poverty rates declined rapidly for the white male majority,[3] until only one in every 11 white workers fell below the poverty threshold in 1970. And almost two in every three white male workers earned middle class incomes. Unfortunately, this historic trend reversed during the 1970s and 1980s. The stagnant economic conditions of those decades combined

[3]Between 1940 and 1970, median white wages grew by 3.2 percent per year, a growth that was fairly uniform across the wage distribution.

Table 2
Income Group Status of Male Workers

	1940	1950	1960	1970	1980	1990
White Men						
Poor	31	18	13	9	11	12
Middle Class	38	59	63	65	61	60
Affluent	31	23	24	26	28	28
Black Men						
Poor	74	44	37	25	20	23
Middle Class	22	51	58	68	67	64
Affluent	4	5	5	7	13	13
Hispanic Men						
Poor	57	32	27	17	23	27
Middle Class	34	61	66	75	66	62
Affluent	9	7	7	8	11	11
Mexican Men						
Poor	63	37	29	21	24	30
Middle Class	31	57	64	70	65	60
Affluent	6	6	7	9	11	10
Puerto Rican Men						
Poor	33	23	27	15	21	18
Middle Class	49	71	70	80	70	69
Affluent	18	6	3	5	9	13
Other Hispanics						
Poor	45	19	18	13	21	24
Middle Class	40	68	70	73	64	63
Affluent	15	13	12	14	15	13

with expanding wage inequality led both to an increase in both the fraction of white men who were poor and those who were affluent.

The real story of these 50 years was the emergence of the black and Latino middle class, whose income gains were real and substantial. The growth in the size of the black middle class has been so

spectacular that as a group it outnumbers the black poor. By 1990, about two-thirds of blacks and Latinos had incomes that met the criteria for middle class. In addition, the odds of a black man penetrating the ranks of the economic elite trebled. Unfortunately, as was true for the white majority, these gains in poverty reduction reversed (at a more rapid rate) in recent years for the two minority groups. Since 1980, there was more than a 10% increase in the relative numbers of Black and Latino working men. These more recent trends are examined in more detail below.

Trends in Education

A basic index of the skill workers bring with them to the labor market is the number of years of schooling completed. Because Blacks and Latinos differ from other workers in their schooling, education should play a central role in explaining both levels and trends in their wage gaps. It does. The A panels of Table 3 list mean years of schooling completed for each of the major male demographic groups. To highlight differences between the groups, the B panels of this table summarize education deficits of each group compared to white men.

Not surprisingly, among all groups, education levels of each new generation increased over these 50 years. While this secular improvement exists for men of both races, Table 3 demonstrates that it was much sharper among black men. Educational differences still persist between the races, but they are far less today than at any

time our history. In 1990, the typical black male had 1.1 years less schooling than the average white male. This education deficit represented a steady and continuous decline from the racial difference of 3.7 years in 1940. Since 1940, almost three-quarters of the education gap between the races had been eliminated.[4]

Table 3
Education Levels of Males

Calendar Year	White	Black	Hispanic	Mexican	Puerto Rican	Cuban	Other Hispanic
			A. Average Education Levels of Males				
1990	13.30	12.19	10.57	9.97	11.37	12.28	11.45
1980	12.76	11.37	10.18	9.57	10.09	11.72	11.37
1970	11.84	9.82	9.52	8.76	8.92	10.75	10.82
1960	10.37	7.54	7.88	7.34	7.77	n.a.	9.94
1950	10.23	6.71	6.61	6.08	7.73	n.a.	8.07
1940	9.48	5.74	5.95	5.34	7.95	n.a.	7.15
			B. Education Deficits Compared to White Men				
1990	-0-	1.11	2.73	3.33	1.93	1.02	1.85
1980	-0-	1.39	2.58	3.19	2.67	1.04	1.39
1970	-0-	2.02	2.32	3.08	2.92	1.35	1.02
1960	-0-	2.83	2.49	3.03	2.60	n.a.	0.43
1950	-0-	3.52	3.62	4.15	2.50	n.a.	2.16
1940	-0-	3.74	3.53	4.14	1.53	n.a.	2.33

The rate of secular improvement in Latino schooling was far smaller and more uneven. While black men erased three quarters of their educational disparity with white men, Latinos were able to

[4]See Smith-Welch (1989) for a detailed analysis.

eliminate only 27 percent of their initial 1940 deficit. In the process, their education ranking was reversed. Hispanics had a lead of one-fifth of a year of schooling over black men in 1940; by 1990, black men had more than an one and one-half year schooling advantage. The 1990 Hispanic education gap with white men was nearly two and a half times as large as the racial schooling gap in that year.

To understand reasons for these disparities, it is necessary to distinguish among Latinos those who are immigrants and those who are native-born. Since immigrants' schooling is much less than that of native-born, secular trends in schooling can be quite sensitive to swings in the size of immigration flows. Some insight into the central role of immigration is available from Table 4 which lists Hispanic education levels (and their deficits with whites) by nativity and, for the foreign-born, by whether they were recent immigrants or not.[5]

Table 4 indicates that the changing composition of recent immigration alongside the increasing fraction of immigrants within the Latino population are two dominant underlying trends. Given the better educational opportunities available in the United States compared to those in their home countries, it is not a surprise that native-born men have more schooling than their foreign-born counterparts. However, the different secular trends for the native and foreign born are more surprising. Throughout the last half

[5] The cutoff point used to define recent immigrants is whether their arrival into the United States took place within the last five years.

century, the education disparity between native born Hispanics and native born whites steadily narrowed. In 1940, native-born white men had a 3.3 year schooling advantage compared to U.S.-born Hispanics. By 1990, 60 percent of this deficit had been eliminated, and U.S. born Hispanics trailed white men by 1.3 years.[6]

A far different picture emerges among the foreign born. Not only are their disparities with white men considerably larger, there is no longer a story of uniform progress. In particular, since 1970, the era of reversal in the aggregate data, the education gap for foreign-born men increased significantly. Indeed, the mean education of foreign-born Hispanic men is little higher now than it was in 1970. Compared to native whites, the education deficit of foreign-born Hispanic workers rose from 2.58 to 3.77 years, a relative deterioration of more than one year over the last two decades.

The force of these changes is most apparent among recent immigrants, who represent a better index of the education of newly arriving immigrants. During the last 50 years, there has been a steady deterioration in the relative education of new Latino immigrants. In 1940, new Latino immigrants trailed native white men by 1.3 years; by 1990,the education deficit had risen to 4.3 years. The increase in the education deficits of recent immigrants has accelerated since 1970.

---

[6]Similar trends exist all Latino groups and especially for the numerically important Mexican sub-population.

Table 4
Male Hispanic Years of Schooling Completed, by Nativity

	1990	1980	1970	1960	1950	1940
A. Average Education Levels of Males						
All Hispanics	10.57	10.18	9.37	7.88	6.61	5.95
U.S. born	11.98	10.93	9.80	8.18	7.04	6.18
Foreign born	9.36	9.24	9.26	7.17	5.24	5.27
1-5 years in U.S.	8.96	8.36	9.13	8.47	n.a.	8.21
6 or more years in U.S.	9.50	9.56	9.33	6.75	n.a.	5.23
B. Education Deficits Compared to White Men						
All Hispanics	2.66	2.49	2.47	2.49	3.62	3.53
U.S. born	1.25	1.74	2.04	2.19	3.19	3.30
Foreign born	3.77	3.43	2.58	3.20	4.99	4.21
1-5 years in U.S.	4.27	4.31	2.71	1.90	n.a.	1.27
6 or more years in U.S.	3.73	3.11	2.51	3.62	n.a.	4.25

In sum, the slow rate of Hispanic educational progress largely reflects a changing composition of the immigrant workforce. First, the rising fraction of immigrants in the Hispanic male work force in recent decades slowed the aggregate gains in Hispanic schooling (since the foreign born have less schooling than U.S.-born Hispanic). Increasing numbers of poorly educated Mexicans among Hispanic immigrants also served to lower the schooling advances achieved.

The aggregate education data for all Latinos raised an important puzzle that dis-aggregation by nativity has resolved. The puzzle was

best highlighted by a comparison of their limited education gains with the substantial gains achieved by blacks over the last 50 years. If we limit our comparison to blacks and native born Latinos, the puzzle disappears. Both groups now show a substantial narrowing of their education deficits with white men. Latinos born here seem no less able than blacks to improve their educational position over time.

Section 2-Recent Labor-Market Wage Trends

In a number of important ways, the long run historical trends depicted above did not continue during the last 25 years. In this section, trends in weekly wages by year, race, ethnicity and gender from the 1960s to the present are examined using the yearly March Current Population Surveys starting in 1962.

To set an overall context, Fig. 1 includes yearly trends in mean inflation adjusted weekly wages among working white men. Since they remain the 'majority' group in the labor market, white men provide an index of what was happening to average wages. As an approximation, secular trends can be separated into three periods. 1962-1973 were years of real wage growth (1.6 % per year). Then followed, a sharp decline until 1981 when the average real wage of white men fell by 14 percent. This fall was so steep that real wages in 1981 were only 3 percent higher than in 1962. Fortunately, the years since 1981 were ones of recovery with real wages of white men in 1996 15% higher than at the 1981 trough (1% per year growth).

Time series trends for other groups will in the first instance mimic these trends among white men. However, our interest here centers mainly on departures from the white male series. These departures are best captured in Figure 2 which measures yearly percent wage gaps for all other demographic groups relative to wages of white men.

Consider first working black men. As was true for white men, real wages among black men also increased from 1962-1973, fell from 1973-1981, and then gradually rose to the present. However, the male trends were far from identical between the races. In particular, 1962-1976 were years during which the male racial wage gap declined sharply from over a 50% wage gap at the beginning of the period to about 32% at the end. Then, relative progress ceased and may have been put in reverse reaching a wage gap as high as 41% by 1986. Given the noise in the data, it is difficult to know with complete confidence what has happened since, but a reasonable characterization would be a modest but steady narrowing of the male racial wage.

Secular trends in the wage gap among Latino men could not be more different. Throughout the 1970s, the Latino male wage deficit with white men held steady at about 30%.[7] During the last two decades, however, this wage gap has grown, reaching about 45% by the mid-1990s.[8]

[7]CPS identification of Hispanic ethnicity began in 1971.

[8]If we examine Mexicans alone, the trends are similar except that the wage gap is about 5-8% larger than that observed for all Hispanics.

Once again, a different pattern emerges by gender. White female wage gaps expanded from the early 1960s to the mid-1970s--the same years when black men enjoyed their largest gains. The last twenty-five years, however, witnessed a long sustained improvement in the wage position of working women. By 1997, the white female wage deficit was about 50% compared to a peak wage deficit of 73% in 1973.

Maintaining the emerging theme, African-American and Hispanic women exhibit their own unique patterns. By far, the largest relative wage gains were made by black women. The pace of early improvements were staggering. During 1962-1973 when real wages among white men increased by 17%, real wage of black women expanded by 50%. While the pace of relative improvement slowed thereafter, it continued at a steady pace until the percent wage gap for black women reached about 50% compared to initial levels almost twice that big. In contrast to Hispanic men, Hispanic women did experience some relative wage gains, but they were relatively small and confined to the 1970s.[9]

As demonstrated in the previous section dealing with longer-term movements, these recent trends may also be due to some well-established labor market skill correlate such as schooling. Schooling of workers changes only gradually as younger more educated workers replace those less educated workers who are retiring. Consequently, labor market conditions among younger workers may be a more sensitive

[9] Similar patterns with a slightly higher wage gap exists for Mexican women

barometer of some of the forces leading to labor market change. With this in mind, Figures 3 to 4 plot male minority wage gaps with white men in two schooling groups--those workers with exactly twelve years of schooling and those workers who are college graduates. To concentrate on the young, these wage gaps are displayed among workers with 10 or fewer years of labor market experience.

It is no surprise that male wage gaps are significantly smaller within education groups which simply speaks to education's always powerful role as a wage predictor.[10] While sampling variability plays a more important role after these stratifications are made, one can still characterize some trends with some confidence. Among high school graduates, the male racial wage gap has one sharp v shaped pattern; a steep fall starting in 1976, reaching a trough in the mid 1980s, followed by a subsequent narrowing of the racial wage gap. However, despite these impressive cycles, the endpoints are essentially the same so that the high school racial wage gap was basically unchanged over these thirty years.

Racial trends among college graduates are clearer. Starting with a relatively large wage gap in the early 1960s, wages of black male college graduates exploded until parity had almost been reached with new white male college graduates by 1973. That parity would, however, be short lived as the male racial wage gap among college grads

[10]In part this also results from the stratification by experience, but it is mostly a consequence of the education stratification.

eventually expanded until almost coming full circle by the end of the period.

An important pattern to note among male Hispanics is that their within education wage deficits with white men (see Figure 3.b) are considerably smaller than the racial wage gaps displayed in Figure 3.a. This is another reflection of the general finding that after one controls for a rather small list of standard variables--schooling, age, and English language ability--there is little left that is unexplained about the wage differences between Latinos and whites--a statement that one would clearly hesitate to make about racial disparities. After controlling for schooling and English language ability, there is no discernible trend in the male wage gap among Latinos. An implication of this relatively small and constant within schooling wage gap is that identifying the reasons underlying trends in schooling and age may be enough to account for male Latino labor market trends. But schooling and years of work experience do not comprise a sufficient explanation when the subject turns to race.

Figure 4 contains the within schooling trends for younger women compared to younger men. As a reasonable generalization, among all demographic sub-groups, wage gaps with younger white men narrowed in both schooling classes. This indicates that relative schooling trends by sex alone will not account for the narrowing of gender wage differences. Unlike race, the major discriminating variable for women is not schooling but rather increasing years of labor force

participation which had lead to greater amounts and quality of labor market experience (Smith-Ward (1984)). Another point to note is that the narrowing of the gender wage gap was generally more pronounced among college graduates. For example, while the time period begins with higher wage gaps among white female college grads, by the mid 1990s, this ranking had reversed and the gender wage deficit was greatest among white high school graduates.

To this point, all wage comparisons have relied on mean wages across demographic groups. A reliance solely on means is always problematic, but never more so than during the years that we are examining. Whatever was happening to differences among these demographic groups, the major labor market action actually lies elsewhere. During these years, the overriding structural adjustment in the labor market was the rapidly expanding increase in wage inequality. This increase was dramatic even among white men and can be summarized by a simple rule of thumb--the lower the initial wage or skill the smaller the subsequent wage growth that took place. Combined with the fact that median wages were relatively flat during most of this period, the end result was that workers below the median experienced real wage losses while those above the median had real wage gains. While this structural adjustment was at its core not a racial or ethnic issue, the implications of the structural change were decidedly not racial or ethnic neutral.

One glimpse of its legacy is illustrated in Table 5 which parallels Table 2 by dividing workers into 3 groups--the poor, middle class and affluent--based on their wages [11]. Especially for women, this trichotomy is not equivalent to poverty statistics in the conventional sense. Poverty thresholds are based on family incomes (with equivalence scale adjustments for family composition and size) while my separation are based on own wages only. My distinctions are simply a separation into three wage classes to determine where different demographic groups end up in the wage hierarchy and how that separation has changed over time.

In addition to endpoints, data are presented at 9 year intervals in Table 5. The dominant trend among white men is not any increased impoverishment at the bottom, but rather a sharp growth in the fraction of workers labeled 'affluent.' By 1997, more than one in three white male workers were affluent compared to one-in-every-four in 1962. Using these thresholds, the relative decline in middle class workers revealed in Table 5 was due to an increasing fraction of affluent workers rather than any expansion in the ranks of the poor.

Our central interest centers on the relative status of the other groups. The principal gains made in reductions in the ranks of poor working African-American men was concentrated in the ten years between 1962 and 1973. Thereafter, the era of stagnation took over with black

[11] Data are normalized so that 11% of white working men are defined as poor in 1979. Similar rules as those contained in footnote 1 were used to set the other threshold values.

Table 5
Income Group Status of Workers

	1962	1973	1982	1991	1997
White Men					
Poor	10	11	12	12	12
Middle Class	66	62	57	55	54
Affluent	24	27	31	33	34
Black Men					
Poor	26	17	17	19	16
Middle Class	70	75	70	65	65
Affluent	4	8	13	16	19
Hispanic Men					
Poor	NA	14	14	17	17
Middle Class	NA	66	72	70	69
Affluent	NA	10	14	13	14
Mexican Men					
Poor	NA	15	14	19	18
Middle Class	NA	75	71	70	70
Affluent	NA	8	15	11	12
White Women					
Poor	32	31	30	25	23
Middle Class	65	66	66	64	62
Affluent	3	3	4	11	15
Black Women					
Poor	60	34	30	27	24
Middle Class	39	63	67	65	65
Affluent	1	3	3	8	10
Hispanic Women					
Poor	NA	31	30	31	28
Middle Class	NA	68	67	67	65
Affluent	NA	1	3	6	7
Mexican Women					
Poor	NA	39	29	34	31
Middle Class	NA	60	68	61	63
Affluent	NA	1	3	5	6

male poverty rates essentially the same in 1997 as they were 25 years earlier. However, not all was stagnant in the economic status of the black community. In the 35 years spanned by the data in Table 5, there was almost a quintupling in relative numbers of black male workers whom I label affluent. Unlike the working poverty series, this trend among the black affluent shows no sign of any abatement. Growing numbers of African-American male workers have not only entered the middle class--they have gone right past it.

In much muted form, similar trends exist for Hispanic men. Among both Hispanic and Mexican men, the fraction poor drifted upward over this period. Simultaneously, the proportion of Latino men classified as affluent rose although in contrast to African-American men, this entry into the ranks of the affluent was completed by the early 1980s.

The division in Table 5 using wages must be interpreted with even more care when we turn to women. Many women whose own wages may be low live in families with relatively high incomes. These women would not be classified as poor in any welfare sense. Yet, it is still of interest to examine how they rank based solely on their own wages alone. Since many women are only working part time, much larger fractions of them had weekly wages placing them in the poor jobs while only a relative handful are able to join the ranks of the affluent. The division into these three groups changed little for white women until the early 1980s. Thereafter, there has been a rapid fall in the fraction of white women in ‘poor’ jobs, and an even more impressive

jump in their participation in the elite class. In contrast, the drama among black women took place during the 1960s when their representation among the poor was almost cut in half. At a much reduced pace, these improvements for black women have continued. In 1997, one-in-four African-American women have weekly wages classifying them as poor compared to 6 in 10 in the early 1960s. In contrast, the changes for Latinas is modest--a slight reduction in the fraction poor alongside a more pronounced increase in their proportions among the elite.

One must be impressed by the diversity in secular wage trends among these different minority group workers. Not only did the size of their wage gaps with white men change at quite different rates, but the periods during which major changes occurred are all over the map. A single factor, common in timing to all groups, apparently will not explain all the large changes that have been taking place during the last few decades in the structure of wages across these demographic groups.

Section 3- Explaining Recent Wage Trends

To this point, I have mostly presented facts that need to be explained. How can such an extraordinary diverse set of relative wage trends across groups be explained? Initially, I will divide the potential explanations into four categories--differences in schooling, changing quality of minority students, affirmative action, and

structural labor market changes especially rising wage inequality. For women, this set will clearly not be sufficient and I must add a fifth--the increased entry of women into the labor market and the growing amounts of labor market experience that go along with it. Finally, additional issues related to their immigrant status arise when the subject turns to Latinos, but these are addressed in Section 4.

Recent Trends in Education

No discussion of trends in the wage gap proceeds very far without addressing the role of schooling. Figs. 5 and 6 plot education deficits of each demographic group with white men. Schooling differences still persist between the races, but they are far less now than at any time in our history. Fig. 5.a shows the education deficit of black male workers steadily declined from a more than two year schooling deficit, plateauing at one-half year of schooling by the mid 1990s. If these schooling trends are compared with trends in the male racial wage gap, the issue is not the early years when the two series(wage gap and schooling deficit) moved in lockstep. Rather, the anomaly involves the last twenty years when schooling deficits continued to narrow while male racial wage gaps stagnated.

If only younger male workers are examined (Fig. 5.b), there took place a steady narrowing of schooling deficits in the 20 years between 1962-1982. Throughout this century, schooling has been the engine of

black economic progress, but educational progress for men stopped abruptly in the 1980's when the schooling gap of young black male workers remained constant at about one-half a year. The 1980's and 1990s cohorts represent the first generation of black workers who have not lowered schooling gaps with white workers. This end of racial progress is not due to growing numbers of black high school dropouts as the fraction of high school dropouts continued to fall in the 1980's. The problem lies in the transition from high school to college, where black men are no more likely to make that transition now than 15 years ago.

These trends could not be any more different among Latino workers. For both all male workers and those who are relatively new to the labor force, their schooling gap with white workers has remained constant at over two years. Since black workers were steadily closing their deficits, by the mid 1990s, the typical Hispanic worker trailed his black counterpart by about two years of schooling.

In the time period under examination, there were never large differences in average schooling of white male and female workers (Fig. 6.a). Gender disparities in schooling among workers depends both on underlying education trends in the full population as well as in trends in female labor force participation rates across schooling classes. For both reasons, among workers, white male schooling actually rose faster than white females until after the early 1980s (see Smith-Ward (1984)). Then, white female workers took the lead

until they reclaimed their traditional educational advantage with white men. This resurgence stems from more rapid education gains among women compared to men; gains that were reinforced by more rapid gains in labor force participation rates among more educated women. Paralleling their rapid relative wage advances, black female workers steadily narrowed their education disparity with white men. It is a remarkable point in American history that at least among young workers, there are now essentially no differences in schooling between white men and black women. Finally, Latinas did somewhat better than their male counterparts in that they slightly narrowed their schooling gaps with white men.

To sum up, what role can changing education disparities play in accounting for changing wage disparities across these demographic groups over the last few decades? Until the mid-1970s, schooling continued to assume its historical role as the primary determinant of the male racial wage gap. However, male education differences by race cannot account for the timing and magnitude of the racial stagnation of the last twenty-five years. Nor can schooling account for the impressive narrowing of the gender wage gap of the last few decades. However, the stagnation and decline in Latino wages relative to native-born whites is consistent with the apparent lack of relative education progress of the average Latino worker. The adjective ‘apparent’ is necessary since the absence of progress is mostly due to

a compositional effect of the addition of new Latino immigrants with low levels of schooling.

Achievement Scores

One possible explanation for the recent stagnation in black labor market gains, especially among black men, that fortunately can be dismissed is that their labor force quality has been falling. The origins of any such decline presumably would lie in the schools. If the quality of minority students was falling, this would eventually show up as lower wages in the labor market. In spite of widespread and legitimate concerns that the quality of contemporary schooling for minority students was low and falling, achievement data tell a different story. For example, Table 7 documents a persistent improvement in the achievement of black high school students compared to those of whites. No matter whether we look at reading or math, white achievement scores of 17-year-olds have drifted only slightly upward across the last two decades. In contrast, black scores have consistently improved, and the racial gap has narrowed considerably. To cite examples, 45 (33) percent of the racial gap in reading proficiency (math) of 17-year-olds has been erased since 1971.

This racial improvement is not due to the dropout of less able black students who end up not taking the exam. Test scores are also presented for 13-year-olds where high school dropouts are not an issue. Across both math, reading and science, the achievement gap by

Table 7
Achievement Scores of High School Students

Proficiency in					
Reading	**1971**	**1980**	**1984**	**1990**	**1996**
White 13 yr old	261	264	263	262	267
Black 13 yr old	222	233	236	242	236
Hispanic 13 yr old	--	237	240	238	240
White 17 yr old	291	293	295	297	294
Black 17 yr old	239	243	264	267	265
Hispanic 17 yr old	--	261	268	275	265
Percent of students rated adept at reading	**1971**	**1980**	**1984**	**1990**	**1996**
White	43.2	43.3	46.3	50.1	45.1
Black	7.7	7.1	16.2	16.9	18.0
Hispanic	--	16.5	21.2	27.1	20.0
Science	**1973**	**1977**	**1986**	**1990**	**1996**
White 13 yr old	263	256	257	264	266
Black 13 yr old	205	208	221	226	226
Hispanic 13 yr old	--	213	226	232	232
White 17 yr old	304	298	298	301	307
Black 17 yr old	250	240	253	253	260
Hispanic 17 yr old	--	262	259	262	269
Mathematics	**1973**	**1978**	**1986**	**1990**	**1996**
White 13 yr old	274	272	274	276	281
Black 13 yr old	228	230	249	249	252
Hispanic 13 yr old	239	238	254	255	256
White 17 yr old	310	306	308	310	313
Black 17 yr old	270	268	279	289	286
Hispanic 17 yr old	277	276	283	284	292
SAT scores of college-bound seniors					
	1976	**1980**	**1990**	**1995**	
Verbal					
White	451	442	442	448	
Black	332	330	352	356	
Mexican-Americans	371	372	380	376	
Mathematics					
White	493	482	491	498	
Black	354	360	385	388	
Mexican-Americans	410	413	429	426	

SOURCE: *Trends in Academic Progress*, National Center for Education Statistics: Education Testing Service, 1991.

race among 13-year-olds has also been narrowing. Similar evidence of a narrowing in scholastic achievement by race can be obtained from SAT scores of college bound seniors.

Monitoring trends in student achievement is far more difficult among Hispanics due to the possible contamination in trend caused by the continuing influx of new immigrants. If these new immigrants perform less well in these tests, average Hispanic scores may decline without any change in ability of any Latino students. In spite of this potential problem, achievement scores of Hispanic students also improved relative to non-Hispanic whites, albeit at a slower rate of secular gain than black students enjoyed.

Affirmative Action

What is the evidence on the last three decades of affirmative action enforcement on the economic position of minorities? Overall, the evidence is mixed with much more consensus on employment effects than on wages and disagreements on the exact timing and sustainability of impacts.

On one issue there appears now to be little ambiguity. There is abundant evidence that affirmative action changed where black men and women worked and the jobs they were able to obtain especially in the late 1960's and early 1970's ((Chay (1998), Donahue and Heckman (1991),Holzer and Neumark (1999), Smith and Welch (1984)). If affirmative action was effective, minority representation should have expanded more among firms required to report to EEOC. Since they have

more to lose, the greatest gains in employment should also occur among federal contractors. Finally, the largest minority gains should be detected within professional and managerial jobs.

The accumulative evidence shows these types of employment effects. For example, Smith and Welch (1984) compared time series changes in minority employment by whether firms were covered by EEOC and by whether the firm was a federal contractor. They show that black men were 8% less likely than white men to work in covered firms in 1966. By 1980, however, black men were 26 percent more likely to work in EEOC-reporting firms. Adding to the suspicion that these were affirmative action-induced changes, these employment shifts were dominated by firms that were federal contractors.

As large as these increases in total employment seem, they pale next to changes within the professional jobs. Black male professionals were 41 percent less likely than white professionals to work in covered firms in 1966. By 1980, black male professionals were equally likely to be found in covered firms. A critical issue relates to the timing of effects. The largest employment changes for men occurred between 1966 and 1970(the first four years of required reporting). After 1974, there was little further change in the location of black male employment by EEOC coverage.

Changes in the sectoral location of employment were even more dramatic and enduring among black women. In 1966, black women were 9 percent less likely than white men to be employed in the covered

sector. By 1980, they were 54% more likely than white men to work in the covered sector. Once again, the relocation was more pronounced for officials and managers--39 percent less likely in covered employment in 1966; 54% more likely by 1980. Compared to these racial differences, there was a slight expansion in employment of white women (and officials and managers) in covered EEOC employment. Many clerical jobs that had been traditionally held by white women in the covered sector now were held instead by African-American women.

In sum, Smith and Welch (1984) demonstrate that the employment effects of affirmative action differ between black women and black men. For men, there was a very rapid increase in demand for black workers that appears to be been largely completed in stock terms by 1974. For black women, the increase in demand was even larger and it persisted throughout the 1970s.

This evidence on employment effects is supported in other studies. For example, Chay (1998) analyzes the effects of the 1972 expansion of EEOC coverage to employers with 15-24 employees and finds that there were shifts in employment favoring black workers following this expansion in coverage, particularly in the South (where prior state laws did not exist which covered such firms). Similarly, in an important paper, Heckman and Paynor (1989) demonstrated that 1965 was a year of an extremely sharp break in the employment of black men and women in the textile industry in South Carolina. This break was so severe and its timing so precise that there is no other plausible

explanation except that it was the consequence of the passage of the civil rights act of 1964.

The wage effects that one can assign to affirmative action are far more controversial and uncertain. However, the rapidity and magnitude of the increases in black male and female wages during the late 1960s and early 1970s can not be easily explained by the more slowly evolving changes in the skill distributions between the races. For example, the case that affirmative action pressures that lead to the shifts in employment contributed to black male wages relative gains in the late 1960s and early 1970s is a strong one. For similar reasons, the case is even stronger that affirmative action played an important role in the extraordinary wage gains enjoyed by black women throughout the late 1960s and 1970s.

Did cutbacks in affirmative action resources and pressures also account for the recent labor market stagnation especially for black men?[12] Some feel that affirmative action is the likely culprit beyond recent black economic stagnation because these policies were significantly changed in the 1980's (see Table 8). EEOC resources were indeed cut during this period. EEOC inflation-adjusted budgets grew almost 15 percent per year during the 1970's. While there was some slowdown in the last half of the decade, constant dollar EEOC budgets expanded by 7 percent per year during the Carter

[12]This section draws upon and extends Smith (1993).

administration, and almost 1400 budgeted positions were added to the agency (a growth of 50 percent) between 1976 and 1980.

Table 8
Summary Statistics for EEOC

Year	Budget[a] ($1000)	Positions[a]	Charges Resolved[b]	Lawsuits[a]
1966	16,098	314	6,400	NA
1970	55,428	780	8,480	NA
1975	164,319	2,384	62,300	180
1980	242,829	3,777	49,225	326
1985	244,113	3,107	46,411	
1991	237,954	2,796	45,442	495
1995	244,998	2,813	54,464	318
1997	239,740	2,586	62,533	296

Budget in 1997 dollars.
[a]Source for 1995 and 1997 data: A Summary of Enforcement Data and Budget and Staffing Information for the U.S. Equal Opportunity Commission. Personal communication, September 1998.
[b]Source: A Title VII of the Civil Rights Act of 1964 Charges FY 1991-1997. From Enforcement Data at EEOC=s website.

There is no question that the Reagan era witnessed an abrupt end to the growth in resources that would have taken place. EEOC constant dollar budgets actually fell during this period, and the number of positions declined by almost one thousand. Two presidents later there has been virtually no resource recovery.

And as EEOC resources and personnel fell during the 1980's, so did measurable outputs. The sharp break in the 1980's was not so much in the total amount of activity, but in its composition and the resources available per case. Spurred by the passage of the age discrimination act in 1979, age came into its own during this decade. Starting with only 14 cases in the year after passage of the act, the number of age cases rose at an astonishing pace to over thirty

thousand by 1992. Even without this explosion in age related charges, the significance of race was declining. By 1992, only 40 percent of all cases involved race issues compared to 85 percent of all charges in 1970. During the 1990s, the new competitor for enforcement resources were cases related to the passage of disability laws. Combined age and disability cases now account for 20% more cases than those associated with race.

Table 9
EEOC Actionable Charges[a]

Year	Race	Sex	Age	Disability
1965	0	0	0	0
1966	3,254	2,053	0	0
1970	11,806	3,572	0	0
1975	33,174	20,205	0	0
1980	44,436	28,171	14	0
1986	47,264	30,576	23,142	0
1992	49,309	41,314	30,064	0
1995	50,879	48,923	28,858	34,282

[a]Prior to 1995, this series was called "Actionable Charges" and taken from EEOC Annual Reports. Subsequently this data is from "Fiscal Year Charge Receipts by Geographic Region EEOC and FEP Agencies," EEOC Annual Report.

The declining importance of race in the EEOC's agenda reflects a more general dilution of race as this country's core civil rights concern. Since 1965, the road to equal rights became very crowded. The quest for racial justice was the clear moral force behind the 1965 civil rights act with women added in an unsuccessful attempt to scuttle the legislation. Subsequently, Hispanics began to rival blacks in political clout, and protected minority group status was extended to men over forty, those with a disability, and gays. The

end result is that more than three quarters of today’s labor force enjoy protected minority group status. Blacks are now a minority in the protected minority class which itself represents the majority.

Trends in the courts reinforce these changes at the EEOC. In the early years, plaintiffs in employment discrimination cases were the clear winners in the courtroom battles, winning twice as often as defendants did. The odds quickly began to shift throughout the 1970's and 1980's, until firms now win three times as many cases as plaintiffs. Not only were the odds shifting in the courtroom, but one of the most potent weapons in discrimination cases was steadily falling into disuse. A firm's potential financial cost from a discrimination lawsuit was substantially magnified when an individual complaint was filed as typical of an entire class of workers. In 1971, one in every four employment discrimination cases became class-action. Today, less than one in every 200 cases are class-action.

The fact that affirmative action did affect black employment in the 1970's and that policy changed so dramatically in the 1980's makes it easy to understand why affirmative action retrenchment may also have been responsible for the racial wage stagnation in the 1980's. While it is plausible, it turns out to be incorrect. The main problem is that the timing of the wage stagnation had little connection to the timing of the affirmatives action cutbacks. For example, Figure 2a shows that the stagnation in aggregate black male wages began in 1977 and remained so during the Carter years when EEOC resources were

expanding rapidly. Indeed among male high school graduates (Figure 3.b), the large bulk of the decline in the racial wage gap took place during the EEOC surge in resources. Among college graduates, the large decline in the male racial wage gap appears to taken place well after the cutback in EEOC resources.

During the initial phases of affirmative action, there was a remarkable surge in the incomes of young college educated black men to almost complete wage parity. There is little question that this was an affirmative action-induced benefit. First, the sharp acceleration in black male wage gains during the late 1960's and early 1970's coincided with the large affirmative action-induced employment effects that we talked about earlier as blacks moved in large numbers into the covered sector. Second, the wage gains blacks achieved during these years are simply too large to be explained by the more slowly evolving historical process of racial skill convergence. This was, however, an ephemeral benefit as early wage gains exaggerate the permanent affirmative action wage effect. For college graduates, this erosion marked both decades until we had roughly come full circle with a wage deficit in 1997 little different than that for which we

Why did the early male gains from affirmative action not persist? By the mid-1970's, the labor market adjustment to affirmative action had largely taken place. Affirmative action caused many more black men to be employed in the EEOC-covered sector. But this adjustment was largely finished by the mid-1970's, so that there was little

additional reason for these firms to disproportionately hire black men. In addition, the black male supply response was rapid and large. In the ten years after 1967, the number of black male college grads in the work force had more than doubled while the increase in the number of white college workers was less than half as large. There were now a lot more college-educated blacks. This large supply response had two effects. First, it directly produced a falloff in relative black male college wages among new entrants. But it also eventually eradicated the initial wage benefit received by the generation of black college graduates most favorably influenced by affirmative action.

Another difficulty in assigning a significant wage role to affirmative action is that many other confounding forces were at work that could have altered the racial wage gap. In particular, the labor market was going through a major structural shift--a shift that was extremely unfavorable to minority workers.

Rising Wage Inequality

This structural shift involved the substantial widening of wage dispersion (Juhn, Murphy, and Pierce, 1991). Since, as a first approximation during the 1960s, distributions shifted up down in more or less uniform ways, until the mid-1970s, it was safe to compare groups based on means or medians alone. Now, the median describes almost no one very well. Those whose wages were initially below the median suffered significant real wages losses while workers above the median enjoyed inflation adjusted wage increases.

Figure 7 summarizes these changes by plotting percent wage changes relative to 1962 for white male workers. To see the distributional character of the changes, these plots are listed for the 20th, 50th, and 80th percentiles. With a bit of oversimplification, this period can be divided into 3 segments--median wage growth of 15% between 1962 and 1971, a real wage decline of 14% between 1971 and 1981, and (with due respect for business cycle variation), constant real wages thereafter.

Using the same time demarcation points, the world was very different at the bottom and at the top. For example, contrast the 20th and 80th percentiles. During the first period of sustained economic growth, real wages were growing for everyone, albeit at a more rapid rate at the top (17% at the 80th and 8% at the 20th percentile). The bottom truly fell out in the years between 1971 and 1981; a real wage decline of 6% at the 80th percentile, but a whopping 25% at the 20th weekly wage percentile. Things improved somewhat after 1981 (wage growth of 10% at the top and a decline of 8% at the 20th percentile). The cumulative effect has been enormous--since 1971 a 37% fall in wages at the 20th percentile compared to wages at the 80th.

Quite appropriately, I have described this structural change without mentioning race, ethnicity, or gender. While the reasons for this structural labor market shift have nothing to do with such matters, the consequences was anything but race or ethnic neutral. The reason is that workers in these demographic groups are found in very

different places in the wage distributions than white men are. For example, in 1971 the median black male worker earned $412 a week-equivalent to what a white worker earned at the 25th percentile of the white male wage distribution. Between 1971 and 1981, wages at the 25th percentile of the white wage distribution declined by 20% quite close to what was happening to the median black worker.

Given the size of this structural change, it is actually remarkable that when using means or medians we only characterize recent years as racial labor market stagnation and not a free fall. If black workers were treated the same as comparable whites (those in the 25th percentile of the white wage distribution), the median black male wages would have actually fallen by 27% since 1971 instead of rising by 3%. If that 27% were added to what actually happened, evaluated at the median, wages of blacks would trail those of whites by single digit amounts. These last twenty years were actually a time during which the slowing evolving historical forces continued to close the wage gap of black and white male workers. These forces were simply overwhelmed by the structural shift of rising wage dispersion.

Latino workers also felt the consequences of widening wage dispersion. Figure 8.a illustrates the process by plotting percent wage changes at each percentile of the wage distribution for Latino and Native-white residents of Los Angeles County between 1970 and 1990. Both distributions reveal growing wage dispersion--wages grow more the higher one is in the wage distribution. While they share

that similarity, the Latino curve lies well below those of native-whites. While there was virtually no change for the median white male, real wages at the Latino median male worker fell by almost 40%. The distance between the curves is so large that one must get to almost the 90th percentile for Latinos before any wage gains are registered.

Most but not all these differences are due to rising wage dispersion. Figure 8.b adjusts the Latino curve by subtracting from their observed wage changes the wage change observed for comparable whites (at the white percentile with the same wage as Latinos in 1970). The adjusted Latino wage-percentiles show about a 10-13% negative wage change that becomes somewhat smaller above the median. Seventy-five percent of declining wages at the median for Latinos in Los Angeles is due to widening wage dispersion in that city. The remaining 10-12% wage deficit has to due with factors unique to the immigrant experience, a subject to which I now turn.

Section 4- Special Issues With Hispanic Immigrants

There are three overriding issues that have dominated labor market research about immigrants and Hispanic immigrants in particular. These issues are (1) the changing labor market skills of new immigrants, (2)life-cycle assimilation, and (3) the extent of generational progress. Despite the extensive available research on

this questions, these issues remain controversial. In this section, I present new evidence on these questions.

The Changing Labor Market Quality of Immigrants

While immigrant wages in the U.S. typically far exceed earnings in their home countries, how do they compare with wages of native-born workers? A first step toward an index of their changing relative economic status is obtained by looking at relative wages of new entering immigrant cohorts. Table 10 lists wage differentials of 'new arrival' Latino male immigrants compared to the native-born. As is the case with most such comparisons, 'new arrivals' are defined as those who came within the last five years using the Census question on what year you came to the U.S. While recent arrivals earned much less than natives throughout the last five decades, this wage gap has widened considerably during the period 1970-1990 for both male and female Latino immigrants. For example, in 1970 the gap for Latino men was 48 percent; by 1990 it had almost doubled to 83%. Similarly, the gap for Mexican immigrants rose from 65% in 1970 to 94% by 1990.

Why did relative wages decline among new Hispanic immigrants? Part of the answer is supplied by the education deficits listed in the same table. Even though recent new Latino arrivals are better educated than their predecessors, the education of native-born workers has been rising even faster. Since 1970, the education gap for new Latino immigrants has increased from 2.7 years to 4.3 years. The

reasons for the expanding wage gap of new Latino immigrants is not much of a mystery--the gap in their relative skills widened over time. Especially during the last few decades, as the skill gap widened, the wage gap widened even more due to the rising inequality in wages. Rising wage inequality implies larger wage differences holding constant skill differences. Therefore, as skill differences between Latino immigrants and native-born American workers expanded over time, the wage difference must expand even more.

Table 10
% New Arrival Latino Male Wage and Education Gap
with Native-Born Men

	Year				
	1940	1960	1970	1980	1990
Hispanic Men					
% wage deficit	-52.2	-47.6	-47.7	-63.3	-82.9
Education deficit	1.27	1.90	2.71	4.31	4.27
Mexican Men					
% wage deficit	-87.0	-55.6	-65.4	-71.1	-93.6
Education deficit	3.31	4.34	5.19	5.73	5.05

But this is an incomplete story for two reasons. First, Jasso, Rosenzweig, and Smith (1999) demonstrate that during the last 15 years the trends documented in Table 11 have actually reversed. Using data from the CPSs, they show that the relative incomes and schooling of Hispanic immigrants has been rising during the 1990s and not declining as is commonly asserted.

Secondly, the sort of data compiled in Table 11, and in virtually all such comparisons of ‘new’ immigrants, rely on Census or CPS style

questions on the year of immigration. In the same paper, Jasso, Rosenzweig and Smith (1999) demonstrate that data obtained from such questions are misleading for two reasons. First, the Census question on time since immigration is inherently confused in light of the frequent trips made by immigrants back and forth to their home countries.

In addition, many immigrants in the Census and CPS files are not legal immigrants. For example, a recent study estimated that only 20% of those Mexicans who reported that they immigrated since 1990 in the 1995 and 1996 CPS's were legal immigrants (Passell (1999)). The remainder were either nonimmigrants[13] or in the case of Mexicans primarily illegal immigrants. When data are presented on trends for legal immigrants alone, a quite different picture emerges. During most of the last 25 years, the labor market quality of all new male legal immigrants (all ethnic groups combined) has been as high or higher than that of male native-born workers. Second, while the labor market quality of all male legal immigrants was indeed falling during the 1970s and early 1980s, there has been a steady rise in the labor market quality of all legal immigrants during the last half of the 1980s and throughout the 1990s. If illegals comprise an increasing fraction of the Mexican foreign-born in the CPS and the Census, this will lead to a steadily rising wage gap with native-born men. The

[13]Nonimmigrants are those in the United States on a temporary visa. Tourists and students are two numerically large examples.

changing composition of Mexican immigrants between those who are legal, those who are nonimmigrants, and those who are undocumented will be an important underlying reason for any changes in immigrant wage differences overtime.

Life-Cycle Assimilation

Another central issue concerning immigrants and hence the economic status of Hispanics concerns economic assimilation over the immigrant's lifetime. This question has been a source of considerable controversy (Borjas (1985), Chiswick (1978)), but some consensus is now being reached. To address this question, it is necessary to follow groups of immigrant cohorts over their lives in the U.S. A representative sample of patterns resulting from this tracking of immigrant cohorts is presented in Figs 9 and 10.[14] These figures plot--for specific cohorts of immigrants defined by time of entry into the country--their percent wage gap with comparably aged native-born white workers. These figures deal with relatively young immigrants--those aged 25-34 during the Census year immediately following their time of initial entry. Separate figures are provided for men and women and separately for all immigrants and those immigrant of Mexican origin.

Consider first the profiles for all immigrants. On average, male and female immigrants do narrow their wage gap with natives as their stay in the United States lengthens. Over time, the wage gap closes

[14]See Smith and Edmonston 1997.

for some--significantly for immigrants from Europe and Asia and modestly for others. But as these figures also illustrate, initial gaps at time of entry has been growing. While immigrants do narrow the wage gap with time, the distance to be traveled is longer, and the time it will take to reach wage parity with natives will take longer.

This positive overall evaluation of within generation wage assimilation does not pertain to male or female Mexicans who remain the exception to the general rule. Both female and male Mexican immigrants essentially maintain their initial wage gaps with native-born white workers. It is important, however, to keep the reference group in mind when interpreting this finding. Our result implies that Mexican immigrants experience wage growth over their careers in the U.S. that is just as large as native-born whites. Seen in this light, this result could be interpreted more positivity as indicating that Latino immigrants are 'assimilating' into the same career experiences as native-born whites.

However, when the reference group is non-Mexican immigrants, careers of Latino immigrants do not stand up as well. Why do Mexican immigrants do less well than other immigrant groups? One explanation that actually goes in the other direction stems from the previously mentioned point about the composition of immigrant samples in the Census and CPS. A large fraction of what researchers have labeled new immigrants are actually illegal immigrants or nonimmigrants. This fraction is particularly large (more than a majority) for Mexican

immigrants. Since these are mostly illegals, who on average are less skilled than other Mexican immigrants and will probably have a shorter expected duration in the United States, selectivity of out-migrants from the original group alone would imply that the data should show rising relative incomes of Mexican immigrants as time since immigration lengthens. Since the data indicate instead basically a constant ratio, it implies that the true relative life-cycle wage progression of Mexican immigrants may actually be even more negative.

Why would this be so? To date, there is no convincing answer to this question which should receive high priority in the research agenda. One can speculative about the role of language or the implications of the geographic closeness to country-of-origin, but there is little concrete evidence to document any compelling explanation. Other immigrant groups--Asians would be a good example--arrive without complete English language fluency and many immigrant have frequent trips back and forth to their home countries.

Part of the problem lies in the inherent ambiguity in using tracking of cohorts across Census or CPS files to evaluate life-cycle progress of immigrants. While cohort tracking has become the standard technique for evaluating economic assimilation, cohort tracking is problematic as immigrant cohorts are not closed. An initial immigrant cohort can be depleted as some immigrants return home. If, as seems likely, those immigrants who left the country were highly selective, the wage trajectories obtained from cohort tracking will be biased.

For example, if high-skill/high-wage immigrants left, average wages of the remaining members of the cohort would fall even if the wage of every single immigrant remained the same. This problem caused by out-migration from an initial entering immigrant cohort is especially severe among immigrants from Mexico. In the aggregate, roughly one-third of the recent 1970 Mexican immigrants had emigrated by 1980. An even smaller fraction of the original immigrant cohort would remain by 1990. Until this problem of the nature of the selectivity of emigration of previous Mexican immigrant cohorts can be resolved, one should be cautious about reaching any strong conclusions about the nature of life-cycle labor market careers of Mexican immigrants.

Generational assimilation.

On the issue of generational assimilation, the conventional wisdom for Hispanics--whom some argue have not shared in the successful earlier European experience--leans toward the pessimistic side. The reasons for pessimism vary, but one theme is that Hispanic immigrants and their children may be less committed to assimilation than the Europeans were. The data supporting this concern are often derived from cross-sectional comparisons between 1^{st}, 2^{nd}. and 3^{rd} generation Hispanics of their income and schooling levels. Such comparisons universally show the following patterns--a narrowing of the schooling and income gap between the 1^{st} and 2^{nd} generation, but either retrogression or little progress between the 2^{nd} and 3^{rd} generation (see Smith (1999) for details). While conclusions about

generational assimilation are often drawn from such data, these inferences are not appropriate. In any cross-section, members of the second generation are not sons and daughters of current immigrants and simultaneously current third generation in a cross section are not direct descendants of current second generation persons.

Fortunately, the conventional wisdom appears to be in error. In a recent paper, I examined this issue of generational assimilation of Hispanics in detail (See Smith (1999)). In that paper, I arrayed the data in a more appropriate way so that on can track directly the progress made across generations. The schooling deficits of Hispanics are uniformly smaller in the second generation than in the first and are lower still in the third generation. To illustrate, the mean education disparity among all first generation Mexicans was 4.94. This average schooling deficit fell to 2.95 years among second generation Mexicans. The youngest third generation cohorts had less than a year schooling gap with white men--half as large as their fathers' education deficit.

At least based on the historical record, fears about Latino generational assimilation appear to be unwarranted as second and third generation Hispanic men have made considerable strides in narrowing their economic disparities with native white men. One reason for these economic gains is that each successive generation has been able to close their schooling gap with native whites--their schooling deficits are uniformly smaller: in the second generation than in the

first and are lower still in the third generation. These schooling gains across the generations were translated into similar generational progress in incomes. Each new Hispanic generation not only had higher incomes than their forefathers, but their economic status converged relative to white men with whom they had to compete.

Section 5- Household Wealth

Until recently, data limitations forced most comparisons of racial economic status to rely only on income differences, but new survey improvements in measuring wealth have now made contrasts of household wealth levels feasible. Table 11 lists mean and median household wealth levels by race derived from the PSID.[15] Racial wealth gaps are extremely large, especially compared to the already sizable household income differences by race that exist at the same time. In 1984, mean wealth of non-white households was 22% of wealth of white households while the income ratio in the same year was 58%. Wealth differentials are even larger if medians are used as the yardstick; then in 1984 non-white households have less than 10% of the wealth of white households. The glimmer of hope is that the relative wealth differentials did narrow over the ten year period covered in this table. By 1994, mean non-white wealth rose to 31% of those of whites.

[15] Wealth modules were included in the 1984, 1989, and 1994 waves of the PSID See Juster, Stafford, Smith (1999) for a detailed discussion. Also see Browning-Lusardi (1994) for an excellent review of the micro savings literature.

Table 11
Wealth and Income Levels by Race

	Wealth		Income	
	Mean	Median	Mean	Median
A. **Total Household Wealth**				
White				
1984	169.0	59.4	48.9	39.1
1989	181.1	59.6	59.6	39.5
1994	178.5	64.7	52.9	41.0
Non-White				
1984	37.1	5.3	28.5	21.7
1989	53.5	6.8	29.9	22.3
1994	54.5	10.4	31.9	23.8
B. **Financial Assets**				
White				
1984	48.0	6.0		
1989	48.6	7.4		
1994	60.9	13.7		
Non-White				
1984	7.2	0.0		
1989	8.6	0.0		
1994	13.7	0.0		

Source: PSID--1996 dollars. Calculations by author.

Racial and ethnic disparities are even larger in financial assets. These more liquid assets may be a better index of resources a household has on hand to meet emergencies. In 1984, mean financial assets for non-whites were one-seventh of those of white households. Not only is the ratio of financial assets by race low, the amount of financial assets held by non-white households are meager. In 1984, non-white households had a little over $7,000 per household in financial assets. But even this number exaggerates their holdings due

to the extreme skew in the distribution. In all three years, the median non-white household had no financial assets at all.

A more complete description of racial wealth differences is given in Figure 11 which plots for each race household wealth at percentiles of the wealth distribution. These figures illustrate the extreme skew to wealth holdings-the top 5% of white households have 50% more wealth than do white households at the 90^{th} percentile, while those at the 90^{th} percentile have more than 5 times as much as the median white household. This non-linearity prevails within the lower half of the wealth distribution as well, as the median white household has 10 times as much wealth as those at the 20th percentile. A similar extreme skew characterizes the non-white wealth distribution.

Why are racial wealth differentials at least twice as large as household income differences in the same years? One possibility can easily be dismissed. It is not a consequence of financial wealth being transmitted across generations with the poor unable to give and the well to do insuring their heirs remain at the top through financial inheritances. While plausible, this possibility is quantitatively unimportant as the vast majority of households--both white and non-whiteBdo not receive any financial inheritances.[16] Using PSID, mean

[16]This point about the low relative importance of past bequests in creating wealth differences in the current generation is fundamentally different than the debate about the importance of the bequest motive in accounting for savings behavior of the current generation. The current generation's savings are forward looking so that any savings for bequests by the current generation are meant for the subsequent generation. Given the secular rise in bequests, savings for bequests

inheritances (in 1996 dollars) for black households were about $1,000; for white households about $10,000. Even if these inheritances were completely saved so that they show up in current household wealth, they would account for a small fraction of racial wealth differences documented in Table 12. Similarly, two thirds of all white households and 90 percent of all minority households had received no financial inheritances by their mid-fifties. Racial disparities in wealth would be almost the same if we subtracted out that part of current wealth derived from past financial inheritances.[17]

If not financial inheritances, then all we have left is people saving at different rates from their income and/or experiencing different ex-post rates of return on their savings. The first question then becomes why African-American and Hispanic households save so much less than white households do. This is a much under-researched question partly due to the lack of adequate data. Because wealth disparities far exceed those in income, there has been some thought that the reasons must lie in some unique historical events specific to the African-American or the immigrant experience. For blacks, it is sometimes argued that a culture promoting savings was

---

may be large part of a current generations' savings while their receipt of past financial inheritances are inconsequential in their own present wealth holdings.

[17]See Smith (1995)for a development of this argument. The argument in the text deals only with bequests and does not speak to the issue of the role of inter-vivos transfers in creating racial and ethnic differences in wealth (see Gale-Scholz (1994) for a good discussion of inter-vivos transfers.

not encouraged or was to difficult to develop. However, the data presented in Figure 11 suggest that it is premature to jump to race and ethnic specific explanations.

Once again, the reason lies in a concave relation between savings or wealth and household income. This non-linear relation between savings and income explains a good deal of the large racial wealth discrepancies. While vastly less than the average white, wealth of the median black is actually quite similar to whites with the same income. In 1994,white households with incomes equal to the median black household lie at the 25th percentile of the white income distribution. If we compare wealth of the median black to the 25th percentile white, their wealth levels are quite similar. When the non-linearity is taken into account, income explains a good deal of racial differences in wealth. If low savings behavior is not a racial or ethnic issue, the unanswered question is why low and middle income people save so little no matter what their race or ethnic background.

Different racial groups may also experience different ex-post rates of return to their past savings which may expand or contract wealth differences between them. For example, the recent surge in the stock market during the last fifteen years increased the wealth of those households with greater amounts of stock market holdings. Since rates of stock ownership and holdings were larger among white households, wealth of white households would have increased more than wealth of black households.

This dismissal of financial inheritances as an important source of racial differences in household wealth does not imply that all forms of inter-generational transmission are unimportant. For example, the inheritance of human capital is another source of inter-generational transmission that clearly creates racial and ethnic differences in income. Indeed, one important form in which these differences in inheritances of human capital show up are the education differences that were discussed earlier.

The second factor distorting racial wealth comparisons is that household wealth represents only part of the wealth households have at their disposal. Despite its widespread use, household wealth ignores large components of wealth that are critical to many households. For example, a household's future expected social security benefits are a lifetime annuity which can be discounted to give a present value of social security wealth. In a similar vein, private pensions, either directly in defined contribution plans or indirectly for defined benefit plans, are an important source of wealth for many households especially in their pre-retirement and post-retirement years. Virtually all households in their fifties anticipate social security benefits when they retire, and more than half of them are counting on income from their pensions. When discounted to the present, these expected income flows translate into considerable wealth.

Table 12 demonstrates how large they actually are for families with one member aged 51-61. Mean household, social security, and

pension wealth are listed in this table. The widely used conventional wealth concept hides half of the iceberg as combined social security and pension wealth are as important as household wealth. Total wealth is half a million dollars instead of the quarter of a million in conventional household wealth. More important, the distortion caused by conventional wealth is much larger among minority families. Among blacks and Hispanics, conventional household wealth is less than a third of total wealth. For minority households, social security wealth represents the largest part of their wealth. If the enlarged total wealth concept is used, black households have 46% as much as white households do compared to 30% for household wealth alone.

Table 12
Wealth by Source (000 of dollars)

	Household Wealth	Social Security	Pensions	Total
White	264	124	109	503
Black	72	94	65	231
Hispanic	80	94	39	218

Source: Smith (1995).

Conclusions

This paper has covered some wide territory in describing the major trends that have impacted on the economic position of African-Americans and Latinos. In addition to long term trends which appear to be influenced mostly by skill related factors, I have also evaluated alternative explanations for the recent stagnation in the economic position of minority households. These explanations included

changing schooling, quality of students, affirmative action, and rising wage inequality. In addition, the unique role of immigration in changing the labor market position of Latino workers was evaluated.

Long-term trends in the relative economic status of Blacks and Latinos appear mainly to reflect long-term trends in their relative skills. For example, relative income differences and education deficits of Blacks compared to whites are quite closely related. For Latinos, it is also necessary to distinguish between immigrants and the native-born. The slow rate of Hispanic educational and economic progress largely reflects a changing composition of the immigrant workforce. The rising fraction of immigrants in the Hispanic male work force in recent decades slowed the aggregate gains in Hispanic schooling.

Until the mid-1970s, schooling continued to assume its historical role as the primary determinant of the male racial wage gap. However, male education differences by race cannot account for the timing and magnitude of the male racial stagnation of the last twenty-five years. Moreover, there is little evidence that the ‘quality’ of black or Latino students entering the labor market during the last few decades has declined. Nor can schooling account for the impressive narrowing of the gender wage gap of the last few decades. However, the stagnation and decline in Latino wages relative to native-born whites is consistent with the apparent lack of relative education progress of the average Latino worker. In addition, affirmative action lead to

permanent changes in the location of minority employment and produced significant early jumps in the wages of African-American men. However, these wages gains proved to be temporary.

The bulk of the remaining stagnation in minority group wages in the since the mid 1970s is due principally to the rising wage inequality in the labor market. Since minority workers skills place them in the lower part of the wage distribution, increasing wage dispersion across skill levels will decrease their wages by more than majority workers. The last twenty years were actually a time during which the slowing evolving historical forces continued to close the wage gap of black and white male workers. These forces were simply overwhelmed by the structural shift of rising wage dispersion.

Due to central role immigration plays in the Latino population, some additional factors are relevant when discussing their changing economic status. First, the well-documented decline in wages of new Latino immigrants appears to reflect three forces- a growing skill gap reinforced by an expanding wage gap(conditional on a given skill gap), and possibly an increasing fraction of undocumented Mexican immigrants among all recent immigrants in recent Census and CPS surveys. Second, across their careers in the United States, wages of Latino immigrants appear to hold steady relative to the white native-born majority. However, Mexican immigrants appear not to do as well over their careers as immigrants from other ethnic groups. There is no consensus explanation about why this is so. Third, at least based on the

historical record, fears about Latino generational assimilation appear to be unwarranted as second and third generation Hispanic men have made considerable strides in narrowing their education and economic disparities with native white men.

Finally, I document in this paper that racial differences in household wealth are extremely large; much larger in fact than racial differences in income. However, in spite of these large racial disparities, the reasons for these large wealth disparities are unlikely to have been produced by factors that are specific to individual racial or ethnic groups. Instead, the reason appears to arise from the more general tendency of low income households-of either race- to engage in little savings behavior. Since there are more African-American or Hispanic than white households in the low income group, racial and ethnic differences in household wealth will be large.

References

Borjas, George. 1985. "Assimilation, Changes in Cohort Quality, and the Earnings of Immigrants," Journal of Labor Economics, Vol. 3, No. 4, pp. 35-52.

Browning, Martin and AnnaMaria Lusardi. 1996. "Household Savings: Micro Theories and Micro Facts," Journal of Economic Literature, December, Vol. XXXIV, No. 4, pp. 1797-1855.

Chay, Kenneth Y. 1998. "The Impact of Federal Civil Rights Policy on Black Economic Progress: Evidence from the Equal Employment Opportunity Act of 1972," Industrial and Labor Relations Review, Vol. 51, No. 4, July, pp. 608-632.

Chiswick, Barry. 1978. "The Effect of Americanization on the Earnings of Foreign-Born Men," Journal of Political Economy, Vol. 86, No. 5, pp. 897-921.

Donahue, John. J. and James J. Heckman. 1991. "Continuous vs. Episodic Change: The Impact of Affirmative Action and Civil Rights Policy on the Economic Status of Blacks," Journal of Economic Literature, Vol. 29, No. 4, December, pp. 1603-1644.

Gale, William G. and John Karl Scholz. 1994. "Inter-generational Transfers and the Accumulation of Wealth," Journal of Economic Perspectives, Vol 8, No. 4, Fall 1994, pp. 145-160.

Heckman, James J. and Brood Payner. 1989. "Determining the Impact of Federal Antidiscrimination Policy on the Economic Status of Blacks:

A Study of South Carolina," American Economic Review. March, Vol. 79, pp. 138-177.

Holzer, Harry and David Neumark. 1999. "Assessing Affirmative Action," unpublished paper.

Jasso,Guillemina, Mark. R. Rosenzweig, and James P. Smith. 1999. "The Changing Skills of New Immigrants," Recent Trends and Their Determiants," In Issues in Immigration University Of Chicago Press.

Juhn, Chinhu, Kevin M. Murphy, and Pierce Brooks. 1991 “Accounting for the Slowdown in Black-White Wage Convergence,” in Marvin Kosters (ed.), Workers and their Wages: Changing Patterns in the United States. American Enterprise Institute Press, pp. 107-143.

Juster, F. Thomas, Frank Stafford and James P. Smith. 1999. “The Measurement and Structure of Wealth,” Labour Economics, forthcoming.

Leonard, Jonathan S. 1984 . "The Impact of Affirmative Action on Employment," Journal of Labor Economics, Vol 2, No. 4, pp. 439-463.

Passel, Jeffrey S. 1999. "Undocumented Immigration to the United States Numbers, Trends, and Characteristics." Forthcoming in Illegal Immigration in America. A Reference Handbook, edited by David W. Haines & Karen E. Rosenblum. Greenwood Publishing.

Smith, James P. 1993. "Affirmative Action and the Racial Wage Gap," American Economic Review., May, Vol. 83, No. 2, pp. 79-84.

Smith, James P. 1995. "Racial and Ethnic Differences in Wealth," Journal of Human Resources, Vol. 30, December, pp S156-S183.

Smith James P. 1999. "Progress Across the Generations," unpublished paper.

Smith, James P. and Barry Edmonston. 1997. The New Americans: Economic, Demographic, and Fiscal Effects of Immigration. National Academy Press.

Smith, James P. and Finis Welch. 1989. "Black Economic Progress After Myrdal," Journal of Economic Literature, Vol 27, pp 519-564.

Smith, James P. and Finis Welch. 1984. "Affirmative Action and Labor Markets," Journal of Labor Economics, Vol 2, No 2, pp. 269-302.

Smith, James P. and Michael Ward. 1989. "Women in the Labor Market and the Family," Journal of Economic Perspectives, Vol 3, No 1, Winter, pp. 9-24.

Male Weekly Wages

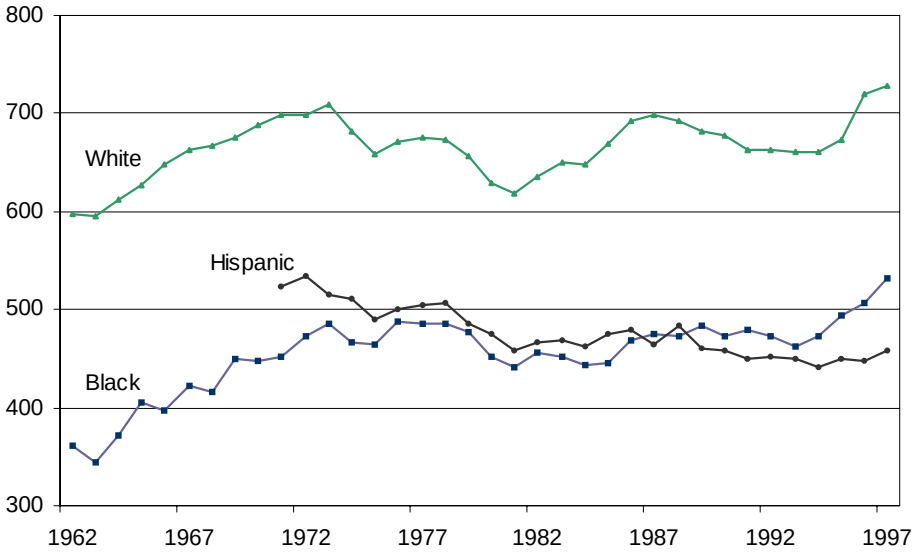

Figure 1a

Female Weekly Wages

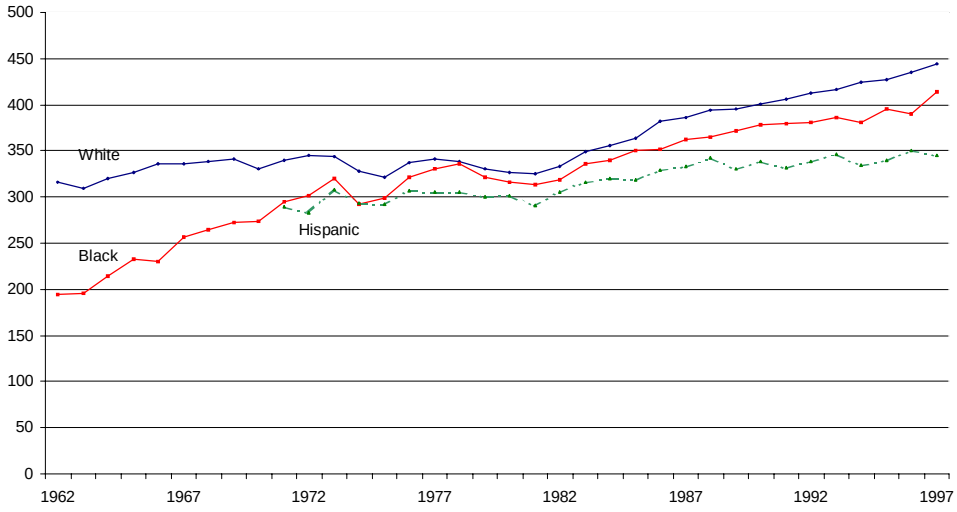

Figure 1b

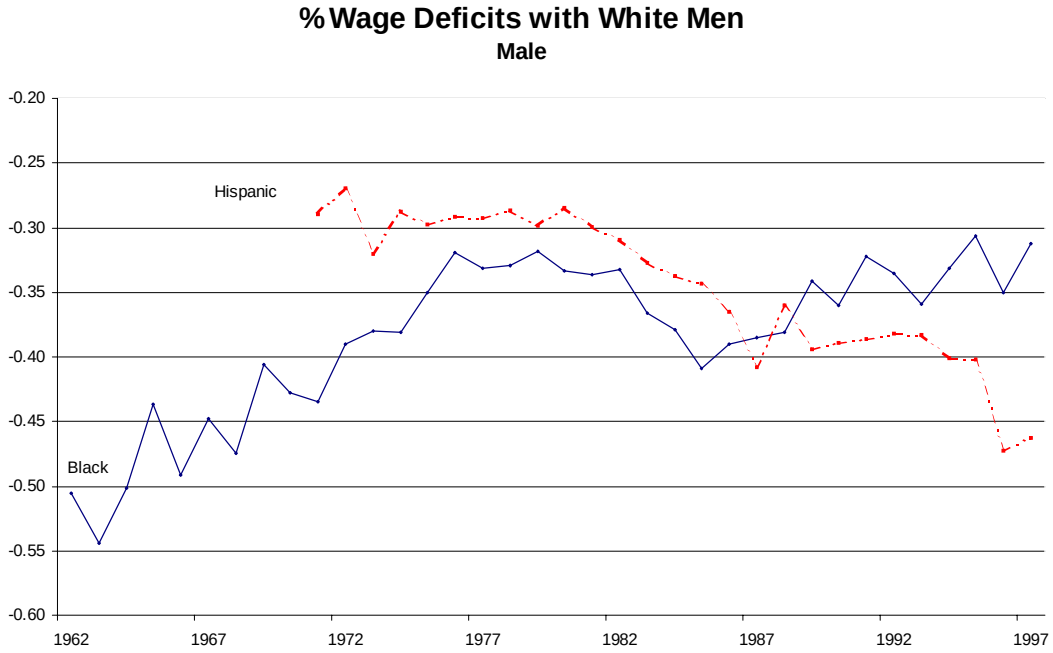

Figure 2a

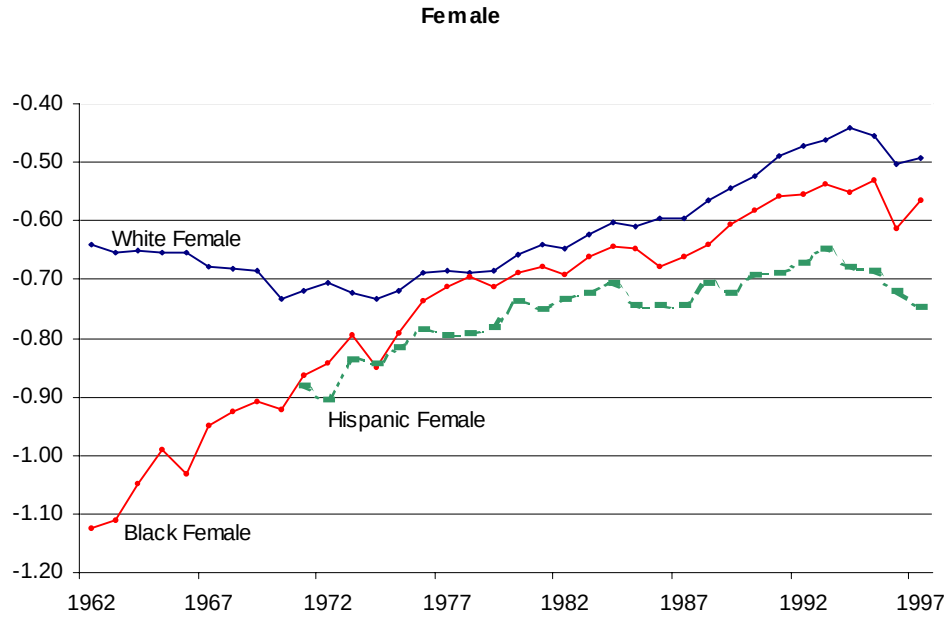

Figure 2b

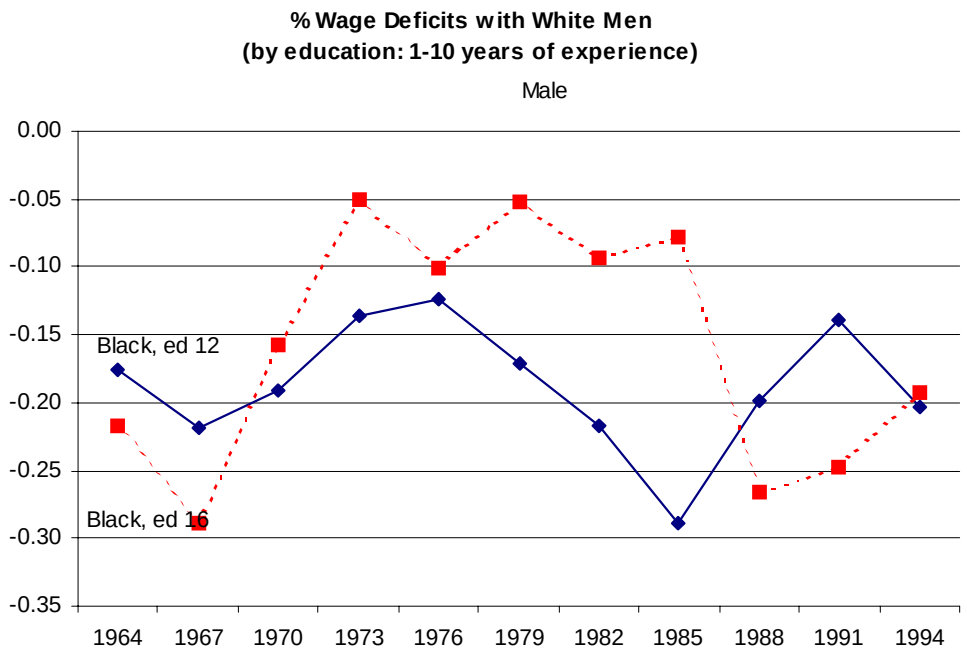

Figure 3a

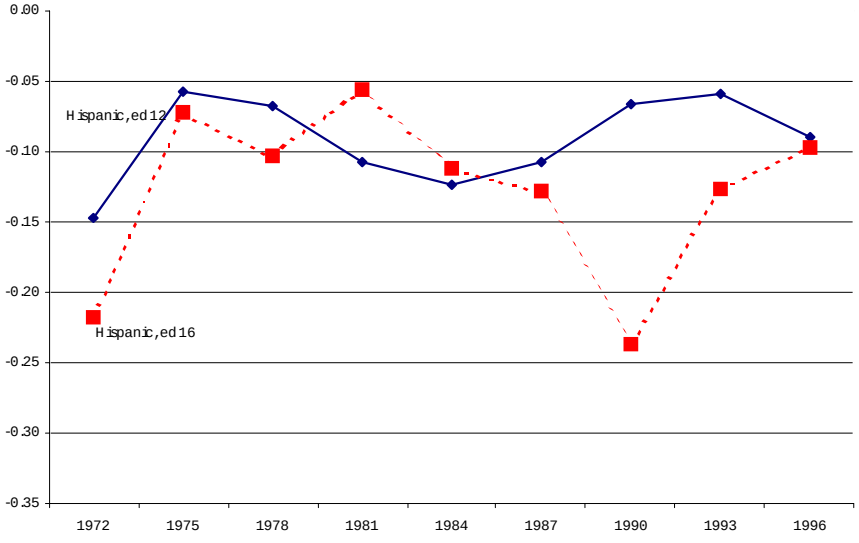

Figure 3b

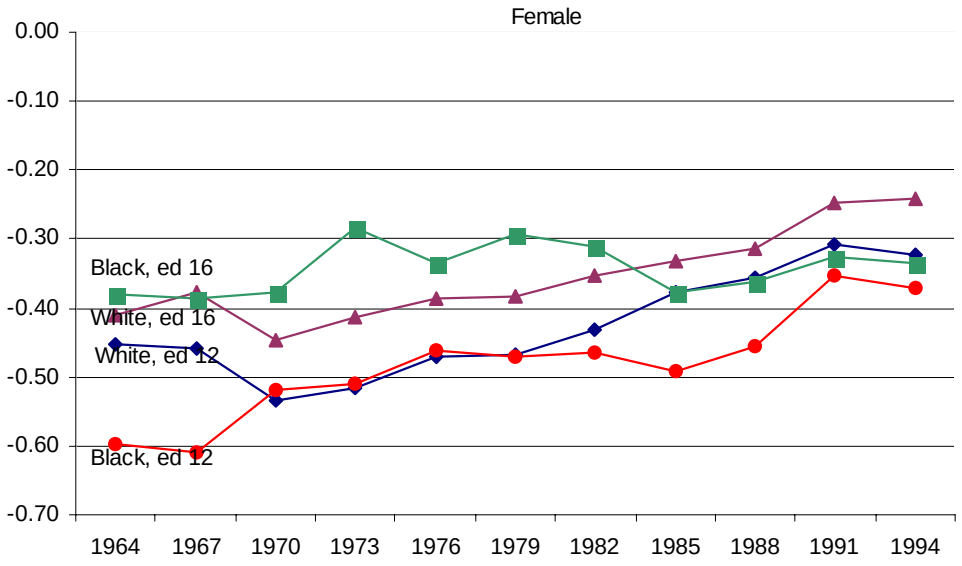

Figure 4a

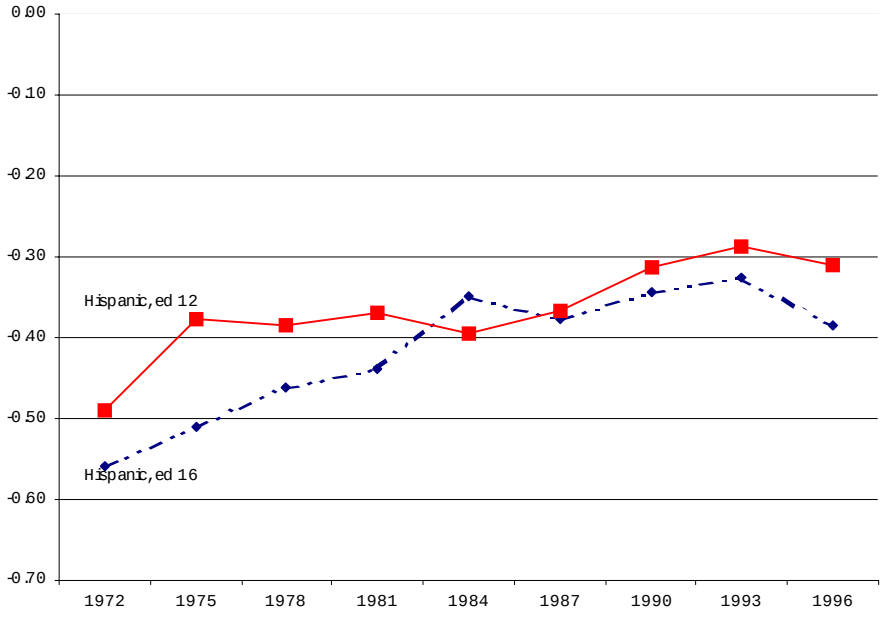

Figure 4b

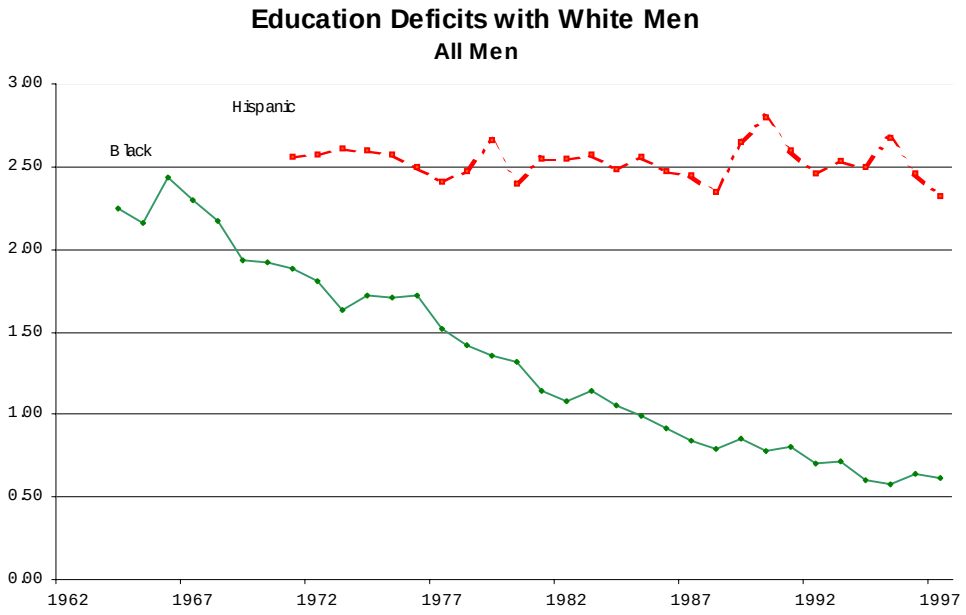

Figure 5a

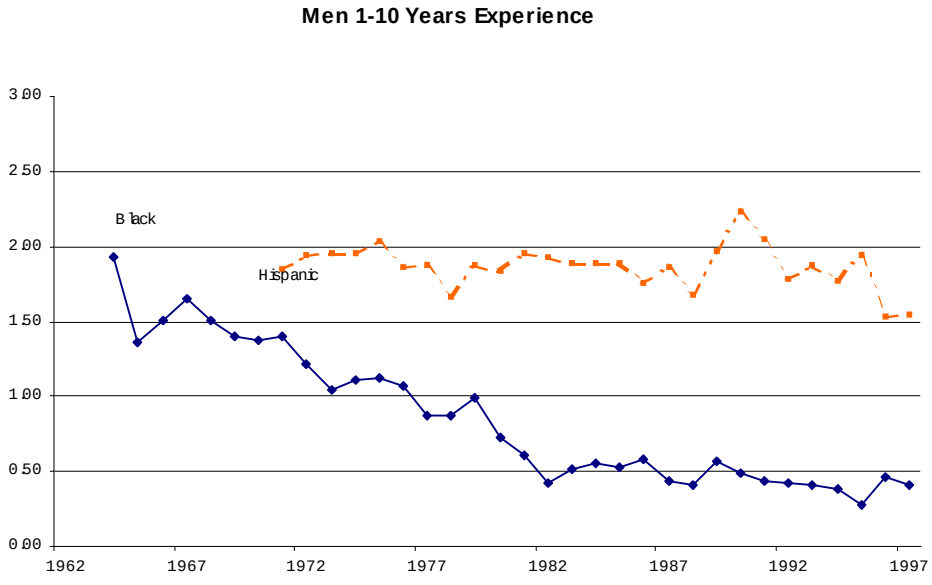

Figure 5b

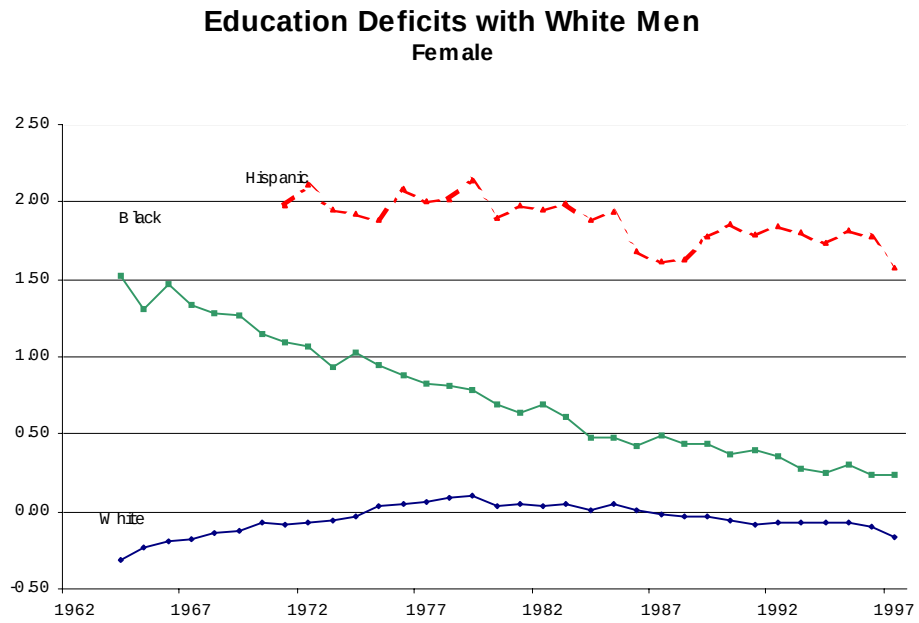

Figure 6a

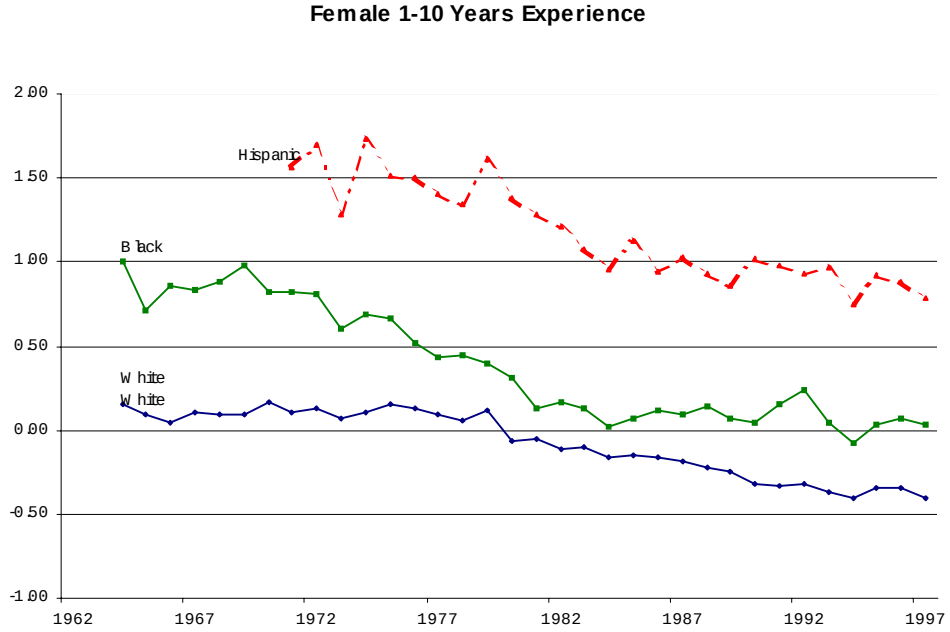

Figure 6b

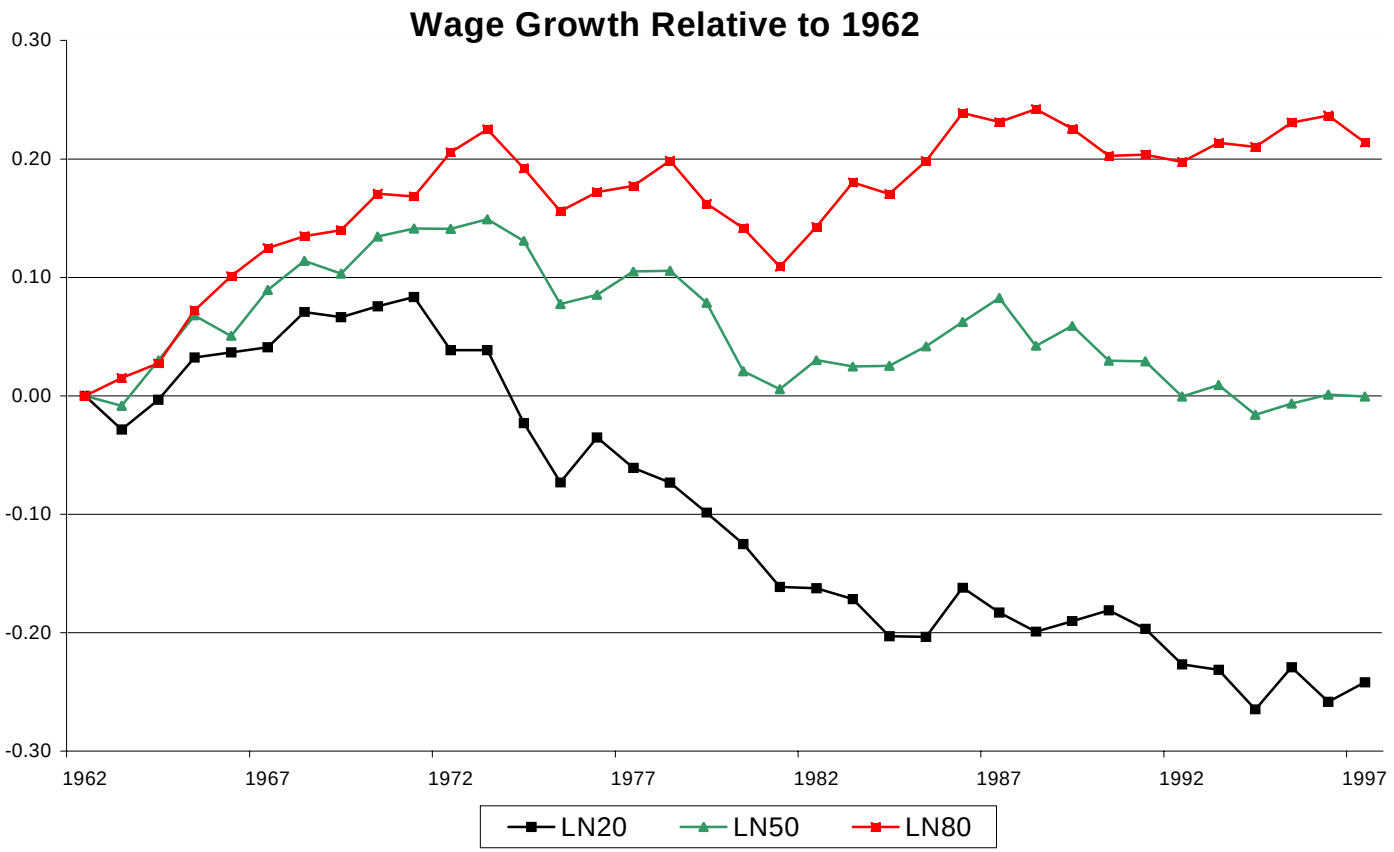
Wage Growth Relative to 1962
0.30
0.20
0.10
0.00
-0.10
-0.20
-0.30
1962
1967
1972
1977
1982
1987
1992
1997
LN20
LN50
LN80

Figure 7

Male Wage Growth 1970-1990
Los Angeles County Residents

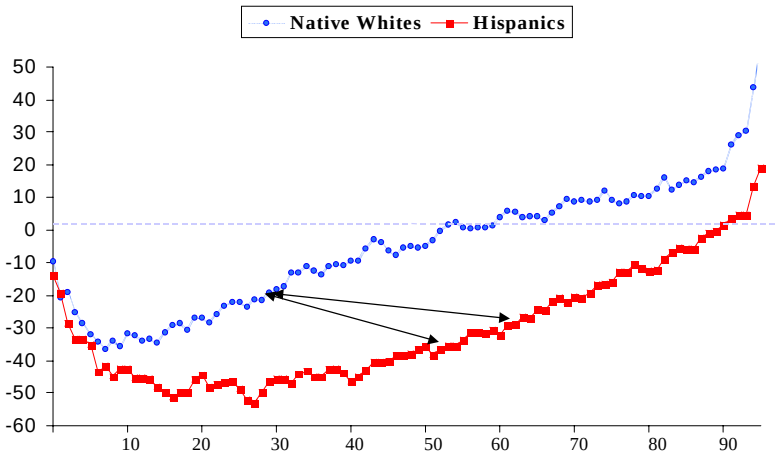

Figure 8a

Adjusted Hispanic Wage Growth 1970-1990
Los Angeles County Residents

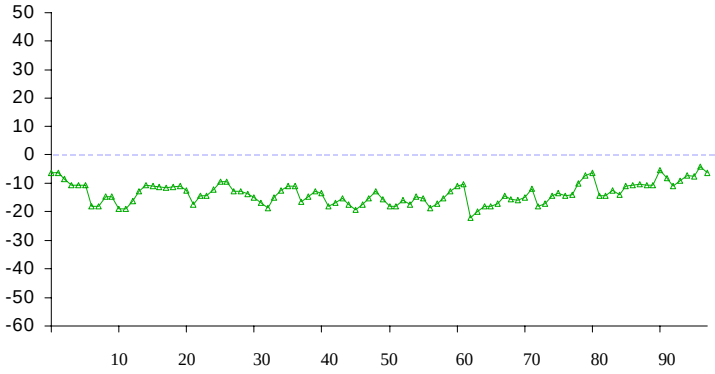

Figure 8b

Career Wage Growth of New Immigrant Cohorts
(Males)

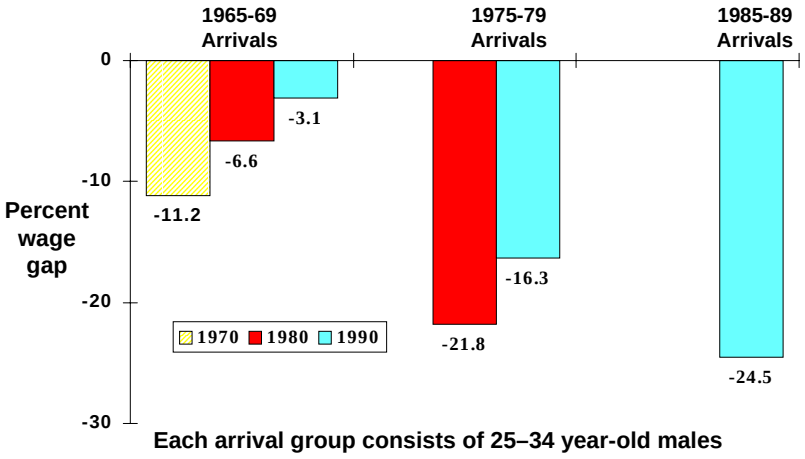

Figure 9a

Career Wage Growth of New Immigrant Cohorts from Mexico
(Males)

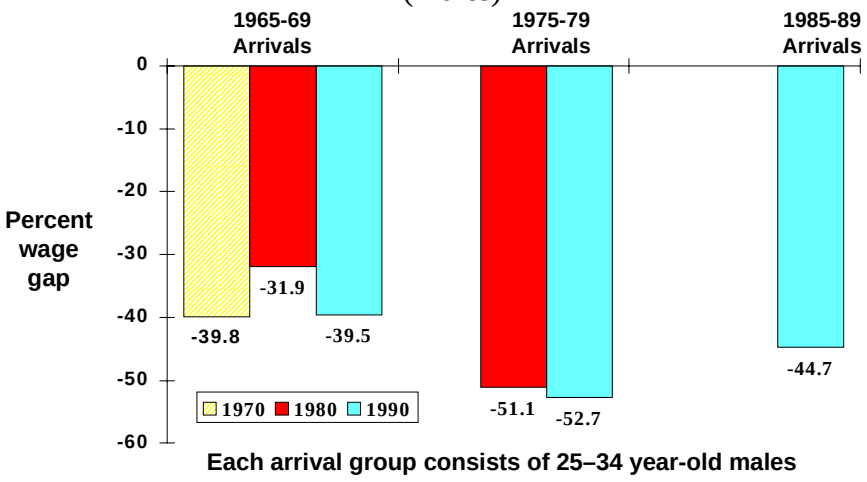

Figure 9b

Career Wage Growth of New Immigrant Cohorts
(Females)

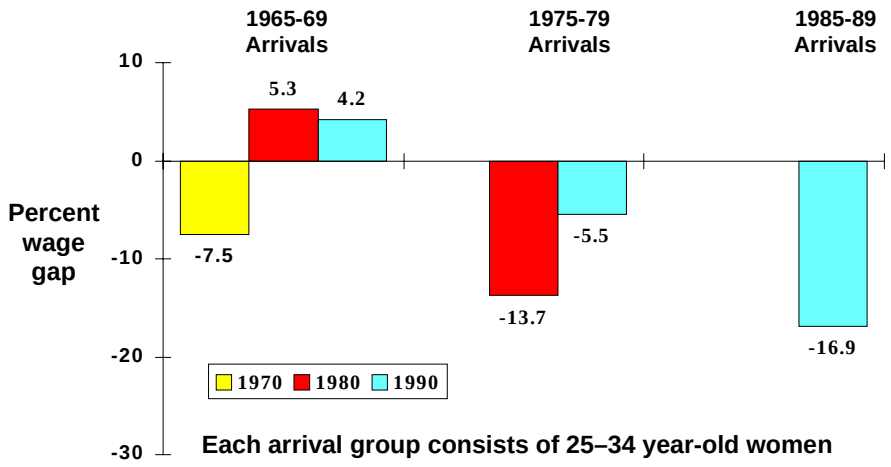

Figure 10a

New Immigrant Cohorts from Mexico
(Age Group 25-34 in Year of Arrival)

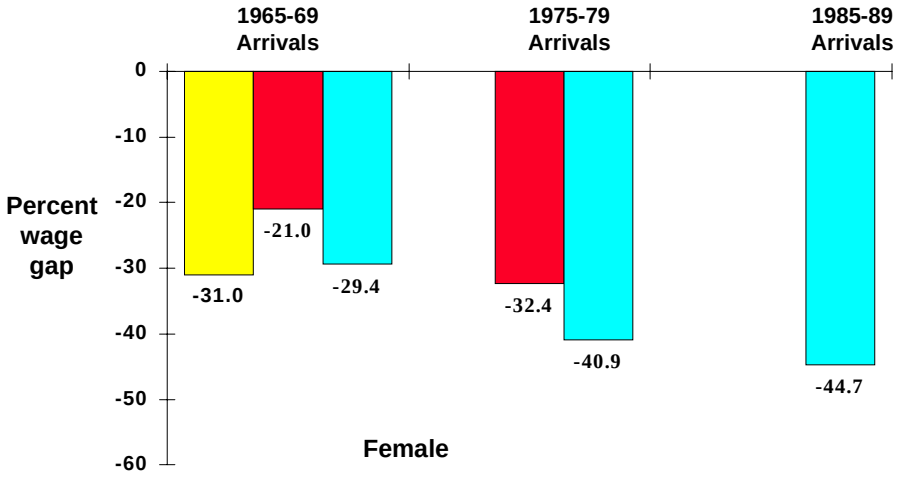

Figure 10b

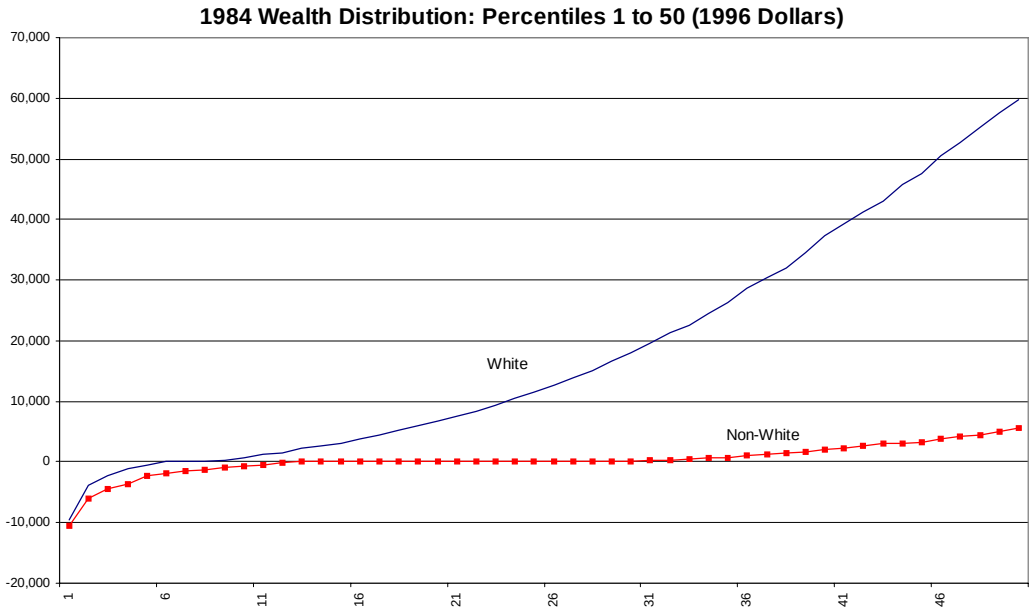

Figure 11a

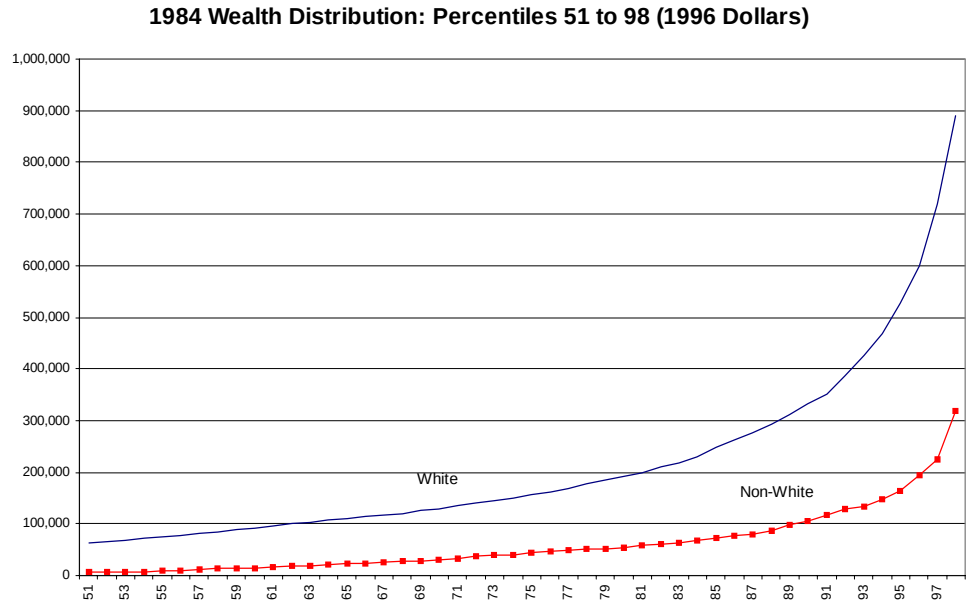

Figure 11b