

Did Racially Motivated Policy Changes Reverse Equality Gains for Everyone?

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Abstract

Labor protection policies in the 1950s and 1960s helped many low- and middle-wage white workers in the United States achieve the American Dream. This coincided with historically low levels of inequality across income deciles. I find that after the Civil Rights Act of 1964, policies that had previously helped build the white middle class reversed, especially in states with a larger Black population. Calibrating a search model to match unemployment benefits, minimum wages, and bargaining power before and after the Civil Rights Act, I find declining labor protections explain half of the rise in 90/10 wage inequality since the 1960s.

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1 Introduction

Income inequality in the United States has been rising since the 1960s. Typical explanations include technological change and competition from abroad (Acemoglu and Autor, 2011; Autor et al., 2014; Wolcott, 2021; Acemoglu and Restrepo, 2022). What is puzzling though, is that comparable countries with similar rates of technological change and competition from abroad have not experienced the same rise in inequality.^{1,2} This paper examines an alternative explanation: labor policy. Figure 1 shows that despite having different paths in the 1950s and 1960s, three labor protections precipitously and irreversibly declined after the civil rights movement.³ The decline in average unemployment benefits and the federal minimum wage are policy changes. The decline in unionization is a policy outcome and has been linked to waning enforcement especially in the 1970s and 1980s (Farber and Western, 2002; Godard, 2003; Brudney, 2004).

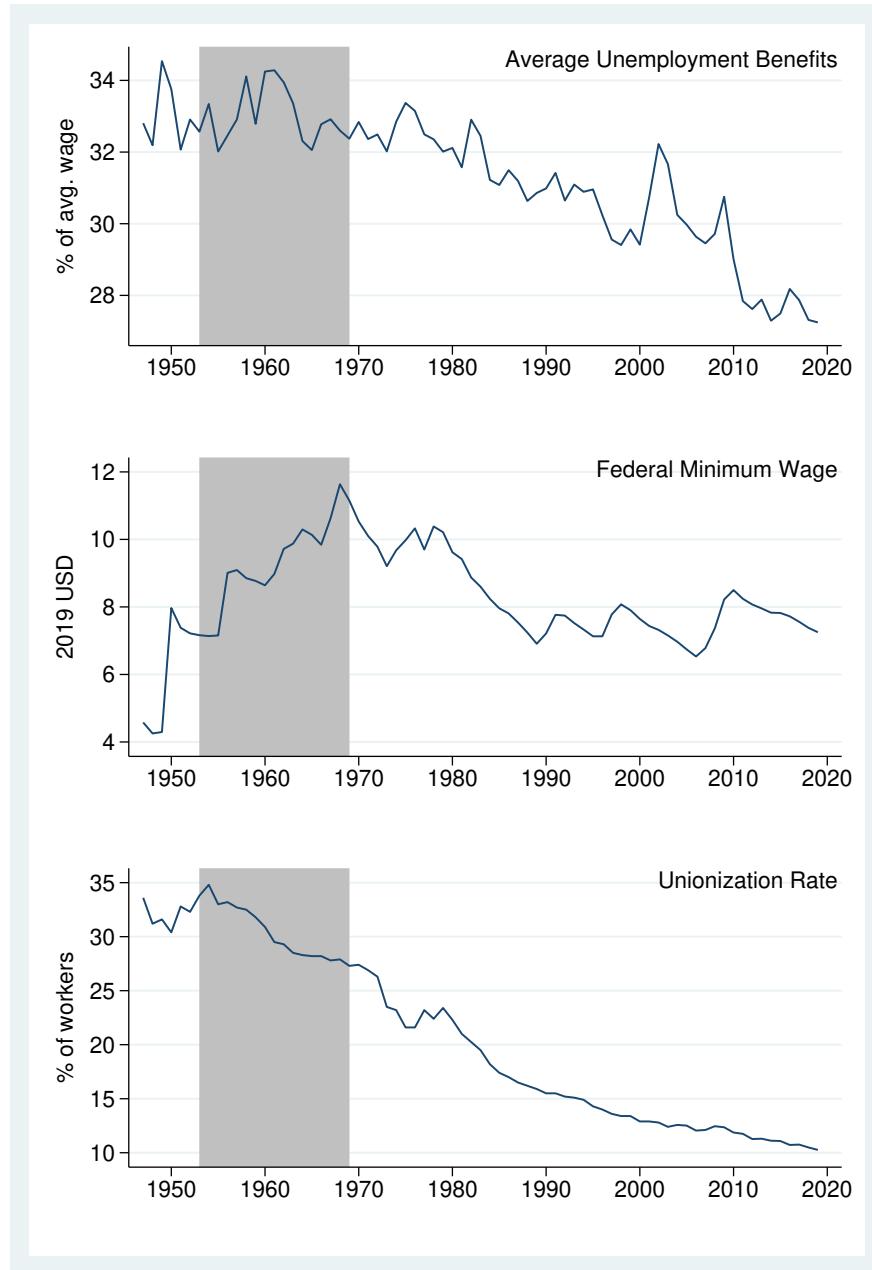
Why did labor policy change? To answer this question, it is helpful to begin with the history of labor policy in the United States. During the Great Depression, Congress passed three transformative pieces of legislation: the Social Security Act of 1935, which along with establishing old age assistance, established unemployment insurance; the Fair Labor Standard Act of 1938 which established a federal wage floor; and the National Labor Relations Act of 1935 which established collective bargaining laws. All three pieces of New Deal legislation excluded agriculture and domestic service workers because the majority of workers in these occupations were Black (Katznelson, 2005; Rothstein, 2017; Spriggs, 2019). Some legislation also delegated administration of federal programs to the states (Poole, 2006). Occupation exemptions preserved the racial order and kept wages low for most Black workers. Initially, 65 percent of Black Americans fell outside of New Deal programs, and in some parts of the South 80 percent fell outside (Katznelson, 2005). State control meant local discriminatory customs could continue and the South could administer programs without challenging Jim

¹For example, while the top 10 percent income share in the United States has grown to nearly half, in France, top income shares have declined since the 1960s.

²Güvenen et al. (2014) make a similar point about income inequality in the U.S. outpacing Europe and study the role of income tax policy.

³Following the Management Relations Act of 1947, unionization began its decline before unemployment benefits and the federal minimum wage. Tight labor markets during World War II allowed Black workers to land unionized manufacturing jobs. Southern Democrats who had previously voted with other Democrats to pass the National Labor Relations Act of 1935, now voted with Republicans to weaken collective bargaining because they “...feared that labor organizing would blend inexorably with, and fuel, civil rights activism... and directly challenge Jim Crow practices.” (Katznelson, 2005).

Figure 1: Declining Labor Protections



Notes: Author's calculations using data from IPUMS-CPS, FRED, Department of Labor, and Mayer (2004). Civil rights movement (1954–1968) shaded in gray. Average unemployment benefits is the average weekly benefits for each state aggregated with population weights and divided by the BEA's national series for wage and salary accruals per full-time equivalent employee.

Crow.⁴

The Civil Rights Act of 1964 outlawed discrimination on the basis of race and was a turning point for labor law. That same year the National Labor Relations Board refused to certify whites-only unions, and in the following decades Congress amended all three pieces of legislation to cover agriculture and service workers (Price, 1985; Rothstein, 2017; Derenoncourt and Montialoux, 2021). Outlawing discrimination gave Black workers more access to jobs outside agriculture and service, and for Black workers who stayed in these occupations, they were now protected by labor law. It is at this juncture labor protections began their irreversible decent.

The first part of this paper presents suggestive evidence that a backlash to the civil rights movement contributed to a decline in labor protections.⁵ Unemployment insurance and minimum wage policy, by design, are largely state-run programs, and it is this variation I exploit to understand if protections differed for states with a larger Black share of the population after more Black workers gained access in 1964. I find that a state with a 10 percentage point larger Black share is associated with an 18 percent smaller weekly unemployment benefit after 1964. I also find that a state with a larger Black share is associated with a lower minimum wage after 1964, and the magnitude depends on whether I account for both federal and state minimum wage policy. State-level data on unionization is not available before 1964, nevertheless, I document a negative relationship between unionization rates and Black population shares.

Empirical results for unemployment benefits and state minimum wages are entirely driven by variation within the South. The Black population outside the South in 1960 was small and there was little variation across states: for most states outside the South, less than 3 percent of the population was Black, while in Mississippi, 42 percent of the population was Black. Another reason states in the South might drive the results is because their governments were responding to a federally-mandated ban of Jim Crow laws. This evidence compliments qualitative accounts of cuts to other public provisions after forced desegregation, such as closing public pools, parks, and schools. It suggests racially motivated policy changes

⁴The Social Security Act delegated unemployment benefit amounts and eligibility criteria to the states (Skandalis et al., 2022). Before the Fair Labor Standard Act, the Supreme Court often struck down state minimum wage laws (Fishback and Seltzer, 2021). After the Fair Labor Standard Act, states could set their own minimum wage for workers not covered by the federal minimum wage, and they had the option to set a state minimum wage above the federal minimum wage for workers who were covered. After the Labor Management Relations Act of 1947, states had the option to pass right-to-work laws weakening unions in their jurisdiction.

⁵Quadagno (1994) makes a similar point for why welfare retrenched.

harming Americans of all races was not uncommon after civil rights legislation.

To give an example of overt racism harming more than the targeted group, one explicitly racist policymaker opposed to the New Deal was Senator Harry Byrd of Virginia who in 1937 wrote the following about social security.

[Under this proposed plan] negroes will be placed on the same basis as white people. The result will be that practically all negroes over sixty-five years will be pensioned, receiving from \$30.00 to \$40.00 per month, and all their children and grandchildren, cousins and aunts will live on them... it will simply mean that nearly all the colored population of the South will stop working. (Sato, 1991)

Because of his racist views, Byrd opposed New Deal legislation and preferred that none of his constituents—Black or white—receive government support. He also resisted desegregation. After *Brown v. Board of Education*, he advocated for closing public schools instead of integrating them, and some Virginian counties went without public education for a decade (MacLean, 2018).

What were the consequences of declining labor protections? This is a challenging question because it asks what the world would have looked like had labor policy remained constant. A structural model allows me to run counterfactual simulations and predict this alternative world. In the second part of the paper, I build and calibrate a search model in the spirit of Diamond (1982), Mortensen (1982), and Pissarides (1985) (DMP henceforth). I augment the standard model with heterogeneous workers and a wage floor, and I target the wage distribution, minimum wages, unemployment benefits, and labor shares before the Civil Rights Act to uncover the model’s time-invariant latent parameters. I then re-estimate the model with the observed changes in labor protections to uncover how the decline in minimum wages, unemployment benefits, and worker bargaining power altered the wage distribution. Together, I find that they explain 49 percent of the rise in 90/10 wage inequality.

To understand the contribution of each labor protection, I run three counterfactual experiments, individually fixing each labor protection at its 1962–1963 level and predicting today’s wage distribution. I find the federal minimum wage is least important because the counterfactual minimum wage from 1962–1963 is only slightly binding today for the 10th percentile of the wage distribution. I find unemployment benefits matter some: holding the ratio of average unemployment benefits to wages fixed at its 1960 levels results in the model only explaining 24 percent (instead of 49 percent) of the rise in 90/10 wage inequality. Most

important is bargaining power. Had worker bargaining power—which I assume varies by where workers are on the wage distribution—remained constant since 1962–1963, the model predicts wage inequality would have also remained constant. These non-linear results from the counterfactual exercises highlight the important general equilibrium effects a structural model can capture.

The model does not include race. Instead of asking how policy changes impacted racial gaps, it tests the hypothesis in McGhee (2021) and asks how policy changes impacted income dispersion regardless of race. This question is distinct from but complementary to work on racial gaps, such as Ashman and Neumuller (2020), Lerch (2021), Brouillette et al. (2021), Derenoncourt et al. (2022), Gregory et al. (2022), Boerma and Karabarbounis (2023), and Hurst et al. (2024). Nevertheless, declining labor protections likely widened the white-Black income gap because more Black workers were concentrated at the bottom. Derenoncourt and Montialoux (2021) and Wursten and Reich (2021) find that when policy moved in the opposite direction and minimum wages increased, this disproportionately helped Black workers and reduced the white-Black wage gap. I add to this literature on racial gaps by documenting that after the Civil Rights Act, the white-Black wage gap converged between the South and non-South, only to open up again in the late 1970s when the backlash takes hold.

A large literature studies why U.S. wage inequality has been rising. Autor et al. (2008) categorize the literature into (1) traditionalist papers positing technological change along with the erosion of labor market institutions are to blame (Goldin and Margo, 1992; Katz and Autor, 1999; Goldin and Katz, 2001; Acemoglu, 2002) and (2) revisionist papers positing labor market institutions are to blame (Freeman, 1992; Blau and Kahn, 1996; Fortin and Lemieux, 1997; Card, 1998; Lee, 1999; Card and DiNardo, 2002; Card et al., 2003). Most papers either study a specific factor in isolation, ignore general equilibrium effects, or do not quantitatively disentangle the drivers.⁶ To my knowledge, none of the literature decomposes the role of minimum wages, unemployment insurance, and bargaining power in a general equilibrium framework, and none of the literature connects policy changes to racism.

Separately, other papers connect racial animosity with less social insurance. Alesina et al. (2001) document a negative relationship between welfare generosity and the Black share of a state’s population in 1990. Spriggs (2018) documents a positive relationship between passage

⁶For example, DiNardo et al. (1996) use an Oaxaca decomposition and find unionization rates, worker composition, changes in supply and demand, and the minimum wage, explain inequality increases in the 1980s, but state that their “decompositions ignore general equilibrium effects.”

of right-to-work laws and the Black share of a state’s labor force. Williams et al. (2021) find that states with a history of Black lynchings have lower minimum wages today. O’Leary et al. (2022) document stricter unemployment insurance rules in states with a larger Black population, and Skandalis et al. (2022) conclude the decentralized unemployment insurance system is inefficient and exacerbates racial gaps. I build on this literature by examining how racially motivated policy *changed* after the civil rights movement.

The paper advances our understanding of inequality by not only accounting for general equilibrium effects in a quantitative model, but by asking why labor policies changed in the first place, and it proceeds as follows. Section 2 estimates state-level regressions and details qualitative evidence for the motivations behind declining labor protections. Section 3 builds and estimates a structural model of the labor market to measure the impact of declining labor protections on inequality. Section 4 contextualizes the findings and Section 5 concludes.

2 Why Did Labor Protections Decline?

Labor protections, in real terms, have declined since the 1960s, but their decline has not been geographically uniform. Because unemployment insurance and minimum wage policy are largely state-run programs, their levels vary across states.⁷ In what follows, I show that states with a larger Black population have seen nominal unemployment benefits and nominal minimum wages increase by less. This might reflect a causal relationship, but it might also reflect a third factor driving the reduced-form relationship. To understand the mechanism, I perform a series of empirical tests and augment the analysis with qualitative evidence. It was not uncommon for local governments, especially in the South, to provide fewer public provisions after court-ordered desegregation. By extension, it is plausible racism contributed to declining labor protections.

2.1 Data

Unemployment Benefits. Data for average weekly unemployment benefits by state is from the 2021 Unemployment Insurance Financial Data Handbook published by the BLS. The average weekly amount is the benefits paid for the year divided by the number of weeks for which benefits were paid. Data for maximum weekly benefits by state is from

⁷In 1938, the U.S. federal government instituted a federal minimum wage applicable to employees involved in interstate commerce. Changes have been made over the years, but aside from the coverage and level of the federal wage floor, state governments set their own minimum wage policy.

the Department of Labor and digitized by Massenkoff (2021) and Fieldhouse et al. (2024). Following Fieldhouse et al. (2024), I use the smaller amount when a range for the maximum is provided. For most years, data from only one month is provided, but in instances where two months of data is provided, I take the average. For both measures of unemployment benefits (the average and the maximum) I use annual data from 1950 through 2000.

Minimum Wages. State-level minimum wages for 1950 through 1980 are from Derenoncourt and Montialoux (2021). The authors build a minimum wage dataset from a 1981 report by the Minimum Wage Study Commission. State-level wages for 1981 through 2000 are from the Department of Labor.⁸ Prior to 1991, some states differentiated minimum wage by gender. In the regression analysis, I use minimum wages for men but results are similar for women. Many states have a zero entry for their state minimum wage or a state minimum wage below the federal minimum wage. In most specifications I use the state-specified minimum wage instead of the effective minimum wage because: (1) the federal minimum wage does not cover all workers, such that in its absence, it is the state minimum wage that binds, and (2) the state-specified minimum wage might reflect the state government’s desired policy.⁹ Appendix C shows that some states continually updated their state minimum wage despite it always falling below the federal minimum wage, suggesting state minimum policy—even if set below the federal minimum wage—was intentional. Nevertheless, I test robustness to using the federal minimum wage as a lower bound. The constructed dataset runs from 1950 through 2000 and is for January of each year.

Racial Composition. Data for the Black share of each state’s population in 1960 is from a five percent sample of the Census via IPUMS-USA (Ruggles et al., 2021). Data exists for 50 states. Black is assigned to respondents categorized as “Black,” “African American,” or “Negro” in the U.S. Census.

Control Variables. State-level unemployment rates are from Fieldhouse et al. (2024). Data for all 50 states is available at a monthly frequency since 1960, and I take the annual average. I compute average earnings by state from the Annual Social and Economic Supplement of the Current Population Survey (CPS) via Flood et al. (2023). Earnings are from wages and salaries for respondents with non-zero income, and I average across respondents using the

⁸<https://www.dol.gov/agencies/whd/state/minimum-wage/history>. Minimum wages in the later dataset only cover non-farm employment.

⁹For instance, as of the writing this paper, Georgia and Wyoming have state minimum wages of \$5.15 which are below the Federal minimum wage of \$7.25. For enterprises with annual revenues less than \$500,000 and not engaged in interstate commerce, along with a few other exceptions, the state minimum wage of \$5.15 applies.

person-level weight. Annual data is only available for all 50 states in 1963 and from 1977 onward.

2.2 State-Level Regressions

The 1963 March on Washington for Jobs and Freedom—ending with Dr. Martin Luther King Jr.’s “I Have a Dream” speech—broadcast demands for equal opportunities in the labor market and beyond. A year later, the Civil Rights Act of 1964 outlawed discrimination based on race in hiring, promoting, and firing. Economic historian Gavin Wright argues that, “[The] long-entrenched industry tradition changed abruptly following enactment of the Civil Rights Act of 1964.” A stark example is the textile industry. In South Carolina in 1960, just four percent of textile workers were Black. That abruptly changed after 1964, and by the 1970s, 30 percent of textile workers were Black (Wright, 2013). After the Civil Rights Act, middle class occupations opened up to Black workers and occupational segregation declined (Butler et al., 1989; Spriggs and Williams, 1996; Darity Jr and Mason, 1998; Rawlston and Spriggs, 2002). Because Black workers now had access to other opportunities, both the white-Black earnings gap and the share of Black agriculture and service workers steeply fell in the 1960s and 1970s.¹⁰

The Civil Rights Act also prohibited discrimination for federally funded programs. Unemployment insurance, the federal minimum wage, and federally recognized labor unions excluded agriculture and most service workers at their inception in the 1930s because these occupations were majority Black (Katznelson, 2005; Rothstein, 2017; Spriggs, 2019). By the late 1970s, most New Deal programs had been amended to cover agriculture and service workers (Price, 1985; Derenoncourt and Montialoux, 2021).

Another way southern policymakers fought for New Deal legislation not to disrupt the racial order in the South was under the guise of regional differences (Poole, 2006; Spriggs, 2019). The National Industrial Recovery Act of 1933 allowed states to administer their own unemployment insurance, and although, the Fair Labor Standards Act of 1938 ended up including a federal wage floor, its historically low levels prompted some states to adopt their own minimum wage. It is this variation I exploit to study the relationship between labor policy and Black population shares.

¹⁰Appendix A shows that the decline was more pronounced in the South, suggesting that this is where Black workers made the most gains after the civil rights era. Notably, after the white-Black earnings ratio between the South and non-South converged in the late 1960s, it opened up again in the late 1970s.

The year 1964 was a watershed (Wright, 2013). For this reason, I compare labor policies before and after 1964. Before 1964, many Black workers were excluded from middle class jobs and labor protections. After 1964, Black workers had more access to middle class jobs and labor protections. Although it took time for the backlash to materialize, starting in the late 1970s, real unemployment benefits and minimum wages fell irreversibly (as seen in Figure 1) and unevenly (as documented in the upcoming regressions).

Let $Y_{s,t}$ represent the nominal average weekly unemployment benefit or the nominal state minimum wage in state s at year t .¹¹ I estimate the following difference-in-difference model:

$$Y_{s,t} = \alpha + \beta (BlackShare_{s,1960} \times \mathbb{1}\{Post1963\}_{s,t}) + \gamma BlackShare_{s,1960} + \delta \mathbb{1}\{Post1963\}_{s,t} + \zeta X_{s,t} + \epsilon_{s,t}, \quad (1)$$

where $BlackShare_{s,1960}$ is the share of the population categorized as Black in state s and year 1960; $\mathbb{1}\{Post1963\}_{s,t}$ equals one if the year is after 1963; $X_{s,t}$ is a vector of controls including the average annual earnings and the unemployment rate in state s and year t ; and $\epsilon_{s,t}$ is the residual. The coefficient of interest β measures the association between a state's Black share and the change in labor policy after 1963. Robust standard errors are clustered at the state level.

Table 1 displays results for unemployment insurance. Column (1) includes the full pre- and post-1963 periods for which data exists for all states. The first row indicates that a 10 percentage point larger Black share is associated with a \$4.58 smaller weekly benefit after 1963. This is statistically significant and large. The sample mean before 1964 is only \$26 per week, meaning a 10 percentage point larger Black share is associated with a 18 percent smaller benefit after 1963. Moreover, the coefficient on $BlackShare$ indicates that before 1964, a 10 percentage point larger Black share is only associated with a \$1.96 smaller benefit, meaning the inverse relationship between Black share and average benefit strengthened by two fold after the Civil Rights Act.

One may worry that states with more Black workers have lower wages, higher unemployment, and therefore lower average benefits. Column (2) includes average earnings and unemployment rates to control for differences across states. Because earnings data is only available for all 50 states in 1963 and from 1977 onward, and because unemployment rates are only available for all states starting in 1960, the pre-period is trimmed to 1963 and post-period to

¹¹Unlike in Figure 1, I use nominal quantities here because there does not exist state-level price indices back to the 1960s.

Table 1: Unemployment Benefits and Black Population Share

VARIABLES	(1) Avg Benefit	(2) Avg Benefit	(3) Avg Benefit	(4) Max Benefit
<i>ShareBlack</i> \times <i>Post1963</i>	-0.458*** (0.124)	-0.702*** (0.143)	-0.744** (0.239)	-0.625** (0.237)
<i>BlackShare</i>	-0.196*** (0.0353)	-0.0832 (0.0548)	0.0125 (0.0446)	-0.157*** (0.0358)
<i>Post1963</i>	89.74*** (2.394)	27.91*** (4.013)	95.85*** (7.366)	120.8*** (4.207)
<i>AverageEarnings</i>		0.00639*** (0.000297)		
<i>UnemploymentRate</i>		0.447 (1.043)		
<i>Constant</i>	27.69*** (0.643)	8.966 (5.969)	20.67*** (0.959)	33.01*** (0.662)
Observations	2,550	1,250	561	2,549
R-squared	0.361	0.859	0.368	0.337
States	All	All	South	All
Pre-period	1950-1963	1963	1950-1963	1950-1963
Post-period	1964-2000	1977-2000	1964-2000	1964-2000

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

1977–2000. The coefficient on average income is positive and statistically significant while the coefficient on unemployment rate is statistically insignificant. The coefficient on the interaction term in column (2) is still statistically significant and larger than in column (1): a 10 percentage point larger Black share is now associated with a \$7.02 smaller benefit after 1963. The larger magnitude is partially because the post-period was trimmed (due to data availability) but also partially because earnings was added as a control, suggesting measurable time-varying differences across states are not driving the results.

Another potential concern is southern states might drive the results. Could it be that the relationship in columns (1) and (2) is from the South simultaneously having a larger Black population and more libertarian political views unrelated to race? To test this, I exclude the 11 former Confederate states (synonymously referred to as the South) and the results do, in fact, disappear. However, as shown in column (3), if I only include the 11 former Confederate states, results are statistically significant and larger in absolute value than column (1), suggesting the relationship is driven by what was happening *within* the South, not just because the South on average had more Black residents. The Civil Rights Act forced desegregation on the South. Federally mandated desegregation targeting the Jim Crow South is likely why southern states were the ones to chip away at labor policies.¹² Another plausible reason results are driven by variation within the South is mechanical. In 1960 the Black population outside the South was small and there was little variation across states. For half of states outside the South, less than 3 percent of their population was Black, while for Texas (which of the southern states had the smallest Black share), 12 percent was Black.

Columns (1) through (3) in Table 1 use the average benefit states distributed in a given year. Since unemployment benefits are determined by the state and usually depend on past wages up to a cap, they are likely endogenous to the income profiles of residents which is correlated with race. To get around this endogeneity issue, column (4) uses a direct policy measure: the maximum amount of benefits a claimant could receive in a week.¹³ I find that a 10 percentage point larger Black share is associated with a \$6.25 smaller maximum benefit after 1963. Since the sample mean before 1964 was only \$32, a 10 percentage point larger Black share is associated with an 20 percent lower maximum benefit. In percentage

¹²Derenoncourt (2022) documents that northern backlash from the influx of Black residents during the Great Migration resulted in more targeted policy changes such as shifts away from infrastructure and education spending towards police spending.

¹³Column (4) has one fewer observations than column (1) because data for Nebraska is missing in 1960. The scanned document from the Department of Labor cuts off the bottom of the page.

Table 2: Minimum Wage and Black Population Share

VARIABLES	(1) State Min	(2) State Min	(3) State Min	(4) Binding Min
<i>ShareBlack</i> \times <i>Post1963</i>	-0.0472*** (0.0105)	-0.0599*** (0.0135)	-0.0527* (0.0259)	-0.00148*** (0.000460)
<i>BlackShare</i>	-0.00864*** (0.00246)	-0.0116** (0.00484)	0.00171 (0.00360)	-0.000308 (0.000285)
<i>Post1963</i>	2.352*** (0.118)	1.086*** (0.232)	2.341** (0.861)	2.118*** (0.0107)
<i>AverageEarnings</i>		0.000135*** (1.09e-05)		
<i>UnemploymentRate</i>		0.0213 (0.0340)	-0.0353 (0.0411)	
<i>Constant</i>	0.246*** (0.0586)	-0.173 (0.217)	0.161 (0.127)	0.906*** (0.00795)
Observations	2,550	1,250	561	2,550
R-squared	0.350	0.540	0.192	0.438
States	All	All	South	All
Pre-period	1950-1963	1963	1950-1963	1950-1963
Post-period	1964-2000	1977-2000	1964-2000	1964-2000

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

terms, this is similar to column (1). Results with this alternative dependent are robust to the different specifications (not shown) and similar to results displayed in columns (2) and (3).

Table 2 displays results for minimum wages. Column (1) includes the full pre- and post-1963 periods for which data exists for all states. A 10 percentage point larger Black share is associated with a \$0.47 smaller state minimum wage after 1963. This is statistically significant and large. There was a lot of variation across states, and the sample mean before 1964 was only \$0.17 per hour, meaning a 10 percentage point larger Black share is associated with a 280 percent lower minimum wage after 1963. Moreover, the coefficient on *BlackShare* indicates that before 1964, a 10 percentage point larger Black share is associated with only a \$0.09 smaller minimum wage, meaning the inverse relationship between Black share and state minimum wage strengthened by five fold after the Civil Rights Act.

Column (2) includes average earnings and unemployment rates to control for differences across states. The coefficient on average earnings is positive and statistically significant

while the coefficient on unemployment rate is statistically insignificant. The coefficient on the interaction term in column (2) is still statistically significant and larger than column in (1): a 10 percentage point larger Black share is now associated with a \$5.99 lower state minimum wage after 1963. The larger magnitude is partially because the post-period was trimmed (due to data availability) but also partially because earnings was added as a control, suggesting that measurable time-varying differences across states are not driving the results.

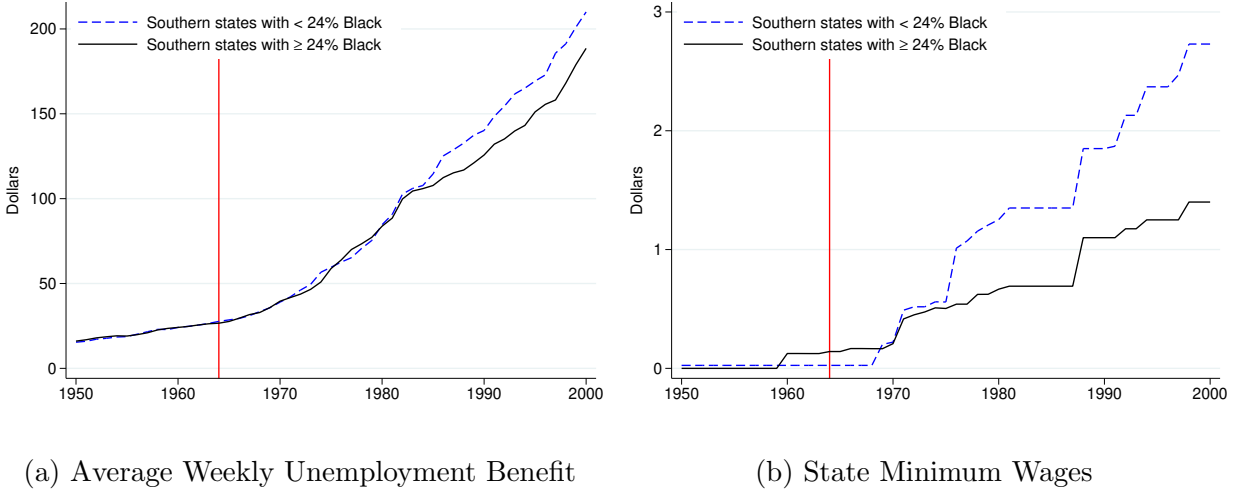
Column (3) restricts the sample to the 11 former Confederate states. The coefficient of interest is larger than column in (1) and statistically significant at the 10 percent level, indicating results are again driven by variation within the South.

Columns (1) through (3) in Table 2 use state minimum wages which in many cases are below the federal minimum wage. When the state minimum wage is below the federal minimum wage, it binds for workers exempt from federal minimum wage policy. Federal coverage has morphed over time but typically depends on the industry or occupation of the employee and the size of the employer.¹⁴ Several states have updated their state minimum wage, while keeping it below the federal minimum wage, such that it applied to federally exempt workers. Nevertheless, one may worry that a minimum wage below the federal minimum wage might not reflect a state's desired policy, but rather, a lack of incentive to update the state policy when the federal minimum wage is the desired policy. Column (4) uses the federal minimum wage when the state minimum wage is non-binding for federally covered workers. The coefficient of interest is still negative and statistically significant but smaller. A 10 percentage point increase in the Black share is associated with a \$0.01 lower minimum wage. The sample mean before 1964 was only \$2.43, meaning a 10 percentage point larger Black share is associated with a 0.6 percent lower minimum wage. This relationship is much smaller than in columns (1)–(3), is not robust across the different specifications, and reflects the fact that almost all of the South had state minimum wages below the federal minimum wage. Since results are driven by variation within the South, when the South is subject to the federal minimum wage, this variation disappears. To get a fuller picture of the data, Appendix C plots state minimum wages against the federal minimum wage for the 11 former Confederate states ordered by the Black population shares. While half of the states increased their minimum wage, the other half chose not to adopt a state minimum wage, and this second half is concentrated among states with larger Black population shares.

Although 1963 was a watershed moment for the civil rights movement, the movement began

¹⁴<https://www.dol.gov/agencies/whd/minimum-wage/history>

Figure 2: Pre-trends for the South



Notes: Author's calculations using data from Derenoncourt and Montialoux (2021) and the U.S. Department of Labor. States are grouped by the percent of their population categorized as Black in the 1960 Census. States with less than 24 percent Black include Arkansas, Virginia, Florida, Tennessee, and Texas. States with more than or equal to 24 percent Black include Mississippi, South Carolina, Louisiana, Alabama, Georgia, and North Carolina. The vertical axis is in units of nominal U.S. dollars. The red reference line indicates 1964.

a decade earlier and the backlash was not instantaneous. To visually inspect for pretrends, Figure 2 plots the raw data used to estimate equation (1). It includes only the South and splits the sample by states with more and less than 24 percent of their population categorized as Black in 1960. For weekly unemployment benefits (Panel A), the low- and high-Black states are nearly indistinguishable until 1980. For state minimum wages (Panel B), the low- and high-Black states look similar until 1970. Thereafter, states with a larger Black share averaged lower unemployment benefits and lower minimum wages relative to states with a smaller Black share. Appendix B documents a similar phenomena by separately estimating equation (1) by decade. For unemployment benefits, a meaningful relationship does not emerge until the 1980s and 1990s.¹⁵ For the minimum wage, there is no statistically significant relationship before 1970. Then, starting in the 1970s, and separately for the 1980s and 1990s, a larger Black share consistently predicts a smaller state minimum wage.¹⁶

If the differential policy changes were a backlash to the civil rights movement, why did they start decades later? There are two plausible reasons. First, it took time for Black workers to

¹⁵Because unemployment benefits are in nominal terms, it looks like the relationship grows stronger over time. However, if you scale the coefficients of interest by the post-period weekly benefit (last row in each table) in Appendix B, the relationship is relatively stable between the 1980s and 1990s.

¹⁶Again, scaling the coefficients of interest by the post-period minimum wage results in a relatively stable relationship for the last three decades of the 20th century.

enter occupations covered by labor policies. The exodus of Black workers out of agriculture and service jobs after the Civil Rights Act continued into the late 1970s (see Appendix A). Second, it took decades for subsequent legislation to cover disproportionately Black occupations. Federal unemployment insurance legislation did not apply to farm or domestic service workers until amendments were made in 1976, which did not become effective until 1978.¹⁷ Federal minimum wages did not cover farm workers until 1966, and they did not cover domestic service workers until 1974.¹⁸ The full policy ramifications of the civil rights movement were felt decades later, and probably only then, did the backlash rear its head. I use the Civil Rights Act of 1964 to tie my hands as the regime change, however, things did not instantaneously change in 1964. This is especially true for unemployment insurance since the federal government only expanded coverage starting in the late 1970s.

The third labor protection is unions, and unfortunately, data on state unionization rates from the CPS only begins in 1983. This does not provide a pre-1964 period to implement equation (1). Nevertheless, I can examine the conditional correlation between the Black population share and unionization rate in state s and year t . Appendix D shows that states with a 10 percentage point larger Black share are associated with a 1 to 3 percent lower unionization rate. Unlike results unemployment benefits and minimum wages, when I restrict the sample to the 11 former Confederate states, the relationship is smaller and no longer statistically significant.

It was not uncommon in the 1950s and 1960s for local governments to close public facilities after desegregation. McGhee (2021) describes city governments throughout the country filling in public swimming pools—a once favored pastime among white Americans—because of desegregation. Wright (2013) writes about city governments closing public parks after court-ordered desegregation. MacLean (2018) details a nearly successful campaign in Virginia to close public schools rather than integrate after *Brown v. Board of Education*. Even though the Virginia campaign was unsuccessful, some counties went without public education for a decade. Given these examples of policymakers forgoing public provisions in response to Black Americans having access, it is plausible a similar response, either consciously or unconsciously, influenced labor policy.

¹⁷<https://www.ssa.gov/policy/docs/ssb/v48n10/v48n10p22.pdf>

¹⁸<https://www.dol.gov/agencies/whd/minimum-wage/history>

3 Structural Model of Wage Inequality

The goal of this section is to build a tractable model of the labor market capturing the conditions workers face when choosing whether or not to work and the conditions firms face when choosing whether or not to hire. For simplicity, the model only includes two labor force statuses, employment (e) and unemployment (u) but includes multiple types $M > 1$ of workers. To capture the empirical observation that job openings and job seekers simultaneously exist, I build a DMP model where a friction in the labor market prevents job openings and job seekers from perfectly matching up. For the application at hand, it is important to use a model where unemployment exists in equilibrium so I can test how changes in unemployment benefits affect the labor market. I augment the standard model with heterogeneous workers so the model generates measures of income inequality comparable to the data.

3.1 Racial Composition of the Wage Distribution

The structural model is intended to represent the entire U.S. labor market. The estimated parameters for job separations, productivity, unemployment benefits, minimum wages, bargaining power represent those for the aggregate economy. In other words, the model does not explicitly model race. One might wonder: without accounting for race, could the increase in U.S. inequality be driven by compositional changes instead of policy changes? For instance, what if the growing share of Black Americans—who are disproportionately disadvantaged and discriminated against—is the reason behind increasingly unequal incomes?

Table 3 shows that even though Black Americans make up a larger share of the workforce today, they are less concentrated at the bottom of the wage distribution.¹⁹ Black workers went from occupying 25 percent of the first decile in the 1960s to only 15 percent in the 2000s. Black workers also went from occupying just 0.2 percent of the top decile in the 1960s to 5 percent in the 2000s. Table 3 looks similar when computing non-white shares, and it displays the inverse when computing white shares. Notably, white workers make up a larger share of the bottom decile in the 2000s than in the 1960s. Assuming Black workers are disadvantaged relative to white workers, racial composition cannot explain the rise of inequality across wage deciles. Because of this, and to only include the necessary components for the question at hand, I do not explicitly model race. Instead, the model tests whether policy changes (plausibly motivated by racism) reversed equality gains for everyone.

¹⁹The CPS top codes survey respondents so Table 3 is unable to accurately capture the top of the wage distribution.

Table 3: Black Share of the Wage Distribution

Years	Hourly Earnings Percentile										Total
	(0,10]	(10,20]	(20,30]	(30,40]	(40,50]	(50,60]	(60,70]	(70,80]	(80,90]	(90,100]	
1962–1963	.25	.14	.11	.09	.06	.05	.05	.03	.02	.002	.08
2005–2006	.15	.15	.15	.15	.12	.12	.10	.09	.07	.05	.12

Notes: Author’s calculations using data from IPUMS-CPS. Income deciles are calculated for individuals who worked full-time and at least 48 weeks in the calendar year. Salary and wage income is then divided by 50 weeks and 40 hours per week. Black workers are respondents categorized as “Black/Negro”.

Before turning to the mechanics of the model, I will highlight that if labor protections disproportionately help the very bottom of the wage distribution, then their currently low levels hurt white workers just as much as—if not more than—Black workers because of the large share of white workers at the bottom. Simultaneously, declining labor protections helped workers at the top of the wage distribution. As unions, minimum wage, and unemployment benefits declined, (predominately white) capital owners paid less in wages and unemployment tax.

3.2 Model Environment

Time is discrete and indexed by $t \in \{0, 1, 2, \dots, \infty\}$.

Workers. Workers are heterogeneous in their endowed productivity. I consider an economy populated by M types of workers indexed by $x_m \in \{x_1 < x_2 < \dots < x_M\} > 0$. Endowed productivity is permanent and perfectly observable to employers.²⁰ I ex-ante sort workers into submarkets based on their endowment. Therefore, the aggregate labor market is organized into M submarkets indexed by worker endowment x . In each submarket there is a measure $M(x)$ of infinitely lived workers of type x (with $\sum_x M(x) = 1$) who are either employed $e(x) \in [0, 1]$ or unemployed $u(x) \in [0, 1]$. The total population is then $\sum_x (e(x) + u(x))M(x) = 1$. Since there are as many submarkets as there are endowed productivity levels, there is no crowding out between workers with different endowments. This choice simplifies the model so that a firm’s expected value of meeting a worker does not depend on who is in the unemployment pool, which is a plausible assumption if the job application process effectively screens candidates.

²⁰When calibrating the model in Section 3.5, I focus on deciles such that $M = 9$ types of workers separate 10 deciles.

Each worker is endowed with one unit of labor. For simplicity, on-the-job search is ruled out. Workers have risk-neutral preferences and discount future payoffs at rate $\beta \in (0, 1)$.

Firms. The economy is populated by an infinite mass of identical and infinitely lived employers who either produce output $y(x)$, or post job vacancies $v(x)$ aimed at a specific worker type x . Employers have risk-neutral preferences and also discount the future by β . I assume directed search following Moen (1997) and Menzio and Shi (2010), such that firms target a specific submarket x to post a vacancy and only post in one submarket at a time.

Production Technology. The production technology has two inputs: (1) a worker's endowed productivity and (2) aggregate labor productivity. Think of endowment x as a measure of a worker's individual background; for example, the quality of their education before entering the labor market. Think of aggregate labor productivity as human capital investment and technological advancement that impacts all workers. Output per employed worker at time t for submarket x is then:

$$y_t(x) = Ax, \quad (2)$$

where aggregate labor productivity is $A \geq 1$.

Matching Technology. Markets are frictional. In each submarket x , there exists a constant returns to scale matching technology:

$$m_t(x) = \phi(u_t(x))^\alpha (v_t(x))^{1-\alpha}, \quad (3)$$

where the elasticity parameter is $\alpha \in (0, 1)$ and the matching efficiency is ϕ . Let $\theta_t = \frac{v_t(x)}{u_t(x)}$ denote market tightness. For the theoretical framework, each submarket x has its own tightness; however, for the calibration exercise, each submarket targets the same tightness based on the data. To simplify notation, I define the job finding rate as $f_t(\theta) \equiv \frac{m_t(x)}{u_t(x)} = \phi\theta_t^{1-\alpha}$ and the job filling rate as $q_t(\theta) \equiv \frac{m_t(x)}{v_t(x)} = \phi\theta_t^{-\alpha}$.

Timing. Employers post job vacancies and unemployed workers search for jobs given the model parameters next period. Unemployed workers meet firms at time t and if profitable, produce output at $t + 1$.

Firm's Problem. Let $V_t(x)$ be the value to a firm of posting a vacancy for a worker with endowment x .

$$V_t(x) = -\kappa + \beta \left[q_t(\theta) J_{t+1}(x) \right], \quad (4)$$

where κ is the cost of posting a vacancy. $J_{t+1}(x)$ is a firm's surplus next period from matching with a worker in submarket x . Firm surplus this period equals:

$$J_t(x) = y_t(x) - \omega_t(x) + \beta \left[(1 - \delta) J_{t+1}(x) \right], \quad (5)$$

where δ is the exogenous separation rate. Here, all workers separate from their job at rate δ . The separation rate is exogenous because “endogenizing” it with a stochastic process would unnecessarily complicate the model.

Worker's Problem. On the worker side, the value of being matched with a job is the discounted value of retaining that match or entering the unemployment pool next period,

$$W_t(x) = \omega_t(x) + \beta \left[(1 - \delta) W_{t+1}(x) + \delta U_{t+1}(x) \right], \quad (6)$$

The value of being unemployed $U_t(x)$ is defined by the following condition:

$$U_t(x) = b + \beta \left[f_t(\theta) W_{t+1}(x) + (1 - f_t(\theta)) U_{t+1}(x) \right], \quad (7)$$

where b is the flow value of unemployment benefits. In the U.S. unemployment benefits depend on a claimer's previous wage. However, because the weekly amount is capped, 30 percent of unemployed claimers receive the maximum allocated amount instead of a replacement rate proportional to their previous wage. The remaining claimers receive a replacement rate around 70 percent of their previous wage, depending on the state (Doniger and Toohey, 2022). This means, among the unemployed and employed, the threat value of benefits is relatively constant across income levels. This is the mechanism through which changes in unemployment benefits have distributional consequences. A decline in the weekly benefit of a flat amount hurts workers at the bottom of the income distribution more because their outside option as a share of their wage fell by more than workers at the top of the income distribution.

An alternative way to model unemployment benefits would be as a function of wages up to a cap. However, unlike average benefits, replacement rates and caps do not capture changes in eligibility and therefore have not declined relative to wages the same way average benefits have, as illustrated in Figure 1. Therefore, I calibrate a fixed b to the average benefit.

Minimum Wage. In this economy, there is a wage floor. Let $\underline{\omega}$ be the minimum hourly wage any firm pays a worker. The observed wage, after the minimum wage has taken effect, is then $\tilde{\omega}(x) = \max\{\omega(x), \underline{\omega}\}$.

Nash Bargaining. Because markets are frictional, a surplus exists from a firm-worker match. I assume workers take home a share $\pi(x) \in (0, 1)$ of that surplus. Total match surplus is calculated by adding up firm value $J_t(x)$ and worker value $W_t(x)$ minus values of the outside options $V_t(x)$ and $U_t(x)$. Let $S_t(x) = \max\{J_t(x) + W_t(x) - V_t(x) - U_t(x), 0\}$ denote total match surplus in submarket x . Workers receive $\pi(x)S_t(x)$ from a match and firms receive $(1 - \pi(x))S_t(x)$. The worker and firm will agree to continue the match if $S_t(x) > 0$, otherwise they will separate, in which case $S_t(x) = 0$.

Free Entry. I assume an infinite number of firms are free to enter each submarket and post vacancies, thereby pushing down the value of posting a vacancy to zero. Free entry implies $V_t(x) = 0, \forall t, x$.

3.3 Steady State Equilibrium

Here, I highlight two steady-state equilibrium expressions employed in the calibration, namely, the wage equation and labor share. To simplify notation, let any steady state variable $Z_t = Z_{t+1} = Z$ for the remainder of the paper.

Under Nash bargaining and free entry, equations (3)-(7) endogenously determine steady state wages:

$$\begin{aligned}\omega(x) &= (1 - \pi(x))b + \pi(x)(y(x) + \kappa\theta) \\ \tilde{\omega}(x) &= \max\{\omega(x), \underline{\omega}\}.\end{aligned}\tag{8}$$

Workers benefit from a tight labor market and are rewarded for helping firms save on hiring costs. They enjoy a share of the output, and their outside option pushes up wages.²¹ Realized wages $\tilde{\omega}(x)$ must be at least as great as the minimum wage $\underline{\omega}$.

A useful concept for the calibration exercise is labor share. I define the share of total output allocated to wages in submarket x as:

$$L(x) \equiv \frac{\tilde{\omega}(x)}{y(x)}.\tag{9}$$

²¹See Pissarides (2000) for a derivation of steady state wages.

3.4 Comparative Statics

It is relatively straightforward to intuit how a change in the minimum wage affects the income distribution. It is less straightforward to intuit how a change in unemployment benefits, bargaining power, or aggregate productivity affects the income distribution. In what follows, four propositions highlight the mechanisms and how declining minimum wages and unemployment benefits and changes in bargaining power and aggregate productivity contribute to inequality.

Proposition 1. *Wage ratio $\frac{\tilde{\omega}(x_H)}{\tilde{\omega}(x_L)}$, where $L, H \in \{1, 2, \dots, 9\}$ and $L < H$, is decreasing in minimum wage $\underline{\omega}$, $\forall \underline{\omega}$ satisfying $\omega(x_L) \leq \underline{\omega} < \omega(x_H)$.*

Proof. The derivative of $\frac{\tilde{\omega}(x_H)}{\tilde{\omega}(x_L)}$ with respect to $\underline{\omega}$ is less than zero. Because of the defined range of $\underline{\omega}$, $\frac{\partial \tilde{\omega}(x_H)}{\partial \underline{\omega}} = 0$, while $\frac{\partial \tilde{\omega}(x_L)}{\partial \underline{\omega}} = 1$. Therefore, by the quotient rule,

$$\begin{aligned} \frac{\partial}{\partial \underline{\omega}} \left(\frac{\tilde{\omega}(x_H)}{\tilde{\omega}(x_L)} \right) &= \frac{\tilde{\omega}(x_L) \times 0 - \tilde{\omega}(x_H) \times 1}{(\tilde{\omega}(x_L))^2} \\ &= \frac{-\tilde{\omega}(x_H)}{\underline{\omega}^2} < 0 \end{aligned}$$

□

Proposition 1 shows that wage decile ratios greater than one—for example the 90/10 percentile ratio—are decreasing in minimum wage if the minimum is binding for submarket x_L but not for x_H . When the minimum wage increases, realized wages for x_L also increase but wages for x_H are unaffected, thereby reducing income inequality. When the reverse happens and a binding minimum wage *decreases*, income inequality increases.

Proposition 2. *Wage ratio $\frac{\tilde{\omega}(x_H)}{\tilde{\omega}(x_L)}$, where $L, H \in \{1, 2, \dots, 9\}$ and $L < H$, is decreasing in unemployment benefits b , $\forall b$ satisfying $\frac{1-\pi(x_H)}{1-\pi(x_L)} < \frac{\tilde{\omega}(x_H)}{\tilde{\omega}(x_L)}$.*

Proof. The derivative of $\frac{\tilde{\omega}(x_H)}{\tilde{\omega}(x_L)}$ with respect to b is less than zero for the specified range of values. Note that $\frac{\partial \tilde{\omega}(x_H)}{\partial b} = 1 - \pi(x_H)$ and $\frac{\partial \tilde{\omega}(x_L)}{\partial b} = 1 - \pi(x_L)$. Therefore, by the quotient

rule,

$$\frac{\partial}{\partial b} \left(\frac{\tilde{\omega}(x_H)}{\tilde{\omega}(x_L)} \right) = \frac{\tilde{\omega}(x_L)(1 - \pi(x_H)) - \tilde{\omega}(x_H)(1 - \pi(x_L))}{(\tilde{\omega}(x_L))^2} < 0$$

$$\frac{1 - \pi(x_H)}{1 - \pi(x_L)} < \frac{\tilde{\omega}(x_H)}{\tilde{\omega}(x_L)}$$

□

Proposition 2 shows that wage ratios greater than one are decreasing in unemployment benefits if the ratio of firm bargaining power is less than the wage ratio. Recall, $(1 - \pi(x))$ is the share of surplus going to the firm. For intuition, suppose $\pi(x_H) = 1$. This means the ratio between firm bargaining power is zero and Proposition 2 would imply that wage inequality is always decreasing in unemployment benefits. When the reverse happens and unemployment benefits *decrease*, income inequality increases.

Proposition 3. *Wage ratio $\frac{\tilde{\omega}(x_H)}{\tilde{\omega}(x_L)}$, where $L, H \in \{1, 2, \dots, 9\}$ and $L < H$ is decreasing in low-wage bargaining power $\pi(x_L)$, $\forall \pi(x_L)$ satisfying $Ax_L + \kappa\theta > b$*

Proof. The derivative of $\frac{\tilde{\omega}(x_H)}{\tilde{\omega}(x_L)}$ with respect to $\pi(x_L)$ is less than zero for the specified range of values. Note that $\frac{\partial \tilde{\omega}(x_H)}{\partial \pi(x_L)} = 0$ and $\frac{\partial \tilde{\omega}(x_L)}{\partial \pi(x_L)} = Ax_L + \kappa\theta - b$. Therefore, by the quotient rule,

$$\frac{\partial}{\partial \pi(x_L)} \left(\frac{\tilde{\omega}(x_H)}{\tilde{\omega}(x_L)} \right) = \frac{\tilde{\omega}(x_L) \times 0 - \tilde{\omega}(x_H)(Ax_L + \kappa\theta - b)}{(\tilde{\omega}(x_L))^2} < 0$$

$$Ax_L + \kappa\theta > b$$

□

Proposition 3 shows that wage ratios greater than one are decreasing in low-wage bargaining power for a set of parameters. As long as output and firm search costs are greater than unemployment benefits, inequality is decreasing in low-wage bargaining power. When the reverse happens and the bargaining power *decreases*, income inequality increases.

Proposition 4. *Wage ratio $\frac{\tilde{\omega}(x_H)}{\tilde{\omega}(x_L)}$, where $L, H \in \{1, 2, \dots, 9\}$ and $L < H$ is increasing in aggregate productivity A , $\forall A$ satisfying $\frac{\pi(x_H)x_H}{\pi(x_L)x_L} > \frac{\tilde{\omega}(x_H)}{\tilde{\omega}(x_L)}$*

Proof. The derivative of $\frac{\tilde{\omega}(x_H)}{\tilde{\omega}(x_L)}$ with respect to A is greater than zero for the specified range

of values. Note that $\frac{\partial \tilde{\omega}(x_H)}{\partial A} = \pi(x_H)x_H$ and $\frac{\partial \tilde{\omega}(x_L)}{\partial A} = \pi(x_L)x_L$. Therefore, by the quotient rule,

$$\frac{\partial}{\partial A} \left(\frac{\tilde{\omega}(x_H)}{\tilde{\omega}(x_L)} \right) = \frac{\tilde{\omega}(x_L)\pi(x_H)x_H - \tilde{\omega}(x_H)\pi(x_L)x_L}{(\tilde{\omega}(x_L))^2} > 0$$

$$\frac{\pi(x_H)x_H}{\pi(x_L)x_L} > \frac{\tilde{\omega}(x_H)}{\tilde{\omega}(x_L)}$$

□

Proposition 4 shows that wage ratios greater than one are increasing in aggregate productivity for a set of parameters. If the ratio between high- and low-wage bargaining power interacted with the ratio between high- and low-wage endowed productivity is greater than the wage ratio, inequality is increasing in aggregate productivity.

3.5 Calibration

The goal of this section is to calibrate the structural model to match the U.S. wage distribution right before the Civil Rights Act. In doing so, I recover a set of unknown parameters. I then use the policy changes from Figure 1 and a subset of the recovered parameters to predict the post-civil rights era wage distribution. The difference between the predicted and actual wage distribution sheds light on the extent to which policy changes increased inequality.

I choose two periods to calibrate the model: (1) 1962–1963 because it is before the Civil Rights Act and CPS data starts in 1962, and (2) 2005–2006 because it is many decades after the Civil Rights Act, to allow time for policy changes, and it is in a similar part of the business cycle. Notably, both periods averaged a 6 percent unemployment rate and 6 percent annual growth rate.

Table 4 lists parameter estimates I supply to the model. The top panel contains parameters from the literature I assume do not change over time. Labor market tightness is from Wolcott (2021) which calculates the ratio of vacancies to unemployed workers for the 1970s and 2000s for different skill levels. Estimates hover around 2.5. I choose a time-invariant tightness ratio because as noted by Martellini and Menzio (2020), there has been a remarkable lack of secular change in the Beveridge curve over the last century. Parameter M designates the number of endowed productivity types (i.e. submarkets). I choose $M = 9$ such that they split the population into 10 deciles. The vacancy posting cost κ is a standard choice from Pissarides

Table 4: Parameter Estimates for 1962–63 and 2005–06 Steady States

Parameter	Explanation	Value	Source
θ	labor market tightness	2.5	Wolcott (2021)
M	number of submarkets	9	splits 10 deciles
κ	vacancy posting cost	0.4	Pissarides (2009)
$\omega_{t=62}$	minimum wage 2019 USD	9.80	Figure 1
$\omega_{t=05}$	minimum wage 2019 USD	6.64	Figure 1
$\frac{b_{t=62}}{\omega_{t=62}}$	UI as share of average wage	0.34	Figure 1
$\frac{b_{t=05}}{\omega_{t=05}}$	UI as share of average wage	0.30	Figure 1
$L_{t=62}(9)$	labor share 9 th decile	0.70	BLS
$L_{t=62}(5)$	labor share 5 th decile	0.64	BLS
$L_{t=05}(9)$	labor share 9 th decile	0.70	BLS
$L_{t=05}(5)$	labor share 5 th decile	0.59	BLS
$\pi_{t=62}(x)$	bargaining power	[.25 .36 .43 .48 .52 .55 .57 .61 .64]	calibrated
$\pi_{t=05}(x)$	bargaining power	[.08 .23 .33 .40 .46 .50 .55 .59 .64]	calibrated
$A_{t=62}$	aggregate productivity	1	normalized
$A_{t=05}$	aggregate productivity	1.19	calibrated

Notes: The top panel lists parameters from the literature that are assumed not to change over time. The middle and bottom panels list parameters whose values change over time. Subscript $t = 62$ indicates data averaged over 1962–1963 and subscript $t = 05$ indicates data averaged over 2005–2006. Parameter $\hat{\omega}$ is the national average wage provided by the BEA.

(2009), and results are not sensitive to its value.

The middle panel of Table 4 contains parameters I assume change between steady states. The minimum wage is the federal minimum wage in 2019 U.S. dollars. If the federal minimum wage of \$9.80 covered all workers in the 1960s, it would have affected the first decile who made \$8.45 an hour or less. Not all workers, however were covered. The federal minimum wage excluded agriculture and most service workers, who made up about 10 percent of the bottom decile.²² I assume \$8.45 was the prevailing wage in the absence of a minimum wage. Although it is difficult to know what wages would have been in the absence of a minimum wage, after excluding farmers and non-retail trade occupations, wages at the first decile rise above the minimum wage, and wages at the other deciles hardly change. In contrast, the real minimum wage of \$6.64 in the 2000s was not binding for workers at the first decile who made \$10.15 per hour.²³

Unemployment benefits in Table 4 equaled 34 percent of average wages in the 1960s and 30 percent in the 2000s. Because real wages increased, this equates to an hourly unemployment benefit of \$7.13 in the 1960s and \$8.62 in the 2000s (both are in 2019 USD).²⁴ If unemployment benefits remained 34 percent of average wages, they would have equaled an hourly rate of \$9.73. Therefore, relative to the counterfactual, unemployment benefits fell by over a dollar to \$8.62.

The BLS provides time series of the aggregate labor share since 1947 and labor shares by two-digit sector since 1997. To recover worker bargaining power for each submarket, ideally I would know the labor share of each wage decile. Unfortunately, individual worker output is unmeasurable, so to circumvent, I make two assumptions: (1) the top decile labor share equals that of the professional and business service sector and has not changed over time, and (2) labor share has a linear relationship with where a worker is in the wage distribution. The professional and business service sector encompass jobs requiring a high degree of expertise and includes establishments that undertake a strategic decision making

²²The federal minimum wage in 1962–1963 covered “employees engaged in interstate commerce or in the production of goods for interstate commerce... [and] employees in large retail and service enterprises as well as to local transit, construction, and gasoline service station employees.” (<https://www.dol.gov/agencies/whd/minimum-wage/history/chart>).

²³Clemens and Strain (2022) find state and local minimum wage increases in the 2000s did affect minimum wage workers, but most of their wage gains were driven by career progression and increases in labor demand. Since I group all workers in the first decile together, the federal minimum wage, on average, is not binding for this group.

²⁴I convert weekly estimates to hourly by assuming full-time employment and dividing weekly benefits by 40 hours.

role of other companies. According to the CPS, the professional and business service sector employed more workers in the 90th percentile in 2005–2006 than any other sector, and for the years with data, its labor share has remained stable.²⁵ I take a conservative stance and assume the labor share in both 1962–1963 and 2005–2006 equaled 0.70 for the top decile $L(9)$. Relying on the second assumption, I calibrate the average labor share (which here equals the median) to match the aggregate labor share. In 1962–1963, the labor share was 64 percent and in 2005–2006 it fell to 59 percent.

The bottom panel of Table 4 lists parameters internally recovered from the calibration procedure. I recover the first vector of worker bargaining power [.25, .36, .43, .48, .52, .55, .57, .61, .64] from targeting labor shares in 1962–1963. I recover the second vector [.08, .23, .33, .40, .46, .50, .55, .59, .64] from targeting labor shares in 2005–2006. The bargaining power parameters within each vector are ordered left to right by workers with increasing endowed productivity. Similar to Bloesch et al. (2022), I find heterogeneous bargaining power. Comparing the two vectors, I find bargaining power remained constant at 64 percent for the most endowed, but for every other submarket, bargaining power declined mirroring the decline in unionization (Abowd and Lemieux, 1993). Unions mostly benefit less educated workers and historically have helped close the wage gap (Freeman, 1980; Blau and Kahn, 1996; Card et al., 2003). The dramatic decline in unionization rates reopened that gap, and even though union membership declined across education groups, the decline was greatest for the less educated workers (Mayer, 2004). My estimates of bargaining power are inline with Cahuc et al. (2006) who find for the late 1990s that bargaining power for “unskilled” workers, with no managerial tasks, ranged from 20 to 40 percent while bargaining power for “skilled” workers ranged from 40 to 60 percent.²⁶

The first step of the calibration procedure is to uncover the model’s endowed productivity parameters x and worker bargaining power $\pi(x)$ by calibrating the model to match wages in 1962–63. Equations (8) and (9) are two equations from which I recover the two unknowns for each submarket. The result is Figure 3 Panel A. Real hourly earnings are plotted by percentiles of the wage distribution, and by construction, the model-generated wages exactly match the data.

The second step of the calibration procedure is to use the recovered endowed productivity

²⁵<https://www.bls.gov/opub/mlr/2017/article/estimating-the-us-labor-share.htm>

²⁶Estimates from Cahuc et al. (2006) are from their model without on-the-job search. Their Table IV displays a range of estimates depending on industry and skill. After dropping outliers, bargaining power estimates for Labor Categories 2-4 are between 20 to 40 percent and those for Labor Category 1 are between 40 and 60 percent.

parameters x from step one to predict the wage distribution in 2005–06. To do this, I recalibrate the model, swapping endowed productivities as the set of parameters I know for moments on the wage distribution I pretend not to know. Thereby, I still have two equations—(8) and (9)—and two unknowns— $\pi(x)$ and $\omega(x)$ —for each submarket. I then recover the vector of bargaining powers $\pi(x)$ and the vector of predicted wages $\omega(x)$. The new set of labor policies for 2005–2006 are incorporated in the optimization problem, and they are why the wage distribution changes between steady states.

Lastly, I target the median wage in 2005–2006 to recover model-consistent aggregate productivity growth A . I find aggregate productivity increased 19 percent between 1962–63 and 2005–2006. The Department of Labor estimates labor productivity increased by 2.5 fold, however, if I supplied the model with this outside estimate, it would severely overshoot observed wages across the distribution.

3.6 Results

Figure 3 Panel B is the main result. It plots the observed wage distribution (in blue) and model-generated wage distribution (in orange) for the post-civil rights period. Unlike Panel A, only the 50th percentile is targeted. Nevertheless, the model captures the rise in inequality remarkably well. Comparing Panels A and B, the reader might note that the ratio between the top and bottom of each wage distribution increased between 1962–1963 and 2005–2006. While real hourly earnings in Panel A linearly increases with percentile, real hourly earnings in Panel B exponentially increases, suggesting policy changes increased inequality.

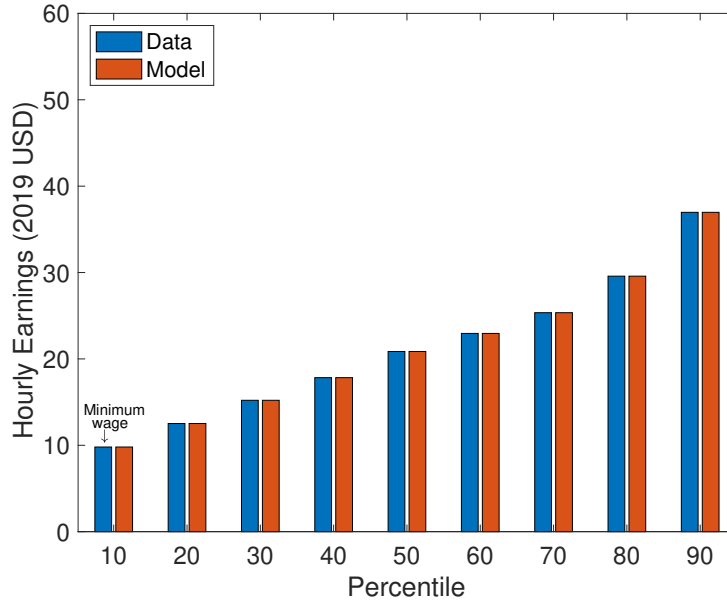
Table 5 highlights a popular measure of inequality: the 90th percentile to 10th percentile wage ratio (i.e. the 90/10 ratio). The first column shows that the ratio, as calculated from the data, increased from 3.77 to 5.37. Because some occupations were excluded from the minimum wage in 1962–1963, wages at the 10th percentile drop below the federal minimum wage. In order to isolate the effect of a change in the minimum wage from a change in its coverage, I use the federal minimum wage in 1962–1963 as the benchmark for the 10th percentile in Table 5.

The second column of Table 5 shows that the full model, with all of its channels turned on, predicts the 90/10 ratio increased from 3.77 to 4.56 and accounts for 0.79 percentage points or 49 percent of the observed increase.

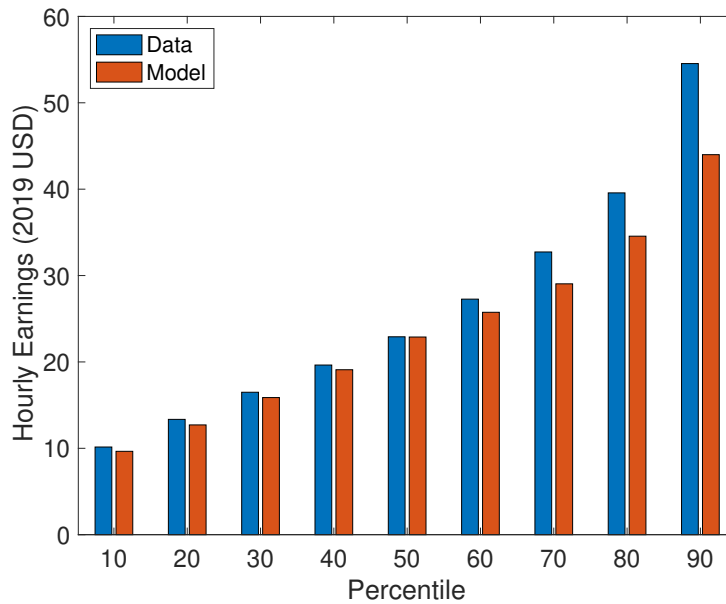
The counterfactual exercises in the last three columns reveal what would have happened to

Figure 3: Wage Distribution Before and After the Civil Rights Act

Panel A: 1962–1963



Panel B: 2005–2006



Notes: Author's calculations using data from IPUMS-CPS and FRED. Hourly earnings for the 10th percentile in 1962–1963 is the minimum wage. All other hourly earnings are calculated from ASEC wage and salary income for full-time workers divided by 50 weeks and 40 hours per week and converted into 2019 USD. Active military are excluded. Data for 1962–1963 is targeted by the model. Except for the 50th percentile, data for 2005–2006 is untargeted and should be used to evaluate the model's success.

Table 5: 90/10 Wage Inequality Ratio

	Data	Full Model	Min Wage Off	UI Off	Bargaining Off
1962–1963	3.77	3.77	3.77	3.77	3.77
2005–2006	5.37	4.56	4.48	4.16	3.75
Difference	1.60pp	0.79pp	0.72pp	0.39pp	-0.02pp
Accounts for	100%	49%	45%	24%	-1%

Notes: Top panel is the ratio between the 90th percentile and 10th percentile of income earners, in terms of hourly wage. Data is from IPUMS-CPS. Full model has all channels turned on. The last three columns are the model with individual channels turned off. The “Difference” row is the percentage point change in the 90/10 ratio from 1962–1963 to 2005–2006. The “Accounts for” row is the share of the observed change in the 90/10 ratio accounted for by the model. Wage data for the 10th percentile in 1962–1963 is the federal minimum wage.

the 90/10 ratio if each policy lever was individually turned off, while the remaining policy levers and aggregate productivity growth evolved according to the full model. Because of the model’s non-linearity, there are interesting interactions between the channels.

Had the minimum wage remained at \$9.80 an hour, instead of dropping to \$6.64, and everything else stayed the same as in full model, the model would account for 45 percent of the rise in the 90/10 ratio.²⁷ This is because the counterfactual minimum wage is slightly binding for the model-generated 10th percentile who were predicted to earn \$9.65 in the 2000s. The counterfactual minimum wage affects only some parts of the distribution and only some measures of inequality. For instance, it has large implications for the first percentile (not shown) and is irrelevant for the 50th percentile and the 90/50 ratio (see Appendix F). Autor et al. (2008) and Autor et al. (2016) similarly conclude that although the minimum wage affects the bottom of the distribution, it is a poor explanation for inequality by itself because the 90/50 ratio, which is unaffected by the minimum wage, also increased.

Had unemployment benefits as a share of wages remained at its 1960s value, the model would account for 24 percent of the rise in the 90/10 ratio, implying unemployment insurance policy was an important driver of wage inequality.²⁸ This is likely an upper bound for two reasons. First, in reality not all workers are eligible for the program and so unlike in the

²⁷For the counterfactual exercises, I assume aggregate productivity growth recovered from the baseline specification stays at 19 percent.

²⁸In 2005–2006 average unemployment benefits equaled \$8.62 per hour in 2019 USD which was 30 percent of average wages. Had average unemployment benefits remained 34 percent of wages in the 2000s, they would have equaled \$9.73 per hour, and it is this value I use in the counterfactual exercise.

model, not all workers use it to bargain over wages.²⁹ Second, I assume a constant level of benefits matter for equilibrium wages across the distribution. However, workers at the bottom of the distribution are more likely to receive a benefit proportional to past wages. For reasons discussed in Section 3.2, this detail was not incorporated, however, one can imagine it dampening the unemployment benefit channel.

Had worker bargaining power remained between 24 to 64 percent (depending on where a worker is on the wage distribution) the 90/10 ratio would have fallen by one percent. In this counterfactual scenario, competing forces almost exactly offset each another. Since parameter values satisfy proposition 4, aggregate productivity puts upward pressure on inequality. At the same time, since parameters values also satisfy proposition 2, an increase in the level of unemployment benefits (despite a decrease in the ratio of unemployment benefits to wages) puts downward pressure on inequality. Had low-wage bargaining power also fallen, as it does in the full model, this would have interacted with the first force and tilted the scale so that the increase in inequality outweighed the decrease. In other words, had bargaining power not changed since the 1960s, inequality would have not changed either. It is for this reason, I conclude that, of the channels considered, bargaining power was the most important contributor to wage inequality.

4 Discussion

Throughout the paper, I motivate the decline in worker bargaining power with the decline in unionization because unions typically have more sway than individuals when negotiating with employers. A vast empirical literature documents causal ties between union membership and higher wages for low- and middle-wage workers (Callaway and Collins, 2018; Collins and Niemesh, 2019; Farber et al., 2021). When the opposite occurred at the aggregate level and unionization declined in the 1970s and 1980s, it follows that less unionization likely contributed to wage stagnation. Moreover, a recent paper by Stansbury and Summers (2020) concludes the decline in worker power originating from unionization, or the threat of unions, contributed to wage inequality.

I focus on long-term policy changes spanning the second half of the 20th century of which unionization is an outcome. Enforcement of collective bargaining agreements waned in the 1970s and the decline accelerated after President Reagan fired more than 11,000 striking air

²⁹Michaud (2022) finds that a third of ineligible workers are younger than 25 and older than 65. I check robustness by recalculating wages for this restricted sample and the main takeaways from the calibration results hold.

traffic controllers in 1981. The Reagan strike break spurred a series of other strike breaks and a culture where employers were tougher on unions and workers were more hesitant to strike (McCartin, 2011). Using more recent data, Fortin, Lemieux, and Lloyd (2023) find state right-to-work laws weakened collective bargaining and lowered unionization rates and wages.³⁰ The impact was particularly large for high-unionization industries such as educational services, public administration, and construction which are concentrated in the bottom half of the wage distribution. Weakening policies and a changing regulatory culture reduced unionization and bargaining power for workers in the bottom half of the distribution.

I model technological change and worker bargaining power as two competing forces, but in reality they are intertwined. As robots replace labor, workers performing routine tasks have less bargaining power (Cordoba et al., 2023; Huetsch, 2023). Similarly, as the economy globalizes, workers competing with labor abroad have less bargaining power (Dumont et al., 2012; Charles et al., 2021; Ahlquist and Downey, 2023). I find that labor policy explains half of the rise in wage inequality and that exogenous factors—such as skill-biased technological change and competition from abroad—explains the other half. Yet, technological change and competition from abroad likely affect worker bargaining power just as anti-union busting legislation, right-to-work laws, and antitrust policy do. Separately identifying the determinants of bargaining power are outside the scope of this paper and is a promising area for future research.

The finding that worker bargaining power is an important driver of wage inequality relates to a blooming literature on monopsony power. Although I model the labor market as perfectly competitive, I include a friction which generates surplus from a worker-firm match. The fact that firms take home a larger share of surplus in the latter period is a reduced form way of capturing rising firm power, whether from a concentrated labor market or declining unionization. Azar, Marinescu, and Steinbaum (2020) and Yeh, Macaluso, Hershbein et al. (2022) use detailed vacancy and plant-level data to document that U.S. labor markets are concentrated. Deb, Eeckhout, Patel, and Warren (2022) and Berger, Herkenhoff, Kostøl, and Mongey (2023) use structural inference and find monopsony power has contributed to inequality. Stansbury and Summers (2020) distinguish between monopsony power and worker power and—in line with the assumptions of this paper—conclude that worker power is a more compelling explanation for the evolution of the U.S. economy.

Outside the scope of this paper but possibly a burning question for some readers: Why would

³⁰Right-to-work laws weaken unions by forbidding them from requiring dues from all workers benefiting from a collective bargaining agreement.

the white majority vote for policymakers who weaken their protections? More than two thirds of Black Americans were excluded by the Social Security Act, yet they only accounted for a quarter of agriculture and service workers (Spriggs, 2019). William E. Spriggs writes in his 2019 congressional testimony, “The odd issue here is that more Whites had to suffer a loss of Social Security benefits to achieve the elimination of African Americans from the program.” The same can be said for filling in public pools and closing public parks—in terms of sheer numbers, it likely hurt more white than Black Americans. A more recent example is the refusal of some states to expand Medicaid—at no cost to themselves—as part of the Affordable Care Act (Spriggs, 2018). Racial animosity, hierarchy, and ideology evades rationality (Kuziemko and Washington, 2018; de Souza, 2022).

5 Conclusion

In the 1950s and 1960s, wage inequality was at historic lows, but the moment was short-lived. After the Civil Rights Act, policymakers began chipping away at New Deal programs that had previously benefited the white middle class. First, I ask *why* labor policy changed. This question has received little attention in economics. I show that states with a larger Black population disproportionately chipped away at their unemployment benefits and minimum wage, and they had lower unionization rates.

Second, I ask *how* labor policy contributed to inequality, which has been studied before but not with a labor search model. The advantage of a search model is it accounts for general equilibrium effects and includes an avenue for both unemployment benefits and bargaining power to influence wages.

I find policy changes plausibly motivated by race and the desire to exclude Black workers had widespread effects. Declines in unemployment benefits, the minimum wage, and worker bargaining power explain half of the rise in wage inequality since the 1960s. Together, both parts of the paper illuminate not only the impact of policy but why it changed so that if the United States wants to, it can reverse course.

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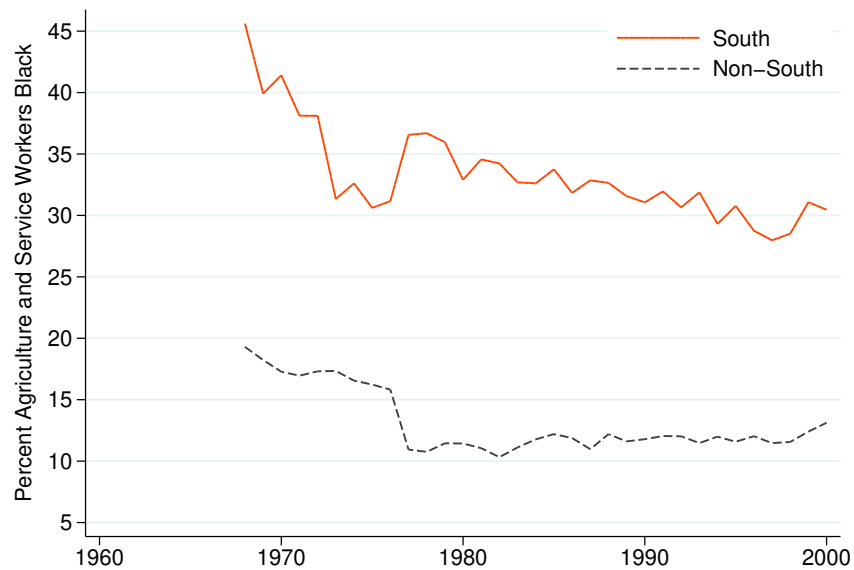
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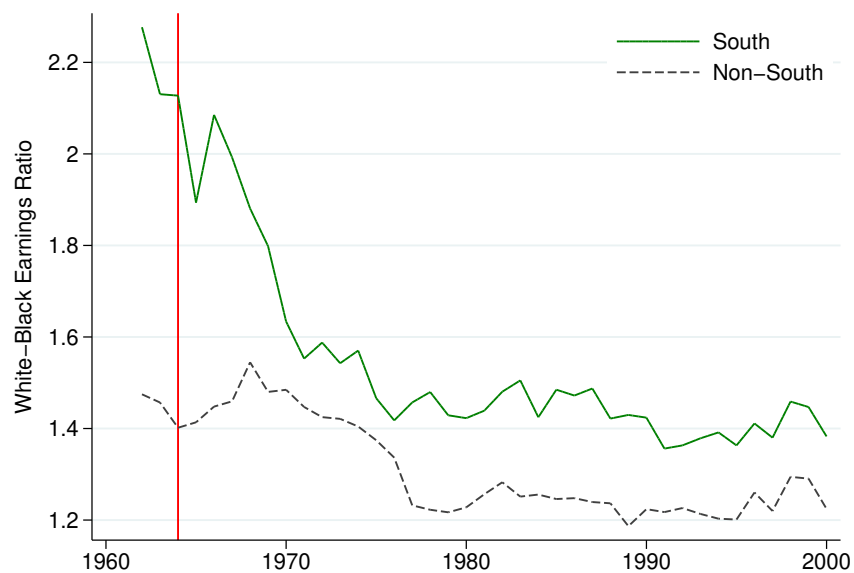
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A Trends for the American South and Non-South



Notes: Author's calculations using data from ASEC via IPUMS-CPS. Agriculture occupations are Farmers and Farm Laborers using the 1950 Census Bureau occupational classification system. Service occupations are Service Workers, both private household and not household, using the 1950 Census Bureau occupational classification system.



Notes: Author's calculations using data from ASEC via IPUMS-CPS. Hourly earnings are wage and salary income for full-time workers divided by by 50 weeks and 40 hours per week.

B State-Level Regressions by Decade

VARIABLES	(1)	(2)	(3)	(4)	(5)	(6)
	Avg Benefit	Avg Benefit	Avg Benefit	Avg Benefit	Avg Benefit	Avg Benefit
<i>(ShareBlack</i> ₁₉₆₀ <i>× PostPeriod)</i>	-0.0245 (0.0537)	-0.0496 (0.0583)	-0.0768** (0.0317)	-0.103 (0.169)	-0.831 (0.507)	-1.643*** (0.473)
<i>ShareBlack</i> ₁₉₆₀	0.0317 (0.0726)	0.0317 (0.0732)	0.0317 (0.0726)	0.0317 (0.0721)	0.0317 (0.0721)	0.0317 (0.0721)
<i>PostPeriod</i>	5.692*** (1.414)	10.69*** (1.817)	17.01*** (0.843)	43.48*** (4.224)	114.5*** (14.46)	184.2*** (13.15)
<i>Constant</i>	14.96*** (1.576)	14.96*** (1.589)	14.96*** (1.576)	14.96*** (1.564)	14.96*** (1.564)	14.96*** (1.564)
Observations	77	55	77	121	121	121
R-squared	0.372	0.707	0.670	0.445	0.634	0.794
States	South	South	South	South	South	South
Pre-period	1950	1950	1950	1950	1950	1950
Post-period	1954–1959	1960–1963	1964–1969	1970–1979	1980–1980	1990–1999
Post-period avg.	\$20.84	\$25.19	\$30.82	\$56.63	\$108.99	\$157.98

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

VARIABLES	(1)	(2)	(3)	(4)	(5)	(6)
	State Min	State Min	State Min	State Min	State Min	State Min
<i>(ShareBlack</i> ₁₉₆₀ <i>× PostPeriod)</i>	0 (1.02e-09)	-0.000941 (0.00272)	-0.00190 (0.00384)	-0.0309* (0.0161)	-0.0568* (0.0294)	-0.0937* (0.0475)
<i>ShareBlack</i> ₁₉₆₀	-0.000604 (0.000739)	-0.000604 (0.000745)	-0.000604 (0.000739)	-0.000604 (0.000734)	-0.000604 (0.000734)	-0.000604 (0.000734)
<i>PostPeriod</i>	-0 (2.72e-08)	0.0921 (0.116)	0.148 (0.154)	1.377** (0.542)	2.514** (1.007)	4.104** (1.588)
<i>Constant</i>	0.0268 (0.0295)	0.0268 (0.0298)	0.0268 (0.0295)	0.0268 (0.0293)	0.0268 (0.0293)	0.0268 (0.0293)
Observations	77	55	77	121	121	121
R-squared	0.020	0.023	0.021	0.152	0.194	0.225
States	South	South	South	South	South	South
Pre-period	1950	1950	1950	1950	1950	1950
Post-period	1954–1959	1960–1963	1964–1969	1970–1979	1980–1980	1990–1999
Post-period avg.	\$0.01	\$0.08	\$0.11	\$0.60	\$1.08	\$1.72

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

C Minimum Wages in the American South



Notes: Author's calculations using data from Derenoncourt and Montialoux (2021) and the U.S. Department of Labor. Minimum wages are in units of nominal U.S. Dollars. States are displayed in descending ordered by the percent of their population that is Black in the 1960 Census.

D Unionization Rate and Black Population Share

VARIABLES	(1) Union Rate	(2) Union Rate	(3) Union Rate	(4) Union Rate	(5) Union Rate
<i>BlackShare</i> ₁₉₆₀	-0.270*** (0.0497)	-0.143 (0.133)			
<i>BlackShare</i> ₁₉₈₀			-0.177*** (0.0615)		
<i>BlackShare</i> ₁₉₉₀				-0.182** (0.0796)	
<i>BlackShare</i> ₂₀₀₀					-0.232*** (0.0449)
<i>AverageEarnings</i>	0.00116*** (0.000204)	7.56e-05 (0.000407)	0.00233*** (0.000385)	0.00106*** (0.000292)	0.000912*** (0.000132)
<i>UnemploymentRate</i>	1.879*** (0.463)	1.673 (1.506)	0.931*** (0.239)	0.781 (0.862)	2.294*** (0.489)
<i>Constant</i>	-15.34*** (4.242)	1.713 (13.03)	-16.56*** (4.753)	-5.445 (4.938)	-18.93*** (3.896)
Observations	51	11	51	51	51
R-squared	0.516	0.202	0.429	0.288	0.455
States	All	South	All	All	All
Sample Average	1983–2000	1983–2000	1983	1990	2000

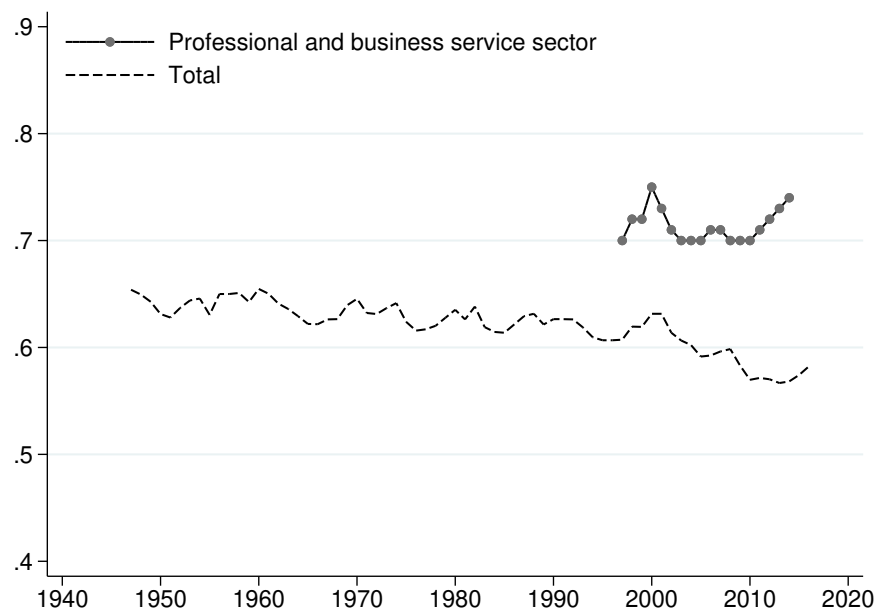
Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Notes: Author's calculations using data from the CPS. Union Rate is the share of a state's population covered by a labor union; this includes both union members and non-members.

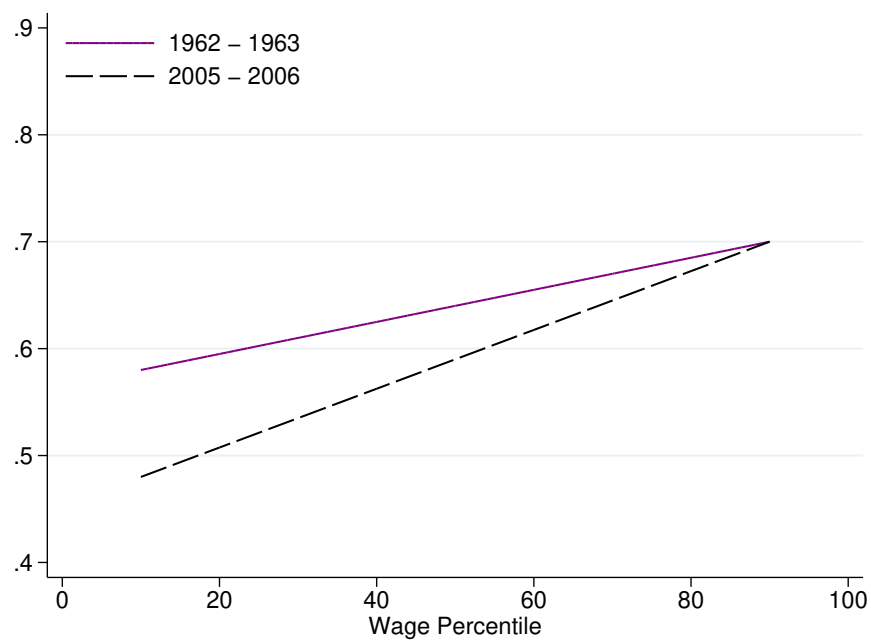
E Labor Share

Data for Labor Share



Notes: Data from the BLS.

Model Assumptions for Labor Share



F 90/50 Wage Inequality Ratio

	Data	Full Model	Min Wage Off	UI Off	Bargaining Off
1962–1963	1.77	1.77	1.77	1.77	1.77
2005–2006	2.38	1.92	1.92	1.89	1.77
Difference	0.61pp	0.15pp	0.15pp	0.12pp	0pp
Accounts for	100%	25%	25%	19%	0%

Notes: Top panel is the ratio between the 90th percentile and 50th percentile of income earners, in terms of hourly wage. Data is from IPUMS-CPS. Full model has all channels turned on. The last three columns are the model with individual channels turned off. The “Difference” row is the percentage point change in the 90/10 ratio from 1962–1963 to 2005–2006. The “Accounts for” row is the share of the observed change in the 90/10 ratio accounted for by the model.