

## **Expanding the African-American Middle Class: Improving Labor Market Outcomes**

**Testimony by Harry J. Holzer to the United States Commission on Civil Rights**

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The data presented this morning by Doug Besharov show that, despite some progress during the 1990's, the share of African-Americans joining the middle class in the U.S. has stagnated over the past 20-30 years. At least some of these trends are closely tied to changes in the labor market for Americans with different levels of educational attainment in that time period.

What opportunities currently exist for blacks in the labor market, and how do these vary with their level of education? What explains the remaining gaps between whites and blacks, and how might the opportunities for blacks be improved over time?

Below I present a brief snapshot of the current labor market for black and white Americans of different education levels. These data reflect longer-term trends in the U.S. economy, and how various groups have adapted to these trends. After considering these data, I review some broad policy options for improving employment and earnings outcomes among blacks.

### **The Data**

Table 1 below presents data on employment rates and median annual earnings for whites and blacks (as well as Hispanics) by gender and educational attainment.<sup>1</sup>

The results suggest four major conclusions:

- 1) Employment and earnings are strongly related to educational attainment for all racial groups.
- 2) The earnings of black men are about 20-25% lower than those of white men, when compared to those with similar educational attainment; the earnings of black and white women within education groups are somewhat more comparable.
- 3) Employment rates of black men also lag behind those of white men in the same educational categories, especially at lower levels of education.
- 4) The average earnings levels of individual black workers with at least some college education are sufficient to attain middle-class status (requiring at least \$30-35,000 of annual income). Those with high school diplomas will usually require two earners in a household to attain that status, unless they can stabilize their employment or attain better non-college jobs.

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<sup>1</sup> The data are computed from the March files of the Current Population Survey over the period 2000-2004, to present a portrait of the current labor market over different points in the recent business cycle.

The strong effects of education on employment and earnings reflect a labor market that puts a much greater premium on education, and skills more broadly, than in the past; indeed, the differences in earnings across education groups have grown greatly over time for all workers in the U.S.<sup>2</sup> The continuing education gaps between young blacks and whites clearly contribute to earnings gaps between them as well. Blacks continue to drop out of high school in greater numbers than whites, and they enroll and complete college less frequently.<sup>3</sup>

The gaps in earnings between black and white men, even with the same education levels, partly reflect gaps in cognitive skills (as measured by test scores); but other factors are also relevant. A lack of early work experience, persistent discrimination, weak informal networks, and geographic mismatches between jobs and workers contribute to the poor employment experience of black men.<sup>4</sup> Among other effects, these factors limit their access to the better-paying jobs in construction, manufacturing, transportation and some parts of the service sector that will continue to be available to those without college diplomas.<sup>5</sup>

Employment and earnings trends for black females have been much more positive since the 1990's than for males; indeed, the employment of black women is similar to or higher than that of white women in each educational category, while their annual earnings are fairly comparable as well. Only the fact that their educational attainment lags behind that of whites prevents them from achieving parity.

The positive employment trends since the 1990's for less-educated females reflect welfare reform, the growth of work supports (such as the Earned Income Tax Credit) and a strong economy during that time period.<sup>6</sup> In contrast, the continuing decline in work activity for less-educated black men reflects, among other factors, the explosive growth in the number of young men with criminal records in the 1990's, and perhaps the tendency of the child support enforcement system to deter regular employment among low-income black men.<sup>7</sup> These forces mostly impact men and women well below the middle-class threshold; but they also will limit the chances of *children* in lower-income black families to enter the middle class in the future.

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<sup>2</sup> See Autor and Katz (1999).

<sup>3</sup> See Kane (1994) and Swanson (2004).

<sup>4</sup> See Johnson and Neal (1998) and Holzer (2000).

<sup>5</sup> See Andersson et al. (2005) for evidence on wage differences across sectors of the economy for workers with comparable skills. See also Edelman et al. (2005) for a discussion of job availability over the next decade for less-educated workers. They argue that, with the coming retirements of Baby Boomers, a great deal of replacement hiring will occur in occupations paying above-average wages that will not require four-year college diplomas, though they will often require significant occupational skills, training and/or work experience.

<sup>6</sup> See Blank and Schmidt (2002).

<sup>7</sup> See Pager (2003) and Holzer, Offner and Sorensen (2005). Pager shows that employers are reluctant to hire young men with criminal records, especially young black men. Holzer et al. show that the rising proportion of young black male ex-offenders and non-custodial fathers accounts for much of their employment decline in the 1980's and 1990's.

But, even at higher levels of education, black women have achieved greater parity in earnings and employment with whites than have black men. The fact that young black women are now completing high school and enrolling in college at substantially higher rates than black men also raises concerns about future trends in the growth of the black middle class.<sup>8</sup>

The employment difficulties of black men likely contribute to the growth of female-headed families over the past few decades. Scholars still debate the extent to which the shrinking pool of “marriageable men” contributes to the growth of female headship in the black community, though few doubt that it plays some role. Clearly, the growth of families with only one potential earner in the black community limits the ability of many black families today, and their children tomorrow, to join the middle class.<sup>9</sup>

### **Policy Implications**

The data analysis and discussion above leads me to conclude with the following goals for public policy:

- Improve educational attainment and skill development among blacks at all levels of schooling;
- Improve labor force attachment and access to better jobs, especially among young black men; and
- Raise the number of black families with two adult earners, or at least where fathers contribute to family incomes.

The need to improve educational attainment among blacks exists at all levels of schooling and across many dimensions of skills. Closing the “achievement gap” in grades K-8 would create dividends in the form of higher graduation rates from high school and higher post-secondary enrollments as well as higher labor market earnings. High school reform efforts might also contribute to closing these gaps.

But it is also important to note that *high school reforms should not focus too narrowly on academics or preparation for college, and should also include better options for gaining occupational training and early work experience*. Indeed, a focus only on academics and preparation for college could lead to higher dropout rates, while a stronger mix of academic and occupational training along with early work experience will likely induce young people to drop out less frequently. When well-designed and implemented, these alternative approaches – including Career Academies, School-to-Work programs, and apprenticeships - can clearly lead to higher school completion rates and postsecondary enrollments as well as better employment outcomes for out-of-school youth.<sup>10</sup> Greater

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<sup>8</sup> A gender gap in college attendance and completion exists among whites and Hispanics as well; but, adjusting for the undercount of black men in most survey data because of high incarceration rates, the “gender gap” is greatest among blacks. See Edelman et. al. (2005).

<sup>9</sup> See McLanahan and Sandefur (1994), Ellwood and Jencks (2004), and Edin and Kefalas (2005).

<sup>10</sup> See Kemple (2004) on Career Academies; and Neumark and Rothstein (2003) on School-to-Work programs more broadly.

access to and financial support for lower-income students in higher education, including community colleges as well as four-year institutions, is important as well.

The labor force attachment of young black men can be encouraged not only through improved education, but also through effective post-school training programs for youth and adults. A range of labor market “intermediaries,” including private sector “temp agencies” as well as various non-profits and community-based groups, can help bridge the many gaps between employers and prospective black applicants, and improve the access of the latter to better non-college jobs.<sup>11</sup>

Finally, efforts to strengthen black families and the ties between fathers and children should include not only marriage-promotion efforts, but also “fatherhood” programs and child support reforms. These reforms, and perhaps some earnings supplementation for non-custodial fathers paying child support, could improve the attachment of low-income fathers to their children as well as to the labor market.<sup>12</sup> Special efforts will especially be needed on behalf of those with criminal records.<sup>13</sup> These efforts will not be sufficient to draw most into the middle class, but will perhaps create more positive chances for their children to become future members of the black middle class.

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<sup>11</sup> Examples of effective programs for youth that improve earnings and limit their involvement in crime include the Job Corps and the Youth Service Corps; see Edelman et al. Also, see Andersson et al. for evidence that “temp” agencies, and perhaps intermediaries more broadly, can improve the access of less-skilled workers to better employers and higher-wage jobs.

<sup>12</sup> Child support reforms might include changes in how orders are set for low-income men, especially while they are incarcerated, and arrearage “forgiveness” arrangements to encourage the payment of current orders. The Parents Fair Share program was one “fatherhood” effort designed to increase employment and improve father-child contacts, though it was more successful at the latter than the former. Proposals to extend the Earned Income Tax Credit to non-custodial fathers who are paying child support are currently under consideration in the state of New York and Washington D.C. Another example of a program that shows that earnings supplements can improve the labor force attachment of young black men is the New Hope project in Milwaukee.

<sup>13</sup> Efforts to raise labor force activity among those with criminal records could include programs to raise their employment while they are incarcerated; a variety of “reentry” programs, including those that are faith-based; and reviews of state laws that bar employment for ex-offenders in ways that are unrelated to public safety. Since most ex-offenders are also non-custodial fathers with arrearages, the policies described in the previous footnote are especially relevant for this population. See Holzer, Raphael and Stoll (2003).

<b>Table 1. Employment and Earnings by Education, Race and Gender</b>					
		<u><b>Males</b></u>		<u><b>Females</b></u>	
		<b>% Employed</b>	<b>Median Earnings</b>	<b>% Employed</b>	<b>Median Earnings</b>
<b>Less than high school</b>					
	<b>White</b>	76.3	20984	59.0	12149
	<b>Black</b>	56.0	16081	57.6	10805
	<b>Hispanic</b>	75.6	17671	57.1	11044
<b>High School Diploma</b>					
	<b>White</b>	91.0	31169	78.9	19740
	<b>Black</b>	78.3	24935	75.3	17671
	<b>Hispanic</b>	87.7	24935	76.0	17892
<b>Some College</b>					
	<b>White</b>	93.4	38655	83.0	24000
	<b>Black</b>	86.0	30000	84.6	23896
	<b>Hispanic</b>	91.7	31171	84.1	22641
<b>Bachelor's Degree or Greater</b>					
	<b>White</b>	96.4	57431	86.4	36400
	<b>Black</b>	92.8	44675	92.5	36364
	<b>Hispanic</b>	93.7	46753	87.6	36447
Source: 2000, 2002, 2004 CPS March Supplement (pooled)					
Notes: Only includes persons aged 16-54 not enrolled in school and persons born in the United States. Median earnings do not include values less than or equal to 0. All dollars are real 2003 dollars.					

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