

The costs of racial discrimination in the labor market

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New research published in *Economic Inquiry* indicates that if the wage gap between Black and white Americans decreased sufficiently, there would be a noticeable increase in overall income. If the wages converged completely, then overall income would increase permanently by around 4 percent.

For the study, investigators developed a [model](#) linking unequal access to

employment with the [wage gap](#), labor misallocation, and income loss. The model revealed that the presence of workers who have a disadvantage in the [labor market](#) (and are thus underpaid) allows inefficient firms to co-exist with efficient ones and leads to skill misallocation, higher unemployment, and a decrease in the level of companies' output. A fall in market-based [racial discrimination](#) renders inefficient companies non-profitable, causing a reallocation of labor and a positive effect on overall income.

"What motivated us is that a disadvantage in the labor market may arise for some individuals due to their race, gender, country of origin, or other features that are unrelated to how productive these individuals are, conferring a privilege upon a certain group of workers, such as whites, while hurting underprivileged workers and the overall economy," said corresponding author Marios Zachariadis, Ph.D., of the University of Cyprus. "Focusing on race, we showed that wage gaps and misallocation are both generated by the unequal opportunities for employment that equally talented workers have, depending on whether they are 'privileged' or 'underprivileged,' and that closing these gaps will not only help the 'underprivileged' but will also benefit the economy as a whole by reducing misallocation."

More information: Measuring the welfare costs of racial discrimination in the labor market, *Economic Inquiry* (2022). [DOI: 10.1111/ecin.13126](#)

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