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Minimum Wage Increases Reduce Racial Disparities during Hiring

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POLICY BRIEF

Minimum Wage Increases Reduce Racial Disparities during Hiring

Alec Brandon, Justin Holz, Andrew Simon, and Haruka Uchida

BRIEF HIGHLIGHTS

- *By measuring the racial callback gap both before and after state minimum wage increases, we test how minimum wage policies affect racial disparities during hiring.*
- *At the start of our study, 18 percent of applicants with distinctively White names received a callback, compared to only 15 percent of applicants with distinctively Black names—a large racial gap of about 3 percentage points, or 19 percent.*
- *Our model and data suggest that hiring managers perceive that applicants with a distinctively Black name, but otherwise equivalent resumes, are of lower and more variable quality than applicants with a distinctively White name.*
- *When the minimum wage increases, making it more costly to hire low-quality workers, hiring managers call back fewer modest-quality White applicants to whom they gave the benefit of the doubt before the increase. Thus, callback rates for White applicants fell more than for Black applicants, shrinking the racial gap.*

For additional details, see the full working paper at https://research.upjohn.org/up_workingpapers/389/.

While the federal minimum wage has remained fixed since 2009, many state and local governments have increased their minimum wages to redistribute income to low-wage workers. Based on these frequent policy changes, a large academic literature has shown that, on average, higher minimum wages mainly accomplish this goal: despite reductions in aggregate hiring, low-wage workers see increased earnings, with little change in the number of low-wage jobs (e.g., Cengiz et al. 2019).

Despite these null findings, young Black men may be disproportionally affected by minimum wage increases, because unemployment data suggest that they are the most likely group to be on the margins of employment. In the summer of 2018, the unemployment rate in the U.S. for Black men 18 to 19 years old was 24.7 percent, the highest for any demographic group (Bureau of Labor Statistics 2018). Previous evidence on how the minimum wage affects young Black men is both limited—considering a large national minimum wage increase in the 1960s—and inconclusive (Bailey, DiNardo, and Stuart 2021; Derenoncourt and Montialoux 2021), with modern-day impacts unknown.

Our paper provides new experimental evidence on how recent state minimum wage hikes affect racial disparities in the labor market. We submitted nearly 35,000 fictitious applications to about 15,000 unique jobs in states across three periods: 1) just before new, higher minimum wages were announced; 2) after they were announced but not yet implemented; and 3) for up to a year after the increase took effect. For every application, we randomized the perceived race of the applicant through the applicant's name and observed whether the employer called the applicant in for a job interview.

Based on the employer responses collected from the 35,000 applications, we find that minimum wage hikes cut the racial differences in callback rates approximately in half. Before minimum wage hikes were announced, Black applicants received 8 callbacks for every 10 that white applicants received. After minimum wages increased, the callback gap shrunk by 2.6 percentage points, and Black applicants received a little over 9 callbacks for every 10 that white applicants received.

Measuring Racial Disparities in the Labor Market

We measure racial disparities in hiring through a correspondence study in which we applied to low-wage job postings with fictitious resumes (Bertrand and Mullainathan 2004). Unlike studies in which employers may observe applicant characteristics that are unobserved to the researcher, our approach allows us, as researchers, to control all aspects of the resume, including the applicant's name, education, past work experience, and time spent unemployed. This ensures that underlying racial differences in these nonrace characteristics do not confound our results. We randomize applicant characteristics on resumes across job applications in order to measure racial disparities in the labor market and address whether minimum wage policies exacerbate or reduce them.

Based on the information we include on the resume, employers can infer the applicant's race from a distinctively Black or White name, as well as their capabilities to

Based on the employer responses collected from the 35,000 applications [sent out], we find that minimum wage hikes shrink the racial callback gap by 80 percent.

perform the job based on whether the applicant has a GED or high school degree, has been unemployed for 1 or 12 months, and has previous work experience. Discriminatory hiring managers will use race and other characteristics to assess applicants' capabilities. We combine our applicant data with other information posted in the job ad (such as wage and occupation), whether the applicant received an interview request, and the minimum wage policy when the job was posted.

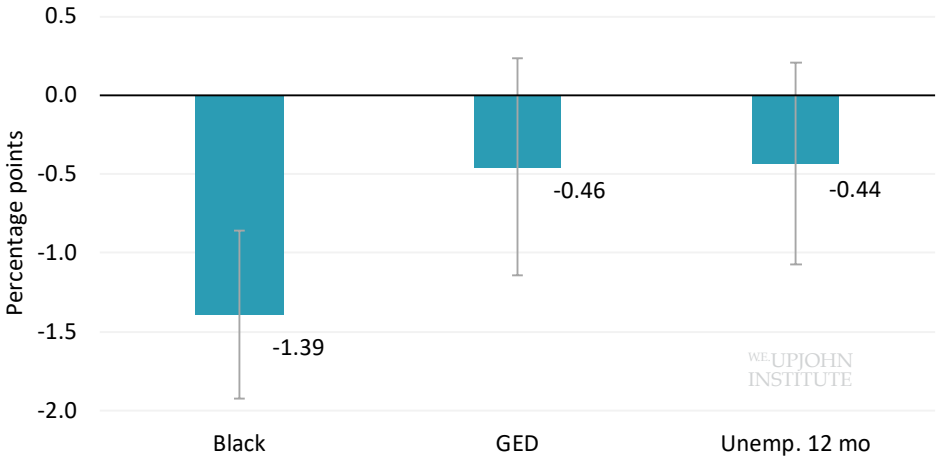
We sent job applications to postings in Arkansas and Missouri starting in September of 2018, and in Kansas and Illinois starting two months later. We sent applications through April 30, 2020. During this period, Arkansas and Missouri voted in November of 2018 to increase their minimum wages in January of 2019. Illinois's legislature passed a resolution in February of 2019 to increase the minimum wage beginning in January of 2020. In contrast, Kansas's minimum wage did not change during our sample period.

We first compare the likelihood of receiving a callback by applicant race, education, and unemployment duration. Figure 1 shows that, on average over the whole sample, Black applicants are 1.4 percentage points (12 percent) less likely to receive an interview request than White applicants. These racial disparities hold across all education and unemployment durations we consider, and we find that a Black applicant with a high school degree and who has been unemployed for only one month has a similar chance of receiving a callback as a White applicant with a GED and who has been unemployed for 12 months.

Minimum Wages and Racial Disparities in Hiring

By measuring the racial callback gap both before and after state minimum wage increases, we test how minimum wage policies affect racial disparities in hiring. We estimate the racial gaps in callbacks, as in Figure 1, but do so separately for three periods: 1) before the minimum wage hike has been announced, 2) after the minimum wage hike has been announced but before it has been enacted, and 3) after the minimum wage hike has been enacted. Figure 2 presents the average callback rates by race and period (Panel A), and the estimated racial gap (Panel B).

Figure 1 Estimated Gaps in Callback Rates by Race, Education, and Unemployment Duration



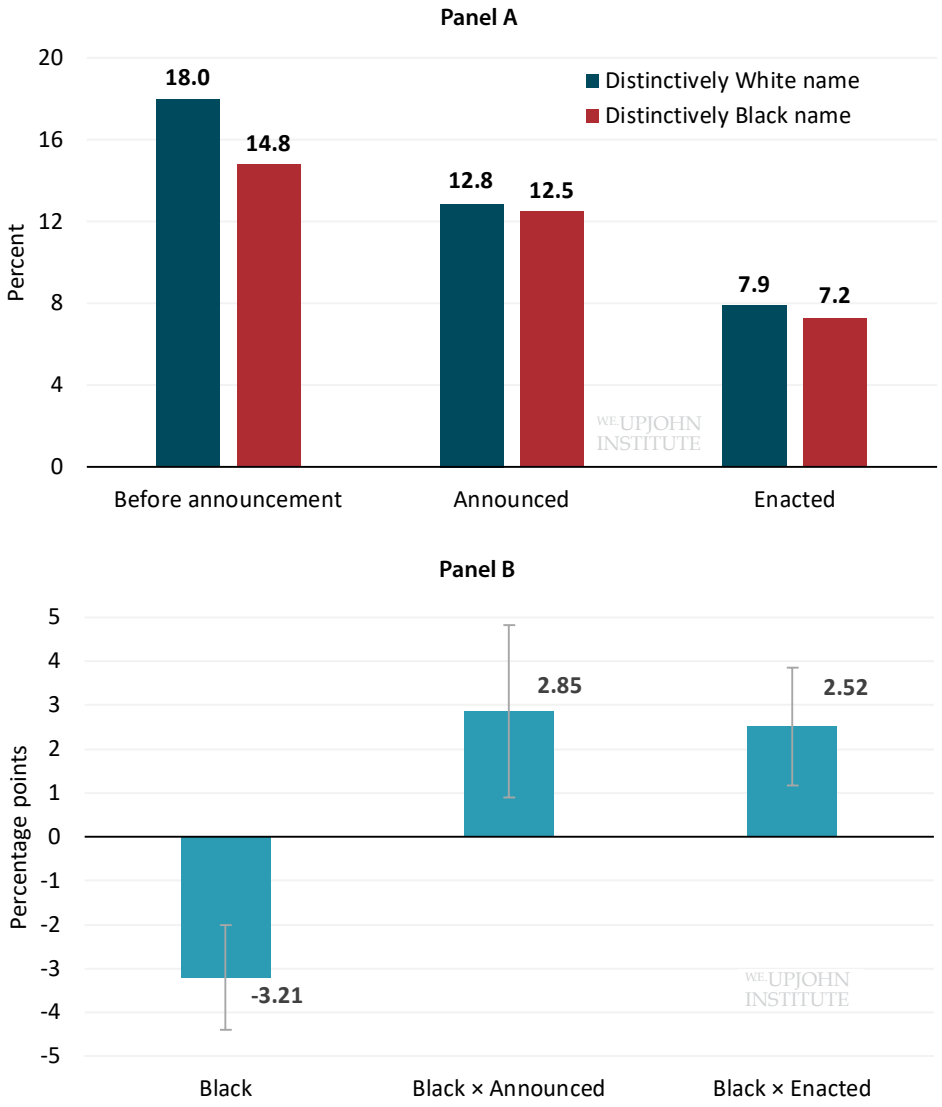
NOTE: The figure presents estimates and 95 percent confidence intervals for the callback gaps based on the randomized characteristics: Black vs. White, GED vs. high school graduate, and 12 months vs. 1 month unemployment duration. Estimates control for city fixed effects and applicant age; the sample consists of 34,986 application observations.

SOURCE: Authors' experimental data and calculations.

Before minimum wage hikes were announced, Black applicants received 8 callbacks for every 10 that a White applicant received. After minimum wages increased, Black applicants received a little over 9 callbacks for every 10 that white applicants received.

At the start of our study, 18 percent of applicants with distinctively White names receive a callback, compared to only 15 percent of applicants with distinctively Black names—a large racial gap of about 3 percentage points, or 19 percent. After the minimum wage hike announcement, both the average likelihood of receiving a callback and the racial gap fall considerably, even though employers did not yet need to pay workers higher wages. While the racial gap in callbacks shrinks, it persists at about 0.7 percentage points for at least a year after the new, higher minimum wage is implemented. We therefore find that these minimum wage increases reduced, but did not eliminate, racial disparities in hiring.

Figure 2 Callback Rates and Racial Gaps by Time Period of Minimum Wage Change



NOTE: Panel A presents adjusted estimates of the average callback rates by race and time period; Panel B displays coefficient estimates and 95 percent confidence intervals from a regression of whether an applicant received a callback. The coefficient estimate on *Black* represents the baseline difference in callback rates between applications with distinctively Black names and those with distinctively White names. The coefficient estimate on *Black* times *Announced* can be interpreted as the change in the racial callback gap after the minimum wage hike is announced. Similarly, the coefficient estimate on *Black* times *Enacted* can be interpreted as the change in the racial callback gap after the minimum wage hike is enacted.

SOURCE: Authors' experimental data and calculations.

When the minimum wage hike was announced, both the average likelihood of receiving a callback and the racial gap [in callbacks] fell considerably, even though employers did not yet need to pay workers higher wages.

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To attempt to understand why minimum wage increases reduce racial hiring disparities, we first consider the nature and extent of discrimination. Through the lens of an economic model of hiring estimated with our data, we provide evidence that two types of discrimination play an important role: "statistical" and "taste-based." Our model and data suggest that hiring managers both perceive that applicants with a distinctively Black name, but otherwise equivalent resumes, are of lower and more variable quality than applicants with a distinctively White name (statistical discrimination), and that they dislike hiring Black workers (taste-based discrimination).

When the minimum wage increases, making it more costly to hire low-quality workers, hiring managers call back fewer modest-quality White applicants to whom they gave the benefit of the doubt before the increase. Consequently, callback rates for White applicants fell more than for Black applicants, shrinking the racial gap. Based on the rich data generated from the applications, we are also able to rule out other competing hypotheses, such as changes in other applications not from our study, changes in the composition of which firms hire when the minimum wage increases, and changes in the way that hiring managers scrutinize resumes.

Conclusion

We provide new evidence that minimum wage hikes reduce racial disparities in hiring, although at the cost of making it more difficult for all unemployed workers to find employment. Our work suggests that policymakers who are considering using this policy to increase the earnings of low-wage workers do not need to also worry about exacerbating racial disparities in the labor market.

Readers should interpret our results with a few caveats in mind. First, we can only observe whether firms call back applicants for an interview. The evidence for whether callbacks are a good proxy for hiring is mixed; nevertheless, it is illegal to discriminate in the callback stage. Second, we collected data only for about a year after the minimum wage changed. The effects we find could differ from those that occur in the long run, especially as states pass multiyear minimum wage increases. While the small increases we observe in our data indicate that a higher minimum wage can decrease racial disparities, very high minimum wages may create other unintended consequences. Finally, since the effects of a minimum wage increase depend on the nature and extent of discrimination, our results may not extrapolate across labor markets or time.

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