Did Racially Motivated Policy Changes Reverse Equality Gains for Everyone?

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Abstract

Labor protection policies established by the New Deal helped many low- and middle-wage White workers in the 1950s achieve the American Dream. This coincided with historically low levels of inequality across income deciles. I find that after the Civil Rights Movement, policies that had previously helped the White middle class reversed, especially in states with a larger Black population. Calibrating a labor search model to match changing unemployment benefits, minimum wages, and bargaining power, 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 international competition 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 declined after the Civil Rights Movement. The decline of average unemployment benefits and the federal minimum wage are policy changes. The decline of unionization is a policy outcome and has been linked with changing legislation and waning enforcement (Farber and Western, 2002; Godard, 2003; Brudney, 2004; Fortin et al., 2023).

Why did labor policy change? To answer this question, it is helpful to begin with a 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 Standards 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 farm and domestic service workers because the majority of workers in these occupations were Black (Katznelson, 2005; Rothstein, 2017; Spriggs, 2019). 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). Occupation exemptions kept wages low for Black workers. The Social Security Act and and Fair Labor Standards Act further suppressed wages by delegating administration to the states where local discriminatory practices, especially in the Jim Crow South, continued unabated (Poole, 2006).[3]

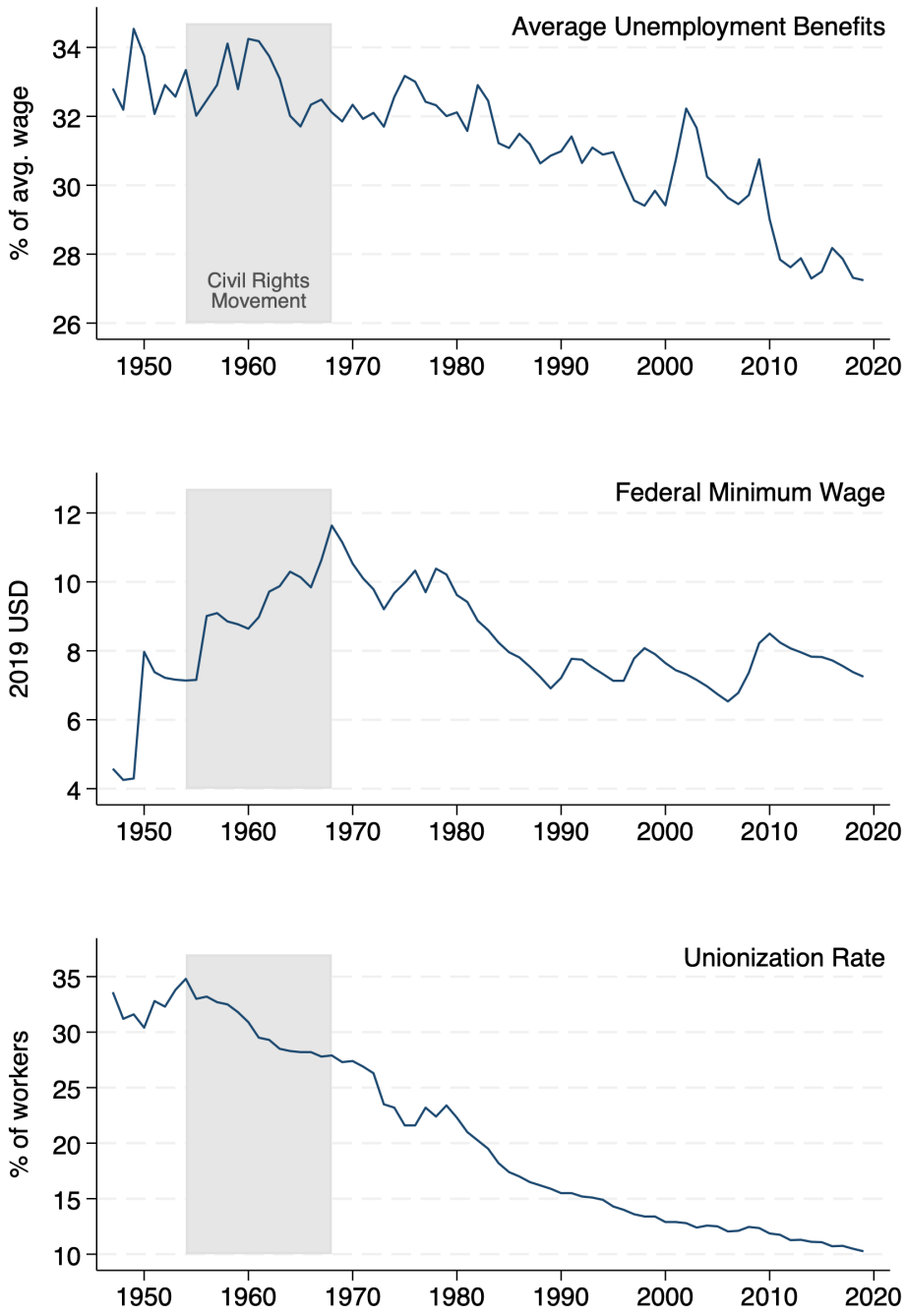
The Civil Rights Movement was a turning point for Black workers. The Civil Rights Act

[1]For 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 (Saez, 2021).

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

[3]The 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; they also had the option to set a state minimum wage above the federal minimum wage. After the Taft-Hartley Act of 1947, states had the option to pass right-to-work laws weakening unions in their jurisdiction.

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.

of 1964 outlawed racial discrimination in the workplace. That same year, the National Labor Relations Board refused to certify Whites-only unions, and a decade later, Congress amended unemployment insurance and minimum wage legislation to cover farm and domestic service workers (Price, 1985; Rothstein, 2017; Derenoncourt and Montialoux, 2021). Middle class jobs began hiring more Black workers (Butler et al., 1989; Spriggs and Williams, 1996; Darity Jr and Mason, 1998; Rawlston and Spriggs, 2002). A stark example is the textile industry. In 1960, just 5 percent of textile workers in South Carolina were Black; by 1980, 34 percent were Black (Wright, 2013). Because Black workers now had access to labor protections and to middle class jobs, the White-Black earnings gap steeply fell through the 1970s.[4]

It is at this juncture—just as Black workers began experiencing gains—that a political strategy to cut safeguards emerged. Lee Atwater, a political strategist working for President Reagan's administration, was recorded saying the following inflammatory statement in 1981:

> *You start out in 1954 by saying, "N—–, n—–, n—–." By 1968 you can't say "n—–" that hurts you, backfires. So you say stuff like, uh, forced bussing, states' rights, and all that stuff, and you're getting so abstract. Now, you're talking about cutting taxes, and all these things you're talking about are totally economic things and a byproduct of them is, blacks get hurt worse than whites..."We want to cut this," is much more abstract than even the bussing thing, uh, and a hell of a lot more abstract than "N—–, n—–."* (Perlstein, 2012)[5]

Atwater blatantly advocates for policies that would hurt all Americans with the goal of hurting Black Americans more.

The first part of this paper presents empirical evidence that a backlash to the Civil Rights Movement contributed to the decline in labor protections.[6] 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 larger Black population shares after more Black workers gained access. For a state with a 10 percentage point larger Black

[4]Appendix A shows that the decline in the White-Black earnings gap was more pronounced in the South, suggesting that this is where Black workers made the most gains after the Civil Rights Movement.

[5]In 1981, political scientist Alexander Lamis recorded an interview with Lee Atwater. He included this quotation in his book (Lamis, 1988) without attribution. In 2012, Lamis' widow released the recording, which was published by *The Nation* here: `https://www.thenation.com/article/archive/exclusive-lee-atwaters-infamous-1981-interview-southern-strategy/`.

[6]Quadagno (1994) makes a similar point for why welfare retrenched.

share, I find nominal unemployment benefits grew by half as much between 1950 and 2000. I also find that states with a larger Black share had slower minimum wage growth, and the magnitude varies across specifications. The dynamic difference-in-difference model I estimate allows me to test for pre-trends. Precisely when coverage expanded to farm and domestic service workers, is when I find unemployment benefits and minimum wages in high-Black-share states began trailing protections in low-Black-share states. These results are entirely driven by variation within the South. The Black population outside the South in 1960 was small and there is little variation across states. Another reason southern states might drive the results is their governments were responding to the federally-mandated ban of Jim Crow laws.

For unionization, a backlash to the Civil Rights Movement was more uniform across states. Unlike for unemployment insurance and minimum wage policy, collective bargaining after the Civil Rights Movement was nationally regulated and policy changes were experienced nation-wide. Even though the state-level evidence for a backlash through unionization is weaker, there still exists a negative relationship between the *level* of unionization and Black population shares. This negative relationship likely started after states were given autonomy to weaken collective bargaining in 1947 but before data on state-level unionization exists (Katznelson, 2005). I augment the analysis with information from the historical record and show it is likely that at least part of the decline in unionization was racially motivated.

What were the consequences of declining labor protections? Empirically, the states with larger Black population shares that I predict would reduce their unemployment benefits and minimum wages are precisely the states with more inequality, even among White Americans. This evidence suggests inequality—regardless of race—was a consequence of changing policy. It does not, however, indicate *how much* of the rise in U.S. inequality was from changing policy. This latter question is difficult to answer because it asks what the world would have looked like if labor policy had not changed. Building and calibrating a structural model of the labor market allows me to run counterfactual simulations and predict this alternative world.

In the second part of the paper, I build and calibrate a labor 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, unemployment benefits, minimum wages, and labor shares before the Civil Rights Act of 1964 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 unemployment benefits, minimum wages, 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 1960s level and predicting today's wage distribution. I find the federal minimum wage is least important for explaining the 90/10 ratio. The model assumes segmented markets representing each decile of the wage distribution, and the counterfactual minimum wage from the 1960s is barely binding for the 10^{th} percentile today. I find unemployment benefits matter some. In the model, unemployment benefits affect wage inequality because the constant benefit (i.e. outside option) matters more for the bottom of the distribution when negotiating wages. Holding the ratio of average benefits to wages fixed at its 1960s levels results in the model explaining 24 percent (instead of 49 percent) of the rise in 90/10 wage inequality. Most important is bargaining power. I allow worker surplus (i.e. bargaining power) to vary across wage deciles. I back out these unknown parameters by targeting data on labor shares which have declined more for the bottom of the distribution. Had worker bargaining power remained unchanged since the 1960s, I find 90/10 wage inequality would have also remained unchanged. 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 Massey (2009) and McGhee (2021) by asking 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. (2024), 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 Movement, 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.

Many papers study 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; Doepke and Gaetani, 2018). Most papers either study a specific factor in isolation, ignore general equilibrium effects, or do not quantitatively disentangle the drivers.[7] To my knowledge, none the literature decomposes the role of unemployment insurance, minimum wages, 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) and Carpenter et al. (2025) document a negative relationship between welfare support and either actual Black population shares or survey respondents' beliefs about the share of Black beneficiaries. Spriggs (2018) documents a positive relationship between the passage of right-to-work laws and the Black share of a state's labor force.[8] 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.

[7]For 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."

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

2 Why Did Labor Protections Decline?

Labor protections, in real terms, have declined since the 1960s, but their decline has not been geographically uniform. 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 many states to adopt their own minimum wage. It is this variation I exploit to study the relationship between labor policy and Black population shares.

In what follows, I show that states with more Black residents have seen nominal unemployment benefits and nominal minimum wages increase by less. This might reflect a causal relationship or a third factor driving the reduced-from 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 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 minimum wages for 1981 through 2000 are from the Department of Labor.[9] 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

[9] `https://www.dol.gov/agencies/whd/state/minimum-wage/history`. Minimum wages in the later dataset only cover non-farm employment.

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.[10] Appendix D 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 the one percent state sample of the census via IPUMS-USA (Ruggles et al., 2021). Data exists for 50 states. I define Black as a respondent listed as "Negro or Black."

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

2.2 State-Level 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 dynamic difference-in-difference model:

$$\begin{aligned} Y_{s,t} = \alpha + \sum_{j \neq k} \beta_j \Big(BlackShare_{s,1960} \times \mathbb{1}(year = j) \Big) \\ + \gamma BlackShare_{s,1960} + \delta \mathbb{1}(year = j) + \zeta X_{s,t} + \epsilon_{s,t}, \end{aligned} \tag{1}$$

where $BlackShare_{s,1960}$ is the share of the population categorized as Black in state s and year 1960; $\mathbb{1}(year = j)$ are year fixed effects; $X_{s,t}$ is a vector of controls including the average

[10] For 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.

[11] Unlike in Figure 1, I use nominal quantities here because state-level price indices do not exist back to the 1950s.

annual earnings and the unemployment rate in state s and year t; and $\epsilon_{s,t}$ is the residual. I use population shares from the 1960 census because it is before the Civil Rights Act, but results are robust to using population shares from the 1970 census which marks the end of the Great Migration and is closer to when federal unemployment insurance and minimum wage policy expanded coverage. The coefficients of interest β_j measure the association between a state's Black population share and the change in labor policy for every year j, relative to reference year k. Robust standard errors are clustered at the state level.

Figure 2 displays results for unemployment insurance. The dots represent the predicted change in weekly benefits since 1950 ($\beta_{j\neq 1950}$) for every year in the sample, $j \in [1951, 2000]$.[12] Shaded regions represent 90 percent confidence bands. For the first half of the sample period, Black population shares do not predict changes in unemployment benefits. This abruptly changes in the late 1970s and coincides with amendments to federal legislation mandating unemployment insurance cover farm and domestic service workers. Using data from all 50 states (red), I find that by 2000, a state with a one percentage point larger Black population share averaged a \$1.06 smaller weekly benefit. This is economically large and statistically significant. The sample mean in 1950 was only \$19 per week, meaning a 10 percentage point larger Black share is associated with a 55 percent smaller benefit.[13]

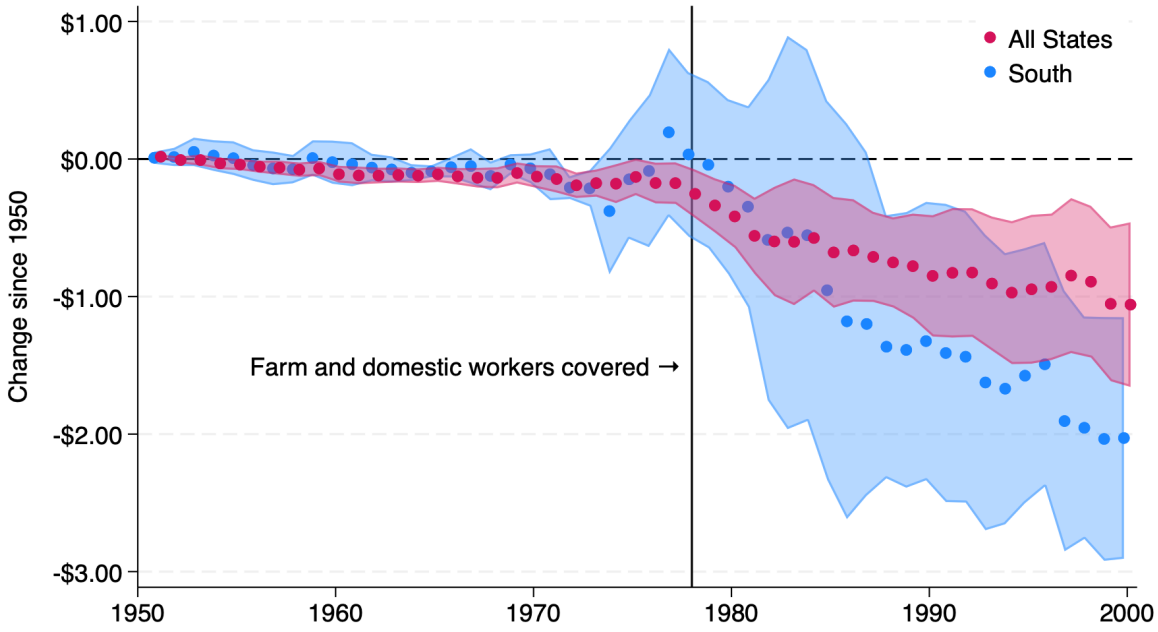
One may be concerned that the southern states are driving the result. Could the negative relationships in Figure (2) using data from all states be from the South simultaneously having a larger Black population and more libertarian political views unrelated to race? To test this hypothesis, I exclude the 11 former Confederate states (synonymously referred to as the South) and the results do, in fact, disappear. However, as shown by the blue series in Figure (2), if I only include the 11 former Confederate states, results are statistically significant and larger in absolute value than the red series, 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.[14] 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

[12] Control variables are excluded from this baseline specification because they restrict the sample period. For the corresponding regression table, see Appendix C, Table C.1, column (1).

[13] All regression results reported in this section and in the appendix are robust to weighting by the state population in 1960, however for some specifications, estimates are less precise after doing so.

[14] Derenoncourt (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.

Figure 2: Change in Unemployment Benefits for Larger Black Population States



Notes: This figure plots coefficients β_j after estimating equation (1) excluding the vector of controls. Point estimates indicate how average nominal weekly unemployment benefits changed since 1950 for a state with a one percentage point larger Black population share. Shaded regions are 90 percent confidence bands, where robust standard errors are clustered at the state level. The blue series includes all 50 states. The red series only includes the 11 former confederate states. The vertical reference line at 1978 indicates when federal unemployment insurance legislation expanded coverage.

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.

Another potential concern is that states with more Black workers have lower wages, higher unemployment, and therefore lower average benefits. The purple series in Appendix B plots results from equation (1) but includes average earnings and unemployment rates to control for differences across states. Because earnings data is only available for enough states in 1963 and from 1977 onward, the reference year is 1963 (instead of 1950), and the coefficients $\beta_{j\neq 1963}$ start in 1977 (instead of 1951).[15] Similar to Figure 2, the purple series in Appendix B shows that states with larger Black population shares saw a relative decline in weekly benefits.

So far, the dependent variable has been the average weekly benefit states distributed in a given year. Unemployment benefits are determined by the state and usually depend on past wages up to a cap, so they are likely endogenous to the income profiles of residents which is correlated with race. To address endogeneity issues, the orange series in Appendix B not only includes control variables, but uses a direct policy measure: the maximum amount of benefits a claimant could receive in a week. I find that by 2000, a one percentage point larger Black share is associated with a \$1.97 smaller maximum benefit, relative to benefit levels in 1963. The sample mean in 1963 was only \$39, meaning a 10 percentage point larger Black share is associated with a 50 percent lower maximum benefit. In percentage terms, this is similar to the baseline full-sample results from Figure 2.

Figure 3 displays results for minimum wages. The dots represent the predicted change in state minimum wages since 1950 ($\beta_{j\neq 1950}$) for every year in the sample, $j \in [1951, 2000]$.[16] Similar to before, for the first half of the sample period, Black population shares do not predict changes in state minimum wages. This abruptly changes in the early 1970s and coincides with federal minimum wages beginning to cover farm workers in 1966 and domestic service workers in 1974.[17] Using data from all 50 states (red), I find that by 2000, a state with a one percentage point larger Black population share averaged a \$0.11 smaller state minimum wage. This is statistically significant and economically huge. The sample mean in 1950 was only \$0.07 per hour, meaning a one percentage point larger Black population

[15]This specification also excludes Alaska, Hawaii, and Nevada because of data availability. For the corresponding regression table, see Appendix C, Table C.1, column (3).

[16]Control variables are excluded from this baseline specification because they restrict the sample period. For the corresponding regression table, see Appendix C, Table C.2, column (1).

[17]https://www.dol.gov/agencies/whd/minimum-wage/history

share is associated with a 150 percent smaller state minimum wage.

The blue series in Figure 3 restricts the sample to the 11 former Confederate states. The plotted coefficients of interest are just as large in magnitude as the full sample and occasionally statistically significant at the 10 percent level, indicating results are again driven by variation within the South.

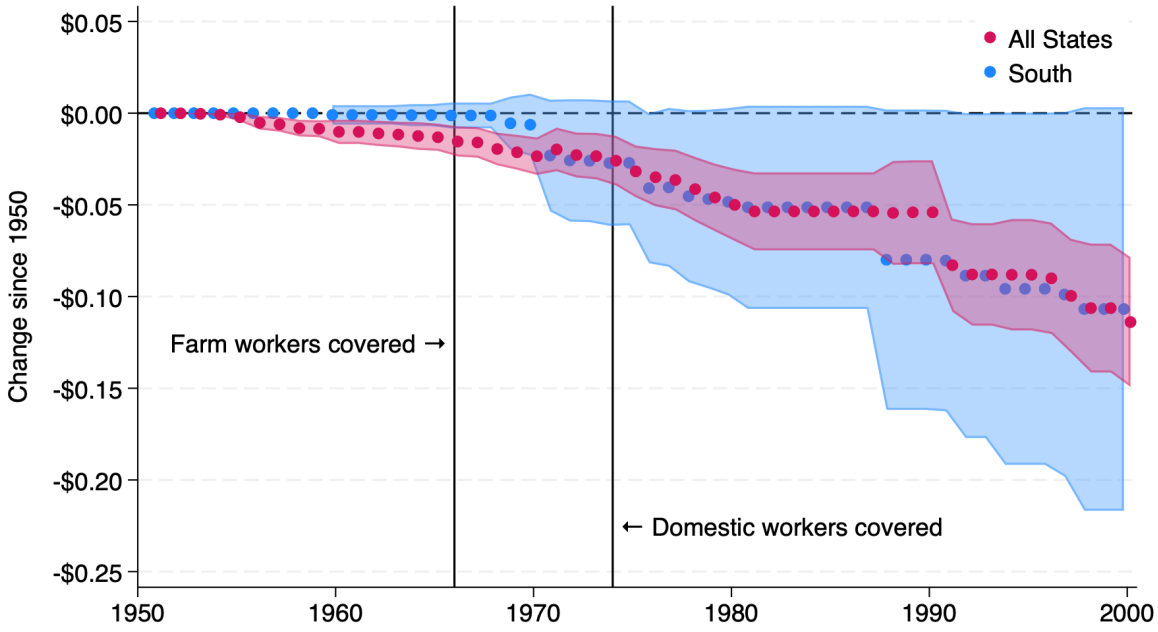
The purple series in Appendix B plots results after controlling for differences in average earnings and unemployment rates across states.[18] The coefficient on average earnings is positive and statistically significant while the coefficient on unemployment rate is statistically insignificant. Nevertheless, the plotted coefficients on the interaction term in Appendix B (purple) shows a similar pattern as Figure 3: By 2000, a one percentage point larger Black population share is associated with a $0.11 lower state minimum wage.

Figure 3 uses 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.[19] 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. The orange series in Appendix B uses the federal minimum wage when the state minimum wage is non-binding for federally covered workers and includes control variables. The coefficients of interest are still negative and statistically significant but smaller. By 2000, a one percentage point increase in the Black share is associated with a nearly $0.01 lower minimum wage. The sample mean in the base year 1963 was $1.15, meaning a 10 percentage point larger Black share is associated with a 7 percent lower minimum wage. This relationship is meaningful, but much smaller than in Figure 3, reflecting 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 D plots state minimum wages against the federal minimum wage for the 11

[18] Similar to the corresponding unemployment benefits regression, this specification has a limited sample period and excludes Alaska, Hawaii, and Nevada because of data availability. For the corresponding regression table, see Appendix C, Table C.2, column (3).

[19] `https://www.dol.gov/agencies/whd/minimum-wage/history`

Figure 3: Change in State Minimum Wages for Larger Black Population States



Notes: This figure plots coefficients β_j after estimating equation (1) excluding the vector of controls. Point estimates indicate how average nominal state minimum wages changed since 1950 for a state with a one percentage point larger Black population share. Shaded regions are 90 percent confidence bands, where robust standard errors are clustered at the state level. The blue series includes all 50 states. The red series only includes the 11 former confederate states. The vertical reference lines at 1966 and 1974 indicate when federal minimum wage legislation expanded coverage.

former Confederate states ordered by 1960 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.

If the differential policy changes were a backlash to the Civil Rights Movement, why did they begin well after the Civil Rights Act of 1964 or the end of the Civil Rights Movement in 1968? There are two plausible reasons. First, it took time for Black workers to enter occupations covered by unemployment insurance and minimum wages. The exodus of Black workers out of farm and service jobs after the Civil Rights Act continued into the late 1970s (see Appendix A). Second, it took a decade 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.[20] Federal minimum wage policy did not cover farm workers until 1966, and it did not cover domestic service workers until 1974.[21] The full policy ramifications of the Civil Rights Movement were felt decades later and only then did the backlash rear its head.

Collective bargaining policy was more centrally controlled than the other two labor protections, and federal legislation was never amended to cover farm and domestic service workers. Therefore, changes after the Civil Rights Movement were more uniform across states. A notable example of a shift in national policy was President Reagan's mass firing of striking air traffic controllers in 1981 which spurred a series of other strike breaks and a national culture where employers were tougher on unions and workers were more hesitant to strike (McCartin, 2011). The Reagan strike break was part of a political strategy of less government, and as the Lee Atwater quote from Section 1 suggests, at least partially motivated by race.

Even though state-level evidence of a backlash for unionization is weaker, Appendix E still documents a strong negative relationship between state unionization rates and Black population shares back to 1964. However, unlike results for unemployment benefits and minimum wages, this relationship does not get stronger after the 1970s, nor is it driven by variation within the South. In fact, when I run equation (1) but with unionization rate as the outcome variable, estimates for the South yield insignificant coefficients on the interaction terms $\beta_{j\neq 1964}$. One reason for this difference is that unionization began its decline much earlier than the other two protections (recall Figure 1). Tight labor markets during World War II allowed Black workers to land unionized manufacturing jobs. Support for unions by southern

[20] https://www.ssa.gov/policy/docs/ssb/v48n10/v48n10p22.pdf
[21] https://www.dol.gov/agencies/whd/minimum-wage/history

policymakers reversed out of fear "...that labor organizing would blend inexorably with, and fuel, civil rights activism...and directly challenge Jim Crow practices" (Katznelson, 2005). The Taft-Hartley Act of 1947 allowed states to pass right-to-work laws weakening unions in their jurisdiction, and the South, with its high-Black population shares, were among the first states to do so (Spriggs, 2018; Fortin et al., 2023).[22] As discussed further in Appendix E, it is likely the initial decline in unionization was concentrated among states with larger Black population shares, but data back to 1950 is not available to formally test.

The next section uses a structural model to quantify *how much* of the rise in income inequality is from changing labor policy, nevertheless, state-level data can at least indicate *whether* changing labor policy increased inequality. In other words: Did states that chipped away at their unemployment benefits and minimum wages see larger increases in White inequality? I restrict the outcome variable to White Americans because reduced benefit levels likely disproportionately affected Black workers, thereby increasing inequality by construction. I use equation (1) as a first stage and designate the interaction term between Black population share and year fixed effects as the instrument. I then regress White income inequality on the predicted weekly benefits, and separately on the predicted state minimum wages, from the first stage. Appendix F displays the results. I find that states with larger relative policy declines—as predicted by their racial composition—saw larger increases in White inequality. Results from the second stage are statistically significant for unemployment insurance but imprecise for minimum wages. Nevertheless, the negative signs on all point estimates align with the hypothesis—and foreshadow subsequent findings—that eroding labor policies have exacerbated income inequality for everyone.

The last point to emphasis is that in the middle of the 20th century, it was not uncommon 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 (MacLean, 2018; Darity Jr, 2024). 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

[22] I find states that adopted right-to-work laws before 1960 averaged a 10 percentage point larger Black share in 1960 (p-value=0.001), and most of these states were in the South.

labor policy.

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 Model Environment

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

Workers. Workers are heterogeneous in their endowed productivity. I consider an economy populated by M types of workers indexed by $x_m \in \{x_1 < x_2 < ... < x_M\} > 0$. Endowed productivity is permanent and perfectly observable to employers.[23] 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 $\sum_x \big(e(x) + u(x)\big)M(x) = 1$. 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.

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 $\beta \in (0, 1)$.

[23] When calibrating the model in Section 3.5, I focus on deciles such that $M = 9$ types of workers seperate 10 deciles.

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:

$$y_t(x) = Ax, \tag{2}$$

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:

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

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.

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

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:

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

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,

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

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

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

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.

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 $\tilde{\omega}(x) = \max\{\omega(x), \underline{\omega}\}$. Because markets are segmented, the minimum wage will only impact submarket x if it binds. There are no spillovers to other submarkets.

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 $S_t(x) = 0$. By assuming worker bargaining power differs across submarkets, I allow these $\pi(x)$ to differentially change over time in the calibration exercises. To foreshadow the results, I find bargaining power only decreases for the low-x submarkets which increases inequality.

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 $V_t(x) = 0$, $\forall t, x$.

3.2 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:

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

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.[24] 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:

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

[24] See Pissarides (2000) for a derivation of steady state wages.

3.3 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 1 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 than they used to be.[25] 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 1 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.

Table 1: Black Share of the Wage Distribution

	Hourly Earnings Percentile										
Years	(0,10]	(10,20]	(20,30]	(30,40]	(40,50]	(50,60]	(60,70]	(70,80]	(80,90]	(90,100]	Total
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".

[25]The CPS top codes survey respondents so Table 1 is unable to accurately capture the top of the wage distribution.

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* $L, H \in \{1, 2, ..., 9\}$ *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,

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

□

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* $L, H \in \{1, 2, ..., 9\}$ *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,

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

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

□

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, $\big(1-\pi(x)\big)$ 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* $L, H \in \{1, 2, ..., 9\}$ *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,

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

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

□

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* $L, H \in \{1, 2, ..., 9\}$ *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,

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

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

□

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 civil rights legislation. 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 of 1964 and because CPS data starts in 1962, and (2) 2005–2006 because it is many decades after the Civil Rights Movement, 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 2 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

Table 2: 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)
$\underline{\omega}_{t=62}$	minimum wage 2019 USD	9.80	Figure 1
$\underline{\omega}_{t=05}$	minimum wage 2019 USD	6.64	Figure 1
$\frac{b_{t=62}}{\hat{\omega}_{t=62}}$	UI as share of average wage	0.34	Figure 1
$\frac{b_{t=05}}{\hat{\omega}_{t=05}}$	UI as share of average wage	0.30	Figure 1
$L_{t=62}(9)$	labor share 9$^{\text{th}}$ decile	0.70	BLS
$L_{t=62}(5)$	labor share 5$^{\text{th}}$ decile	0.64	BLS
$L_{t=05}(9)$	labor share 9$^{\text{th}}$ decile	0.70	BLS
$L_{t=05}(5)$	labor share 5$^{\text{th}}$ 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.

population into 10 deciles. The vacancy posting cost κ is a standard choice from Pissarides (2009), and results are not sensitive to its value.

The middle panel of Table 2 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.[26] 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.[27]

Unemployment benefits in Table 2 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).[28] 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

[26]The 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`).

[27]Clemens and Strain (2022) find state and local minimum wage increases in the 2000s did affect minimum wage workers, but most of the 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.

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

degree of expertise and includes establishments that undertake a strategic decision making role of other companies. According to the CPS, the professional and business service sector employed more workers in the 90$^{\text{th}}$ percentile in 2005–2006 than any other sector, and for the years with data, its labor share has remained stable.[29] 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.[30]

The bottom panel of Table 2 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.[31] 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. 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 may have 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.[32]

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 4 Panel A. Real hourly earnings are plotted by

[29] `https://www.bls.gov/opub/mlr/2017/article/estimating-the-us-labor-share.htm`

[30] See Appendix G for more detail.

[31] Firm bargaining power, which equals one minus worker bargaining power, increased for every submarket except the last. Since aggregate productivity also increased between steady states, this means producer surplus increased for all submarkets and especially for firms employing low-wage workers.

[32] Estimates 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.

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 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 Model Results

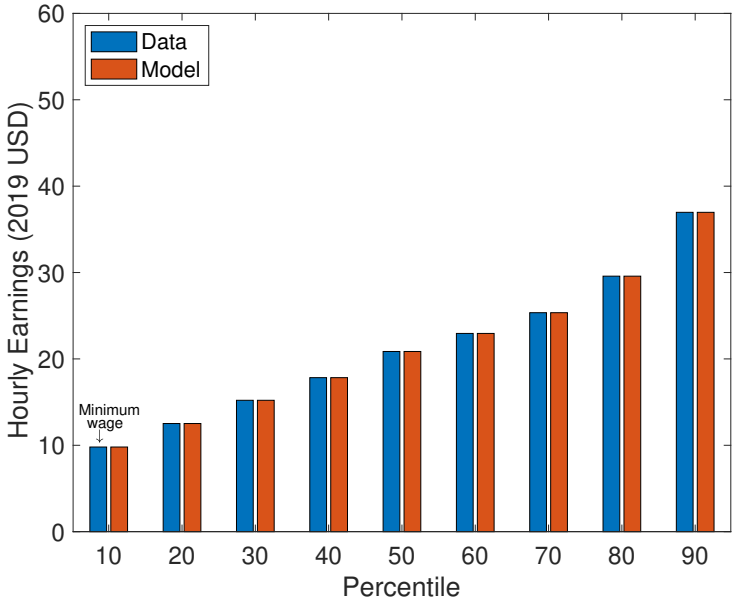
Figure 4 Panel B is the main result. It plots the observed wage distribution (in blue) and model-generated wage distribution (in orange) for the post-civil rights period. Unlike Panel A, only the 50^{th} percentile is targeted. Nevertheless, the model captures the rise in inequality remarkably well. 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 3 highlights a popular measure of inequality: the 90^{th} percentile to 10^{th} 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 10^{th} 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 10^{th} percentile in Table 3.

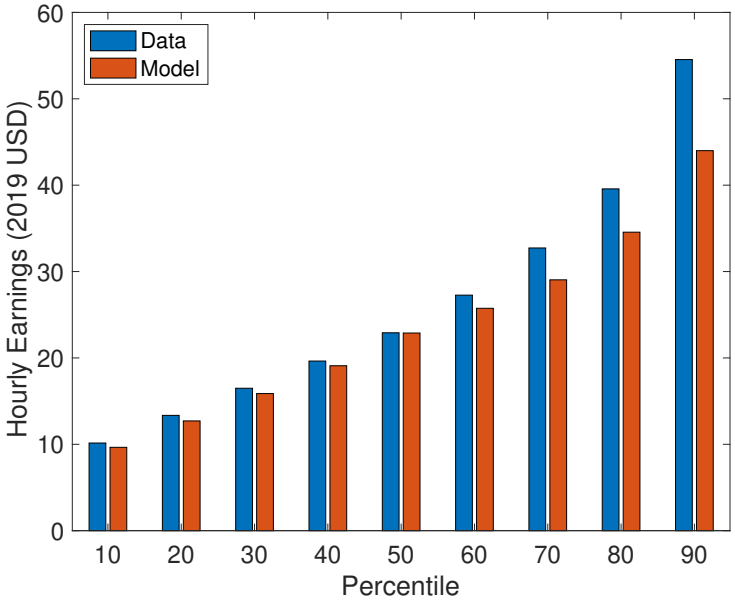
The second column of Table 3 shows that the full model, with all of its channels turned on,

Figure 4: 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 10^{th} 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 50^{th} percentile, data for 2005–2006 is untargeted and should be used to evaluate the model's success.

Table 3: 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 90$^{\text{th}}$ percentile and 10$^{\text{th}}$ 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 10$^{\text{th}}$ percentile in 1962–1963 is the federal minimum wage.

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 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 $6.64, and everything else stayed the same as in full model, the model would account for 45 percent of the rise in the 90/10 ratio.[33] This is because the counterfactual minimum wage is slightly binding for the model-generated 10$^{\text{th}}$ percentile who were predicted to earn $9.65 in the 2000s. The counterfactual minimum wage affects only some parts of the distribution and only some measures of inequality. For instance, it has large implications for the first percentile (not shown) and is irrelevant for the 50$^{\text{th}}$ percentile and the 90/50 ratio (see Appendix H). 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

[33]For the counterfactual exercises, I assume aggregate productivity growth recovered from the baseline specification remains 19 percent.

was an important driver of wage inequality.[34] This result is consistent with several empirical papers finding unemployment benefits matter for reservation wages (Fishe, 1982; Feldstein and Poterba, 1984), but might be an upper bound for two reasons. First, in reality not all workers are eligible for the program and so unlike in the model, not all workers use it to bargain over wages. 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 3.1, 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

To provide a clearer view of the underlying mechanisms, the model abstracts from several realistic features of the U.S. labor market. For example, I assume labor market tightness is constant across workers and time. As discussed in Section 3.5, this assumption is grounded in the data, but it shuts down a labor supply response to changing policy. I also assume there is no complementarity between workers with different endowed productivities. In a model with both features, declining unemployment benefits and minimum wages would increase employment for less productive workers which would put upward pressure on wages for more productive workers and further increase inequality. In other words, by shutting down labor supply and worker complementarity, I underestimate the contribution of unem-

[34] In 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.

ployment insurance and minimum wage policy. These two additional features might also affect the bargaining power channel, but the direction is ambiguous. In a model with both features, declining bargaining power for less productive workers would decrease not only their employment and wages but that of more productive workers. Wages would fall across the distribution without clear implications for inequality.

Search models often have trouble generating ex-post heterogeneity without assuming ex-ante heterogeneity (Hornstein et al., 2011). It therefore may be surprising that unemployment benefits in the model—which do not vary across workers—generate non-trivial changes in inequality. On the flip side, by allowing bargaining power to vary across workers, the model might exaggerate the bargaining power channel. As detailed in Section 3.5, heterogeneous bargaining power is consistent with the data and literature: less educated workers at the bottom of the distribution typically have less sway when negotiating their share of the surplus. I further ground the assumption of heterogeneous bargaining power in data by targeting labor shares and recovering previously unknown estimates of bargaining power across the distribution.

Throughout the paper, I motivate the decline in worker bargaining power through the lens of declining unionization; the underlying theory is that unions hold more power than individuals during negotiations. A sizable 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; Beauregard et al., 2025).[35] 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. Using more recent data, Fortin, Lemieux, and Lloyd (2023) find state right-to-work laws weakened collective bargaining and lowered unionization rates and wages. 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.

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

[35] Jäger et al. (2025) argue that while there is a strong negative relationship between collective bargaining coverage and wage inequality across countries, further research is needed to understand the mechanism.

change and competition from abroad—explain 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, and Hershbein (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 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 sometimes 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 Movement, 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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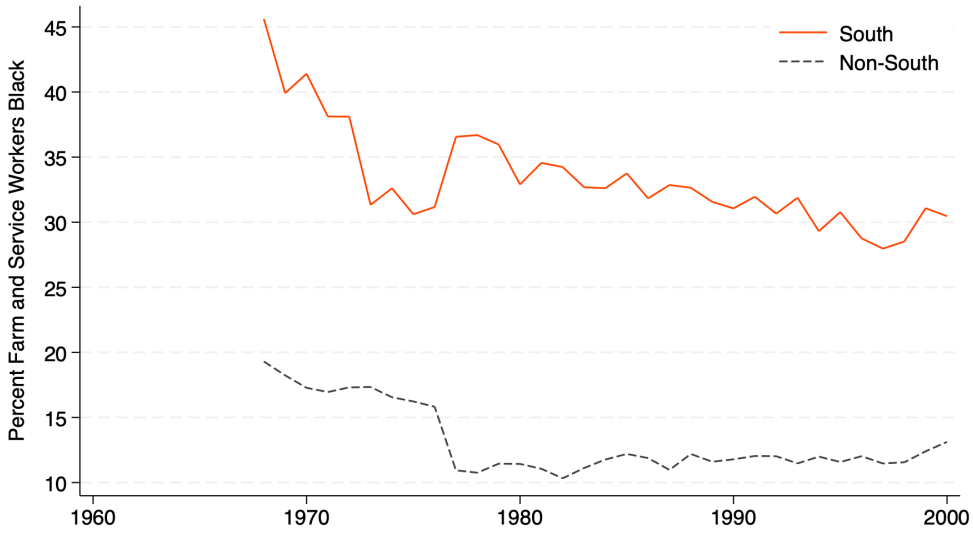
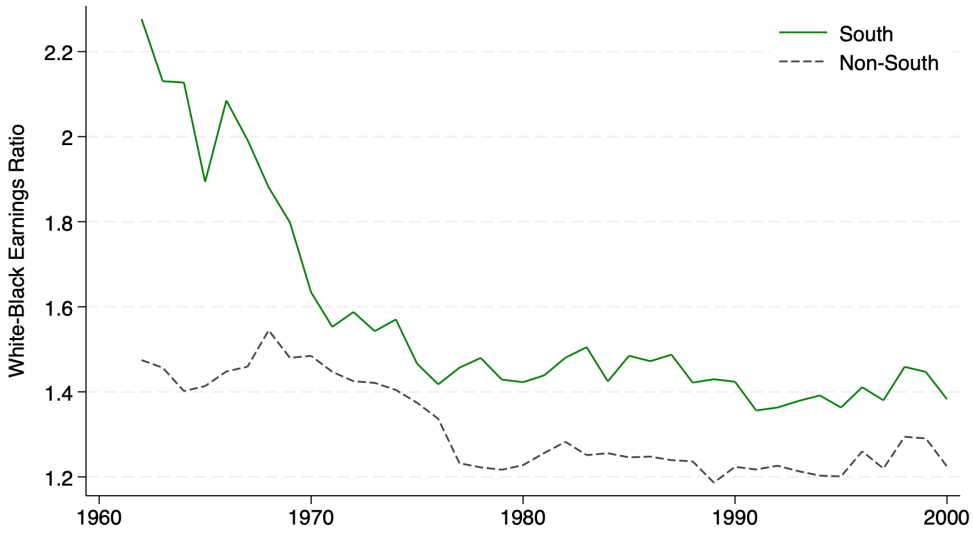
A Trends for the American South and Non-South



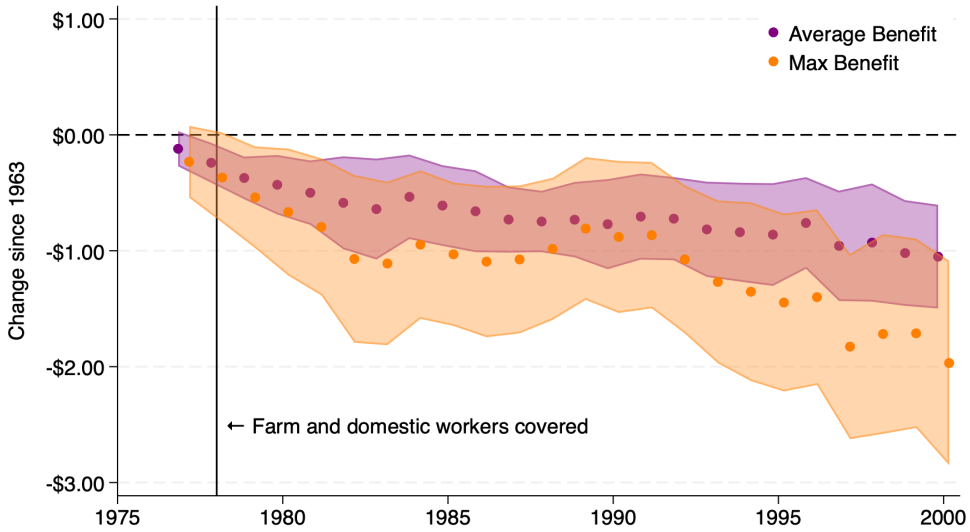
Notes: Author's calculations using data from ASEC via IPUMS-CPS. Farm occupations are Farmers and Farm Laborers using the 1950 Census Bureau occupational classification system. Service occupations are Service Workers, both private household and not household, using the 1950 Census Bureau occupational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



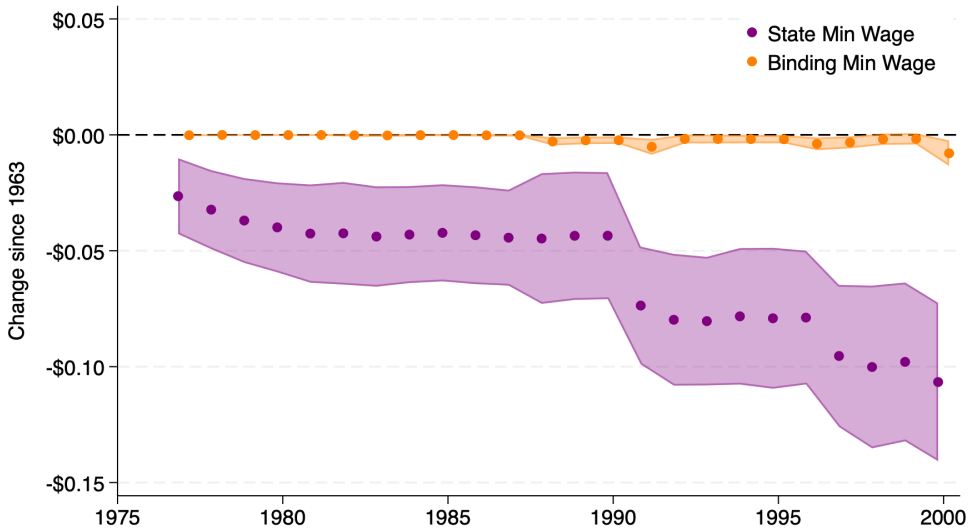
Notes: Author's calculations using data from ASEC via IPUMS-CPS. Hourly earnings are wage and salary income for full-time workers divided by by 50 weeks and 40 hours per week.

B Robustness for State-Level Regressions

Change in Unemployment Benefits for Larger Black Population States



Change in State Minimum Wages for Larger Black Population States



Notes: These figures plot coefficients β_j after estimating equation (1) including the vector of controls. Point estimates indicate how the dependent variable changed in nominal USD since 1963 for a state with a one percentage point larger Black population share. Shaded regions are 90 percent confidence bands, where robust standard errors are clustered at the state level. The purple series use the baseline dependent variables. The orange series use alternative dependent variables. The vertical reference line at 1974 in the top panel indicates when unemployment insurance expanded coverage.

C Printout of State-Level Regression Results

Table C.1: Unemployment Benefits

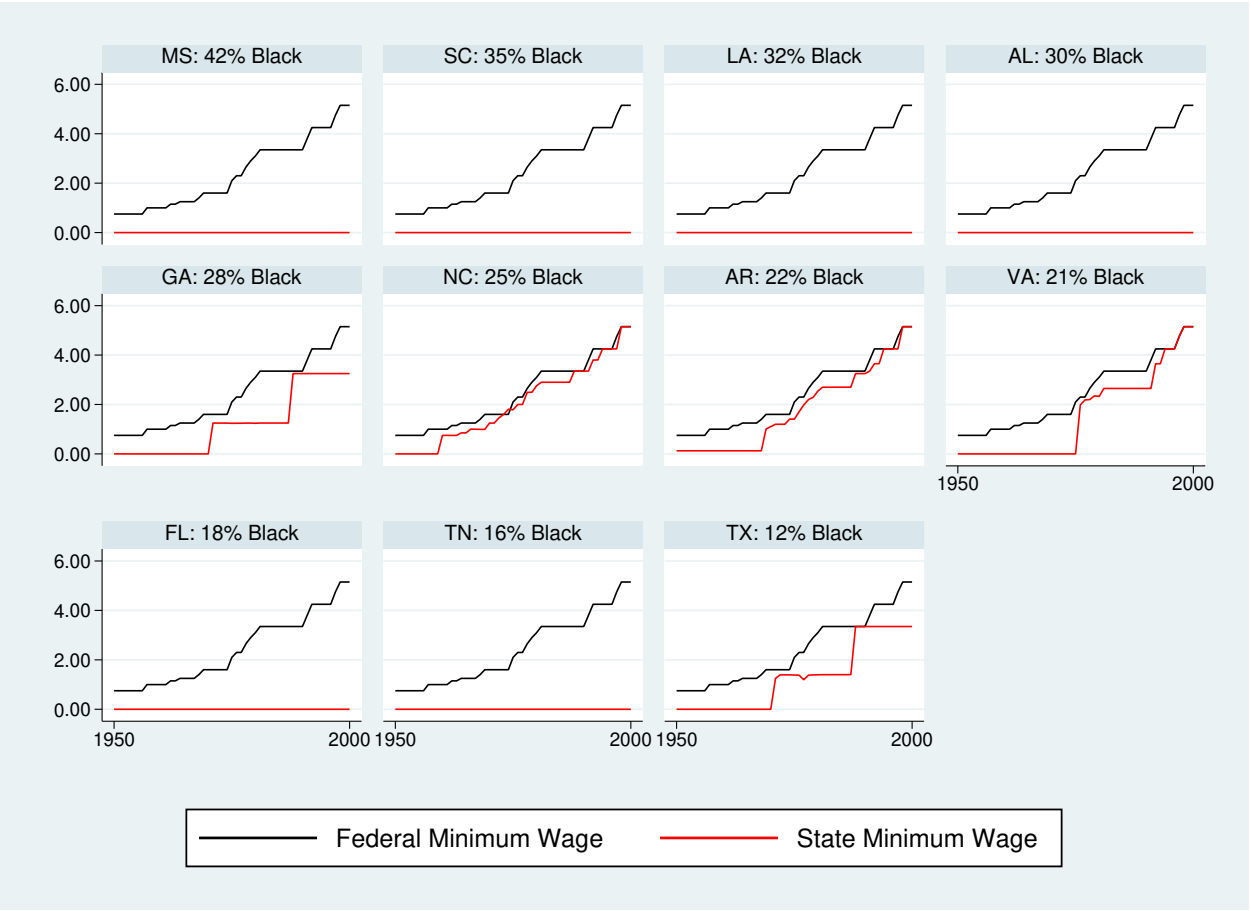
VARIABLES	(1) Avg Benefit	(2) Avg Benefit	(3) Avg Benefit	(4) Max Benefit
$BlackShare_{1960} \times \mathbb{1}(1977)$	-0.175*	0.194	-0.120	-0.232
	(0.0901)	(0.338)	(0.0901)	(0.185)
$BlackShare_{1960} \times \mathbb{1}(1978)$	-0.253**	0.0334	-0.241**	-0.368
	(0.105)	(0.330)	(0.102)	(0.232)
$BlackShare_{1960} \times \mathbb{1}(1979)$	-0.338***	-0.0421	-0.372***	-0.539**
	(0.118)	(0.335)	(0.109)	(0.262)
$BlackShare_{1960} \times \mathbb{1}(1980)$	-0.417***	-0.201	-0.431***	-0.666**
	(0.137)	(0.351)	(0.153)	(0.326)
$BlackShare_{1960} \times \mathbb{1}(1981)$	-0.558***	-0.346	-0.499***	-0.794**
	(0.166)	(0.403)	(0.165)	(0.352)
$BlackShare_{1960} \times \mathbb{1}(1982)$	-0.599**	-0.588	-0.586**	-1.070**
	(0.237)	(0.644)	(0.239)	(0.431)
$BlackShare_{1960} \times \mathbb{1}(1983)$	-0.602**	-0.535	-0.640**	-1.110**
	(0.275)	(0.789)	(0.259)	(0.420)
$BlackShare_{1960} \times \mathbb{1}(1984)$	-0.574**	-0.554	-0.535**	-0.947**
	(0.233)	(0.746)	(0.217)	(0.381)
$BlackShare_{1960} \times \mathbb{1}(1985)$	-0.679***	-0.954	-0.610***	-1.030***
	(0.240)	(0.761)	(0.207)	(0.368)
$BlackShare_{1960} \times \mathbb{1}(1986)$	-0.665***	-1.180	-0.659***	-1.094***
	(0.222)	(0.794)	(0.210)	(0.389)
$BlackShare_{1960} \times \mathbb{1}(1987)$	-0.712***	-1.199	-0.731***	-1.075***
	(0.195)	(0.690)	(0.170)	(0.380)
$BlackShare_{1960} \times \mathbb{1}(1988)$	-0.752***	-1.365**	-0.747***	-0.984***
	(0.195)	(0.528)	(0.158)	(0.365)
$BlackShare_{1960} \times \mathbb{1}(1989)$	-0.779***	-1.388**	-0.732***	-0.809**
	(0.228)	(0.553)	(0.194)	(0.367)
$BlackShare_{1960} \times \mathbb{1}(1990)$	-0.850***	-1.324**	-0.770***	-0.881**
	(0.263)	(0.558)	(0.231)	(0.391)
$BlackShare_{1960} \times \mathbb{1}(1991)$	-0.827***	-1.410**	-0.705***	-0.866**
	(0.281)	(0.598)	(0.221)	(0.376)
$BlackShare_{1960} \times \mathbb{1}(1992)$	-0.825***	-1.437**	-0.723***	-1.075***
	(0.279)	(0.585)	(0.214)	(0.381)
$BlackShare_{1960} \times \mathbb{1}(1993)$	-0.905***	-1.625**	-0.815***	-1.269***
	(0.291)	(0.593)	(0.245)	(0.418)
$BlackShare_{1960} \times \mathbb{1}(1994)$	-0.971***	-1.670**	-0.840***	-1.353***
	(0.310)	(0.544)	(0.254)	(0.459)
$BlackShare_{1960} \times \mathbb{1}(1995)$	-0.947***	-1.575**	-0.860***	-1.447***
	(0.323)	(0.512)	(0.264)	(0.457)
$BlackShare_{1960} \times \mathbb{1}(1996)$	-0.929***	-1.492**	-0.760***	-1.400***
	(0.318)	(0.491)	(0.236)	(0.451)
$BlackShare_{1960} \times \mathbb{1}(1997)$	-0.848**	-1.905***	-0.958***	-1.827***
	(0.336)	(0.523)	(0.283)	(0.476)
$BlackShare_{1960} \times \mathbb{1}(1998)$	-0.892***	-1.954***	-0.929***	-1.718***
	(0.329)	(0.446)	(0.303)	(0.513)
$BlackShare_{1960} \times \mathbb{1}(1999)$	-1.053***	-2.035***	-1.020***	-1.712***
	(0.335)	(0.489)	(0.271)	(0.487)
$BlackShare_{1960} \times \mathbb{1}(2000)$	-1.059***	-2.028***	-1.051***	-1.968***
	(0.357)	(0.484)	(0.266)	(0.526)
$BlackShare_{1960}$	-0.139***	0.0317	-0.130**	-0.0821
	(0.0337)	(0.0786)	(0.0619)	(0.117)
$AverageEarnings$			0.00545***	0.00765***
			(0.000855)	(0.00161)
$UnemploymentRate$			1.027	5.158*
			(1.368)	(2.607)
$Constant$	20.44***	14.96***	9.676	-12.84
	(0.494)	(1.706)	(8.182)	(14.37)
Observations	2,550	561	1,175	1,175
R-squared	0.939	0.965	0.879	0.809
States	All	South	All	All
k; j	1950; [1951,2000]	1950; [1951,2000]	1963; [1977,2000]	1963; [1977,2000]
Mean(Benefit) in year k	\$19.21	\$15.77	\$32.20	\$39.09

Table C.2: Minimum Wages

VARIABLES	(1) State Min	(2) State Min	(3) State Min	(4) Binding Min
$BlackShare_{1960} \times \mathbb{1}(1977)$	-0.0364***	-0.0405	-0.0264***	-0.000172
	(0.00985)	(0.0239)	(0.00975)	(0.000238)
$BlackShare_{1960} \times \mathbb{1}(1978)$	-0.0414***	-0.0453	-0.0323***	-4.01e-05
	(0.0105)	(0.0259)	(0.0101)	(0.000186)
$BlackShare_{1960} \times \mathbb{1}(1979)$	-0.0460***	-0.0469	-0.0369***	-0.000103
	(0.0110)	(0.0269)	(0.0109)	(0.000190)
$BlackShare_{1960} \times \mathbb{1}(1980)$	-0.0500***	-0.0483	-0.0399***	-8.65e-05
	(0.0117)	(0.0282)	(0.0116)	(0.000210)
$BlackShare_{1960} \times \mathbb{1}(1981)$	-0.0536***	-0.0513	-0.0426***	-7.22e-05
	(0.0127)	(0.0306)	(0.0126)	(0.000215)
$BlackShare_{1960} \times \mathbb{1}(1982)$	-0.0536***	-0.0513	-0.0425***	-0.000198
	(0.0127)	(0.0306)	(0.0132)	(0.000342)
$BlackShare_{1960} \times \mathbb{1}(1983)$	-0.0536***	-0.0513	-0.0439***	-0.000244
	(0.0127)	(0.0306)	(0.0129)	(0.000326)
$BlackShare_{1960} \times \mathbb{1}(1984)$	-0.0536***	-0.0513	-0.0430***	-0.000136
	(0.0127)	(0.0306)	(0.0124)	(0.000273)
$BlackShare_{1960} \times \mathbb{1}(1985)$	-0.0536***	-0.0513	-0.0423***	-9.55e-05
	(0.0127)	(0.0306)	(0.0125)	(0.000277)
$BlackShare_{1960} \times \mathbb{1}(1986)$	-0.0536***	-0.0513	-0.0433***	-0.000196
	(0.0127)	(0.0306)	(0.0126)	(0.000301)
$BlackShare_{1960} \times \mathbb{1}(1987)$	-0.0536***	-0.0513	-0.0443***	-0.000214
	(0.0127)	(0.0306)	(0.0123)	(0.000282)
$BlackShare_{1960} \times \mathbb{1}(1988)$	-0.0544***	-0.0799	-0.0447**	-0.00286***
	(0.0169)	(0.0452)	(0.0168)	(0.00103)
$BlackShare_{1960} \times \mathbb{1}(1989)$	-0.0540***	-0.0799	-0.0435**	-0.00237**
	(0.0169)	(0.0452)	(0.0165)	(0.000964)
$BlackShare_{1960} \times \mathbb{1}(1990)$	-0.0540***	-0.0799	-0.0435**	-0.00233**
	(0.0169)	(0.0452)	(0.0163)	(0.000936)
$BlackShare_{1960} \times \mathbb{1}(1991)$	-0.0829***	-0.0804	-0.0736***	-0.00516**
	(0.0151)	(0.0454)	(0.0151)	(0.00203)
$BlackShare_{1960} \times \mathbb{1}(1992)$	-0.0879***	-0.0886*	-0.0798***	-0.00177
	(0.0167)	(0.0489)	(0.0169)	(0.00115)
$BlackShare_{1960} \times \mathbb{1}(1993)$	-0.0879***	-0.0886*	-0.0804***	-0.00177
	(0.0167)	(0.0489)	(0.0165)	(0.00112)
$BlackShare_{1960} \times \mathbb{1}(1994)$	-0.0881***	-0.0958	-0.0783***	-0.00182*
	(0.0181)	(0.0530)	(0.0175)	(0.00106)
$BlackShare_{1960} \times \mathbb{1}(1995)$	-0.0881***	-0.0958	-0.0791***	-0.00189*
	(0.0181)	(0.0530)	(0.0181)	(0.00105)
$BlackShare_{1960} \times \mathbb{1}(1996)$	-0.0900***	-0.0958	-0.0788***	-0.00387**
	(0.0181)	(0.0530)	(0.0172)	(0.00162)
$BlackShare_{1960} \times \mathbb{1}(1997)$	-0.0996***	-0.0988	-0.0954***	-0.00325**
	(0.0185)	(0.0548)	(0.0183)	(0.00152)
$BlackShare_{1960} \times \mathbb{1}(1998)$	-0.106***	-0.107	-0.100***	-0.00187
	(0.0210)	(0.0607)	(0.0209)	(0.00145)
$BlackShare_{1960} \times \mathbb{1}(1999)$	-0.106***	-0.107	-0.0979***	-0.00172
	(0.0210)	(0.0607)	(0.0204)	(0.00144)
$BlackShare_{1960} \times \mathbb{1}(2000)$	-0.114***	-0.107	-0.107***	-0.00795**
	(0.0211)	(0.0607)	(0.0203)	(0.00329)
$BlackShare_{1960}$	-0.00331**	-0.000604	-0.00913*	-2.89e-05
	(0.00156)	(0.000800)	(0.00513)	(0.000242)
$AverageEarnings$			0.000131***	9.00e-06***
			(4.31e-05)	(3.11e-06)
$UnemploymentRate$			-0.00809	0.00428
			(0.0643)	(0.00572)
$Constant$	0.104**	0.0268	-0.0559	1.100***
	(0.0407)	(0.0319)	(0.353)	(0.0305)
Observations	2,550	561	1,175	1,175
R-squared	0.729	0.381	0.558	0.986
States	All	South	All	All
k; j	1950; [1951,2000]	1950; [1951,2000]	1963; [1977,2000]	1963; [1977,2000]
Mean(Min Wage) in year k	\$0.0747	\$0.0114	\$0.258	\$1.15

All columns in Table C.1 and C.2 include year fixed effects
Robust standard errors in parentheses; *** p<0.01, ** p<0.05, * p<0.1
Estimates for 1951 - 1976 for columns (1) and (2) suppressed due to space constraints

D 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.

E Evidence of Racially Motivated Union Policy Changes

State-level data on unionization does not exist back to the 1950s as it does for weekly unemployment benefits and minimum wages. The CPS provides state unionization rates back to 1983 which Hirsch et al. (2000) combine with the discontinued BLS publication Directory of National Unions and Employee Associations to create a dataset back to 1964. The union density measure constructed by Hirsch et al. (2000) represents the percentage of nonagricultural wage and salary employees who are union members, including employees in the public sector.

Table E displays raw and conditional correlations between a state's Black population share and its unionization rate over time. Overall, states with larger Black population shares have lower unionization rates on average. For example, column (1) shows that a state with a 10 percentage point larger Black share in 1960 averaged a 2.95 percentage point lower unionization rate over 1964–2000. The average state unionization rate over the same period was 19 percent. Unlike results for unemployment benefits and minimum wages, this result does not appear to be driven by variation within the South. Column (2) restricts the sample to the 11 former confederate states, and the point estimate is much smaller in magnitude and no longer statistically significant. Also unlike results for unemployment benefits and minimum wages, the negative relationship does not grow stronger over time. Columns (3) and (4) split the sample in half and the point estimate for the latter half is smaller. Lastly, column (5) controls for a state's average earnings and unemployment rate which is only available for the second half of the sample. With controls, the coefficient on Black share is larger in absolute value than the analogous specification in column (4).

Figure E estimates the dynamic difference-in-difference model of equation (1) but this time with a shorter sample period than in Figures (2) and (3) and with unionization rate as the dependent variable. The full sample (red series) shows that states wither a larger Black population share experienced an *increase* in unionization relative to 1964. This is the opposite result depicted in Figures (2) and (3) for unemployment benefits and minimum wages. Disaggregating the sample by the South (blue) and non-South (green) reveals that unlike results for unemployment benefits and minimum wages, the full-sample relationship is not being driven by variation within the South. Instead, the positive relationship for the full sample appears to be driven by the inclusion of the South as a block and the fact that it has more Black residents in 1960 and growing unionization relative to 1964.

While results in Table E are consistent with racially motivated policy changes, results in Fig-

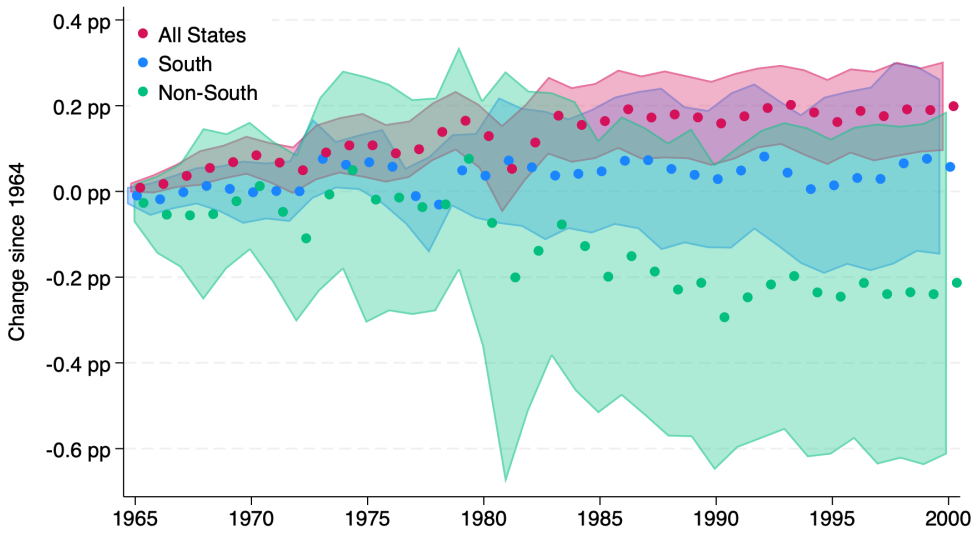
ure E at first glance appear contradictory. An important distinction is that Figure E plots how the relationship between unionization and 1960 Black population shares *changed* since 1964, while Table E lists (conditional) correlations in levels. The national unionization rate began its decent following the 1947 Taft-Hartley Act, which paved the way for states to pass right-to-work laws. Unemployment benefits and minimum wages, on the other hand, began their decent after federal legislation expanded coverage to farm and domestic service workers. Southern states were among the first to adopt right-to-work laws weakening collective bargaining. In fact, 10 out of the 11 of the former confederate states adopted right-to-work laws before our dataset begins in 1964, while less than a quarter of states outside of the South adopted before 1964 (Fortin et al., 2023). This historical context suggests the South (with its high Black population shares) saw larger declines in unionization throughout the 1950s before state-level data on unionization is available. Moreover, throughout the 1970s, manufacturing employment—a relatively unionized sector—accelerated in the South, while it declined outside the South in places like Detroit and the Rust Belt (Hirsch and Macpherson, 2003; Jaworski, 2017; Alder et al., 2023) possibly explaining why high-Black population shares in the South are positively correlated with changes in unionization since 1964.

Table E: Unionization Rate and Black Population Share

	(1)	(2)	(3)	(4)	(5)
VARIABLES	Union Rate	Union Rate	Union Rate	Union Rate	Union Rate
$BlackShare_{1960}$	-0.295***	-0.0472	-0.362***	-0.259***	-0.332***
	(0.0641)	(0.106)	(0.0806)	(0.0569)	(0.0486)
$AverageEarnings$					0.00125***
					(0.000240)
$UnemploymentRate$					2.229***
					(0.441)
$Constant$	21.74***	12.46***	27.39***	18.67***	-16.23***
	(1.181)	(2.724)	(1.430)	(1.087)	(4.428)
Observations	50	11	50	50	50
R-squared	0.193	0.015	0.194	0.182	0.576
States	All	South	All	All	All
Sample period	1964–2000	1964–2000	1964-1976	1977-2000	1977-2000
Mean(Union Rate)	19.1%	11.3%	24.2%	16.4%	16.4%

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Figure E: Change in Unionization for Larger Black Population States



Notes: This figure plots coefficients β_j after estimating equation (1), excluding the vector of controls, where the dependent variable is unionization rate. Point estimates indicate how the unionization rate changed in percentage points since 1964 for a state with a one percentage point larger Black population share. Shaded regions are 90 percent confidence bands, where robust standard errors are clustered at the state level. The red series includes all 50 states, the blue series includes only the 11 former confederate states, and the green series includes the 39 never-confederate states.

F Empirically Linking Policy Changes with Inequality

First Stage (reproducing equation (1))**:**

$$Y_{s,t} = \alpha + \sum_{j \neq k} \beta_j \Big(BlackShare_{s,1960} \times \mathbb{1}(year = j) \Big) + \gamma BlackShare_{s,1960} + \delta \mathbb{1}(year = j) + \zeta X_{s,t} + \epsilon_{s,t},$$

Second Stage:

$$White\_Inequality_{s,t} = \eta + \theta \hat{Y}_{s,t} + \lambda BlackShare_{s,1960} + \mu \mathbb{1}(year = j) + \xi X_{s,t} + e_{s,t},$$

where $Y_{s,t}$ is the nominal average weekly unemployment benefit or the nominal state minimum wage in state s and year t; $BlackShare_{s,1960}$ is the share of the population categorized as Black in state s and year 1960; $\mathbb{1}(year = j)$ are year fixed effects; $X_{s,t}$ is a vector of controls including the average annual earnings and the unemployment rate; $White\_Inequality_{s,t}$ is the 90^{th} percentile of the wage distribution divided by the 10^{th} percentile calculated from White respondents in the CPS; $\hat{Y}_{s,t}$ is the predicted values from the first stage; $\epsilon_{s,t}$ is the residual from the first stage; and $e_{s,t}$ is the residual from the second stage. For this specification, the inclusion of control variables limits the sample such that $k = 1963$ and $j \in [1977, 2000]$.

For both the first and second stage, I use Driscoll and Kraay (1998) standard errors. Errors are likely autocorrelated within state but assuming the entire state-level time series is within the same cluster (as I do in the main text and in Appendix B) is a strong assumption and is asking a lot, especially when implementing an instrumental variable strategy.

The first stage without Driscoll-Kraay standard errors is the purple series displayed in Appendix B. The second stage is reported in Table F on the next page. Column (1) indicates a negative relationship between the predicted unemployment benefits and White inequality which is statistically significant at the 10 percent level. In other words, states predicted to have larger (smaller) increases in their unemployment benefits because of their racial composition have less (more) income inequality among White Americans. Column (2) indicates a negative relationship between the predicted state minimum wages and White inequality, but it is not statistically insignificant. The point estimates suggest that states predicted to have larger (smaller) increases in their minimum wages because of their racial composition have less (more) income inequality among White Americans, but again, this estimate is imprecise.

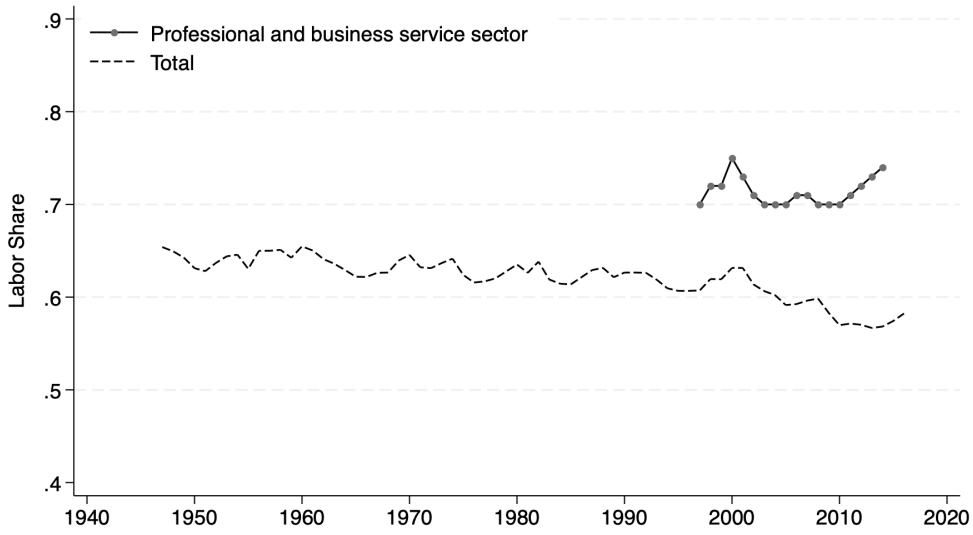
Table F: Second Stage Regression Results

VARIABLES	(1) White Inequality	(2) White Inequality
Predicted Avg UI	-0.0501*	
	(0.0289)	
Predicted State Min Wage		-0.395
		(0.330)
$ShareBlack_{1960}$	-0.0433*	-0.0304
	(0.0250)	(0.0251)
Constant	6.946***	6.332***
	(0.557)	(0.312)
Observations	1,175	1,175
R-squared	0.041	0.040
Controls	Yes	Yes
Year FE	Yes	Yes
States	All[§]	All[§]
Driscoll-Kraay standard errors	yes	yes
Max lag order of autocorrelation	4 years	4 years
Mean(White Inequality)	4.49	4.49
Mean(Predicted UI)	$140	-
Mean(Predicted Min Wage)	-	$2.63

Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1
[§]Excludes AK, HI, NV due to data availability

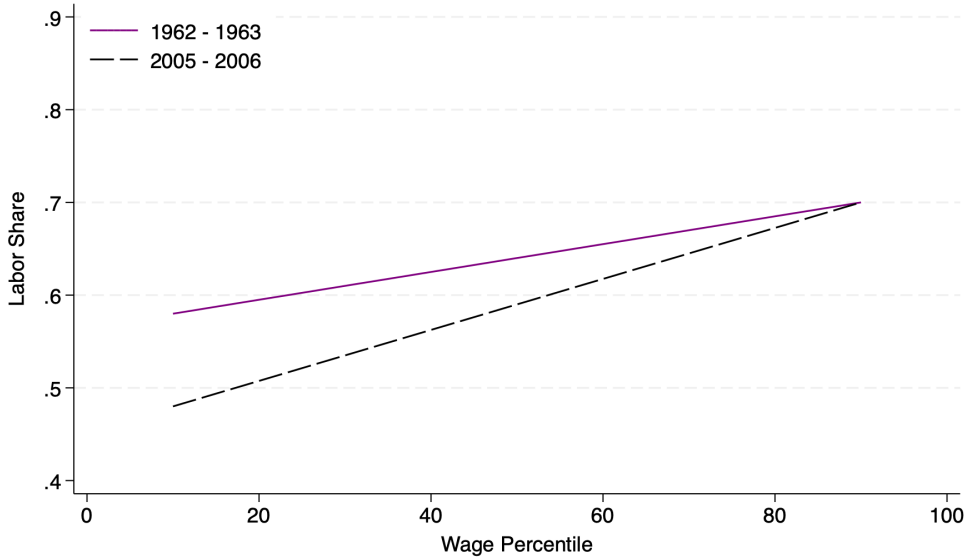
G Labor Share

Data for Labor Share



Notes: Data from the BLS.

Model Assumptions for Labor Share



H 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 90^{th} percentile and 50^{th} 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 90/50 ratio from 1962–1963 to 2005–2006. The "Accounts For" row is the share of the observed change in the 90/50 ratio accounted for by the model.