

# Does the minimum wage reduce the ethnic wage gap?

Niyang Bai

## Background

Often, income inequality exists across ethnical groups. Minimum wages have long been seen as an important part of public policy to deal with poverty and this kind of inequality. Opinions are varied on whether the minimum wage actually reduces income inequality between races. On the one hand, people believe raising the minimum wage will increase the income of workers in low-income groups, thereby reducing some inequality. On the other hand, there are evidences show the rise in minimum wage can lead to higher unemployment, and thus increase inequality among ethnical groups.

Saari et al. (2016) [2] checked both the impacts on total incomes (and its distribution) and expenditures caused by price increases in response to higher labor costs in Malaysia. For all ethnic groups, their results show that minimum wages lead to a reduction in overall poverty. In the U.S., Derenoncourt et al. (2020) [1] found that the minimum wage benefits black workers almost twice as much as white workers, while also ruling out its significant unemployment impact on black workers. They argue that minimum wage policies can play a key role in reducing racial economic disparities. Wursten et al. (2021) [3] also found the same results that when the minimum wage raises, incomes raises across all racial/ethnic groups, with the largest gains for black workers. Surprisingly, they even found that the minimum wage provided more job opportunities for black workers than white workers.

## Outline

As mentioned above, I want to verify whether the minimum wage reduces the income gap between races. In order to achieve this goal in general, I plan to use Regression Discontinuity Design, because in the United States, each individual state has the right to set their own minimum wage. For border counties, except for some certain local laws and regulations, all other aspects can be taken as homogeneous. If all the identical assumptions are satisfied, only by comparing the racial income disparities and minimum wage levels, the main question, whether the minimum wage reduces the ethnic wage gap, can be answered.

In terms of data, I plan to use panel data between different states in the U.S. over the last 50 years, since minimum wage standards for all races were usually

established or perfected from the 60s. Yearly or monthly Data for population, employment, macroeconomics need to be carefully collected.

Potential difficulties may include data collecting and modelling. In terms of data, as the way population and employment data are counted may vary from state to state, a large-scale preprocessing can be necessary. On the modelling side, quantifying income inequality correctly can be the most difficult task, and ensuring homogeneity across border counties is also challenging.

## References

- [1] Ellora Derenoncourt and Claire Montialoux. “Minimum wages and racial inequality”. In: *The Quarterly Journal of Economics* 136.1 (2021), pp. 169–228.
- [2] M Yusof Saari et al. “Estimating the impact of minimum wages on poverty across ethnic groups in Malaysia”. In: *Economic Modelling* 54 (2016), pp. 490–502.
- [3] Jesse Wursten and Michael Reich. “Racial inequality and minimum wages in frictional labor markets”. In: (2021).