Diversity and Global Policy: Universal Public Policies

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Recap of the Last Lectures

Various factors contribute to inequality between groups:

- Socio-psychological factors
- Culture, norms, and stereotypes
- (Unfair) Institutions
- Discrimination

So what can we do about it?

What types of policies can firms and governments implement to improve the situation? Do they work? Can they have unintended consequences?

Our Roadmap

- **Universal public policies** (today's lecture)
  - Minimum wages
- **Targeted public policies**
  - Quotas
  - Other forms of affirmative action
- **Firm policies**
  - Smart work
  - Hiring strategies
- **The role of civil society**
  - Social movements and political activism

Today, we will discuss the following paper:

Derenoncourt, E., & Montialoux, C. (2021). Minimum wages and racial inequality. The Quarterly Journal of Economics, 136(1), 169-228.

It is based on a difference-in-differences empirical strategy...

What is this new beast?

Difference-in-differences

We consider units i. Some are in a Treatment group (T), others in a Control group (C).

We observe the outcomes Y_{it} of units over periods t.

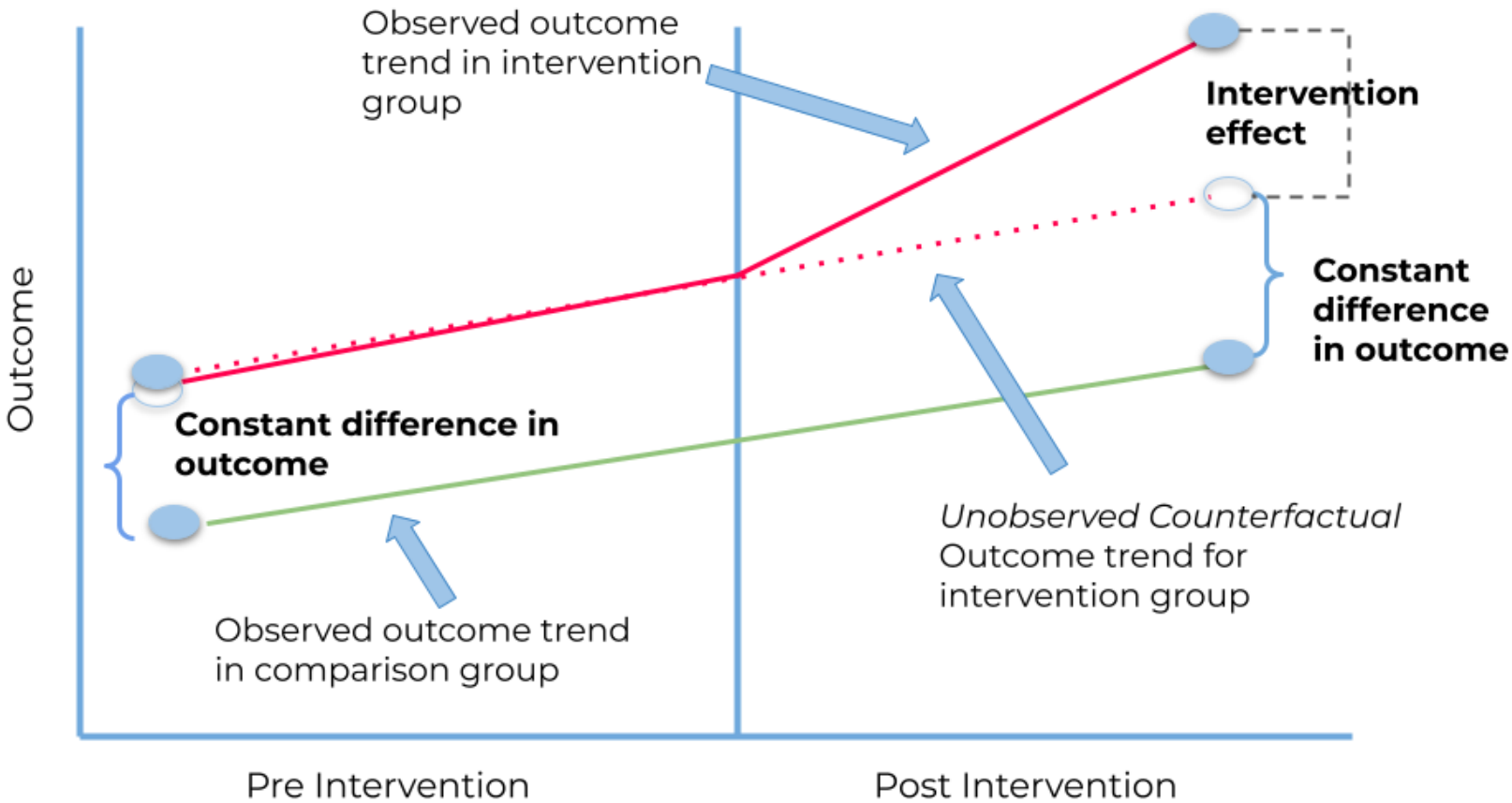
Main assumption: Absent the policy change, the difference between T and C would have stayed the same.

Under this parallel trends assumption, the Difference-in-Difference estimator measures the average treatment effect on the treated (ATT):

$$DiD = [\bar{Y}_{T,After} - \bar{Y}_{C,After}] - [\hat{Y}_{T,Before} - \hat{Y}_{C,Before}]$$

It essentially measures whether the difference between treatment and control changes after the policy change.

Graphical Illustration



In practice, we often observe more than two groups over many periods.

That's fine. A generalized DID estimator can be recovered by running the following regression:

$$Y_{it} = \alpha + \beta D_{it} + \delta_i + \delta_t + \varepsilon_{it},$$

where D_{it} takes value 1 if unit i is treated at period t, and 0 otherwise.

Such specifications are referred to as **"two-way fixed effects" models**.

Can we test parallel trends? **No!**

We will never know if treated and untreated units would have followed the same trends absent the policy intervention.

But we can at least test whether they did display parallel trends in average outcomes *before* the policy intervention:

$$Y_{i,t} = \alpha_i + \alpha_t + \gamma_k^{-K} D_{i,t}^{<-K} + \sum_{k=-K}^{-2} \gamma_k^{lead} D_{i,t}^{k} + \sum_{k=0}^{L} \gamma_k^{lag} D_{i,t}^{k} + \gamma_k^{L+} D_{i,t}^{>L} + \varepsilon_{i,t}$$

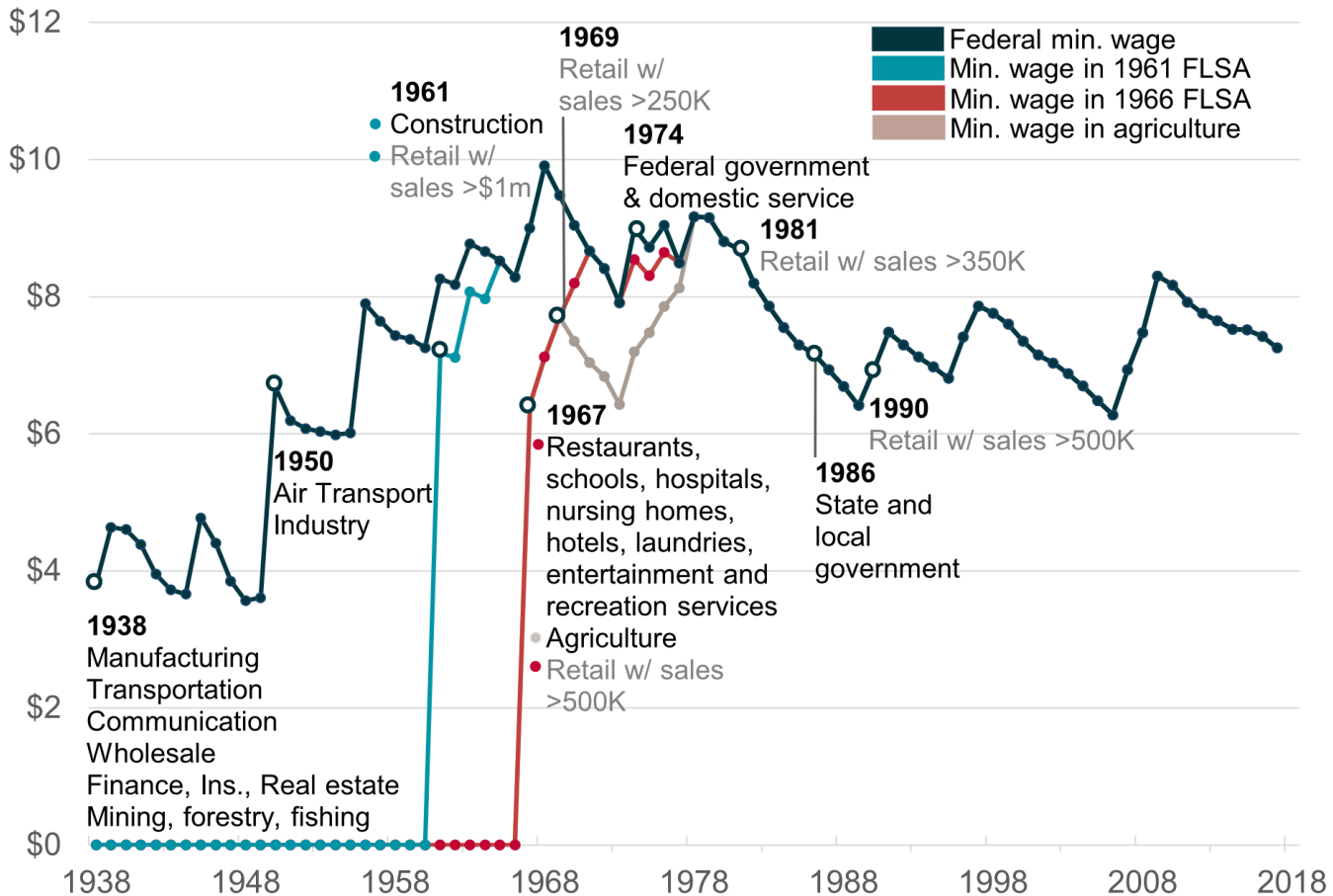
,

where $D_{i,t}^{k} = 1\{t - G_i = k\}$ is a variable that takes value 1 if a unit i is k periods away from initial treatment at time t and 0 otherwise.

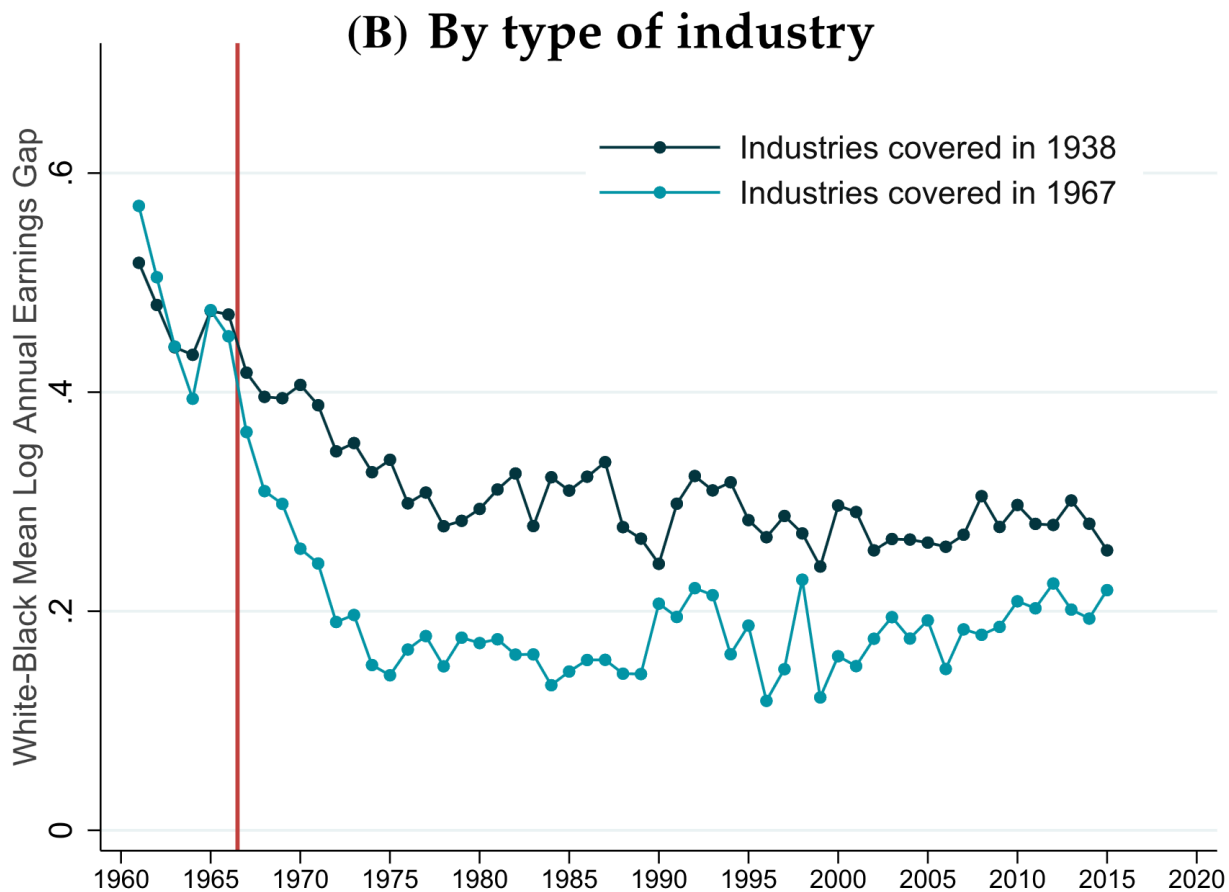
$D_{i,t}^{<-K} = 1\{t - G_i < -K\}$ and $D_{i,t}^{>L} = 1\{t - G_i > L\}$ are defined analogously.

Now, back to our paper (Derenoncourt and Montialoux, 2021)...

Minimum Wage Laws in the United States



There was a large decrease in the racial earnings gap in the between 1960 and 1980.



Industries affected by the 1967 minimum wage reform drive the trend.

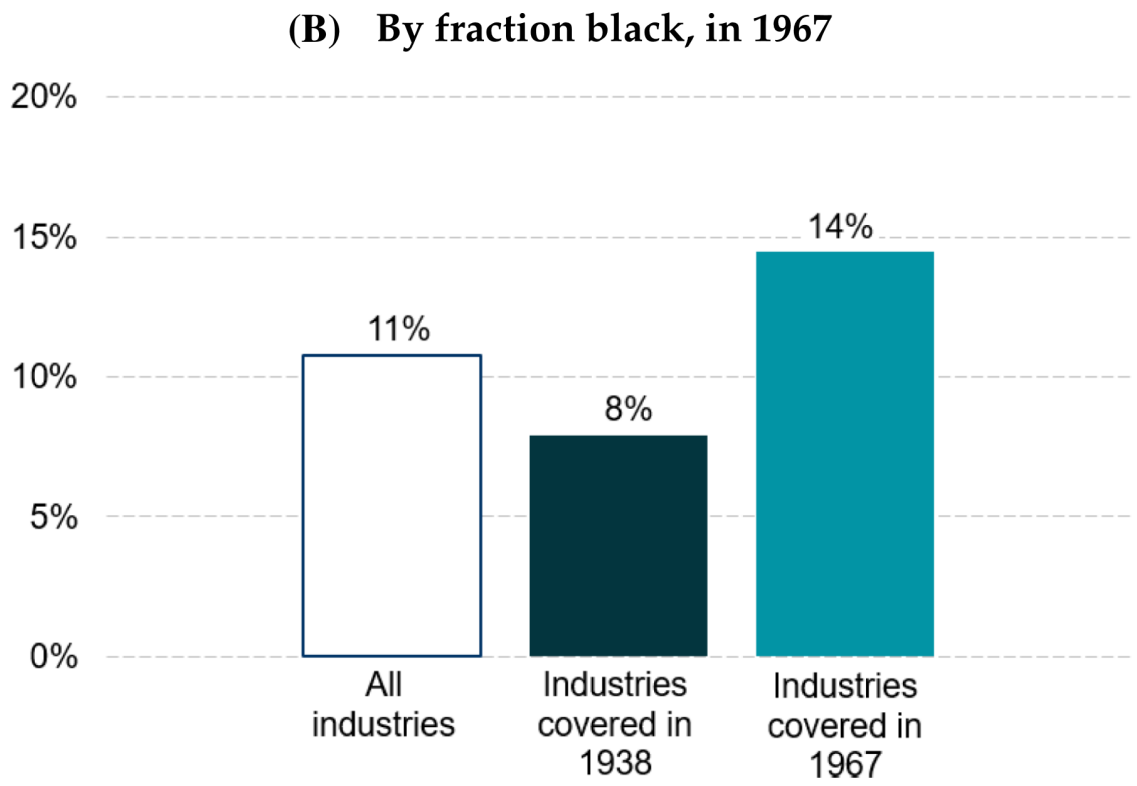


FIGURE IV

Share of Workers Covered by the Minimum Wage

Black workers were overrepresented in industries affected by the 1967 minimum wage reform.

Effects on Earnings

Empirical strategy: The authors compare the wages of workers i in state s and year t in industries j affected (or not) by the 1967 reform:

$$\log w_{ijst} = \alpha + \sum_{k=1961}^{1980} \beta_k \text{Covered 1967}_j \times \mathbf{1}[t = k] + \delta_j + \delta_t + X'_{ijst}\Gamma + \varepsilon_{ijst}$$

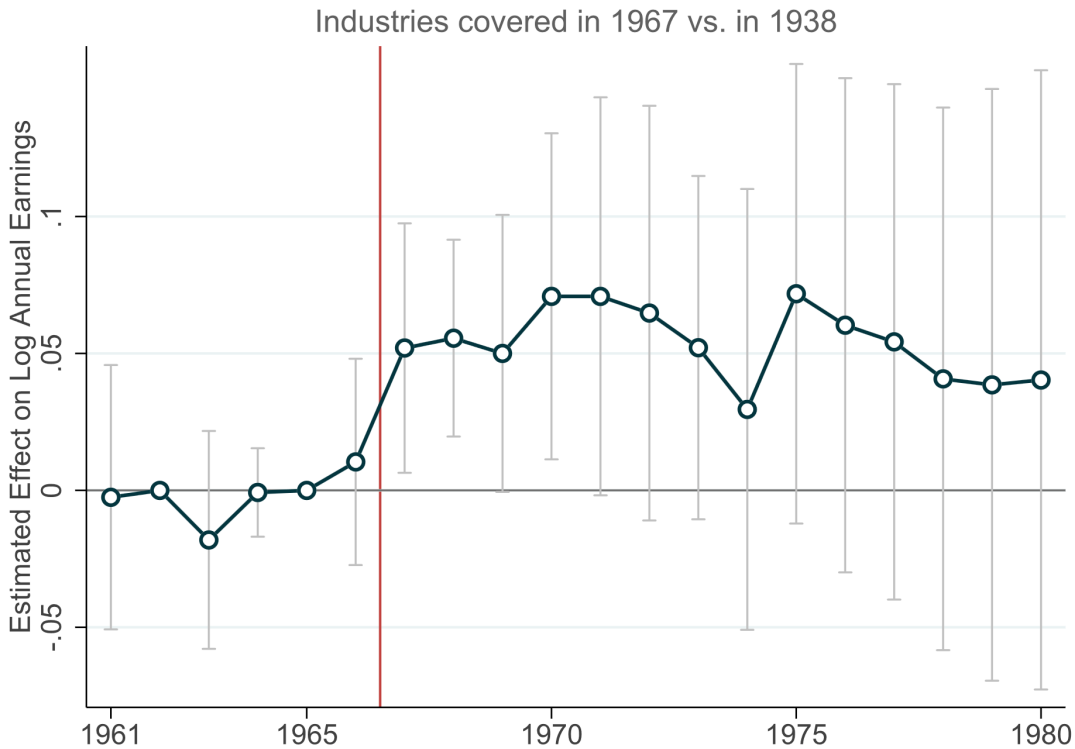


FIGURE V

Impact of the 1967 Reform on Annual Earnings

The reform has a sizable positive effect on log annual earnings.

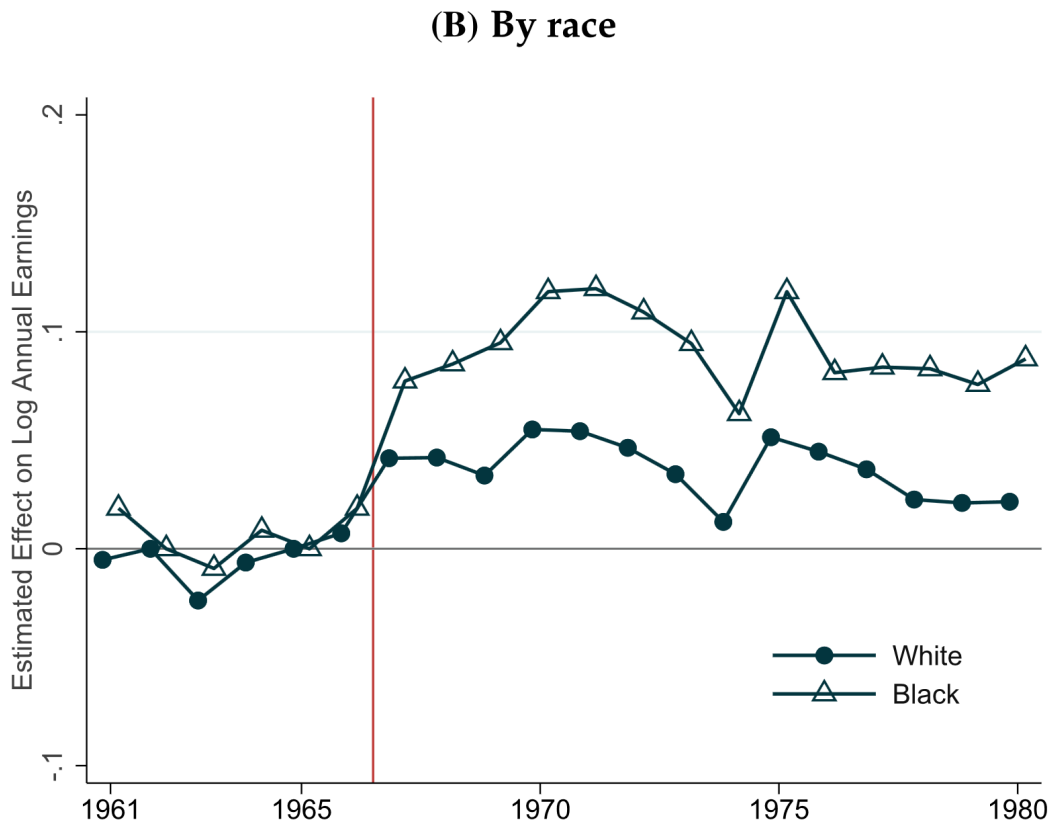


FIGURE VI

Heterogeneity in the Wage Effect of the 1967 Reform

Black workers are its primary beneficiaries (because they were often paid below the minimum wage before the reform).

Effects on Employment

Did these additional earnings come at the cost of unemployment?

Some states already had minimum wage laws in place and are thus less affected by the reform.

The authors compare employment outcomes in these states with states strongly affected by the reform:

$$\log y_{ist} = \alpha + \sum_k \beta_k \text{Strongly treated state}_s \times \mathbf{1}[t = k] + \nu_s + \delta_t + X'_{ist}\Gamma + \varepsilon_{ijst}$$

Their answer is **NO**, as they find no empirical evidence of an impact on employment outcomes.

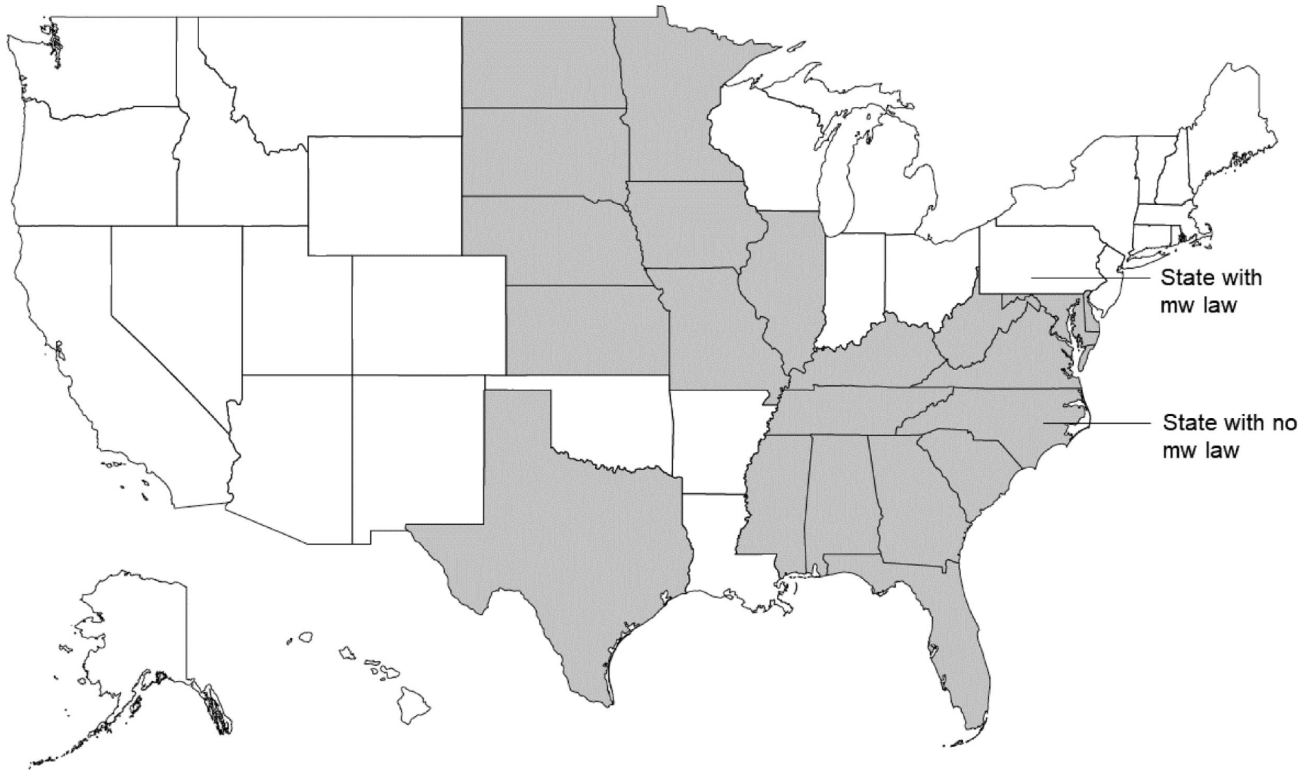
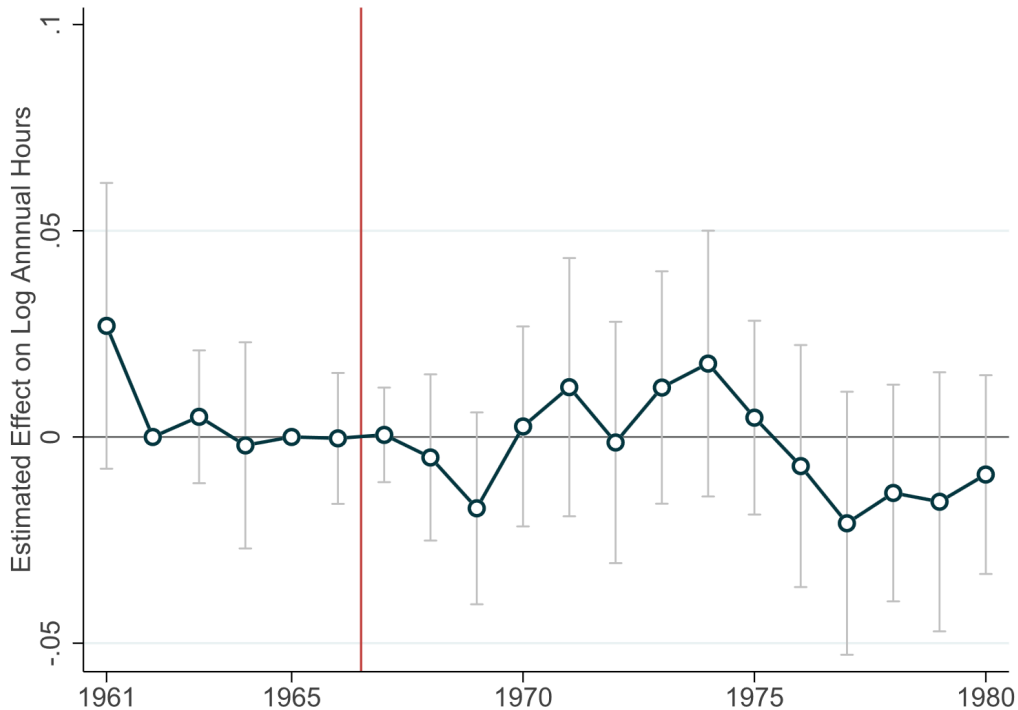


FIGURE VII

States with No Minimum Wage Laws as of January 1966

(A) Impact on annual number of hours worked (intensive margin)



No clear effect on the probability of being employed emerges.

(B) Impact on probability of being employed (vs. unemployed) (extensive margin)

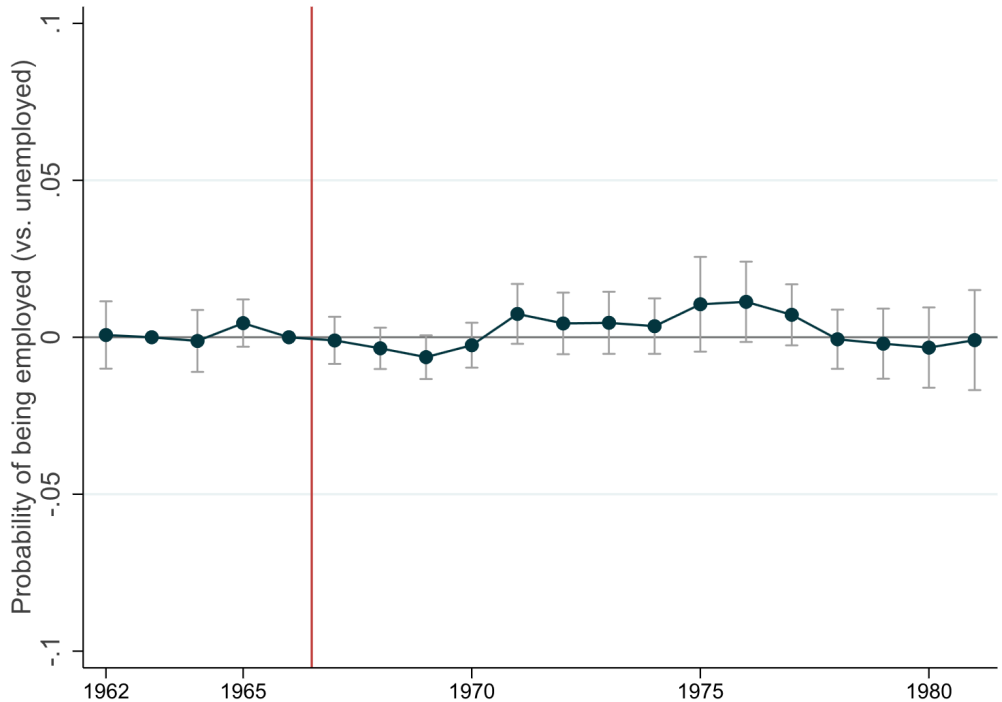


FIGURE VIII

Impact of the 1966 FLSA on Employment

No clear effect on the annual number of hours worked emerges.

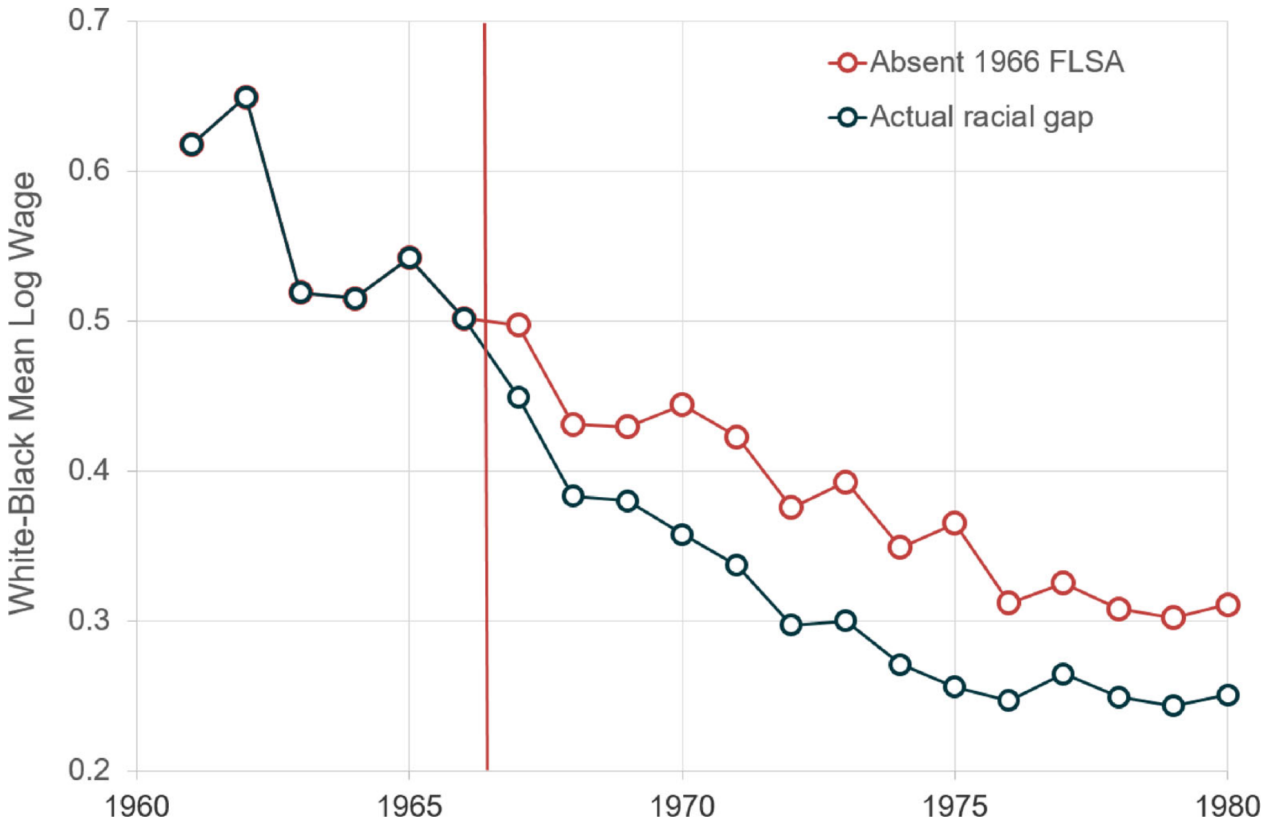


FIGURE X

1967 Reform Reduced Economy-Wide Racial Gap by ∼20%

Conclusion

Universal policies are not targeted to specific groups of the population but may still disproportionately be beneficial to underprivileged groups.

In the United States, the minimum wage laws played an essential role in reducing the racial earnings gap in the 1970s.

One advantage of these policies is that they tackle racial inequality without explicitly targeting African Americans.

This makes it harder for prejudiced politicians to argue against them.

They also run less into merit-based arguments that often arise when discussing affirmative action (next lecture!).

Derenoncourt, E. and Montialoux, C. (2021). Minimum wages and racial inequality. *The Quarterly Journal of Economics*, 136(1):169–228.

Tips for the Exam

Understand the difference-in-differences methodology and its underlying assumptions.

Understand the role universal policies may play in reducing wage gaps.