RACIAL DIFFERENCES IN THE UNEMPLOYMENT RESPONSE TO STRUCTURAL CHANGES IN LOCAL LABOR MARKETS

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This analysis uses establishment-level data on job creation and destruction to examine the unemployment rate responses of black, Hispanic and white workers to shifts in demand across firms and industries during the period 1980–84. Black unemployment rates are significantly more responsive to differences in aggregate demand growth and wage flexibility than are white and Hispanic unemployment rates, and they are also more severely impacted by structural changes in labor demand than are white and Hispanic unemployment rates. Additional research using the measures and focus of the present analysis that cover other time periods can assist in developing a clearer picture of the contemporary dynamics of urban labor markets and can provide guidance for public policy.

INTRODUCTION

In recent years increasing attention has been devoted to the phenomenon of job displacement created, in part, by new patterns of intra- and international firm mobility. Many of the early studies focused on the mid-1980s for two principal reasons. First, the effects of substantial volatility in traditional manufacturing industries that began in the 1970s were particularly evident during this time frame in the form of substantial employment losses. To illustrate, almost 11 million workers were displaced from their jobs because of plant closings or employment cutbacks between January, 1981 and January, 1985. The second reason attention crystallized on job displacement during this period was that the availability of new data sets enabled detailed analysis of employment shifts. As an example, the Displaced Worker Survey (DWS) was implemented in 1984 as a supplement to the Current Population Survey (CPS) and constitutes the largest nationally representative database on displaced work-
ers. This database captures retrospective employment information for five years, along with reasonably detailed information about the characteristics of the previous job and postdisplacement labor market experience in addition to standard CPS variables.

While studies examining job displacement have generated various critical insights about employment shifts, it is less clear how this phenomenon relates to what has been traditionally characterized as "structural unemployment." Some analyses examining the relative number of job vacancies and unemployed workers have concluded that deficient aggregate demand is the primary cause of unemployment rather than shifts in demand across firms and industries.\textsuperscript{3} To the extent that this is the case, job training and other structural unemployment policies are not likely to significantly affect unemployment levels.

However, recent work by Hyclak examining the problem of mismatch unemployment in local labor markets found that changes in the structure of labor market demand across industry by firm-size sectors had a highly significant positive effect on male and female unemployment rates in a sample of 30 large markets during the periods 1977 to 1980 and 1981 to 1984.\textsuperscript{4} Hyclak's study illustrates the benefits that can be derived from using establishment-level data on job creation and destruction to measure changes in labor demand across sectors in the context of structural change.

This analysis extends Hyclak's work by disaggregating the unemployment effects across race. Specifically, the unemployment response of blacks, whites and Hispanics to structural shifts in labor demand is compared for the period 1980–84. Disaggregating the unemployment response is important because the available data from studies of job displacement indicate that black and Hispanic workers have suffered disproportionate employment losses compared to whites.

To illustrate, data from the 1984 DWS indicate that while blacks constituted 9 percent of the labor force, they constituted 12 percent of the displaced workers. Hispanics comprised 5 percent of the workforce and 6 percent of displaced workers. In contrast, whites comprised 88 percent of the total labor force, compared to 86 percent of displaced workers.\textsuperscript{5} For the period 1981 to January, 1986, blacks constituted 11.2 percent of displaced workers, compared to 11.2 percent of the workforce in January, 1986. The comparable figures for whites were 86.5 percent and 86.0 percent, respectively.\textsuperscript{6}

Although the data above do not suggest substantial overrepresentation of blacks among displaced workers over the period 1981–86, blacks were