BLACK-WHITE WAGE DIFFERENTIAL:
THE RELATIVE IMPORTANCE OF HUMAN
CAPITAL AND LABOR MARKET STRUCTURE

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This article uses the decomposition analysis developed by Neumark
and the 1987 CPS data to investigate the relative importance of human
capital and labor market structure in explaining the observed wage
differential between white males and blacks (both male and female).
We find that labor market structure, as opposed to differences in human
capital, explains a relatively large portion of the wage gap between
white males and blacks. In addition to blacks and whites being paid
different wages for the same work, they are also given unequal oppor-
tunities. This means that narrowing the human capital gap between the
races will not be enough to close the wage gap, as argued by human
capital theorists. It is equally important to pursue policies that provide
access to higher paying jobs and industries for blacks.

This paper uses a wage decomposition methodology developed by
Neumark and Cotton and 1987 Current Population Survey (CPS) data to
investigate the relative importance of productivity characteristics and la-
bor market structure in explaining the wage gap between blacks and
whites. By labor market structure, we mean labor market conditions that
affect the wage structure but are neither the traditional productivity char-
acteristics nor personal characteristics of the worker. We measure such
labor market structure as consisting of industry classification, regional
distribution of the work force, part-time and part-year employment status,
unemployment rate, and the probability of employment.

There is a debate over the relative importance of human capital in
explaining the observed black-white (male-female) wage gap. Subscrib-
ers to the "human capital school" believe that blacks earn less than whites
because they tend to be less educated and possess less of other productivity attributes than whites. According to this school, elimination of this "human capital gap" could drastically reduce, if not eliminate, the observed black-wage differential. Paglin and Rufolo argue that even when males and females have the same amount of college education, differences in majors explain practically all the wage gap. By implication, if whites and blacks tend to major in different subjects, then the black-white wage differential can be explained by the differences in college major. To allow for this possibility, we treat occupational classification as a manifestation of college major and treat college major as a human capital variable. Other researchers point to the wage differential between blacks and whites with similar education and productivity characteristics and argue that differences in human capital endowments cannot explain all, or a large part of the black-white wage gap.

The importance of labor market structure relative to human capital in explaining the black-white wage gap needs to be investigated in light of recent developments in the position of blacks in the labor market. There is no doubt that the black-white wage gap widened substantially in the 1980s. This widening of the wage gap occurred in spite of the fact that the education gap between blacks and whites narrowed during the 1980s. The widening of the wage gap at the time when the education gap narrowed suggests that differences in educational attainment explain only part of the black-white wage gap. As Darity and Darity and Myers have argued, other factors may be more important in explaining the wage gap than differences in human capital.

The relative importance of productivity characteristics in explaining the black-white wage differential has policy implications. If productivity enhancing factors are the major cause of the black-white wage differential, then policies should be designed to increase black productivity characteristics. However, if the wage differential is mainly due to the structure of the labor market, hence labor market discrimination, then policy should emphasize the elimination of discrimination while narrowing the human capital gap.

Previous research on the black-white wage gap has used the decomposition analysis developed by Oaxaca and Blinder (hereafter referred to as Oaxaca decomposition) to decompose the wage differential into two components—differences in productivity characteristics and discrimination (coefficients). Nord finds that college education decreases the wage gap between the sexes and argues that this gain from education is even more impressive for black females, contrary to the general assertion that