URBAN INDUSTRIAL STRUCTURE AND THE RELATIVE INCOME OF NON-WHITE MALES: A DISCUSSION

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At some points, the discussion of the paper "Urban Industrial Structure and the Relative Income of Non-White Males" which is presented here differs from that presented at the SERSA Mettings. Such differences, as there are, can be attributed to a large extent to the additional consideration of the Rasmussen-Haworth analysis initiated by the discussion of the audience which followed the presentation and by discussions with other SERSA participants following the close of the session.

The objective of the Rasmussen-Haworth paper is a statistical evaluation of the determinants of the non-white income ratio. To this end they have constructed a basic model, equation 1, which includes variables which have a relatively clear economic meaning: Pn/Pw which is the non-white/white productivity ratio, U/S, a measure of the relative tightness of the unskilled and skilled labor markets, $1000/NW$, a measure of the availability of employment in large plants to non-whites and CR a measure of concentration in the manufacturing industries. Their equation 2 is the same as equation 1 except that the concentration measure is expanded to include the non-manufacturing in addition to the manufacturing sectors, equation 3 adds to equation 2 the dummy variables BOR and DS to indicated urban area location in the border and deep south states respectively.

Before considering the implications of the regression analysis, I should like to comment on the statistical procedures employed by the authors. The generally practiced and widely accepted convention in the interpretation of regression statistics is to consider as different from zero (or any other benchmark value) only those regression coefficients whose t values indicate that the probability of their not being statistically different from zero (the benchmark in this case) is not greater than one in twenty, i.e. the .05 confidence level. Rasmussen and Haworth however have chosen to accept as significant, those coefficients for which the probability of their not being different from zero is one in five, i.e. the .20 confidence level. While there is nothing sacrosanct about statistical conventions, the application of the more generally practiced but stricter criteria of significance would seen desirable insofar as it would not alter the major finding especially as they are concerned with industrial concentration and is so far as their primary results are embodied in equation 3. However even though it would question the importance of some of the economic variables, use of the more conventional .05 standard would seen consistent with the main thrust of the authors' analysis in that it provides a means of identifying the importance of intersectional variation in concentration as a determinate of the income ratio.

With regard to the variables, equation 2 differs from equation 1 only in the definition of the industrial concentration ratio. In equation 1 the concentration measure refers only to the manufacturing sector where as in equation 2 (and equation 3), it is a composite measure of concentration for the urban economy including both the nonmanufacturing and the manufacturing sectors.[1] Clearly, as the authors' anaylsis indicate, the level of industrial concentra-

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tion within the urban economy is an important determinant of the non-white/ white median income ratio. However, the fact that in equation 2 the concentration measure for the manufacturing sector alone was not significant at .05 level of confidence, while the measure of concentration for the economy as a whole, equation 2 was significant at the .01 confidence level would seem to imply that rather than concentration in the manufacturing sector alone it is the overall monopoly power, particularly as it is associated with the non-manufacturing sectors, which is an important determinant of the non-white/ white income ratio.

The other major change associated with the incorporation of non-manufacturing concentration in the basic model is the significance attributable to and the sign of the intercept or constant coefficient in equation 2. This would seem to imply that at the mean the actual ratio of nonwhite to white median income is less, and statistically significantly so, than an accounting for the variables included in the equation would lead one to expect. As the constant coefficient is not significant in equation 1, it would seem that this difference between the actual and expected income ratio in equation 2 must in some way be associated with industrial concentration and monopoly power in the manufacturing industries. However, to the extent that consideration of productivity differentials, the relative tightness of the unskilled-skilled labor market, the availability of employment in large plants and the overall level of concentration in the urban economy would imply a non-white/white median income ratio which at the mean would be greater than the actual ratio, it would appear from equation 3 that the source of this overevaluation can be attributed to regional, specifically border and deep south states, differentials. At least, this would seem to be an implication of equation 3 which differs from equation 2 in that the intercept is not significantly different from zero, the regional variables are both highly significant, and the value of the coefficient of the concentration variable is about half of its size in equation 2.

Thus considering the results of all three regression equations, it would seem that as Rasmussen and Haworth indicate, the level of industrial concentration is an important determinate of the variation in the non-white/white income ratio among urban areas. However, in addition to this, their major finding, their regession results also indicate the importance of interregional and intersectional variation in concentration as a determinate of the income ratio.

With regard to the productivity, labor market and employment availability variables, when regional variables are included in the analysis, none could be considered as significant regardless of the statistical standard--.05 or .20 level of confidence. However, in equations 1 and 2 they were significant, at least at the .20 level, and their signs are as would be expected. Thus it would seem that while the economic variables included in the equations may be of importance in the determination of the non-white/white income ratio, the predominate factors, including industrial concentration, affecting the variation in the ratio among urban areas appear to be more closely related to those factors whose effects vary systematically across regions.

With regard to the interpretation of their overall results the authors are correct in saying that the positive and significant coefficients for the concentration measure suggest that "employment conditions in more competitive firms are less favorable to non-whites than in monopolistic industries." However their statement that "this result is a direct contradiction of the hypothesis that competitive industries are not likely to discriminate in hiring of labor." p. 86 does not necessarily follow from the analysis.

If, as the authors argue, firms have "a surplus (profit)that permits them to discrimate" the significant and positive value of concentration measure could be indicative of discriminatory monopoly action toward non-whites, although in positive rather than a negative direction. It would seem that it could be argued that one possible result of the civil rights movement was to reverse the 'taste' of monopolist from unfavorable preference against Blacks (if one accepts Becker's analysis of the earlier period) to a set of preferences which in 1959 were favorable to blacks. Thus while as the analysis indicates that employment in competitive industries appear to be less favorable to non-whites, the regression results neither negate the possibility that monopolists implement discriminatory preferences nor do they conclusively indicate whether competitive firms have the power to discriminate.

In the areas of policy, the proposals suggested by the authors appear to be supported by their analysis as well as by those of others. With regard to a guaranteed annual income, the arguement that it would remove the push out of rural areas and thereby reduce the flow of low skilled labor into metropolitan areas is probably correct insofar as it goes. However, it is quite possible that while a guaranteed income may reduce the push out of rural areas, it may at the same time, reduce the cost associated with migration. Rural laborers and farm workers often earn some measure of income, whether market or non-market. To the extent that this income is derived from activities that could not be carried out elsewhere, a laborer or farmer, in his decision to migrate must consider as a cost that part of his income which depends on his rural location and which he must forgo if he migrates. Insofar as a guaranteed annual income would reduce the potential migrants dependence on a specific location for income, it would reduce the costs of migration. Consequently, while on one hand a guaranteed income may operate so as to retard the flow of rural migration by reducing the income incentive, it may on the other hand, by the elimination or reduction of income dependence on current location, reduce the cost of migration and consequently have a stimulating effect on migration. In the net the influence of these two possible effects of a guaranteed income on migratory behavior is, of course, not known. This however does not reduce their importance and serve to indicate the need for continued evaluation of possible public policy measures.

Finally in urban analysis, many of the problems which are difficult and many of the questions that are relevant have not been subjected to systematic empirical analysis for no other reason than the necessary data is either not available or if so only so in a highly aggregated form which does not readily lend itself to detailed analysis of urban areas. By their imaginative use of data the authors have demonstrated that the constraints imposed by limitations and availability of data need not be prohibitive. All in all considering the difficulties inherent in any attempt to evaluate the nature of the relation between industrial organization and income distribution, the paper by Rasmussen and Haworth on urban industrial structure and the relative incomes of nonwhites represents a valuable contribution to urban analysis.

FOOTNOTES

[1]Actually the measure of industrial concentration in equation 2 (and 3) equals that of equation 1 weighted by the ratio of manufacturing to total employment times one plus the sum over the nonmanufacturing industries of the concentration ratio times employment in the nonmanufacturing sectors divided by the sum over manufacturing industries of the concentration ratios times manufacturing employment.