

Equilibrium Unemployment: The Role of Discrimination

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U.S. labor markets are increasingly diverse and persistently unequal across demographic groups. In the spirit of Chari, Kehoe, and McGrattan (2007), we use a structural model approach to decompose the observed differences in labor market outcomes across demographic groups, defined by gender, race/ethnicity and education, in terms of underlying wedges, or frictions. Of particular interest is the potential role of discrimination, either taste-based and/or statistical. Our prototype model is a version of the Diamond-Mortensen-Pissarides model extended to include a life cycle, learning by doing, a non-participation state, and informational frictions. The prototype exhibits group-specific wedges in initial human capitals, returns to experience, matching efficiencies, and hazard rates. We use the model to reverse engineer group-specific wedges and fed them back into the model to assess the fraction of various inequities they account for. Applying this methodology to 1998-2018 U.S. data reveals that differences in initial human capitals, returns to experience, and in hazard rates account for most of the demographic inequities; wedges in matching efficiencies play a secondary role. Our results suggest a minor aggregate impact of taste-based discrimination in hiring, and an important role for statistical discrimination affecting particularly female groups and Black males. Our approach is structural, unified, and comprehensive.