

How Ford Motor's Equal Pay Policies Reduced Overall Labor Market Discrimination

by Jonathan A. Lanning

An important question for researchers and policymakers is how do companies' individual actions affect the labor markets overall? The answer to this question can have wide-ranging implications, both for the spillover effects of a large employer's voluntary labor policies and for optimal targeting of regulatory oversight. The experience of Ford Motor Company provides us with important insights into the impact of one large company's labor policies—not only on its own workforce, but also on the local community and economy.

In a paper forthcoming in the *Journal of Labor Economics*, my co-author C. Lockwood Reynolds and I estimate the impact of Ford Motor Company's wage policies using data from the first half of the twentieth century. We find that equal pay policies at Ford substantially reduced the gap in wages earned by Black workers compared with White workers not only at Ford, but throughout the Southeast Michigan region. By 1947, the regional wage gap was around half what it would have been absent Ford's equal pay policies. In this article, I summarize our work and highlight some important findings.

We begin our analysis by comparing compensation of White and Black workers across the Southeast Michigan region, within the automotive industry, and at Ford, specifically. Using data from Ford's personnel records from 1918 to 1947 and the 1940 U.S. Census, we provide evidence that the Ford Motor Company paid near equal wages to White and Black workers, even when controlling for different worker characteristics and jobs. This stands in contrast to the larger labor market at the time, especially Ford's competitors in the auto industry, which paid systematically lower wages to Black workers. We then estimate a search model of the labor market that ultimately reveals the large effect Ford's wage policy likely had on wages paid to Black workers by other employers in the region which, in order to attract these workers, needed to compete with Ford.

This research has important implications for policy intended to combat wage discrimination. Our use of a search model represents a new approach that can be used to study observed discrimination in a regional labor market and further estimate *unobserved* discrimination. Our findings suggest that large effects can occur throughout a labor market, even when wage interventions target only the largest employers.

Detroit and the Ford Motor Company during the Great Migrations

Previous work by Thomas Maloney and Warren Whatley illustrates the massive effect of the auto industry on Detroit in the first half of the twentieth century. From 1900 to 1950, Detroit's population increased from less than 286,000 to more than 1.85 million. Much of this population growth was

driven by the First and Second Great Migrations (1916–40, 1940–70), during which nearly seven million Black Americans relocated from the American South to industrialized cities in the North and West, seeking better economic and social opportunities. For Detroit in particular, this growth was also due in large part to the booming auto industry, with total employment in the industry in Detroit increasing from around 60,000 in 1920 to nearly 172,000 in 1940.

The Ford Motor Company was a major player in the auto industry and, in terms of hiring and wage practices, stood in stark contrast to other Detroit area employers. Though Black workers made up only 6% of the Detroit area workforce between 1920 and 1950, they made up 20% of Ford’s workforce over the same time span. And while, in 1940, the average wage for Black workers in the Detroit area was 67% of the average wage of White workers, Ford’s “\$5 a day” policy for all workers—in place since 1914—provided equal pay for workers regardless of race.

To understand the regional labor market at the time, it is important to note that Ford’s hiring and wage practices weren’t likely motivated by anti-discriminatory attitudes at the company per se. Many scholars and historians have noted that Henry Ford—who maintained a significant influence over the Ford Motor Company in this era—frequently and publicly expressed vitriolic racist, xenophobic, and anti-Semitic views. Though there are no known records of Ford’s decision-making process around the company’s equal pay policy, [it has been argued](#) by historian Beth Tompkins Bates that Ford’s mistrust of immigrant workers and desire to “better control” his workforce led him to seek out Black workers who might be more “grateful” for employment opportunities.

And in fact, we see evidence in the company’s employment data that although Black workers made equal wages to White workers, many held less desirable jobs. Further, turnover was lower among Black workers than White workers, suggesting Black workers faced more limited opportunities outside the company, providing an additional incentive for them to stay at Ford.

Black–White wage gaps in Detroit and the auto industry

To conduct our analysis, we use personnel records from more than 15,000 people employed by Ford Motor Company in the Detroit area from 1918 to 1947. To measure wages of Ford employees against those in the wider Detroit-area local labor market, we use the 1940 Census sample from the Integrated Public Use Microdata Series (IPUMS).

Together, these data reveal to what extent wages paid to Black and White workers differed on a regional, industry, and firm (Ford Motor Company) level. As shown in table 1, the hourly racial wage gap is smaller within the auto industry (\$0.18) than across all industries (\$0.28). Within Ford, however, there is almost no racial wage gap.

While Black workers accounted for only 5.9% of all workers in the auto industry in Southeast Michigan, they account for 38.1% of the personnel records in our sample of Ford employees. We find that wages for Black and White workers at Ford are similar, with White workers actually earning \$0.02 less on average than Black workers (all wages are in 1939 dollars to match census estimates).

What drives these gaps can be difficult to identify. For example, if Black and White workers are systematically sorted into different occupations, it can be difficult (if not impossible) to separate the impact of those occupations from the impact of race. And we do see, within the Ford employment data, that despite the similarity in wages, Black employees are much more likely to have less desirable and more dangerous foundry jobs (39.9% of Black workers compared with only 4.3% of White workers).

To further investigate what drives the wage gaps, we conduct an analysis that attempts to control for individual characteristics of workers, for example, years of education. We find that within both the

Table 1. Summary statistics by race

Variable	All workers	White workers	Black workers	Difference
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1940 Census, All Industries (N=9,629)				
Share of Black workers	0.067			
Hourly wage	0.760	0.778	0.497	0.281***
Male	0.771	0.774	0.741	0.032*
Married	0.635	0.632	0.671	-0.039**
Number of dependents	0.866	0.881	0.660	0.221***
Years of education	9.513	9.635	7.808	1.828***
1940 Census, Auto Industry (N=2,764)				
Share of Black workers	0.059			
Hourly wage	0.866	0.877	0.693	0.184***
Male	0.928	0.925	0.982	-0.057***
Married	0.721	0.716	0.795	-0.079**
Number of dependents	1.115	1.110	1.187	-0.076
Years of education	8.825	8.895	7.735	1.160***
Ford Motor Company (N=15,461)				
Share of Black workers	0.381			
Hourly wage	0.729	0.722	0.742	-0.020***
Male	0.881	0.835	0.955	-0.120***
Married	0.595	0.516	0.723	-0.207***
Number of dependents	1.512	1.286	1.878	-0.592***
Years of education	9.371	9.655	8.778	0.877***
Is job in foundry?	0.179	0.043	0.399	-0.356***

*, **, and *** indicate significance at the 10%, 5%, and 1% percent levels, respectively.

Notes: As the table illustrates, Black and White workers employed by Ford earned nearly equal wages. However, wages for both groups at Ford were lower than for White workers elsewhere in the auto industry. These findings line up closely with the authors' search model predictions and suggest that other auto industry employers, who were less willing than Ford to hire Black workers and therefore competed in a smaller labor pool, were forced to artificially bid up White workers' wages.

Sources: Ford data originally described in Foote and Whatley (1993). Data are from Ford Motor Company records for employees working between 1918 and 1947 in Detroit area operations in the state of Michigan. Southeast Michigan data from Integrated Public Use Microdata Series (IPUMS) samples from the 1940 Census, restricted to the Southeast Michigan area. Wages in the 1940 Census are calculated using 1939 salary and income data, adjusted for weeks worked (assuming 40 hours of work per week). All wages are in 1939 dollars and have been censored at the 1st and 99th percentiles.

overall Detroit labor market and the auto industry, race, more than other factors, explains the wage gap between Black and White workers.

The story is different at Ford. While some previous work has implied a “hidden wage gap” that occurred via job segregation, our analysis shows that the wage gap actually decreases when accounting for differences in job allocation. Consistent with 2003 research by Christopher Foote, Warren Whatley, and Gavin Wright, we show Ford indeed appears to have paid near equal wages to White and Black workers in an otherwise discriminatory labor market, especially relative to its competitors.

Importantly, however, we cannot rule out the possibility that Black workers suffered from lower compensation in ways not observed in our data. We cannot see, for example, if Black workers were either forced into or opted into foundry jobs where, even if they were more productive than their White counterparts, they ultimately received lower productivity-adjusted wages. Our data also limit us in assessing how Black workers were treated at Ford outside of wages and financial compensation. Disparities in treatment would certainly constitute harmful economic discrimination, even if they did not manifest as wage disparities.

Ripple effects on wages throughout the region

To understand how Ford's equal wage policies affected the broader local labor market, we compare the Detroit area to "sister cities" of Buffalo, Chicago, Cleveland, and Milwaukee.¹ We then estimate a model that can account for both the direct effect of Ford paying equal wages to a portion of the labor market and the strategic effects of outside firms having to adjust their offers in response to Ford's policy.

The results are dramatic and show that Ford might have had a considerable impact on the wage gaps facing workers in the larger labor market. Our simulations show that Ford's policy could have reduced the wage gap between Black and White autoworkers, specifically, by as much as 77%.

Perhaps more striking, the model predicts that Ford's policy could have reduced the Black–White wage gap among companies other than Ford by nearly 40% and in the Southeast Michigan region overall by 50%, simply by forcing firms to strategically respond to and compete with Ford's wage offers. While these estimates are large, we believe their magnitude is reasonable given Ford's importance in the area's labor market and the racial wage gap that appears to have existed outside of Ford.

Conclusion

This article summarizes findings from my recent work with C. Lockwood Reynolds on the impacts of the Ford Motor Company's wage policies on the labor market disparities between Black and White workers. Our findings suggest the impact of one large employer's voluntary equal wage policy had economically significant impacts beyond Ford's workforce, narrowing the wage differentials paid by other firms in the auto industry, and even those in the larger Southwest Michigan labor market. While the concentration of labor within the auto industry during the Great Migration places some limits on the direct applicability of these findings to today's labor markets, we believe this paper makes a useful contribution by being the first (to our knowledge) to estimate how a large employer's wage policy affects market-level wage gaps. Future work could extend these findings by shedding light on whether and how nonpecuniary labor policies similarly spill over from a large employer to the market, and/or how these effects could inform optimal labor market policy.

Note

1. Like Detroit, these cities had large durable goods industries and large communities of Black workers. Within the Great Lakes region, their states represented five of the six largest economic areas.

Biography

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