
Upjohn Institute Press

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Chapter 2 (pp. 9-24) in:

Essays on the Economics of Discrimination

Emily P. Hoffman, ed.

Kalamazoo, MI: W.E. Upjohn Institute for Employment Research, 1991

DOI: 10.17848/9780585255859.ch2

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Labor market discrimination in this country has been illegal at least since 1964 when Title VII of the Civil Rights Act outlawed it. The Civil Rights Act of 1964 and the 1963 Equal Pay Act, which requires that individuals doing the same job must receive the same pay, are primarily responsible for protecting individuals against race and sex discrimination. Age discrimination is covered under the Age Discrimination in Employment Act, which was designed to prevent disparate treatment of older workers. This act has been sporadically amended and now essentially eliminates mandatory retirement.

Before analyzing the specifics of age discrimination, I will briefly describe what is and what is not discrimination in the labor market. First, in order to have been discriminated against, an individual must be in a protected category. Not all workers are members of protected classes. The largest protected classes in this country consist of females, blacks, and individuals who are covered by the Age Discrimination in Employment Act. Old is now defined as over 40.

Other minorities are also protected under the Civil Rights Act of 1964, and the definition of protected categories has evolved over time. Hispanics are protected workers, but, in most circumstances, Asians are not. For example, at the University of California, Asians do not count toward meeting any kind of quotas for racial balance. In fact, they count the wrong way, and there has been recent action by white students to limit the number of Asians because they are represented in numbers that exceed their proportion in the population. Other groups, such as Jews, are not in a protected class.

Individuals rarely win suits based on discrimination due to physical characteristics, such as obesity or baldness. Sexual preference has, with only a few exceptions, been deemed a legitimate criterion for employment, so that homosexuals rarely win discrimination suits. While some

of these more controversial criteria are interesting, they are probably less important at a practical level than discrimination on the basis of education. That might seem somewhat bizarre, but it lies at the heart of what practices are permitted in the labor market.

For example, suppose that an employer imposes a requirement that an individual must possess a college degree in order to obtain a job. Suppose further that this requirement has the effect of creating a job category that is 98 percent white. Has the employer engaged in discrimination by using education as a proxy for race? The answer depends on the job-relatedness of the education requirement. If the job were garbage collector, for example, the courts would hold that education was a guise for a racial barrier, having nothing to do with the skill level needed to do the job. On the other hand, if the job required significant accounting skills, courts would probably hold that education requirement was appropriate and not merely a facade for discrimination.

There are essentially two ways to prove discrimination in the labor market context: first, by showing what is called disparate treatment, and second, by showing disparate impact. Disparate treatment is easier to prove, but it requires more direct evidence. An example of a disparate treatment case would be one where plaintiffs obtain a memo written by management that instructs subordinates to send only white applicants up for approval, either at the hiring level or for promotion. Another example of disparate treatment is one where sexual harassment can be shown by the testimony of coworkers or customers. This is sometimes referred to as finding a “smoking gun” or, in other words, the murder weapon in its just-used state. But smoking guns are rarely found.

Most discrimination actions try to show disparate impact by demonstrating that a pattern of discrimination exists. Disparate impact cases are almost always statistical in nature, and provide employment for a large number of the labor economists in the profession today. Consider the two following examples.

One case involves a local firm, Stroh’s Brewery, which had two jobs: one called bottler, and the other called brewer. The Equal Employment Opportunity Commission (EEOC), alleged that those two jobs were essentially the same. But an examination of the data revealed that brewers

were primarily first-generation Germans, whereas bottlers were central-city blacks from Detroit. Furthermore, a statistical analysis revealed that even holding education and experience level constant, a black was less likely to be assigned the brewer's job than a white worker with similar skills. In this case, three things need to be established. First, that the two jobs were essentially identical. Second, that the jobs paid differing amounts, and in particular, the job with white employees paid a higher amount than the job with black employees. And third, that the distribution of job assignments was not independent of race.

In order to establish the first, an industrial engineer is generally called in to testify that the tasks of the two jobs are the same. The second is easily established by looking at payroll data and correcting for experience of the individuals. Those two pieces of evidence then set the situation up for a violation of the Equal Pay Act, because the two jobs are deemed to be equal, but receive different salaries. This, in conjunction with a racial distribution that goes against a protected group, implies a violation by disparate impact.

In the particular case of Stroh's Brewery, I was retained by the EEOC and worked into the early part of 1981 when the Reagan administration took over. There was a dramatic change in the policy of EEOC at that point, and the Reagan administration instructed EEOC to settle this case within 30 days, for better or worse. On the good side, a settlement was reached between Stroh's and the plaintiffs, and costly litigation was probably avoided. Whether this had a negative effect on the future prospects of black workers at Stroh's remains to be shown.

The second disparate impact case example was an age discrimination case. New York Life was being sued by nine of its older employees who charged that they were forced to retire, and were not offered the same terms as similarly situated younger workers. This case was actually a combination of disparate impact and disparate treatment, because the nine individuals tried to bring in evidence that their superiors told them directly that they should retire because of their age. I was asked to testify by the defense in this particular case, and was able to show, by using statistical evidence, that in fact, not only was there no disparate impact that worked against older workers, but if anything, older workers seemed

to be favored by the firm. That is, holding all worker characteristics constant, older general managers at New York Life received higher earnings and were more likely to be retained in their jobs than their performance would warrant, as compared with younger workers. So even though there was some evidence of disparate treatment, it was not sufficient to convince the jury, given the counter-evidence on disparate impact, that New York Life engaged in any discrimination on the basis of age.

Let me move on to a different topic, which I call the hierarchy of discrimination. Frequently, antidiscrimination policies run into conflict with one another, as when one protected group is vying with another for favorable treatment. A good illustration comes from recent Chicago patronage jobs. When Harold Washington was Mayor of Chicago, many of the jobs that had previously gone to white workers were given to black workers. In addition, a large number of city contracts that had previously gone to white firms, went to firms owned by black individuals. But Hispanics did not fare well under the Washington administration; and although they did not bring any major litigation against the Washington administration, they were instrumental in the election of Richard Daley over Washington's right-hand man, Tim Evans. Hispanics felt that they were coming into direct conflict with blacks for good jobs, and one explanation of their voting pattern is that they felt that they would do better under the Daley regime than they would under the Evans regime.

The issue, from an academic's point of view, is: How do we trade off the legitimate demands of various protected groups, and how do we decide to favor one group over another, because invariably, their demands are going to conflict with one another. I believe that labor market discrimination has the most negative social impact on equity when it is done on the basis of race. Discrimination on the basis of sex is less insidious, and discrimination on the basis of age is probably the least harmful. So if we have to choose between favoring one group or another, either in a specific situation or in terms of using scarce resources for enforcement, I would say that we should worry about racial discrimination first, and the others should follow.

My justification is to pose the following question: Assuming that discrimination is rampant and significant, who is hurt by it? If a black

is discriminated against, the black suffers the full burden of discrimination. Females who are discriminated against may suffer the full burden of discrimination, unless they are married to a male who benefits from discrimination. Obviously, not all women are married; nor are women who are married, married throughout their lifetimes. But the relevant unit for most purposes, in determining the standard of living, is the household; and most women live in households that contain males. It is not true that most blacks live in households that contain whites. As a result, if tough choices have to be made, my personal view is that favoring females over blacks would have negative implications for income distribution and would be more harmful than favoring blacks at the expense of females. Furthermore, the male-female situation seems to be correcting itself, which cannot be said for the black-white situation.

Finally, age discrimination is the least important of all, for the following reason: All individuals who are old, were once young. So even if the relevant unit is the individual rather than the household, individuals who are discriminated against when they are old, will on average have been discriminated in favor of, when they were young. A second reason is that a contract, either explicit or implicit, made with the worker may cover a significant chunk of his lifetime. So, even in the absence of any discrimination, one could observe a worker who is treated one way at one age and another way at another age, as a result of totally voluntary contracts.

Preventing age “discrimination” may prevent employers and workers from entering into agreements that make both sides better off. The same is not true of racial discrimination. If a white worker and a white employer contract to exclude blacks from the job, that makes whites better off, but it makes blacks worse off. It is not the case that a black worker merely has to wait a few years until he becomes a white one.

Another kind of hierarchy of discrimination that I’d like to mention has to do with the focus of discrimination law and enforcement. Should enforcement look at the hiring decision, the promotion decision, or wages? My view is that hiring is most important; promotion is second; and wages are third. Wages are least important because once hiring and promotion have been covered, there is not much discrimination on the basis of

wages. If two workers who are at the same firm holding the same job are compared, it is very unlikely that the one who is black will be receiving significantly lower wages than one who is white in some way that is not explained by seniority.

Most of the differences in earnings of black and white workers, and particularly of male and female workers, take the form not so much of wage differences within the job, but rather, finding individuals in different jobs. Men and women who are doing the same job, receive the same wages. But women do not work in the same firms that men work in; nor, within the firm, are they likely to be in the same jobs. As is well-known, women are likely to be concentrated in lower-level white-collar jobs, clerical jobs, and less well paid service jobs. So to the extent that there is discrimination against females, correcting the job assignment is likely to remedy most of the problem. The reason that I put hiring first, is that industrial differences and firm differences are really quite significant. Women, for example, are found to a much greater extent in service industries, and males to a much greater extent in durable manufacturing. That may be choice rather than chance; but to the extent that it is discrimination, it is implemented by discrimination in hiring.

Let me turn now to some evidence on what has happened in recent years and what we should be worrying about. Perhaps the most important statistic shown in recent wage studies is that women are doing better; and, some people think, a lot better. Labor force participation rates for females continue to rise, and despite this large labor market inflow by women, wages of females have not only kept up, but have gained on their male counterparts.

Females are much more likely to be found in professional jobs today than they were 10 or 15 years ago. In the typical business school today, anywhere from 20 to 40 percent of the students are female, whereas 20 years ago that number would have been closer to 2 percent. The same is true in medical schools, and particularly in law schools. So there is a substantial professionalization of the female workforce.

While it is still true that females do not seem to have gotten significant access to many jobs, such as very high level positions in major

corporations, there is evidence that we are seeing a vintage effect. That is, since females have only recently made progress into middle levels of management, it will take a few years before we observe a high proportion of females in upper management as well. I have little doubt that females will be moving into those jobs in significant numbers, although perhaps not in proportion to their numbers in the population. So I think the situation for females is getting much better.

Unfortunately, the same thing cannot be said for blacks. In the last presidential campaign, much was made by the Dukakis camp of the widening income distribution. The income distribution has gotten less equal in recent years for two reasons. First, wages of highly educated, highly trained workers have gone up. Second, wages of unskilled workers have fallen. This is particularly significant for uneducated blacks.

High school dropouts have been hurt badly by the trends of the '80s. Not that new jobs are bad. Just the reverse. But jobs formerly in Michigan are now in Japan, Taiwan, Korea, Hong Kong, and Singapore.

There are at least two interpretations of these data. First, it can be argued that wages are falling for blacks, and particularly for less educated blacks, because of increased discrimination. This might be attributed to political changes—for example, the Reagan policies of the '80s; or to increased desire by firms for discrimination. The latter seems unlikely, but the former remains a candidate.

The second possible explanation is that changes in the industrial structure of the United States have decreased the wages of unskilled labor relative to those of skilled labor, and that this has nothing to do with changes in discrimination. My view is that the evidence points to the second—namely, to the industrial shifts explanation. First, the industries that have been hurt the most are those that have had the largest proportion of foreign competition. So it looks as though unskilled workers in the United States are unable to compete successfully, at current wages, with unskilled workers overseas; but skilled workers in the United States seem to do quite well in organizing foreign unskilled workers. The second factor pointing in that direction is that if it were merely policies of the Reagan administration that were causing the change, then it would

be difficult to explain why women are doing better and blacks are not. It is hard to believe that the Reagan administration targeted women for protective enforcement and blacks for neglect. So while discrimination may continue to be an issue in the United States, it is my view that it cannot explain changes in black-white or male-female wage differentials.

I'd like to turn now to what in some sense is the fundamental question whenever discrimination is discussed: whether differences between races or sexes reflect choice or chance. Are blacks in low-paying jobs because they choose not to undertake training to the same extent as white or are blacks forced into those jobs because of discrimination in the system? Similarly, we observe that females tend to be in low-paying occupations and low-wage industries. Is that because they are precluded from entering certain occupations, or is it because women prefer to work in occupations that do not require serious commitments to the job but rather tolerate high turnover rates?

As difficult a question as this is to answer, there are data that speak to the issue. Duncan and Duncan (1955) devised an index to measure the amount of segregation in an economy. The Duncan index is a number that tells you the normalized proportion of individuals that would have to be moved in order to fully integrate a workforce. So for example, suppose that 50 percent of the workforce is male and 50 percent of the workforce is female; and suppose further that all females are in one job and that all males are in another job. Then in order to integrate the workforce fully, 50 percent of the females would have to be moved, and 50 percent of the males would have to be moved. The ratio of the number of people moved to the male population is the Duncan index; so in that case the number would be one. If women and men were assigned jobs randomly so that 50 percent of each set were in each job, then the Duncan index would be zero, because no one would have to be moved in order to totally integrate the workforce. So a number of zero means a fully integrated workforce; a value of one means a segregated workforce.

If a Duncan index is computed for males and females, the number turns out to be about .6. If the same exercise is done for black males and

white males, the number is .2—meaning that many fewer workers would have to be moved in order to even out the job distribution. So black jobs are much more like white jobs than female jobs are like male jobs. Now, the ratio of black male wages to white male wages exceeds the ratio of white female wages to white male wages, but not substantially so. This means that people who receive similar earnings outcome in the economy relative to white males have very different occupational patterns.

Fuchs (1989) has interpreted this as meaning that the job distribution reflects choice and not chance. He argues that it is difficult to believe that black men face less discrimination than white females to such an extent that their jobs are quite similar to those of white males, whereas females are so discriminated against that their jobs are totally different. Recently, Francine Blau (1989) found that the Duncan index, which was falling for females for a period of time, is now starting to rise again, as new jobs are becoming female jobs.

The fact that women are concentrated in jobs that are not likely to be held by men has led the women's movement to push for comparable worth legislation; the comparable worth doctrine says that jobs have some inherent worth that can be measured, perhaps totally independent of the marketplace. For example, by assessing the kind of work that is done and the kind of responsibility associated with a nurse's job, we can determine the value of that job and compare it with the job of an electrician by looking at similar factors. This idea has gained legitimacy, and has actually been implemented in a number of countries—most notably, Australia. In Canada, the province of Ontario implemented comparable worth across the board about a year ago.

There are several arguments against comparable worth. The first is that the market is the only index of worth, and there is never any reason for the government to intervene. This view is too strong. To accept it is to accept that there is no role, for example, for antitrust policy. If the market is the only index of value, then prices set by a monopolistic firm are the correct prices, and there is no reason to worry about cartel or monopoly behavior of any kind.

Even the staunchest defenders of the free market at my institutions generally allow that firms have an incentive, if through no other way than attempting to influence government officials, to restrict markets, and to try to monopolize them. This creates inefficiencies in the economy that must be undone, and in these limited circumstances, government action is appropriate.

Once we allow for those kinds of arguments, then it seems clear that we can also extend the arguments to the labor market. Thus the dismissals of comparable worth on the grounds that it is a deviation from market prices, seem to me insufficient. Additionally, to even discuss comparable worth, you have to entertain at least the possibility that discrimination occurs in labor markets, so I shall begin with the working assumption that wage differentials in jobs may reflect discrimination.

For example, consider two occupations, nurses and electricians, and assume that electricians earn higher wages than nurses. First, one must ask why, under these circumstances, nurses don't enter the electrician occupation? There are two answers. The first answer is that they don't want to. If that's the answer, then there is neither a problem nor a remedy.

The wage differential between nursing and electrical work here reflects what we think of as an equalizing difference. Being an electrician is either harder, less interesting, or less rewarding in some other respect, and it must command a higher price as a result. The difference in wages under those circumstances would merely reflect a return to increased effort and pain associated with working that job. So if it is choice, then comparable worth clearly is an inappropriate remedy.

The second possibility is that the difference in wages between the male and female jobs is not the result of choice but the result of an exclusionary policy by either employers or unions in the electricians' occupation which has somehow been effective at keeping females out of the occupation. Under those circumstances, discrimination has occurred and some adjustment is necessary. What comparable worth would seek to do is to raise the wage rates of nurses up to the wages of electricians or to some other "comparable" job. The effect of this policy is to attract both women and men to the nurses' occupation, which makes the problem worse, not better.

In fact, it does not address the problem at all. The problem, as you'll recall, is that women are precluded from entering the other occupation. If there were free mobility into the other occupation, there would be no problem in the first place, and comparable worth would not be needed. So the appropriate remedy is not comparable worth, but vigorous enforcement of Title VII of the Civil Rights Act, which prohibits job assignments on the basis of sex.

So by this reasoning, there is no role for comparable worth in the economy. Either wage differentials are there as a result of choice, in which case there is nothing to remedy; or wage differentials reflect discrimination, but the remedy for that discrimination is the removal of entry barriers into the segregated occupation, not raising wages in the flooded occupation.

There are some counters to this argument. The first counter, and probably the most compelling one, is that we've had Title VII since 1964 and it hasn't worked, so we need to think about some other remedies. But if Title VII has not worked, why should comparable worth? In order for a law to work, enforcement is required, and enforcement can be applied to any law, if there is sufficient desire. The fact that Congress passes a statute that requires firms to set wages in some particular way does not mean that this will happen. If comparable worth can be enforced, so can Title VII, and I'd much rather see society's resources devoted to enforcing laws that create efficiency rather than laws that create inefficiency. The second problem is that enforcement of comparable worth is not without its costs. It would have the effect of creating an industry of experts and counter-experts, who would assess jobs and their worth for all parties. Litigation, as we are all aware, is not without its cost.

There are many problems associated with attempting to create indexes of worth. The first is that such indexes are subjective, and there are two levels of subjectivity. An index is subjective at the level of the index itself, and it is subjective at the level of the evaluator. First, I will provide an illustration of subjectivity at the level of the index.

Let there be two jobs, a schoolbus driver's job, and a sculptor's job, and suppose that we are constructing an index of job value by ranking

the job on two of its characteristics: responsibility associated with the job, and know-how and skill associated with the job. Assume we all agree that a sculptor's job requires the maximum amount of skill, but has the minimum amount of responsibility associated with it, and that the schoolbus driver's job requires the minimum amount of skill, but the maximum amount of responsibility is associated with it. Let's suppose further that the index for know-how goes between 10 and 15, whereas the index for responsibility is between 8 and 12. The sculptor receives 8 points for responsibility, but 15 points for know-how, giving us a total of 23 points. The schoolbus driver receives 12 points for responsibility, but only 10 points for know-how, making a total of 22. So, by this index, the sculptor is worth more:

Scale: Responsibility 8–12 Know-how 10–15

Sculptor receives $8 + 15 = 23$

Bus driver receives $12 + 10 = 22$

Consider a slightly different scaling, where the know-how scale stays the same, but we change the responsibility index so that its values go between 7 and 13, as opposed to between 8 and 12. Now the sculptor, who has the minimum amount of responsibility associated with his job, gets a score of 7 on responsibility, and 15 on know-how, giving us a total of 22. The schoolbus driver receives 13 on responsibility now, since that job requires the maximum amount, and a 10 on know-how, giving a total of 23. The schoolbus driver's job is now worth more.

Scale: Responsibility 7–13 Know-how 10–15

Sculptor receives $7 + 15 = 22$

Bus driver receives $13 + 10 = 23$

But these scalings of 8–12 or 7–13 are somewhat arbitrary. It's very difficult, *ex ante*, to judge which is the appropriate scaling, and very few of us would be willing to take a stand on one scale versus another. So I can reverse the value of jobs very easily by making minor changes in the values of the scales, and they might imply very different things about the amount of discrimination in an economy.

A second problem with indexes of this sort is that they are arbitrary at the level of the evaluator. Whereas I might assess the responsibility level of a sculptor's job at 7, someone else might give it an 8 or a 9. Similarly, someone might think that the know-how associated with being a schoolbus driver is not merely 10, but that it requires a level of 12. Different evaluators will have different opinions, so that the index itself will be a function of the individuals evaluating the job. That is not a particularly attractive feature of an index on which salaries are going to be based.

The final problem with thinking about indexes and basing judgments about discrimination on them is that indexes of this sort focus on between-job rather than within-job variations, as illustrated by the following example. Suppose that there are two jobs in the economy, one job which is called the male job because it has two men in it and one female; and one job which is called the female job, because it has two females and one male. In the male job, Mr. Smith and Mr. Jones each earn \$12,000 per year; Ms. Johnson earns \$18,000 a year; so the average wage in the male job is \$14,000. In the female job, Ms. Jackson and Ms. Roberts earn \$15,000 a year; and Mr. Hill, the only man in the job, earns only \$6,000 a year; so the average is \$12,000.

Now in this extreme example, you'll notice that the average wage in the male job is higher than the average wage in the female job, and we might all agree *ex ante* that the female job is a more valuable job in some sense than the male job. Suppose we do. We might draw the inference from those numbers that females are discriminated against in this economy, because the jobs in which females happen to be located receive the lowest wages, even though those jobs are the higher valued jobs. But that inference would be completely inappropriate in this economy. If you'll notice, within job, women earn more than men. Also

there is not one man in this economy who earns as much as the lowest paid female in the economy. The highest paid men in the economy are Mr. Smith and Mr. Jones, who earn \$12,000 a year. The lowest paid females in the economy are Ms. Jackson and Ms. Roberts, who earn \$15,000 a year. All female wages are higher than all male wages, and yet we would be inferring from this comparison that women are discriminated against. Nothing could be further from the truth. We are led to this inappropriate inference because the focus is on between-job comparisons, rather than on individual-based comparisons.

Male Job		Female Job	
Mr. Smith	\$12,000	Ms. Jackson	\$15,000
Mr. Jones	12,000	Ms. Roberts	15,000
Ms. Johnson	18,000	Mr. Hill	6,000
Average	\$14,000	Average	\$12,000

The absurdity of indexes is perhaps best illustrated by applying the technique to the product market, particularly, cognac and milk. It is likely that most sensible indexes would value milk more highly than cognac. After all, milk can sustain life; cognac cannot; and milk's social value seems much higher. Yet the price of cognac can be 30 (or more) times that of milk. Inferring that females are discriminated against in favor of males, by looking at wages versus external indexes of worth, is analogous to inferring that dairy farmers are discriminated against and grape producers favored because cognac, which is worth less than milk, receives 30 times its price.

Returning finally and briefly to age discrimination, the elimination of mandatory retirement by extension of the Age Discrimination in Employment Act to all-age individuals can have adverse effects on the economy. The major effect in my view is that mandatory retirement is the outgrowth of an incentive scheme which pays young workers less than they are worth and old workers more than they are worth, in order to provide performance incentives to workers who are close to the retire-

ment age. The elimination of mandatory retirement makes it more difficult to use life-cycle compensation as an incentive device. In an era when productivity factors are important considerations, I think that the generalization of the Age Discrimination in Employment Act cannot have positive effects.

On the other hand, the empirical evidence suggests that the elimination of mandatory retirement is not particularly important. What estimates there are, reveal very small increases in the labor force participation rates of older workers. The exception is in academics, where work is so poorly defined that there is much less reason to retire.

Firms can also easily evade these laws by structuring the pension plan so that individuals who continue to work are penalized in the form of a lower present value of pension benefits, giving workers an incentive to retire. Virtually all defined benefit pension plans in the U.S. have the feature that once a worker works beyond a certain age, usually somewhere around 60, additional years of service reduce present value of the pension. The annual pension goes up, but losing that year's worth of pension more than offsets the increase in pension in subsequent years. A strategically designed pension plan is a substitute for mandatory retirement and is a way to evade changes in the Age Discrimination in Employment Act. Courts have looked carefully at such pension provisions, but they have not cared much about reductions that are more than actuarial as an individual ages.

In conclusion, the effects of antidiscrimination legislation are unclear. First, there has been an increase in unemployment rates, and particularly unemployment rates among black workers; but the increase began well before the Civil Rights Act of 1964 was passed, and certainly before it had time to really bite. So it would be difficult to argue that the Civil Rights Act has had much effect on increasing unemployment. Second, in countries where comparable-worth-style legislation has been implemented, a number of researchers have found that there is not much effect on employment. An Australian named Bob Gregory has found virtually no effect, although some of his colleagues find some significant decreases in employment among females.

But the basic result seems to be that discrimination laws do not have obvious detrimental effects on employment in an economy. Nor do they seem to have any obvious positive effects on wages. Average wages of females are up slightly, relative to males; but average wages of blacks, especially low-wage blacks, have not risen, relative to whites since the mid-1970s. To the extent that there has been long-term enforcement of discrimination laws for any group, blacks should be the most positively affected.

In conclusion, then, I believe that the picture on discrimination laws is mixed. In theory they are a good idea, but implementation has been uneven and the laws are perhaps harmful. But because they are enforced so poorly, even bad implementation seems to have little detrimental effect on the economy.

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