The Uses and Limits of Statistical Analysis in Measuring Economic Discrimination

Glen George Cain
University of Wisconsin-Madison

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Glen G. Cain
University of Wisconsin

This paper begins with a brief discussion of the basic concepts of economic discrimination. In the second part, two case studies of ethnic discrimination from American history illustrate the uses and limits of statistical analysis. (The detailed evidence of discrimination against these groups is presented in the appendix.) The next part deals with current analyses of economic discrimination, and a summary concludes that evidence based on statistical analysis is necessary but not sufficient for establishing the presence of economic discrimination. It must be supported by historical and institutional evidence and interpreted within a theoretical framework.

Background Ideas

Economic discrimination is rooted in the practical matter of an inequity; usually an outcome in which equally productive people receive, on average, different rewards for their efforts. It is useful to distinguish economic discrimination, when referring to the economy as a whole, from labor market discrimination. Discrimination in the labor market may be represented by the example of equally productive groups receiving unequal earnings. In fact, the inequality in earnings is usually a result
of unequal access to the better-paying jobs and will show up as inequality in occupational attainment.

The focus on monetary rewards is indisputably narrow and leads to certain anomalies. For example, a finding of equal pay leads to a verdict of no labor market discrimination, but the finding may, and probably does, coexist with plenty of labor market discrimination in the ordinary use of the term. This seeming paradox can be resolved with a simple example. Assume that 10 percent of the workers are a minority group, that no laws bar discrimination, and that 50 percent of the employers discriminate against the minority by paying them less than majority members. All that is needed for the economic verdict of "no discrimination" is a sufficient number of employers who will hire the minority workers on a nondiscriminatory basis, and here the proportion of nondiscriminating employers is relatively large. Examples of legal discrimination could be exposed if minority workers applied for jobs from discriminating employers, but the minority applicants would quickly shift to the employers who do not discriminate and end up receiving equal pay.1

The economist's conventional criterion of equal pay even has the embarrassing property of constituting evidence for no discrimination under conditions of complete segregation. The Supreme Court has rejected the doctrine of "separate but equal," but the customary analysis in economics accepts the doctrine. Despite this awkward property, I will focus on income and pay differences between groups as the indicator of economic discrimination. In defense, all I will say is that the money measure is important in its own right, and it does tend to be associated with other measures of discrimination such as segregation by residence or schooling or occupation.

Problems in measuring economic discrimination are revealed by considering its three essential components: (1) the productive capacity of people, which is difficult to measure; (2) an opportunity structure facing the people, which is even more difficult to measure; and (3) the outcomes in the form of income and earnings, which are relatively well measured. The economist's method is to observe the outcomes, compare these for people who are assumed to be of the same productive
capacity, and then infer whether the opportunity structure reveals discrimination.

Some examples will illustrate when the worker's opportunity structure implies or does not imply discrimination. Recent immigrants who are unable to speak English and who are less productive for that reason will face restricted employment opportunities. Language facility may well be a justifiable requirement for hiring, but what about the requirement that the worker be a citizen? For long periods in our history, occupational licensing in some states required citizenship for dentists, engineers, master plumbers, and barbers. A barrier based on citizenship is arguably not only discrimination but tends to injure some ethnic groups more than others. In this century Asian immigrants to the United States were for a generation barred from citizenship in some states, notably California.

For another example, assume that workers in a particular ethnic group are untrained and have lower earnings. Their lower earnings suggest, but only suggest, that they are being discriminated against, but just where the barrier to training is located is often difficult to determine. Does the barrier rest with employers, with trade unions, with the educational system, with the workers' upbringing as children? Thus, these workers appear to face some type of discrimination in their economic opportunities, but it may not be labor market discrimination.

The above discussion involves wages and individual workers. The worker is the unit of analysis. I now turn to economic discrimination involving inequality in family income. The family is the unit of analysis. Family income is a fundamental measure of economic well-being and is more comprehensive than wage earnings. Moreover, examining income and the family may help us understand the opportunities and productive capacities of the person. Again, let me illustrate these points with examples.

A mother of young children may be working at a part-time job at a low wage, but her husband's earnings may be high enough to offer her the option of working less in the market than someone who must rely only on her own earnings and who works full time at a higher wage. The mother's low wage is not compelling evidence for labor market
discrimination, because she may have high wage opportunities that match her productive capacity, but she does not choose these job opportunities because they require a full-time commitment. Another possible reason for the mother's low wage is that her housework tasks may reduce her productive capacity in the paid labor market because she does not have as much time or energy for market work as someone with less housework.

In this example, the mother's family context is assumed to be causal to her job and wage outcomes. Now consider an example when causation runs in the other direction. Assume that discrimination in the labor market imposes low earnings on a young person or on a mother with young children, and this person has to move in or stay with a larger household of other family members to take advantage of the pooling of resources and the economies of scale in living arrangements. Comparisons of household or family incomes are likely to be more equal than individual incomes, and the family comparisons can hide situations of economic discrimination.

To illustrate, young black men are less likely than young white men to live apart from their immediate family. One reason they continue to live at home is that fewer young black men have good paying jobs. Therefore, they are less able to afford either to live alone or to marry and set up their own households. Table 1 shows, with a hypothetical example, how these living arrangements can understate the true gap between black and white family incomes.

The original family unit is assumed to consist of three persons—the parents and a 22-year-old daughter or son. The black-to-white ratio of the family income of these original units is .75, derived from an average family income of $36,000 for blacks and $48,000 for whites. We do not observe these original family units, however; instead we observe living arrangements in which more 22-year-old whites live apart from their parents than do the 22-year-old blacks. To sharpen the comparison, assume that 50 percent of the young whites and 25 percent of the young blacks live apart from their parents. The observed family incomes show .90 as the black-to-white ratio of family incomes—$28,800 for black families and $32,000 for whites.
Table 1
Family Income Comparisons When Living Arrangements Depend on Labor Market Opportunities
(Hypothetical Example)

<table>
<thead>
<tr>
<th>Original families</th>
<th>White</th>
<th>Black</th>
<th>B/W ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number</td>
<td>100</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Income</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Family</td>
<td>$48,000</td>
<td>$36,000</td>
<td>.75</td>
</tr>
<tr>
<td>(Parents)</td>
<td>($30,000)</td>
<td>($24,000)</td>
<td>(.80)</td>
</tr>
<tr>
<td>(Daughter or son, age 22)</td>
<td>($18,000)</td>
<td>($12,000)</td>
<td>(.67)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>New living arrangements</th>
<th>Together</th>
<th>Separate</th>
<th>Separate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Parents</td>
<td>Child</td>
<td>Parents</td>
</tr>
<tr>
<td>Number</td>
<td>50</td>
<td>50</td>
<td>50</td>
</tr>
<tr>
<td>Family (household) income</td>
<td>$48,000</td>
<td>$30,000</td>
<td>$18,000</td>
</tr>
<tr>
<td>Average family (household) income</td>
<td>$32,000</td>
<td>$28,800</td>
<td>.90</td>
</tr>
</tbody>
</table>
The simple point of this table is that the gap between black and white income is understated by the comparison of family incomes. A second and more profound point is that the family unit itself, which is a basic unit for income comparisons, is affected by the labor market outcomes and, therefore, affected by discrimination. Discrimination is a cause of the living arrangements of the families. This contrasts with the example of mothers of young children, where the family unit had a causal effect on the labor market outcomes. Causation can run both ways, and one's measure of economic discrimination can be either over- or understated if this is not taken into account.

Two practical conclusions follow from the above examples. (1) The wage of the married woman with young children overstated labor market discrimination for her. Recall, also, that her household income showed no disadvantaged outcome. (2) Labor market discrimination against black youth was correctly measured by their lower wages, but economic discrimination was understated by the comparison of black and white household incomes. These conclusions depend on the particular circumstances of my examples. Later I discuss how the opposite conclusions might emerge from further analyses of these cases.

**Measuring Discrimination Between Groups in a Historical Setting**

Assume that we adopt the following statistical procedure to measure economic discrimination, if any, against a given ethnic group, using all other native-born whites as the comparison group. First, we classify the families according to the age and rural/urban residence of the primary earner; then we compare the average family income and average per capita income of the two ethnic groups across these classifications. Disparities in income are initial evidence of economic discrimination. To keep matters relatively simple, let us assume that the number of earners per family and family size are approximately the same in the two groups and that those in the ethnic group are all born in the United States. These steps are illustrated with hypothetical numbers in panel A of table 2.
Another step in the investigation is to subdivide the family groups according to the educational attainment of the primary earner, and then compare incomes within each educational category. If the same income disparities persist, we may view this as stronger evidence of economic discrimination in general and of labor market discrimination in particular. If, however, this statistical control for educational attainment, along with the controls for age and rural/urban residence, do not show income differences, then we have two conventional interpretations. (Note that panel B of table 2 shows almost no difference in the family incomes of the ethnic group relative to the comparison group of native whites.) One interpretation is that the ethnic group’s lower educational attainment
is the source for their lower incomes, and their lower education reflects social disadvantages that accrued to the ethnic group before they reached adulthood. This view can be interpreted as exonerating the labor market, and employers in particular, from blame for the discrimination.

A second and contrary interpretation is that labor market discrimination is a cause of less education among members of the ethnic group because the market does not sufficiently reward them for additional schooling. Which of these two interpretations is correct is a challenging question. In the case studies that follow, data limitations prevent me from including education in my tabulations.

I would like to carry out the procedure outlined above for two ethnic groups, Irish-Americans and Japanese-Americans, for two years, 1900 for the Irish and 1940 for the Japanese, using the decennial census. If the historians I have read are correct in their descriptions of the economic discrimination that these groups suffered in American history, then the economic statistics from these particular periods should show this.

The 1900 decennial census offers no data on income and earnings, and the 1940 census does not give earnings data for Japanese-Americans. These two censuses do, however, provide limited information about occupational attainment. I use these occupational data to support the proposition that a comparison of incomes in 1900 and in 1940 would show economic discrimination against, respectively, Irish-Americans and Japanese-Americans.

In 1900 the number of descendants of Irish immigrants was large enough to permit reliable statistics on the occupational attainments of those who were born in the United States. Also, within-group marriage was so prevalent that defining who was Irish is relatively unambiguous. Finally, as noted above in referring to the research of historians, it is likely that the Irish-Americans faced discrimination in the labor market during the period around 1900.

The occupational attainment of second generation Irish-American men in 1900 is compared to the attainments of all white men and of second-generation white men. The group of all whites is composed of three ancestry subgroups: (1) 23 percent who were foreign born; (2) 20 percent...
Measuring Economic Discrimination 123

cent who were second-generation Americans, that is, sons of foreign-born parents; and (3) 57 percent who were third- or higher-generation Americans, called native whites. As a comparison group for evaluating the economic attainment of the second-generation Irish, all white men probably represent a relatively low standard of economic attainment. Consider that the 23 percent who are foreign born include many who could not speak English and some who were illiterate. Even the Irish-Americans who were born in Ireland were all English-speaking, and virtually all were literate.

My source for the occupational statistics from the 1900 census is E. P. Hutchinson, cited in footnote 5. The occupational categories are not well suited for measuring economic status, but I select certain occupations that should be unambiguous indicators of high or low attainment. For one comparison, independent farmers along with five white-collar occupations (mainly professionals, agents, bookkeepers, merchants, and salesmen) designate high occupational attainment. This assumes that the farmer occupation, which excludes farm laborers, represented higher economic status than most urban jobs in 1900. Three laborer occupations (mainly servants and waiters, other laborers in the service industry, and workers in the low-paying textile industry) designate low occupational attainment.

The 1900 census reported that 33 percent of all white men in the labor force were farmers or were in the five white-collar occupations, compared to 24 percent among the second-generation Irish-Americans. Restricting the comparison to the urban labor force, 18 percent of all white men were in the five white-collar occupations compared to 15 percent of the second-generation Irish. The three laborer occupations contained 18 percent of all white men and 23 percent of the second-generation Irish.

The comparison between second-generation Irish-American men and all second-generation white men gives similar but weaker findings, based mainly on the sharp contrast of representation in the low occupations. Only 14 percent of the second-generation whites were in the three low occupations, compared to 23 percent of the second-generation Irish. The two second-generation groups had similar percentages in farming and in the five white-collar occupations.
The statistics in the above two paragraphs show a lag in the occupational attainment, and presumably in the incomes, of the second-generation Irish compared with other white Americans. (Further details and citations for these comparisons are given in appendix.)

The article on the Irish in the Harvard Encyclopedia of American Ethnic Groups gives a more pessimistic picture of the occupational attainments of Irish-Americans. Patrick J. Blessing states that the Irish "were the only immigrant group whose occupational mobility during the late 19th century appeared almost as small as that of American blacks. . . . Their . . . record of movement up the occupational scale [was] dismal." Although the occupational statistics from the 1900 census do not seem to me to justify this judgment, which may have referred to the Irish experience in Boston, I conclude that the statistical analysis supports the verdict of discrimination against Irish-Americans at this period in our history.

In 1940 nearly all the Japanese-Americans in the United States lived in the four western states of Arizona, California, Oregon, and Washington, with about 85 percent in California. The first generation had immigrated to the United States between 1890 and 1920. By 1940, almost two-thirds of the Japanese-Americans were born in the United States. There is abundant evidence that they faced severe social and legal discrimination, especially in California. Again, however, statistical evidence on how this discrimination affected their incomes and earnings in 1940 is not directly available. Instead, I compare the occupations of second-generation Japanese-American men in the four western states with the occupations of all white men in California.

The occupations in 1940 are defined in modern terms, permitting a rough ranking by skill, although there are the customary distinctions between the white-collar occupation "clerical and sales" and the blue-collar occupation "craftsmen" where a ranking according to skill is uncertain. To measure the occupational attainment for the two groups, white men and second-generation Japanese-American men, I calculate average earnings for each of the two groups as follows. First, the median wage and salary earnings of each occupation is assigned to that occupation as a cardinal measure of its rank. There are 11 occupational
categories, with professionals ranked highest and domestic servants ranked lowest according to the earnings measure. Second, the percentage of each ethnic group in the occupation is multiplied by the occupation’s median earnings, and the sum of these products gives an average earnings for each ethnic group, although for the Japanese-Americans the average uses the occupational earnings of all the workers, who are 95 percent white.

The ratio of this dollar-valued occupational attainment of Japanese-Americans to that of all whites is .92, implying a moderate lag in the attainments of Japanese-Americans. The ratio is probably upwardly biased. The method assumes that the earnings of Japanese-Americans and whites are the same within an occupation. Another source of bias is that second-generation Japanese-Americans had more education than whites in 1940, indicating that a control for educational attainment would show a lower ratio than .92. (The details of the above calculations and arguments are given in appendix.)

Let us assume, then, that a comparison of incomes in 1940 would reflect these findings about occupational differences between whites and second-generation Japanese-Americans. We may conclude, therefore, that the statistical analysis again supports a verdict of discrimination.

If we carry out income and occupational comparisons for the same two ethnic groups in 1970 and 1980, however, we find that the Irish and Japanese-Americans have higher income and higher occupational and education attainment than other white Americans. This claim is stronger and clearer for Japanese-Americans, who have sharply higher family or per capita incomes than comparable native white Americans.

In Table 3, two comparisons are shown for family income. For married-couple families the income of Japanese-Americans is 47 percent higher than that of non-Hispanic whites; 26 percent higher if we look at just the primary earner’s income. Not shown is a more technical analysis in which the incomes are standardized for age, education, marital status, and region of residency of the primary earner. With these characteristics taken into account there remains an 8 percent advantage in favor of Japanese-Americans. The last part of the table shows higher occupational attainments of Japanese-Americans.
Measuring Economic Discrimination

Table 3

<table>
<thead>
<tr>
<th></th>
<th>Japanese-Americans</th>
<th>Non-Hispanic White</th>
<th>Ratio J/W</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average income of married-couple families</td>
<td>$41,700</td>
<td>$28,300</td>
<td>1.47</td>
</tr>
<tr>
<td>Average income of married-couple families excluding income of family members other than the primary earner</td>
<td>$26,900</td>
<td>$21,300</td>
<td>1.26</td>
</tr>
<tr>
<td>Occupations: Percentage in (a) Professional, technical, sales and administrative</td>
<td>54%</td>
<td>44%</td>
<td>1.23</td>
</tr>
<tr>
<td>(b) Operators, fabricators, laborers, unemployed</td>
<td>13%</td>
<td>25%</td>
<td>.52</td>
</tr>
</tbody>
</table>


The evidence for higher incomes of Irish-Americans is not so strong, and the amount of their advantage is not so large. By 1970 the family incomes of men who reported Irish ancestry were about 5 percent above that of other white families.9 Also, 48 percent of the men were in white-collar occupations, compared to 43 percent of other white men. One problem in measurement here is that Irish ancestry is defined by both parents being Irish. But by 1970, intermarriage between Irish-Americans and persons of other ancestry was common, so there is a selection of those who are recorded as Irish that lends an unknown bias to the income and occupation comparisons.

One reason why the economic success of Irish-Americans in overcoming discrimination is understated during this century is that discrimination was mainly against the Catholic Irish, and today the incomes and educational attainments of Irish Catholics are greater than for the Irish as a whole.10
We now have a puzzle, or maybe the right word is dilemma. If we accepted the 1900 and 1940 statistical evidence as supporting a verdict of discrimination against these two ethnic groups, then how should we interpret the 1970 and 1980 evidence? Does the latter imply discrimination in favor of Irish- and Japanese-Americans in contemporary America? Was there reverse discrimination in 1970 and 1980? If we dismiss this interpretation, should we then call into question our verdicts of discrimination in 1900 and 1940? Our investigatory procedures should be consistent. I believe, and this is my principal theme, that consistency is achieved by supplementing the statistical evidence with institutional and historical evidence and with theoretical analysis. Indeed, my preference is to consider statistics as supplementary to the institutional-theoretical analysis.

The limitations of space and of my knowledge about the history of ethnic groups in America prevent an extensive discussion about how we should interpret the potentially inconsistent evidence presented above. The case of Japanese-Americans, however, appears to offer a straightforward reconciliation in the light of several well-known historical facts.

I claim that the statistical evidence supports the verdict of discrimination in 1940 and a verdict of no "reverse discrimination" in 1980. The reasons for the conclusion about 1940 are easiest. The record in the United States of legal and social persecution of Japanese immigrants and their offspring is astounding and appalling, culminating in the effective robbery of much of their land and wealth in 1942 when almost all Japanese-Americans were imprisoned in concentration camps. Their lower incomes in 1940 reflect, as we see with subsequent evidence, discriminatory barriers rather than voluntary choices or any innate incapacity for economic success.

The explanation for their economic success since the end of World War II, shown by the income statistics for 1980, is not so easy. They have benefited by living in the most prosperous part of the United States, the West Coast, especially California. Also, there were, apparently, two strong selective forces at work on the Japanese-American population. One is that the Japanese government selected the immigrants who went to the United States, beginning around 1890 and continuing until 1920 or so.
A second selective factor is that about 50 percent of the immigrants returned to Japan. A natural inference is that the most successful stayed in the United States, and supporting testimony is given by Dorothy Swaine Thomas: "At the time of the Immigration Commission's investigations in 1908-1909, a majority of all classes [of the Japanese-Americans] interviewed either expected to return to Japan or were undecided about their future place of residence. The proportions indicating that they had decided to become permanent residents of the United States were, however, highest among those who had 'succeeded in rising from the ranks of the laboring classes.'"

We could, of course, appeal to various theories about the special work ethic and efficiency of the Japanese people to explain their economic achievements. In the case of the Japanese-Americans, however, these theories are not needed.

Fortunately, today we have data and tools of analysis that permit us to use both statistical and institutional-theoretical methods to analyze discrimination. Unfortunately, both methods are inherently imprecise, and reasonable people can disagree about the uses and interpretations of the evidence. I turn next to the current use of statistical evidence to measure labor market discrimination.

**Statistical Models of Wage Discrimination**

One of the earliest econometric studies to measure labor market discrimination against women was by Henry Sanborn and based on data from the 1950 census. Sanborn concluded that the wages of women were only moderately lower than those of men of the same region of residence, age, education, and occupation. In 1973, a study by James D. Gwartney and Richard Stroup based on the 1960 and 1970 censuses found a sizable gender wage gap and extensive discrimination against women workers.

The different conclusions had nothing to do with the different years for the data sources. Instead, there are reasons for believing that the first study understated, and the second study overstated, labor market discrimination—defined as unequal pay for the same productive
capacities. The early study by Sanborn compared the wages of men and women in the same occupation, but because barriers to occupational entry are the most important form of labor market discrimination, this study surely understated it. A diagram of this model is shown in the first row of figure 1. By controlling for occupation in the statistical analysis, the researcher may be said to have "overcontrolled."

The models shown in figure 1 are deliberately simplified and are intended to serve pedagogic purposes. They should not be viewed as representing the precise models used in the research literature I cite. With this qualification in mind, let us interpret Model I. Arrows denote causal paths. The right-side column headed "Outcomes" is self-explanatory, except for the important distinction between Model I, where only the wage is listed, and the other models, which treat occupation as another outcome that measures labor market success or failure. The conventional economic proposition that workers' wages are determined by their productivity is represented in column 3 (which is the second of two columns under the heading "Intervening Variables"). A distinction is made between "productivity" in Model I, which is associated with the occupational skills of the worker, and "productive capacity," which determines, among other things, the worker's ability to enter various occupations. Once workers are in a particular occupation, their productivity may be enhanced by on-the-job training specific to that occupation.

The first column lists variables or traits of workers that may sometimes be assumed to be exogenous to the workings of the labor market. In the case of education, the assumption I adopt for convenience in Models I-III is that education is determined before the person enters the labor market and is unaffected by the operation of the labor market.

Model II in figure 1 describes the assumptions behind the 1973 study by Gwartney and Stroup that showed a large gender wage gap. The 1973 study, however, did not allow for the difference between men and women in their years of experience in the labor market—a gap which is related to the two careers, home and market, of many women. Without controlling for labor market experience, the observed lower average wage for women probably overstates labor market discrimination against women.
Figure 1
Analytic Models of Labor Market Discrimination: Women
(Arrows denote causal paths)

I
Workers' traits
Age
Education

Intervening variables
Occupation
Productivity

Outcomes
Wage

II
Age
Education

Productive Capacity

Wage (+ Occupation)

III
Age
Education
Experience
Children

Productive Capacity

Wage (+ Occupation)

IV
Age
Education
Experience
Children

Productive Capacity

Wage (+ Occupation)
Later studies of the gender gap in wages allowed for the effects of the woman's previous employment experience either indirectly, by including a fertility variable, or with a variable that directly measured the woman's previous years of labor market experience.\(^{18}\) (See Model III in figure 1.) The gender gap in wages was much smaller in these studies. In my view, however, accounting for women's dual careers by statistical methods is an intractable problem in measuring labor market discrimination. Let me try to explain my view.

Recall the two sources of complexity caused by women's dual careers: first, that their choice of a less demanding job may be voluntary, perhaps as a consequence of their total family income; second, that the housework demands on their time and energy reduce their productive capacity in the paid labor market. These interpretations rationalize statistical strategies that include the following sorts of control variables when comparing women's and men's wages: full- or part-time work, years of experience in the paid labor market, numbers and ages of children, and marital status.

These control variables are usually interpreted to be explanations for the lag in women's wages that was otherwise attributed to labor market discrimination. This conclusion, however, may be challenged with an alternative interpretation that is based on the mutual causation between women's wages and the variables measuring their productivity. In this model (IV in figure 1), the restricted opportunities for women in the labor market that are attributable to discrimination are causal to their concentration on housework at the expense of market work. Statistical analysis can measure associations, but it cannot determine causation, at least not without a supporting theoretical rationalization.

This theoretical point about mutual causation may be explained without mentioning labor market discrimination. During recent decades, employment opportunities in the labor market have improved for women, and women have postponed their age of first marriage, had fewer children, and increased their rates of marital breakup. But what is cause, and what is effect? Was the decision to have fewer children independent of what was occurring in the labor market, and did increased market work by women then follow the decline in the birth rate? Or were the
improved wage and job opportunities in the labor market causal to the decision to have fewer children? Economists have not been successful in identifying and quantifying the causal forces in these events. It is even more difficult to determine the additional causal role of discrimination in the labor market in these outcomes.

Summary

I am pessimistic about the power of statistical methods to determine and measure economic discrimination. We are not sure what variables should be used as control variables in the analysis. If relevant causal variables are omitted, the model "undercontrols" and, therefore, overstates economic discrimination. If, however, the control variables are themselves effects of labor market discrimination, then they should not be included in the model; this is the problem of "overcontrolling," which leads to an understatement of economic discrimination.

These statements are expressions of humility but not of despair. We can take a lesson from the historical studies, such as those alluded to above concerning Irish-Americans and Japanese-Americans. We need a theoretical framework supported by knowledge about the institutional and historical factors. In the modern context of assessing discrimination by employers and labor unions, we need to study the histories of the firms and unions to try to determine motivations and intentions. Statistical methods are indispensable in the task of measuring labor market discrimination, but they are still only one component of the analysis.
Appendix

The Evidence for Economic Discrimination
Against Irish- and Japanese-Americans in 1900 and 1940

In the text of this paper I assumed the following hypothetical proposition. If we had for 1900 and 1940 the type of economic data that we have had since, say, 1960, we would be able to show economic discrimination against Irish-Americans in 1900 and against Japanese-Americans in 1940 by conventional methods of economic research. The evidence mentioned in the text to support this proposition is admittedly meager. I doubt that the necessary data exist from these earlier years for applying conventional methods. This appendix discusses in more detail the evidence that is available. First, a theoretical point.

The Economic Theory of Labor Market Discrimination

The point was made in the text that merely documenting examples of employer discrimination against a minority group is not sufficient to indicate that the incomes or earnings of the minority group are lower than those of the majority group for workers of the same productive capacity. The documentation is necessary for a verdict of economic discrimination, because it provides the historical and institutional evidence for how discrimination occurred. Statistical evidence showing lower earnings of the minority group is also necessary, however.

In the case of Irish-Americans at the turn of this century, for example, it is not enough to refer to the legacy of the infamous signs, "'No Irish Need Apply.'" Knowing that some, even many, employers discriminated against the Irish does not tell us that the employers who did not were too few to enable Irish workers to earn a wage equal to that of other workers with their productive capacity.

In the hypothetical example of the text, where minority workers were 10 percent of the workforce, and half of the employers did and half did not discriminate against the minority group, the claim was that competitive forces would secure pay for the minority workers in accordance with their productive capacity. The reason is that the same competitive forces that tend to equate the wage and productivity of majority workers would accomplish this for the minority workers. In other words, we should expect that the labor demand for minority workers by the 50 percent of employers who do not discriminate
will provide enough bidding to ensure the same competitive solution for the minority group.

It is important to note that a large percentage of employers, relative to the percentage that the minority group constitutes, is not necessary to achieve a nondiscriminatory outcome. The argument runs as follows. Assume that only a few employers do not discriminate against the minority group. They will hire the minority workers because, unlike the discriminating employers, they suffer no nonpecuniary disutility from employing minority workers. At the outset, the nondiscriminating employers have no incentive to pay the minority workers any more than their market wage, which, by assumption, is less than the prevailing wage paid to workers in the majority group. By employing the equally productive but lower-paid minority workers, the nondiscriminating employers will make extra profits, and, to repeat a point, they suffer no disutility from employing the minority workers. The nondiscriminating employers will expand production in response to their extra profits, and this increases the demand for and wages of minority workers.

The discriminating employers, who are losing their share of the market output and losing their minority workers, will be forced to raise the wages of the minority workers if they want to keep them. In any case, the bidding for the labor of minority workers by nondiscriminating employers will continue to raise the wages of the minority workers until their wage equals that of the majority workers. Only at this point will excess profits disappear, permitting an equilibrium allocation of the share of output among the employers.

The point of this argument is that a comparison of earnings of minority and majority workers is needed to tell us whether the demand for labor by employers and consumers has produced a discriminatory outcome by the economist’s definition. Recall, however, that some employers may be discriminating in the legal sense even though the market shows equality in earnings of the two groups.

Available Data on Irish-Americans

In view of the lack of data on incomes, how might we measure the economic status of Irish-Americans around the turn of the century? Several historical works have examined the occupational attainments of Irish-Americans in specific cities. Stephan Thernstrom, for example, reports relatively slow progress in occupational attainment by the Irish in Boston in the period around 1900. Andrew M. Greeley argues, however, that the historical record in Boston understates the occupational achievements of the Irish in the United States as a whole.
Nationwide data on the occupations of the labor force from the Bureau of the Census seem to me to be our best source. From 1870 to 1900, the decennial censuses reported the occupations of American workers classified by nativity and country of origin. This information is summarized in the book, cited in footnote 5, by E.P. Hutchinson. Unfortunately, the occupational classifications used for those censuses were based mainly on the workers' industry. Hutchinson commented that, "The primarily industrial basis of classification largely conceals whatever characteristics of skill or occupational status the . . . [worker] may have had." For example, in the 1900 census, the occupation of "iron and steel workers" includes unskilled and skilled workers.

Despite this problem, I am forced to use the 1900 occupational classifications instead of those in the 1910 census which do correspond to our current occupational classifications, because the 1910 census did not report the country of origin of the workers. In fact, the 1950 census is the next one to provide occupational data for workers according to their country of origin.

Although the 1900 occupational classifications do not, in general, permit a ranking by skill, there are several high-status and low-status occupations that clearly correspond with economic status. (Unless otherwise noted, the statistics that follow are from Hutchinson, pp. 172-175.) From 34 listed occupations from the 1900 census, I select the following five high-status occupations: (1) professional service, (2) agents, (3) bookkeepers and accountants, (4) merchants and dealers, and (5) salesmen. Occupations 2-5 are all contained in the "trade and transportation" industry. A large and relatively high-status occupation in 1900 is that of "farmers, planters, and overseers." Agricultural laborers are excluded, so this farm occupation probably has a higher status than the occupations of most urban workers. The low-status occupations that I selected are (1) servants and waiters, (2) other laborers, both from the "domestic and personal service" industry and (3) "textile mill operatives," selected because the textile industry was the lowest-paying manufacturing industry.

The occupational data from the 1900 census report whether the worker was born in Ireland, designating a first-generation Irish-American, or has foreign-born parents, designating a second-generation Irish-American. The Irish-American male workers are compared to all white male workers and to all second-generation white male workers. Table A.1 summarizes the occupational statistics for these four groups. As noted in the text, in 1900 the all-worker group was composed of native workers (57 percent), foreign-born workers (23 percent), and second-generation foreign workers (20 percent).

The first evaluation of the occupational attainments of second-generation Irish-American males compares them with all white males. Row 3 of table A.1
Table A.1
Occupational Distribution of Selected Occupations for Male Irish-Americans and All White Males, by Nativity, 1900

<table>
<thead>
<tr>
<th>Occupational groups</th>
<th>All Whites</th>
<th>2nd-Generation Whites</th>
<th>2nd-Generation Irish-American</th>
<th>1st-Generation Irish-American&lt;sup&gt;a&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>In total labor force:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Farmers, planters and overseers&lt;sup&gt;b&lt;/sup&gt;</td>
<td>22</td>
<td>13</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td>2. Five high occupations&lt;sup&gt;c&lt;/sup&gt;</td>
<td>11</td>
<td>12</td>
<td>12</td>
<td>8</td>
</tr>
<tr>
<td>3. Sum of 1, 2</td>
<td>33</td>
<td>25</td>
<td>24</td>
<td>20</td>
</tr>
<tr>
<td>In urban labor force:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Five high occupations&lt;sup&gt;c&lt;/sup&gt;</td>
<td>18</td>
<td>16</td>
<td>15</td>
<td>10</td>
</tr>
<tr>
<td>5. Three low occupations&lt;sup&gt;d&lt;/sup&gt;</td>
<td>18</td>
<td>14</td>
<td>23</td>
<td>42</td>
</tr>
</tbody>
</table>


a. 1st-generation is the same as foreign-born

b. Does not include agricultural laborers

c. Professionals, agents, bookkeepers and accountants, merchants and dealers, salesmen (The latter four are in the trade and transportation industry)

d. Laborers, servants and waiters (both groups from the domestic and personal service industry), textile mill operatives
shows that 24 percent of the second-generation Irish are in the farmer occupation and the five high-status (white-collar) occupations, and the corresponding figure for all whites is 33 percent. In the urban sector, 15 percent of the second-generation Irish are in the five high-status occupations and 23 percent are in the three low-status occupations. They compare unfavorably to the urban occupational attainments of all whites—18 percent in the five high-status occupations and 18 percent in the three low-status occupations.

Another comparison is between the second-generation Irish and the second-generation of all whites. The two groups had nearly the same percentage, 24 and 25, respectively, in the combined farmer and five high-status occupations. In the urban sector, the occupations of the second-generation whites show somewhat higher attainments: 16 percent are in the five high-status occupations and only 14 percent are in the three low-status occupations, compared with 15 and 23 percent, respectively, for the second-generation Irish. The occupations of the first-generation Irish are considerably lower in all comparisons.

Available Data on Japanese-Americans

The 1940 census publications included a special report that gives demographic, educational, and occupational information, but no wage and salary data, for Japanese-Americans by country of birth. The data cover the four western states, Arizona, California, Oregon, and Washington, where nearly all Japanese-Americans lived. The occupations are limited to 11 broad categories. Another problem is the small population of Japanese-Americans in 1940. Of the total of 127,000, 63 percent (80,000) were born in the United States, but 50,000 of the latter were less than 20 years old. As a result, there were only 15,000 second-generation Japanese-American workers in 1940. By contrast, there were over one million second-generation Irish-Americans in the labor force in 1900.

Adding to the difficulty of using the occupational data to evaluate the economic attainments of Japanese-Americans are the following problems:

1. About 14 percent of the second-generation Japanese-American men and 5 percent of white men worked in agriculture. In 1940, unlike 1900, we cannot assume that farmers have higher incomes and economic status than most urban employees, so I exclude farmers from the occupational comparisons. Farm laborers are included because the low wages in this occupation are a clear indication of its low rank.

2. Second-generation Japanese-American workers were, on average, much younger than white workers. Because occupational attainment depends on
age, the occupational comparison needs to take account of the age differences in the two populations.

(3) Two occupations, "proprietors, managers, and officials (excluding farmers)" and "clerical, sales, and kindred workers" are likely to consist of jobs with lower status and lower workers' incomes among the second-generation Japanese-Americans than among white workers. Dorothy Swaine Thomas reports that, among the Japanese-Americans, "the personnel of so many enterprises consisted merely of an Issei [first-generation] 'entrepreneur' and his cooperating relatives. . . . Thus, the concentration of Nisei [second-generation] males at 'white-collar' levels . . . may be interpreted to mean that many of those classified in the proprietor/managerial group were in fact working in secondary positions in the larger, Issei-controlled enterprises, and that most of those classified in the clerical/sales category were, similarly, working for other Japanese. The few who had progressed beyond the limits of the Japanese business community were, for the most part, on low rungs of the urban occupational ladder and held the less desirable jobs."^24

Each of the problems listed above is addressed below in the comparisons of occupational attainments of Japanese-American and white workers.

The 1940 census included, for the first time, wage and salary information for the labor force, and this permits a quantitative economic scale for the occupations. (No data on occupational earnings are available for Japanese-Americans, however.) Given the concentration of Japanese-Americans in California (about 85 percent lived there), I use the occupations and wages of male workers in this state, 95 percent of whom were white, to construct a dollar value for the occupational attainments of the white and Japanese-American workers. Farmers are excluded, as noted above, and the median wage and salary earned by "professional workers" is assigned to the "proprietors, managers, and officials" because income data from self-employment were not collected.\footnote{25}

The occupational distributions and median earnings are shown in table A.2. An average earnings of white workers, excluding farmers, is calculated by multiplying the median earnings of each occupation by the percentage of white workers in the occupation and then summing the products. (To be precise, the median earnings are for workers who worked 12 months in 1939.) This average, shown in table A.2 to be $1,646, is a dollar measure of the occupational attainments of white workers.

The same method is used for evaluating the occupational attainments of second-generation Japanese-American workers. Their occupation percentages are multiplied by the white median earnings in each occupation. Thus, the dollar measure of the occupational attainments of Japanese-Americans assumes that
Japanese-American and white workers in the same occupation received the same earnings. As shown in table A.2, the ratio of the dollar value of the Japanese-American occupational attainments to that of white workers is .87 (= 1435/1646).

A second ratio of the two groups' occupational attainments uses the same earnings figures, but the occupational distribution of the Japanese-Americans who lived in the states of California and Washington in 1940 is adjusted to match the age distribution of the entire population of workers in these states. (About 90 percent of all Japanese-Americans lived in these two states in 1940, and about 95 percent of the entire population in the two states was white.) The age-adjusted occupational distribution of Japanese-Americans is taken from Thomas.26 The method may be explained with a simple example.

Assume that 5 percent of the Japanese-Americans over 35 years of age, and 2 percent of those under 35 years of age, were professionals, and that 80 percent of the Japanese-American population of workers were under 35. Thus, their overall percentage professional is 2.6 percent (= .8 X .02 + .2 X .05). Assume the white population has 50 percent of its labor force over 35. Then if the Japanese workers had the same age distribution as whites, 3.5 percent (= .5 X .02 + .5 X .05) would be in the professional occupation. The age-adjusted percentage of professionals for the Japanese-Americans is, therefore, 3.5 percent.

The ratio of the dollar value of the Japanese-American occupations to that of the white workers, adjusting for age, is .97 (= 1601/1646). The ratio without the age adjustment, .87, is biased down because of the younger ages of the second-generation Japanese-Americans. The ratio of .97 is biased up because of Thomas's point about the lower status and earnings of the large age-adjusted percentage (44.6) of Japanese-Americans in the proprietors and clerical/sales occupations, relative to the status and earnings of whites (28.6 percent) in these occupations. Both ratios are probably biased up because the calculation assumes the same median earnings of Japanese-Americans and whites within each occupation. Impressionistic evidence suggests that the earnings of Japanese-Americans were lower than those of whites. I simply averaged the two ratios and used .92 in the text to measure the lag in occupational attainment of Japanese-Americans.

Another reason why the occupational measure may understate discrimination against second-generation Japanese-Americans in 1940 is that it does not allow for their higher educational attainment relative to whites. Thomas reports an age-adjusted distribution of years of school completed for the second-generation Japanese-Americans who were 25 years of age or older.27 Her data show that the median years of school completed in 1940 was 11.2 for the Japanese-American males and 10.6 for all males.
Table A.2
Occupational Distribution of White Males and Second-Generation Japanese-American Males Evaluated by Median Earnings of the Occupations, 1940

<table>
<thead>
<tr>
<th>Occupation</th>
<th>Median earnings of occupations in California&lt;sup&gt;a&lt;/sup&gt; (1)</th>
<th>Percentage in occupation</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>All white males California&lt;sup&gt;a&lt;/sup&gt; (2)</td>
<td>Japanese-Americans, 2nd-generation (3)</td>
<td>Adjusted&lt;sup&gt;b&lt;/sup&gt; (4)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Professionals and semiprofessionals</td>
<td>$2,263</td>
<td>7.9</td>
<td>2.5</td>
<td>[2.9]</td>
<td>[4.2]</td>
</tr>
<tr>
<td></td>
<td>[8.3]</td>
<td>13.0</td>
<td>7.3</td>
<td>[8.5]</td>
<td>[14.0]</td>
</tr>
<tr>
<td>Farmers and farm managers</td>
<td>--</td>
<td>5.0</td>
<td>13.8</td>
<td>--</td>
<td></td>
</tr>
<tr>
<td>Proprietors, managers, and officials (excluding farms)</td>
<td>$2,263</td>
<td>[13.7]</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>[13.7]</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Clerical, sales, and kindred</td>
<td>$1,680</td>
<td>16.8</td>
<td>16.0</td>
<td>[18.6]</td>
<td>[30.6]</td>
</tr>
<tr>
<td></td>
<td>[17.7]</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Craftsmen, foremen, and kindred</td>
<td>$1,730</td>
<td>17.6</td>
<td>2.4</td>
<td>[2.8]</td>
<td>[4.3]</td>
</tr>
<tr>
<td></td>
<td>[18.5]</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operatives and kindred</td>
<td>$1,543</td>
<td>16.8</td>
<td>8.9</td>
<td>[10.3]</td>
<td>[16.4]</td>
</tr>
<tr>
<td></td>
<td>[17.7]</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Occupation</td>
<td>Earnings (averaged over occupations)</td>
<td>Average Earnings</td>
<td>Occupation Percentage</td>
<td></td>
<td></td>
</tr>
<tr>
<td>------------------------------------</td>
<td>--------------------------------------</td>
<td>------------------</td>
<td>-----------------------</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Service workers, except domestic</td>
<td>$1,176</td>
<td>8.7</td>
<td>3.6</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>[9.1]</td>
<td></td>
<td>[4.2]</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Domestic service</td>
<td>$ 811</td>
<td>0.2</td>
<td>3.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>[0.2]</td>
<td></td>
<td>[3.5]</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Laborers, except farm</td>
<td>$1,276</td>
<td>6.1</td>
<td>33.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>[6.4]</td>
<td></td>
<td>[38.3]</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Farm laborers</td>
<td>$ 820</td>
<td>7.8</td>
<td>9.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>[8.2]</td>
<td></td>
<td>[11.0]</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$1,646</td>
<td></td>
<td>$1,435</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$1,601</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


NOTE The bracketed percentages exclude the occupation of "farmers and farm managers".

a Because about 85 percent of the second-generation Japanese-Americans lived in California, the occupational distribution and median earnings by-occupation of California males are used for the comparisons. About 95 percent of the Californian male workforce was white. The median earnings are derived from the "wage and salary" earnings for workers in these occupations who worked 12 months in 1939. The "farmer" and "proprietors, etc." occupations have no meaningful earnings reported. For "proprietors, etc.," the median earnings of the "professional" occupation are assigned. See appendix text for justification.

b The second-generation Japanese-Americans are, on average, younger than all males. Using the all-male age distribution of the states of Washington and California, Dorothy Swamine Thomas calculated an age-adjusted occupational distribution of the second-generation Japanese-Americans. The age adjustment assumes the same age-specific occupational percentages of the Japanese-Americans but applies to those percentages the all-male age distribution. See appendix text for further explanation.
The educational advantage of the Japanese-Americans, therefore, did not translate into an occupational advantage. This leads to the observation by Thomas that among the Nisei, "Engineers, accountants, teachers, and social workers found it almost impossible to practice the skills they learned." Supporing this point are the following amazing statistics reported in another study: among male Japanese-American college graduates who entered the labor force before 1942, only 10 percent went into professional jobs. In the 1950s, by contrast, about 70 percent of Japanese-American college graduates entered professional occupations. All this supports the conclusion that second-generation Japanese-Americans faced considerable economic discrimination in the period around 1940.

NOTES

1. See appendix for a fuller explanation of how employer discrimination can coexist with the economist's finding of no labor market discrimination.
4. Appendix describes the use of census and other data from 1900 and 1940 to measure economic discrimination against Irish-Americans and Japanese-Americans.
6. Robert Higgs cites statistics from the 1910 report of the Immigration Commission of the U.S Congress that show that the immigrant (foreign-born) Irish-Americans who were surveyed were 100 percent English-speaking and 96 percent literate. See Higgs, "Race, Skills, and Earnings: American Immigrants in 1909," *Journal of Economic History* (June 1971), pp 420-428.
11. Although the official justification for the confinement of Japanese-American citizens who lived on the West Coast was that they were a military threat, there was no evidence then or later to support this allegation. Persuasive reasons for their imprisonment are (1) the history of racial hostility toward Japanese-Americans, especially by white Californians, (2) the opportunity for whites to acquire assets of Japanese-Americans when they were rushed to the concentration camps and had to leave their belongings behind or sell at severe losses; and (3) the economic gains of various white producer groups such as farmers or small businessmen, who competed with the Japanese-Americans in these businesses. No German-Americans or Italian-Americans were put in concentration camps, so it is hard to deny that the basic source of this treatment of Japanese-Americans was racial discrimination.

12. A study by the Carnegie Corporation during the 1930s reached the same conclusion: the Nisei [second-generation Japanese-Americans] were as 'bright' as Caucasians as measured by I.Q., their rates of crime and delinquency were low, and their records of achievement in school were extraordinary. The study found that race prejudice, not low achievement, was the fundamental cause of the Nisei's employment problems" (Harry H. Kitano, "Japanese," in Harvard Encyclopedia of American Ethnic Groups, p. 565).


24. Thomas, pp 600.

25. The 1950 census reported incomes in addition to wages, and in the census monograph Income of the American People, by Herman P. Miller (New York: John Wiley, 1956, p. 51), the incomes of the "proprietor, manager" occupation are shown to be nearly the same as those of the "professional" occupation: $4,100 and $4,250, respectively.

28 Thomas, *The Salvage*, p. 42