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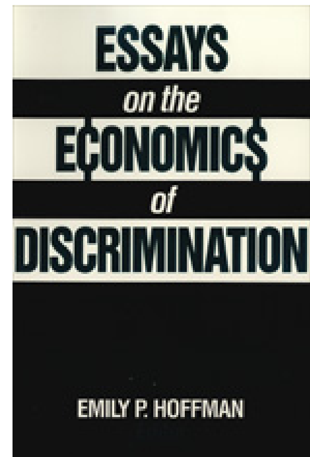
Introduction



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Introduction

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While the implementation of affirmative action by means of legislation and judicial actions is currently much in the news, it is not a new issue. In 1941, President Roosevelt instituted affirmative action by means of Executive Order 8802. The exigencies of the war effort opened new opportunities for blacks and women in the labor market. Albeit with setbacks, the general economic expansion of the postwar years allowed some of these gains to be retained.

More explicit attempts to achieve equality of treatment were contained in the antidiscrimination laws of the 1960s (the Equal Pay Act of 1963 and Title VII of the Civil Rights Act of 1964) and the affirmative action regulations of the 1970s (Executive Order 11246 in 1974). Even with all these legal initiatives, the economic status of women and minorities is far below parity with that of white males.

Comparing full-time, year-round workers in 1989, women earned only $.66 for every $1.00 men earned, and the median family income of blacks was only $.56 for every $1.00 of income for white families. Some part (but not all) of these differences can be attributed to discrimination, which is unequal treatment based on gender, race, age, national origin, religion, or similar characteristics irrelevant to the ability to perform on a job. While always unethical, discrimination is now definitely illegal, even though it has yet to be eliminated.

Determining what part of the income gap between males and females or blacks and whites is due to discrimination and what part is due to productivity differences is a challenging exercise. Economists measure discrimination using a residual methodology; any wage gap not due to legitimate productivity-related variables such as education, experience, and occupation is attributed to discrimination. It is difficult for economists

to both reach consensus on the legitimate determinants of wage differentials and be able to measure them. For example, quality of education is a legitimate determinant of wage differentials for which data are not typically available; therefore, one cannot distinguish what part of the wage gap is due to discrimination and what part is due to an omitted variable such as quality of education.

Economic discrimination is unequal treatment based on criteria irrelevant to the activity involved. Labor market discrimination is unequal treatment in the labor market based on irrelevant criteria; it occurs in the form of wage discrimination or nonwage discrimination in such areas as hiring, retention, training, and promotion. Prelabor market discrimination is unequal treatment based on irrelevant criteria in such areas as type and amount of education and training and career aspirations.

Much of the research concerning labor market discrimination focuses on wage discrimination. An inconsistency arises in reconciling the theory of the firm with the existence of wage discrimination. Economic theory assumes that perfectly competitive firms maximize profit; in the long run, the firms produce at the minimum of their long-run average cost curve. The firms that survive in the long run all have the same minimum average cost and the most efficient technology, which means none of them will be practicing wage discrimination, since it is inconsistent with minimum cost. Wage discrimination raises labor cost because the favored group is overpaid relative to the discriminated-against group. Perfectly competitive firms in the long run are predicted to employ only the underpaid discriminated-against group, since this results in the least-cost method of production. Since the test of a good theory is whether its predictions are consistent with reality, and since that is not the case here, I conclude that the theory of the profit-maximizing, perfectly competitive firm is not appropriate for explaining discrimination. Some others at this point conclude that there is no wage discrimination

Economic theorists who observe discrimination next turn to models of imperfect competition to find a theory consistent with wage discrimination. Imperfect competition in either the labor market or the product market has been proposed as being consistent with discrimination. If the males and females or blacks and whites do not compete with each

other for jobs due to hiring discrimination, then a reduced labor supply for white and male jobs results in higher wages for whites and males. If the product market exhibits imperfect competition, firms can survive and prosper without achieving minimum cost, unlike the perfectly competitive firm.

Economic theory suggests that there will be discrimination if the employer perceives or expects the benefits of discriminating to exceed the costs of discriminating. Traditionally, especially before the Equal Pay Act of 1963, men were paid more than women, with the justification that men had to support a family and women did not. While society today has accepted that pay is to be based on worker productivity rather than gender or marital status, there may still be a residual of these earlier beliefs.

Hiring, retention, training, and promotion decisions, especially for managerial or professional workers, involve compatibility and personal relationships with co-workers and supervisors. The candidates for these positions are unique (heterogeneous), and information about their talents, skills, and abilities is costly and imperfect. The employment relationship is anticipated to be long term. Women and minority males find there is discrimination in promotions, called the "glass ceiling." Promotion discrimination may be due to the employer's desire to lessen uncertainty concerning the candidate's abilities; majority males may prefer to hire and promote other majority males (of the same socioeconomic class) because they believe they have more information about them, since they are more likely to "think alike."

This collection of essays expands on the presentations of seven distinguished economists at the 26th annual economics lecture series at Western Michigan University. Topics addressed in the papers include: the theory and evidence of labor market discrimination; the impact of laws and policies concerning discrimination; the treatment of children compared to the elderly; discrimination within the family; the economic underclass; and the treatment of minority members of our society.

In his paper, "Discrimination in Labor Markets," Edward P. Lazear presents an overview of the current antidiscrimination laws. Important jargon terms, such as "protected category," "disparate treatment,"

and "disparate impact" are defined by means of examples. Because married women can benefit (through their husbands) from discrimination in favor of males, and everyone can potentially benefit from discrimination in favor of youth (when they are young), Lazear argues that there is a hierarchy of discrimination, with racial discrimination being worse then either sex or age discrimination.

Lazear is quite optimistic about improvement in the status of women in the labor force, but is pessimistic concerning the status of a large segment of the black population. He argues that a shift in the industrial structure is changing the composition of the available jobs. There are more white-collar managerial jobs, and many more pink-collar clerical and service jobs, all requiring more formal education, but fewer relatively well-paying, unskilled, blue-collar production jobs. These changes in the structure of the job market have been instrumental in improving the economic status of women, but have been detrimental to the improvement of the economic status of blacks lacking education and skills.

For greatest effectiveness in reducing the adverse effects of discrimination, Lazear argues that enforcement efforts should focus first on hiring, second on promotion, and last on wages. He argues in favor of better enforcement of Title VII of the Civil Rights Act of 1964, specifically fair hiring, rather than comparable worth legislation (which he believes to be inherently arbitrary), as the way to raise female and black wages relative to those of white males.

In "Discrimination Within the Family: The Treatment of Daughters and Sons," Paul J. Taubman discusses whether parents who treat their sons and daughters differently are practicing discrimination. He starts with a historical overview of the differential between male and female wages, citing numerous studies of differences in education and work experience of male and female youth.

Taubman then develops a formal model of parents' utility function, in which discrimination exists if parents care unequally for their children or weigh the importance of each child's future earnings stream unequally. While parental nondiscrimination means that the parents care equally about each child, this does not necessarily require investing equal resources of the parents' time and/or funds in each child. Taubman

ultimately concludes that the evidence available indicates that parents in the U.S. do not discriminate among their children by gender.

Barbara L. Wolfe investigates whether there is unequal treatment in federal government income-transfer programs according to the age of the recipient. In "The Deteriorating Economic Circumstances of Children," she finds that these policies discriminate against children and in favor of the elderly—the evidence being that while the poverty rate of the elderly has fallen, that of children has risen. Children are one-third of those with no health insurance, while nearly all the elderly receive Medicare and/or Medicaid.

While 80 percent of the elderly are removed from poverty by cash transfers (Social Security and Supplemental Security Income), only 23 percent of single-parent families with children are removed from poverty by cash transfers (principally Aid to Families with Dependent Children). Wolfe contrasts the percent of the elderly poor who receive Supplemental Security Income, and how those amounts compare to the poverty line, with the percent of poor children benefiting from Aid to Families with Dependent Children and their status relative to the poverty line.

Wolfe discusses public spending on education, which is our society's principal investment in children. She presents evidence that schools treat children from low-income and single-parent households unequally compared to children from middle-class families. Thus, the means that may facilitate their escaping from poverty are denied to those who are in the greatest need. As a remedy, Wolfe proposes national health insurance for all children, and a method of financing higher education or apprenticeships for all children.

In his paper, "Underclass and Overclass: Race, Class, and Economic Inequality in the Managerial Age," William A. Darity asserts that an understanding of the nature of the overclass is a prerequisite to an understanding of the underclass. He reaches back to twelfth century England to show the rigidity of hereditary class structure, when intelligence was neither evaluated nor valued. He argues that intelligence, which began to be valued in the nineteenth century, is particularly valued now because of increased geographic and social mobility, our ability to measure intelligence, and rewards to intellectual ability.

According to Darity, the managerial class is at the apex of power, directing and designing social policies. Capitalism perpetuates poverty and racism because a reservoir of the poor are needed to keep wages low. Darity sees the Reagan years as a counterrevolution in the class warfare between the managerial class and the business (capitalist) class; the managerial class designs social policy, while the business class is against most social policies. Darity feels that the social policies of the federal government, from the New Deal to the Great Society, have polarized the black population, geographically and socially separating a new professional class of black social workers and care givers from a repressed underclass of black care receivers.

Darity finds that minority (and Wolfe finds that low-income) children receive unequal education. Darity is fearful that this is a harbinger of the emergence of a policy of eugenic anti-natalism, ostensibly based on intelligence, which would impinge most heavily on the poor and blacks. Since he doubts poverty can be eliminated, Darity argues for the reallocation of the incidence of poverty, so that it is distributed equally on the basis of race and without intergenerational transmission. Darity considers equal opportunity to be a myth; the result of affirmative action is the stigmatization of those it is intended to help. Darity is pessimistic about future prospects for blacks.

Jonathan S. Leonard's paper, "The Federal Anti-Bias Effort," concerns the effectiveness of Executive Order 11246 (1974), which applies to government contractors, both prohibiting discrimination and requiring affirmative action. In discussing the history of affirmative action, which dates back to Executive Order 8802 (1941), Leonard reviews earlier studies of the effectiveness of affirmative action.

Leonard studied the employment patterns at establishments that differed only in whether or not they were subject to affirmative action. Based on this work, and studies by others, he concludes that anti-discrimination and affirmative action efforts have been effective in reducing discrimination without significantly inducing the possible hazard of affirmative action, namely, reverse discrimination.

Almost all modern economic investigation of discrimination follows from the germinal work of Gary Becker. In particular, Glen G. Cain

examines the current evidence of discrimination in the United States according to Becker's ideas. Cain tries to answer the question of how much discrimination exists. Both Becker and Cain acknowledge that economists cannot accurately answer the question; not only are there problems in precisely defining discrimination, but there are limitations in the data available from which to try to measure discrimination.

In "The Uses and Limits of Statistical Analysis in Measuring Economic Discrimination," Cain considers the main problem in the measurement of discrimination, namely, that productive capacity and opportunity structure are difficult to measure, so economists tend to focus on income or earnings, which are far easier to quantify.

Cain considers the history of Irish and Japanese immigrants, who originally faced great discrimination but no longer do. In comparing the occupational distribution and earnings of Irish-American men in 1900 and 1970 and Japanese-American men in 1940 and 1980, both relative to the majority white males, Cain concludes that traditional measures of discrimination result in a paradox; from being discriminated *against*, these groups have become discriminated *for*. Cain's theme is that consistency requires the consideration of statistics to be supplementary to institutional-theoretical analysis. When historical and sociological factors are included, these cases show that while there was discrimination in the early period, there was no "reverse discrimination" in recent times, Cain concludes.

In "Occupational Segregation and the Earnings Gap: Further Evidence," Marianne A. Ferber and Carole A. Green, using a unique and detailed data set consisting of a sample of Illinois employees in 1982, investigate the male-female earnings gap, considering such detailed job-related variables as supervisory authority and control over money. They find the gender composition of the occupation significantly affects earnings; the higher the percent female in an occupation, the lower the earnings are for both males and females. Ferber and Green's study defines discrimination as males and females not having the same determinants of earnings, as well as gender affecting earnings. They find evidence of discrimination in their sample.