

In Focus

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FOCUS

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MOVING UP THE JOB LADDER: IS IT HARDER FOR BLACKS?

Did black Americans make any observable economic progress during the decade of the 1960s? Recent studies reveal important labor market gains measured in terms of increased employment, lower unemployment rates, and an improved black-white ratio of median income. Blacks were also observed during the decade to make significant penetrations into white-collar and skilled blue-collar occupations—occupations largely dominated by white males. To what extent did these gains in occupational status occur via the occupational mobility of individual blacks? How do the

job mobility rates for blacks compare to those for whites? And what are the roles of education and training programs in occupational mobility?

In the newest addition to the Poverty Institute Monograph Series, *An Analysis of the Determinants of Occupational Upgrading*, economist Duane Leigh addresses these questions.¹ Using survey data covering the latter half of the 1960s, this study compares the occupational mobility of black and white men in an attempt to uncover racial differences in the upgrading process. There are two basic theoretical approaches to analyzing the underlying factors that cause differences in the labor market opportunities available to different groups of workers: human capital theory and the dual labor market hypothesis.² As a framework for his empirical investigation, Leigh tests contrasting implications of these two approaches. Within the literature of labor economics, both theories treat on-the-job training (OJT) as a critical variable in accounting for differences among individuals in job upgrading and earnings. They differ, however, in their assessments of the barriers restricting access to jobs offering upgrading opportunities.

Human Capital Theory

Human capital theorists place primary emphasis on the unequal distribution of endowments of formal training across demographic groups. In particular, job upgrading is typically associated with formal education, which, it is asserted, improves the capacity to learn while on the job. Thus education increases the rate at which an individual can

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The material in any one issue is, of course, just a small sample of what is being done at the Institute. It is our hope that these summaries will whet the appetite of the reader to learn more about the research itself, and more about other research on poverty—an area of vital social concern—by Institute staff.

The views expressed are those of individual members of the Institute; they do not represent the position of the Institute for Research on Poverty, the University of Wisconsin, the Department of Health, Education, and Welfare, or other funding agencies.

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AN ANALYSIS OF THE DETERMINANTS OF OCCUPATIONAL UPGRADING

by

Duane E. Leigh

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progress between jobs. The policy implication that follows is an emphasis on education and on the training and re-training of disadvantaged workers, assuming that aggregate demand is sufficient to generate jobs for newly trained workers.

Human capital analysts take note, of course, of the possibility that labor market discrimination may lower the returns to training obtained by blacks relative to whites. Lower returns to blacks, in turn, contribute to the observed racial differential in human capital endowments. Nevertheless, the human capital model (or, more precisely, the neoclassical theoretical framework) does not offer a completely convincing explanation why racial differences in returns to equivalent human capital endowments have not been eliminated, over time, by competitive forces.

The Dual Labor Market Hypothesis

The emphasis on maximizing behavior and competition in neoclassical models has been the focus of criticism by institutional economists since the 1890s. During the 1940s and 1950s, in particular, a number of influential labor economists suggested that the interaction of large corporations and labor unions results in the formation of internal labor markets that are effectively isolated from the competitive pressures of the external market. Building upon this "neoinstitutionalist" literature, dual labor market analysts developed the notion of structural barriers between the internal labor markets—the primary sector—and the external labor markets—the secondary sector. The primary sector offers high wages, good working conditions, employment stability, a formal advancement ladder, and equity and due process in the administration of work rules. Jobs in the secondary sector, in contrast, tend to have low wages and fringe benefits, poor working conditions, high labor turnover, little chance of advancement, and often arbitrary and capricious supervision.

In contrast to the human capital stress on unequal formal training, dualists argue that institutional and sociological barriers prevent black workers from gaining access to employment which offers a job hierarchy (i.e., employment in the primary sector of the labor market). As a consequence, blacks tend to receive less OJT than whites for equivalent amounts of formal training. The key problem is therefore one of racial differences in employment opportunities rather than differences in personal characteristics.

Data

The study focuses on occupational mobility as a proxy measure for job upgrading because movement up a job ladder can be regarded as the observable outcome of productive OJT. Since wage increases are expected to be positively associated with job progression, differential access to employment offering training on the job may provide an important insight into observed racial differences in lifetime earnings profiles. From a broader perspective, opportunity for movement up an occupational hierarchy serves to differentiate a "job" from a "career."

Two data sets were analyzed. The first of these is the 1/1000 Public Use Sample of the 1970 Census and the second is the National Longitudinal Surveys (NLS) of labor

market experience. The NLS cohorts considered include (1) young men between the ages of 14 and 24 in 1966 and (2) men between the ages of 45 and 59 in that same year. The longitudinal nature of these data is critical; it allows the measurement of occupational change over time for the same individual. Both data bases provide detailed occupational categorizations. Occupational change was measured between 1965 and 1970 for the Census sample and over the 1966-1969 period for the NLS cohorts.

Findings

Leigh's empirical analysis concentrates on three areas: the relationship between educational attainment and occupational advancement; the impact on occupational upgrading of formal vocational training, industry structure, and job tenure; and the impact of interfirm and interindustry mobility on occupational progression. Let us look briefly at the primary results.

First, education is found to have an important effect on the occupational upgrading of both blacks and whites, but the relationship for whites is typically stronger across age categories and samples. Postschool investments in formal vocational training and firm-specific experience, however, have at least as strong an effect for blacks as whites. Second, there appears to be sufficient mobility between employers to make the impact of initial industry and region of residence relatively unimportant in explaining the subsequent occupational upgrading of both blacks and whites. Third, the impact of interfirm and interindustry mobility on occupational advancement tends to be at least as large for blacks as whites, controlling for personal endowments. Among firm and industry stayers, finally, the evidence appears to call for the rejection of the hypothesis that there is a systematic racial differential in occupational upgrading within internal labor markets. It should be emphasized, however, that black advancement is measured from a relatively low initial level. Since a strong inverse relationship exists between occupational change and occupational level, a persistent racial differential in advancement is predicted for black and white men of similar personal characteristics *and the same initial occupational level*. Thus, the findings of this study should not be taken as indicating the disappearance of racial differences in advancement opportunities during the 1960s.

In light of this evidence, Leigh concludes, the dual labor market hypothesis does not adequately describe the labor market status of black men.

Policy Implications

The policy area addressed most directly in this research concerns the impact of education and training on occupational upgrading. The main issue is the premise of dualist writers that the needed human capital is present but unutilized in secondary sector workers. The empirical evidence obtained in this study indicates little support for this premise. On the contrary, the relatively low level of black human capital investments, when coupled with the sizable amount of upgrading derived from education and vocational training for blacks and whites alike, suggests the desirability of continued attempts to improve the relative

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How Much Less Will the Poor Work . . . (continued from page 4)

They are refreshing in revealing the prime motivation of their research: "When we began work on this study in 1971 . . . we were advocates of either a universal credit income tax or a negative income tax program to aid the poor. We believed that opponents and potential opponents of such programs exaggerated their potential costs in terms of induced labor supply reductions."

They are not naive enough to believe that any estimates they come up with *per se* indicate anything about welfare reform.

They argue that (as the quotation that starts this article affirms) the work effort of the poor is considered by society to be an important issue in and of itself. The authors say they wanted to satisfy themselves as to the order of magnitude of the disincentive, because it would (and should) influence their policy recommendations.

Their bottom line is that, since the work disincentive effects would appear to be relatively minor, they favor a credit income tax (CIT)—that is, a program which gives the same absolute benefit to everyone and levies from everyone according to their ability to pay (as assessed by the positive tax system).

The reasons they give for favoring a CIT over a negative income tax (NIT)—accompanied by a more progressive tax structure, which would accomplish the same thing—are as follows: (1) They are in favor of increasing the standard of living of the poor, (2) they are convinced that a program which segregates the poor (i.e., they are eligible for a program *because* of their low income) submits them to conspicuous and unfavorable attention, and (3) they are convinced that a program that administers alike to the net receivers and net givers will minimize human divisiveness.

Although they advocate a credit income tax, they would have it implemented cautiously:

Thus our empirical results, despite their limitations, have reinforced our belief that we should move gradually toward the adoption of a CIT. We hope that they also convince those who have been hesitant . . . for fear that very large reductions in labor supply would result if a reasonably generous program should ever be adopted. Given the limitations on our current knowledge, however, we strongly advocate that new redistributive programs be implemented gradually so that they can be modified easily as we learn more about their effects.

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Moving up the Job Ladder (continued from page 2)

quality of the formal schooling received by black children and to provide manpower training programs that emphasize the acquisition of marketable skills.

The form that OJT programs should take is a highly controversial issue. Previous studies examining the effects of government sponsored but privately operated OJT programs (e.g., Job Opportunities in the Business Sector) have frequently yielded pessimistic conclusions regarding the effectiveness of the programs in training and placing secondary workers in jobs that offer career ladders. However, the alternative that the government create jobs to employ secondary workers runs into the objection that there is little evidence to indicate that public sector jobs provide the training that will qualify workers for primary jobs in the private sector. On balance, the evidence presented in this study speaks in favor of government-sponsored manpower training, especially in the private sector, over permanent public service employment.

Leigh argues, however, that some of the changes in government policy recommended by dualist adherents to restructure jobs held by secondary workers might be desirable. An illustration is reform of particular features of social welfare programs to encourage employment stability (for example, making changes in the Unemployment Insurance program that would raise the cost of labor turnover borne by employers). In addition, a federal wage subsidy applicable to public or private employment is likely to attract increasing attention as a policy measure to supplement the results of the labor market.

Any attempt to deal with institutional arrangements that restrict the intrafirm advancement opportunities of blacks runs into one basic problem: Gains in promotional opportunities or in job security by one group of workers usually mean equivalent losses for another group. Leigh suggests that future research and policy analysis might do well to direct more attention toward examining methods to shift costs away from the incumbent work force and the employer and toward the government, since discrimination in employment is, after all, a social problem and not a private one.

⁶This monograph was first prepared as a final report to the Manpower Administration (now the Employment and Training Administration) of the U. S. Department of Labor. ⁷For additional discussion of theories of discrimination in the labor market, see "The New Challenges to Orthodox Labor-Market Theory—How New? How Challenging?" FOCUS 1, no. 2:7+.

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