

## LABOR-MARKET DISCRIMINATION MAJOR CAUSE OF LOWER BLACK EARNINGS

Stanley H. Masters. *Black-White Income Differentials: Empirical Studies and Policy Implications*. Institute for Research on Poverty Monograph Series. New York: Academic Press, 1975.

Why do blacks continue to earn so much less than whites? This disturbing question has provoked much discussion among the general public and stimulated numerous studies by economists and others. Many explanations have been advanced, and most have been accompanied by a certain amount of empirical testing. When these studies are looked at together and compared, however, it becomes clear that the various possible explanations have not been thoroughly tested.

In his recent book, Stanley H. Masters takes an important step forward by thoroughly reviewing the economic literature on the subject. This survey of current knowledge encompasses (1) economic theories and empirical studies of discrimination, (2) previous efforts to attribute income differentials to factors other than racial discrimination, and (3) alternative political analyses and policy recommendations.

From his review Masters isolates four major hypotheses that have been advanced to explain continuing black-white income differentials. He then uses data from the 1960 and 1970 Census and from the Survey of Economic Opportunity to see how well each explanation can be sustained.

The Institute for Research on Poverty was established in 1966, by the Office of Economic Opportunity, as a national university-based center for the study of poverty and policies aimed at its elimination. Since 1974 its primary sponsor and major funding source has been the Department of Health, Education, and Welfare, with which it maintains close contact.

The multidisciplinary research staff at the Institute includes those who hold regular teaching appointments at the University of Wisconsin and divide their time between teaching and research, as well as full-time investigators appointed on a limited-term basis. The director of the Institute is Irwin Garfinkel.

The Institute offers researchers wide opportunity for interchange of ideas, and provides maximum freedom and facilitating service for poverty-related basic research as well as the study of policy effectiveness.

The first hypothesis is that the income of northern blacks lags because so many undereducated and unskilled blacks have migrated from the South. This explanation deserves attention, since 65 percent of all blacks over eighteen living in urban areas (SMSAs) outside the South in 1960 were born in the South. Segregation in housing is the second explanatory factor often cited. According to this view, residential segregation forces blacks to live too far away from many good jobs that would otherwise be open to them, thereby reducing their employment opportunities and thus their incomes. The third hypothesis is that black workers earn less simply because they are less productive, either through lack of skills or lack of effort. The fourth hypothesis: that blacks earn less solely because of racial discrimination in the hiring process—in other words, for no better reason than that employers prefer white skins.

### Neither the Southern Legacy nor Housing Segregation Causes the Earnings Gap

However plausible they may seem, neither of the first two hypotheses is confirmed by the evidence. Not only is there no difference between incomes of families headed by blacks born in the South and those outside, but annual earnings of southern-born black males actually turn out to be slightly higher than of the non-southern-born. The former are also more likely to be in the labor force and less likely to be poor. Recent migrants from the South (black or white) do suffer very temporary adjustment problems, but even this is hardly significant today since migration from the South has slowed down in the last fifteen years.

Segregation in housing is just as unhelpful in explaining differences in black-white earnings. Income differences are no greater in cities where the concentration of blacks varies widely by census tract, nor where blacks are highly concentrated ("ghettoized") rather than scattered in small clusters, nor where blacks are concentrated in the center city as opposed to the suburbs. Masters concludes from his analysis: "If housing segregation has any effect on the relative money income of black males, its effect is too weak to be demonstrated by standard empirical techniques."

### Productivity and Labor-Market Discrimination

If neither the southern legacy nor housing segregation are viable explanations, what of the remaining two hypotheses—differences in productivity and discrimination in hiring? Masters finds that both have substantial explanatory power. Their relative strength depends on the degree of confidence we place in the reliability of schooling or test scores as measures of productivity.

Differences in years of schooling, in the Masters analysis, account for about 10 percent of the racial earnings gap. A large amount of the residual has to be due either to

discrimination or to other facets of productivity not captured in as gross a measure as years of schooling.

Masters, in common with previous analysts, finds no satisfactory way of constructing a convincing productivity measure. But he does argue that use of Armed Forces Qualifying Test (AFQT) data is as defensible as any other available data source. (The AFQT is given to every youth when initially examined for military service. It contains 25 questions each on verbal concepts, arithmetic, spatial relations, mechanical aptitude. It was specifically intended to predict success in general military training and performance.)

Using AFQT-predicted scores, he finds the effect attributable to productivity goes up and becomes the most important part of the gap. The effect of labor-market discrimination is still substantial—about 30 percent of the total earnings difference between races—and is probably an underestimate, given the frequent assertion that such tests are biased against blacks.

If the "true" picture lies somewhere in between his two measures, we can be confident that both labor-market discrimination and differences in scholastic achievement have important effects.

Improvements in one, moreover, can be expected to lead to improvements in the other. Masters suggests,

Reductions in labor-market discrimination, especially for the better jobs, should provide blacks with a greater incentive to obtain a good education. At the same time, improvements in black education might reduce white tastes for discrimination and thus lessen labor-market discrimination.

### The Policy Context

Most agree racial discrimination is bad. There is no such agreement on appropriate policies to reduce it. Not unexpectedly, people's specific views regarding appropriate action tend to depend on their political persuasion—as Masters points out.

Conservatives emphasize efforts to change tastes, and view the strengthening of economic competition as automatically helping to combat discrimination. They strongly oppose legislation in that area.

Liberals, in contrast, place great emphasis on legislation, arguing that the forces of competition are not strong enough to reduce racial discrimination and rejecting the conservative's implicit assumption that legislation will not affect white attitudes toward blacks.

Radicals argue that racial discrimination is inherent in the capitalist system primarily because capitalists can exploit racial tensions to divide and weaken the working class, and secondarily because the psychological insecurity of white workers can be alleviated by emphasizing their superiority

over blacks. This view implies, of course, skepticism concerning the chances of any fundamental improvement for blacks under capitalism.

Which view is the best guide to policy? A rough test of the three competing views can be developed, according to Masters, based on the experience since the Civil Rights Act of 1964:

Given the conservative perspective, this legislation might be expected to have little effect on the economic position of blacks, except in the South. According to the liberal view, the act—and the attitude changes that both led to and resulted from the act—should have led to continued improvements in the relative position of blacks since 1964. Finally, the radical view suggests that the act should have had some initial impact, but that the gains resulting for the average black will not withstand a recession.

Masters attempts to test those positions with a regression analysis of annual data for the period since 1948. The trend toward narrowing income differentials has significantly increased since 1964, controlling for labor-market conditions. From this he concludes that events like the Civil Rights Act have caused continuing improvements in the relative position of blacks.

Recent history, therefore, though by no means conclusive, does support the liberal view. Combining this perspective with his earlier statistical analysis, Masters ends his book by formulating a number of specific policy proposals.

### Policy Implications

- Programs to ease the adjustment problems of black migrants from the South will not lead to any major improvement in the income of urban blacks. The poverty problems of the urban black are much more pervasive.
- Contrary to the view of recent researchers, housing desegregation by itself will probably not increase the relative money-incomes of blacks. Housing desegregation will only have a direct effect in reducing money-income differences if it makes whites less willing to discriminate in hiring blacks. It may have an indirect effect if it leads to less school segregation and if school desegregation improves the education of blacks. These are three very big "ifs." (Of course, housing desegregation or educational integration may be valued as ends in themselves.)
- Direct efforts to improve the quality of education available to blacks and to reduce effective discrimination in the labor market stand to have the best payoff in reducing the economic inequality caused by earnings differences between blacks and whites.

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- Affirmative-action programs in addition to the 1964 Civil Rights Act are necessary if discrimination in the labor market is to be eliminated. Title VII of the act attempts to eliminate labor-market discrimination by requiring employers to establish color-blind standards. But such standards often fail to be achieved. Schooling requirements for employment may be necessary for productivity reasons, for example. But they may also be used to exclude a disproportionate number of blacks from jobs that do not really require much education. Determining at the individual job level which requirements are genuinely necessary for job performance is difficult and expensive.

Such affirmative-action programs are also necessary if past labor-market discrimination is to be prevented from having its legacy in the future—as when an employer can continue to hire all whites because his present work force is all white and he uses informal word-of-mouth referral for hiring decisions.

The government should require more active affirmative-action programs of government contractors. A real burden of proof should be placed on the employer to show that he has *not* discriminated if he is not employing as many blacks as he agreed to in establishing his affirmative-action goal. Ambitious goals must also be urged.

- Efforts to maintain high levels of aggregate demand should receive top priority in combating labor-market discrimination, since affirmative-action programs are likely to be more successful the more plentiful the supply of good jobs for whites as well as blacks.

- Schools in black neighborhoods should have as many resources available to them as white schools.
- Black community control of schools should be encouraged to make schools in black areas more responsive to the needs and preferences of black students and their families. This should lead to reduced skill differentials between blacks and whites. It is, in any case, indicated on equity grounds, since whites certainly have the option of living in suburbs where they can have a reasonable degree of community control.

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Masters's specific recommendations, as mentioned above, are based on two presumptions: (1) that laws, regulations, and governmental programs have led to and will continue to lead to reduced discrimination in the labor market and reduced inequality in educational opportunities and (2) that resulting improvements in the economic conditions of blacks will lead in turn to a further lessening of discrimination.

He ends his book, however, on a warning note:

The experience since the Civil Rights Act of 1964 does provide some evidence in support of [the liberal's] optimistic position. But too little time has passed since the civil rights revolution of the early sixties for one to be confident that [this] dynamic will lead to continued significant improvement in the relative economic position of blacks. If future events should contradict [this] optimism, and if the values and analysis presented earlier are accepted, then increased attention must be devoted to examining the radical perspective and its policy implications.