Executive Summary

This survey of the economics of labor market discrimination is motivated by two fundamental problems associated with income and wage differences among groups classified by sex, race, ethnicity, and other characteristics. The first is the inequity of long-lasting differences in economic well-being among the groups; in particular, differences in household or family income. The second is the inequity of long-lasting differences in the average wage rates among groups of workers classified by these demographic traits, when the groups may be presumed to be either equally productive or to have equal productive capacity. The second problem also raises the question of whether a labor market that pays unequal wages to equally productive workers is inefficient.

Economic discrimination is defined in terms of income differences among families and wage differences among workers. In Section I, I discuss these definitions and present Census Bureau data on the income and earnings differences of blacks, Hispanics, whites, women, and men.

Section II surveys theories of economic discrimination in the labor market. The theories are classified into competitive and monopolistic neoclassical models with (essentially) complete information, competitive neoclassical models with imperfect information--leading to "statistical discrimination," and institutional theories. Only neoclassical models offer generalizable theories that can be rigorously tested, but I argue that these theories lack supporting empirical evidence.

Empirical tests of the economic theories are selectively surveyed in Section III. Most attention in this section is, however, given to a survey of the estimations of wage (or earnings) functions for various groups

of workers as a way of measuring labor market discrimination, operationally defined as differences in predicted wages (for the groups) when the prediction "holds constant" various productivity determinants of wages.

A distinction is made between marketwide estimates of labor market discrimination and estimates that apply to an individual firm. Both methods commonly use multiple regression, but they differ primarily in the specification of exogenous predictor variables--that is, variables that may be assumed to affect wages but not to reflect the process of discrimination. The statistical models of discrimination in individual firms have become widely used in recent years as evidence in court cases or other litigation stemming from antidiscrimination laws. Although the estimates of predicted wages in both firms and markets contain much useful information, I find that there are inherent weaknesses in the models in terms of interpreting the estimates as measures of labor market discrimination.

The paper concludes with a discussion of the policy implications of the economic research on discrimination. Data on the changes over time in comparative earnings of women and men and of black men and white men are used as a basis for discussing the role of policies in explaining and affecting these changes.