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[Review of the Book *Discrimination in Labor Markets*]

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[Review of the Book *Discrimination in Labor Markets*]

**Abstract**

[Excerpt] In sum, I consider *Discrimination in Labor Markets* a fine volume. Anyone who has the slightest interest in the analysis of labor-market discrimination should seriously contemplate purchasing it. The relatively nontechnical nature of the papers will appeal to a wide range of readers, and the book should quickly find its way onto reading lists for undergraduate and graduate courses that discuss the economics of discrimination.

**Keywords**

discrimination, employment, labor market, race, gender, education

**Disciplines**

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**Comments**

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This volume contains five papers originally presented at a conference on discrimination in labor markets, held at Princeton University in October of 1971, along with the formal comments of the conference discussants. It starts with a theoretical piece by Kenneth Arrow: continues with three empirical studies by Finis Welch, Orley Ashenfelter, and Ronald Oaxaca; and concludes with a paper on government policy by Phyllis Wallace. The papers are all nontechnical and designed to appeal to a wide audience of readers. While more technical versions of the first four papers have recently been published in professional journals or other books, the editors have performed a valuable service by collecting the expository versions in one place.

Kenneth Arrow's paper discusses the theoretical foundations of the neoclassical analysis of labor-market discrimination. Arrow elaborates on the pioneering work of Gary Becker and explicitly includes general equilibrium considerations. Several models with employers or employees having "tastes for discrimination" are developed, and the conditions under which wage differentials and/or segregation will occur between groups of equally productive individuals of different races (or sexes) are stated. As pointed out by Melvin Reder in his comments in the volume, these models all assume completely wage-inelastic labor-supply curves, and hence they neglect the possibility of labor-market discrimination also influencing the aggregate group-employment levels.

Arrow concludes his paper by extending the models to consider costs of adjustment and statistical discrimination as possible explanations for why labor-market discrimination persists over time. The later approach depends crucially on the existence of costs to employers of acquiring information on individual applicants' productivity and on employers perceiving that on average different race (or sex) groups vary in their productivity. Arrow shows quite strikingly that even if this perception is incorrect at a point in time, statistical discrimination may lead the "discriminated-against" group in fact to invest relatively less than the other group in increasing their productivities in future periods. This point has been forcefully made also by Michael Spence (1973) in his recent work on job-market signaling.

The next three studies summarize econometric studies of various facets of labor-market discrimination, with each based upon data on individuals taken from the 1967 Survey of Economic Opportunity (SEO) and/or the one in 1,000 sample of the 1960 census. Each paper contributes significantly to our knowledge of the subject.

The relationship between education and racial discrimination is considered by Finis Welch in his contribution. Previous econometric studies, based upon cross-section data for a single year, have uniformly found lower rates of return to education for blacks than whites. However, Welch suggests that these studies may be misspecified because they group different cohorts of individuals together and

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neglect the substantial increases in the relative "quality" of blacks' education (as compared to whites' education) that have occurred historically. Indeed, using data from both the 1967 SEO and the 1960 census together, his estimates indicate that rates of return to education for blacks have risen over time relative to the comparable rates of return for whites. Moreover, for recent cohorts of students, the former may actually exceed the latter.

Orley Ashenfelter seeks in his paper to measure the impact of trade unionism in the American economy on black/white and female/male income differentials. He argues a priori, and his empirical results confirm that industrial unions have raised and craft unions lowered the average wage of black workers relative to that of white workers, as compared to the analogous differential in nonunion labor markets. However, Ashenfelter finds that for the economy as a whole, the impact of unions on income differentials by race and sex is extremely small. He calculates that unions have reduced the overall black/white income differential and the comparable white female/white male income differential by less than 2 percent. That is, trade unions do not appear substantially to have exacerbated the extent of labor-market discrimination that would exist in the absence of unions.

In the final econometric study in the volume, Ronald Oaxaca considers sex discrimination in the labor market. Oaxaca specifies and estimates wage equations for males and females based upon the postschooling investment model of human-capital formation. He shows that even after variables that reflect individuals' productivity and measures of job experience are controlled for, a large component of the observed female/male wage differential remains unexplained and may be attributable to labor-market discrimination. Oaxaca emphasizes, as does Barbara Bergmann in her conference comments and previous research, that occupational barriers that women face are a major source of the observed differential. Furthermore, these same barriers may prevent females from investing as much in on-the-job training as do males.

The volume concludes with a useful paper by Phyllis Wallace that examines public policy toward discrimination by race and sex. Wallace discusses how legal mechanisms have been quantified into operating policies, and, relying upon the limited experience which we have with these policies, suggests alternative strategies. Unfortunately, as Wallace realizes, it is difficult to assess the effectiveness of government policies in the area solely by looking at input variables, such as the number of complaints processed by the Equal Employment Opportunity Commission, as she does. A more analytical approach would be to attempt to relate statistically, ceteris paribus, the magnitudes of the policy input variables to desired outcome variables (such as wage rates, employment levels, or occupational mobility of nonwhites and females) which the policies are designed to influence. Recent works by Orley Ashenfelter and James Heckman (forthcoming) using individual establishment data and Richard Freeman (cited in his comments in this volume) using aggregate data are examples of this type of approach and add considerably to our knowledge of the effectiveness of these policies.

In sum, I consider Discrimination in Labor Markets a fine volume. Anyone who has the slightest interest in the analysis of labor-market discrimination should seriously contemplate purchasing it. The relatively nontechnical nature of the papers will appeal to a wide range of readers, and the book should quickly find its way onto reading lists for undergraduate and graduate courses that discuss the economics of discrimination.

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When I first heard an exposition of the theory of grants economics by Martin Pfaff, in the presence of Professor Boulding, I was injudicious enough to express the opinion that "grants economics" was merely a new terminology for some already recognized problems in economics, and that it had yet to prove its usefulness by producing propositions and insights that were novel and convincing. I undertook to review this book, the first of a projected series, in order to give grants economics a second chance. Unfortunately, it fails equally miserably the second time around. The major reason, bluntly, is that Boulding, having left pure economics in 1943 to become a labor economist, thence to become interested in the social system, conflict and conflict resolution, and the "integrative system," leading into grants, has returned to economics more or less as he left it 30 years ago.

More accurately, a caricature of economics as it was 30 years ago serves to support the general claim advanced in the Introduction to the Series that grants economics is the answer to criticisms of exchange economics by radical economists and to the analytical weakness of radical economics itself, and to buttress the detailed claims of the text that economics has ignored or neglected a variety of problems that it has not in fact neglected. For the same reason, the positive suggestions offered to demonstrate the insights of grants economics are remarkable for their naiveté, ignorance, or sheer effrontery.

Thus, it is not very persuasive to be told that the family is a grants economy, so that in a pure exchange economy the family and society itself would disappear. Nor does it illuminate to be told, with respect to inflation, that prices and wages, and especially price dynamics, set up strains—and to have Gardiner Means's proposal for a tax on price and wage increases recommended for serious consideration. And it is surprising to be told that economists have more or less simply ignored the income redistributions consequent on any kind of change. We are left with the message that grants do too exist and the impression that any idea that recognition of their existence suggests to Boulding has necessarily escaped the attention of the rest of us.

There are two mildly interesting chapters on the concept of exploitation and on the limits of welfare economics as a guide to the problems of maintaining a functioning society, sandwiching one expressing Boulding's well-known views on armaments and deterrence. The final, cosmic chapter gives the word on spaceship Earth and expresses the hope that grants economics may lay the foundations for a new ideology of spaceship living in loving harmony to replace previous ideologies based on unlimited expansion.