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## TWO VIEWS ON INEQUALITY AND DISCRIMINATION

### A GLIMPSE AT DISCRIMINATION

Julie lives in a section of New York City called Harlem. She is 20 years old, shares a tiny apartment with her two young children, and completed high school with a “B” average. Like most residents of Harlem, Julie is black. She receives a monthly stipend called Temporary Cash Assistance (New York City’s welfare program using Temporary Assistance to Needy Families—TANF—funds) that she uses for rent and bills; she buys milk and cereal for her children with coupons from the Women, Infants, and Children (WIC) program; and she uses Food Stamps to buy the rest of her groceries.<sup>1</sup> Her family receives medical coverage through the Medicaid program. Still, putting it all together, Julie’s family is officially below the U.S. government’s poverty line.

To receive help from the government, and particularly TANF payments, Julie is required to look for, and ultimately hold down, a job. TANF payments are time-limited, so she cannot depend permanently on government help, regardless of how poor her family is. Fortunately, her mother volunteers to care for her children if Julie finds a job, and Julie decides to apply for a job at a burger joint around the corner called Burger Hut. Surely, Julie thinks, they will give her a chance.

While this story is fictitious, we know the likely ending because of research undertaken by anthropologists Katherine Newman and Chauncy Lennon (1995) on job applicants for fast-food restaurants in Harlem. Julie will probably be turned down for the job. ✓

Two things work in Julie’s favor, however. Julie has a high school degree, as do most employees at the Burger Hut in Harlem. Julie also has an advantage in that she is older than many applicants. This factor alone doubles her chance of getting the job compared with an 18-year-old’s.

So, why is Julie likely to be turned down? First, she lives in Harlem, and local fast-food employers do not like to hire people from that area. Maybe their friends will come in to hang out or get free food. If Julie lived three miles from Burger Hut, her chances of getting the job would more than triple, but then she would have an expensive commute and couldn’t get to

her children immediately in an emergency. Second, because so many employees commute to the store from elsewhere, Julie doesn't know anyone working at the store. Her chances would almost triple if she knew a current Burger Hut employee. Third, while few whites will apply for the job, and although most of Burger Hut's customers are black, Julie suffers because of her skin color. Indeed, a foreign-born applicant would be almost three times more likely to get the job, even though Julie undoubtedly would communicate more effectively with the customers. Fourth, Burger Hut tends not to hire welfare recipients, and this cuts in half Julie's chance of getting the job. Finally, even if we ignore all the specifics regarding Julie, jobs at Burger Hut are hard to land; there are far more applicants than openings, a situation that has only gotten worse in recent years as the economy has entered a recession.

Having lost out at Burger Hut, Julie may be frustrated and confused. Part of her says that it was her own fault for not getting the job. If only she had prepared better for the questions they asked, applied at a different time of day, or been an "A" student, maybe it would have worked out. Even if Burger Hut doesn't want to hire a young black woman from Harlem, she'll show them. She'll find a job with someone else. Besides, with so many people applying for so many jobs, she is likely to get one eventually if she just keeps trying. Further, she *must* get a job, because the government will not support single mothers like her for much longer.

Another part of Julie says that she is not alone in her frustration. She lost the job not because of anything she did but because of who she is, the color of her skin, and where she was born. This part of her is angry. Why should some white guy from the suburbs make money by owning Burger Hut, selling to a black clientele, and discriminating against people like her? And even if she had gotten the job, why should she need a high school degree to flip burgers or punch pictures of hamburgers on a cash register just to get the legal minimum wage?

Julie is also very worried. She loves her children and works hard to be a responsible mother, but the job she is likely to get won't pay much, probably won't have health insurance, and will keep her away from her children for long hours. She knows that she can't rely on her mother to take care of her children all the time but also that she won't make enough to afford child care. This part of Julie recalls Martin Luther King's "dream" of equality and tells her that to change things, she needs to be part of an organized movement telling employers, the government, and white America that she and others like her will not put up with such inequalities, unfairness, and injustice anymore.

## TWO VIEWS FROM ECONOMICS

Julie's situation highlights important issues that confront workers in our society. Economists use two main approaches to understand her situation. These approaches are termed *neoclassical economics* and *political economy*. Both views admit that Julie's individual actions count and that Julie is operating on an unlevel playing field that works against her. Both approaches provide explanations for why women and blacks earn less than white men, and both explanations are consistent with their general approach to economic phenomena. Beyond these commonalities, however, the emphases of neoclassical economics and political economy diverge. The former views competitive markets, individual initiative, and government policies that leave the market alone as being sufficient to level the playing field. The latter views Julie as being caught in a web of oppressive class, race, and gender relations that can be changed only by fighting alongside others who are committed to her cause.

We can introduce these two views by casting our glance backward in time to two founders of economics: Adam Smith, an 18th-century Scottish scholar; and Karl Marx, the 19th-century German scholar and social activist. Smith argued that competitive markets caused

people to serve the common good—increasing the wealth of the nation—by acting in their own self-interest. As he put it in what is probably the most famous single line of *The Wealth of Nations*, an individual functioning in a market economy is "led by an invisible hand to promote an end which was no part of his intention" (Smith, 1910; 400). If the market works, then there is no obvious role for the government except to print money and defend the country militarily. Those who followed in Smith's footsteps—called *neoclassical economists*—extended this argument to suggest that the market will take care of discrimination and will ultimately help to provide opportunities for Julie so long as she is willing to work hard and persist.

On the other end of the political spectrum, we find Karl Marx. Marx believed that capitalism—a profit-driven, market economy where some people own businesses while others work for them—serves the interests of the few at the expense of the many. Marx's most well-known line appears in the *Communist Manifesto*, which he coauthored with Frederick Engels. It concerned the need for collective action against capitalists: "working men of all countries, unite!" By extension, economists following in Marx's footsteps argued that the end of capitalism was required to alleviate the problems of discrimination. This is the origin of the voice calling Julie to band together with others against oppression.

Most economists fall somewhere in between these two extreme views (indeed, many economists would be offended if you called them by either label).<sup>2</sup> There are several reasons for relatively few economists fitting our "neoclassical" and "political economy" molds. As economics has developed, economists have discovered greater complexity in the world than is suggested by these two views. Some economists respond by using neoclassical tools but challenging key assumptions, and by arguing that people are concerned with fairness, that they cannot accurately forecast the future, or that markets usually are not competitive. Other economists believe that a detailed examination of history is more important than using the tools of either neoclassical or political economy. Nonetheless, we present these two views alone, because they provide logical and compelling frameworks for gaining an initial understanding of economic approaches.

This book looks at how the two economic approaches understand wage discrimination. *Discrimination* is defined as adverse treatment based on one or more defining characteristic of an individual, such as race, ethnicity, gender, sexuality, or religion. *Labor market discrimination* means adverse treatment in hiring, firing, and treatment in a job. Labor market discrimination could mean not being able to get a job, limited job opportunities, or being paid less than others based solely on characteristics that have nothing to do with a person's ability or effort.

### **Discrimination: Adverse treatment of people based on group identity**

Neoclassical economists focus on how individuals discriminate and how that discrimination is translated into labor market outcomes. Political economists focus on how institutions in society (e.g., firms, unions, schools, government) have rules and regulations that are discriminatory, even if the individuals in those institutions do not personally discriminate.

Economists have often noted that women and blacks face very different labor market situations than whites and men do. Typically, women and black writers have called attention to the role of gender and race discrimination as a cause of these differences, but their work has rarely been widely or well received.<sup>3</sup> Only relatively recently have a substantial number of neoclassical and political economists extended their work to include a more thorough investigation of women's domestic work and blacks' exclusion in wage labor.

Discrimination entered the economic lexicon in reference to blacks, and particularly black men, during the 1940s and 1950s. In this area, economists were led by the pioneering works

of neoclassical economist Gary Becker (1957) and political economist Gunnar Myrdal (1972), both of whom eventually won the Nobel Prize. Their research forms the bedrock upon which the theories of discrimination presented here were built.

The neoclassical view looks at discrimination from the standpoint of supply and demand within markets, while the perspective of political economy emphasizes the interplay of economic, social, and political forces. To simplify, Becker argued that individuals of one type may object to associating with individuals of another type, which can result in discrimination by employers, employees, and/or customers. Neoclassical economists put an individual's likes and dislikes, loves and hates, and so forth under the heading "tastes." While you might think of taste as concerning goods—as in, "I have a taste for tofu"—the meaning is here broadened to include such things as having a "taste" for discrimination. Discrimination then is like tofu in that it is something you are willing to pay for—if you have the "taste." Becker was presenting an alternative to Myrdal's theory, in which prejudice creates discrimination and discrimination in turn reinforces prejudice. According to Myrdal, discrimination is a vicious cycle between white perceptions and black behaviors that results from economic exploitation, social hierarchy, and political repression.

When women made their initial entrance as a proper subject for economic study, the issue of discrimination was far from central to the debate. After all, if you work in the home, how could you experience discrimination? Becker's and Myrdal's theories of discrimination rest on the notion that whites do not "like" blacks. This idea might be right as far as it goes, but it simply doesn't wash when we ask about discrimination against women. How many men would admit to "disliking" their mother, wife, sisters, or daughters? In her trailblazing work on women's wages, economist Barbara Bergmann (1971) noted this problem and argued that a theory of social roles, socialization, or appropriate social behavior was needed to understand discrimination against women. Similar arguments have been extended to blacks. Instead of thinking about discrimination in terms of an irrational prejudice, many economists now emphasize the incentives that encourage discrimination both inside and outside of the marketplace.

Indeed, until the 1960s, women hardly appeared in economists' models. Part of the reason for this historical absence of research on the topic is hinted at in the fact that both the Smith and Marx quotations cited earlier refer only to "men." This was not a fluke of language; when Smith or Marx wrote about the economy, they pictured men going about the business of buying, selling, and working. When women make their rare appearances in these works, it often is as a homemaker or sexual object. So, it is not surprising that when women did begin to appear explicitly in much of the economics literature during the last few decades, it was largely in the role of homemaker.

Until recently, Julie's situation would have been ignored by most economists, but the fact that over half of all U.S. women of working age are currently employed means that theories based on women as homemakers and men as breadwinners are flawed. In response, research and writing on women in the workplace have grown explosively during the last two decades, and you will see much of that literature cited in later chapters.

While both neoclassical and political economists have made great strides toward understanding discrimination against black men and white women, there remains a kind of uncomfortable gap regarding black women. A large segment of black women have worked for wages since shortly after the end of the Civil War, suggesting this group might be thought of as similar to black men. On the other hand, the situation of black women in terms of occupations and wages is fairly close to that of white women, suggesting that we should analyze the group as women. Discrimination against black women is not a simple mix of the particular barriers

that face black men and white women, and this implies that the story of "Julie" is one that we cannot fully explain even today.

The study of discrimination contains many such conundrums and complexities. Because we are not here to advance novel theories, we have taken what exists at present on the neoclassical and political economy sides of the fence and tried to present it as clearly and simply as possible. The references at the end of each chapter suggest further readings that explore some of the problems beyond the scope of this book.

## WHAT'S AT STAKE HERE

This book explains why blacks<sup>4</sup> and women earn less than white men; however, our focus on blacks and women relative to white men clearly restricts our view and understanding of the world. Where are Native Americans and Asians, Mexicans, and Persians—or gays and lesbians? Haven't they experienced discrimination? For many members of these groups, the answer is "yes," but we ignore those groups here for two reasons. First, the economic literature on white-black relations and on gender is far more developed than for these other groups. Second, we believe that theories of discrimination built to explain white-black and female-male differences do not provide good explanations for discrimination in other contexts. For example, a gay male may experience little overt discrimination at work if he "pretends" to have a girlfriend or a wife, which is a situation with little relevance to the experience of heterosexuals, whether male or female, black or white. We have purposefully kept this book short so that in relevant courses it can be supplemented with material on other groups that have experienced discrimination. Stated differently, we hope to give readers a good idea of how economists view discrimination against women and blacks, but we urge readers to extend their horizons beyond these two groups.<sup>5</sup>

Turning to the two groups of interest, we believe there are sound political and moral reasons to examine discrimination against blacks and women. Blacks were brought to this country in chains and enslaved, segregated and disenfranchised by the system of U.S. apartheid called "Jim Crow," systematically terrorized by lynchings and mob violence, and isolated as sharecroppers in the South and in ghettos in the North. Arguably, the black poor of today are more segregated from society at large than any other minority group (Massey and Denton, 1993). Black Americans have not simply given up in the face of such violence, oppression, deprivation, and discrimination, however. The civil rights struggle of blacks over the course of the 20th century made it impossible for the rest of the country to ignore the contradiction between racism and democracy that Myrdal emphasized. The election of Barack Obama to President of the United States helped America realize that truth; nonetheless, we have not achieved racial equality.

Women also bring a crucial historical perspective to the question of inequality, although one that is quite different from that of blacks. Women also were disenfranchised and considered to be the property (although they could not be sold) of their owners (i.e., their husbands) until the 20th century. Often, they were the victims of violence in the home and on the street—as they are today in shocking numbers. Their lives were limited by deeply rooted gender roles that created a sexual division of labor inside the home and the workplace. However, in contrast to the social segregation that is characteristic of race relations, gender relations are defined by the integration, and often the intimacy, of men and women within most households. This curious and combustible mixture of oppression and love makes it clear that discrimination and inequality are not a simple issue of "us-against-them." Instead, they have more to do with the systems in which all of us live and work—the market system, production system, and the

reproduction system. These systems may work with us and allow us to express our individual preferences and abilities, or they may work against us and limit our opportunities.

Thus, the issues of race and gender inequality are at heart issues of morality, of democracy, of family, and of opportunity. They are deeply embedded in our social soul. They also are political issues, in part because slavery, Jim Crow, and disenfranchisement existed by governmental decree and in part because the political struggles of women and blacks changed that history. Debates over inequality and discrimination are also debates over the proper role of government and its relation to the market. For this reason, the differing interpretations of inequality and discrimination offered by neoclassical economists and political economists are at the same time differing interpretations of the meaning of life in the United States, and that is the larger theme of this book.

## PLAN OF THE BOOK

The introductory section (of which this is part) concludes in Chapter 2 with a look at the numbers that are relevant to discrimination. For each of the four groups we address—black women, white women, black men, and white men—the chapter details historical trends in terms of differences in wages, unemployment, and occupations. The data in Chapter 2 urge us to look for reasons why blacks and women suffer economically.

The following section contains three chapters explaining the neoclassical view of discrimination. Chapter 3 outlines the basics of neoclassical economics—utility maximizing individuals, supply and demand, competition, efficiency, and a look behind the scenes at the division of labor. An appendix is provided for those who want to know the source of these ideas. Chapter 4 takes the neoclassical vision into the labor market, looking at the supply and demand for labor, reasons other than discrimination for wage differences, and unemployment. Chapter 5 goes to the heart of the matter, with the neoclassical view of discrimination. We present Becker's "taste for discrimination" as well as the "statistical" theory of discrimination, and then we address the role of competitive markets in ending discrimination, measures of wage discrimination, why discrimination persists, and what the government might do to alleviate its ill effects.

The third section discusses the political economy approach. We begin as before with the basics, as captured in the "Four Cs" of political economy—context, collective behavior, conflicting interests, and change—then apply these to relations of class, race, and gender. These in turn are connected to various forms of oppression—exploitation, exclusion, and domination—that keep some people in power at the expense of others. The rôle of the marketplace and why oppression might end are discussed at the end of Chapter 6; again, an appendix is provided for those who want a look back to the origins of this theory. Chapter 7 takes the political economy view into the labor market and the workplace; starting with the notion of wages reflecting a customary standard of living, it explores the roles of the labor theory of value, work in the home, and government services in explaining wage levels. The chapter then turns to the impact of the business cycle on wages and looks at how capitalists get people to work hard. The chapter concludes with political economy's model of why wages differ among workers. Chapter 8 presents the political economy view of discrimination, starting with the role of context and the notion of "institutional discrimination" (which often is unconscious). We then look at the economic incentives for firms and workers to discriminate, how the economy perpetuates discrimination through "positive feedback," and why firms abandon discriminatory practices only slowly—if at all. The chapter looks at how discriminatory outcomes and attitudes change both over the business cycle and in the long run. It concludes with a discussion of government policies to reduce wage discrimination.

For those who are wondering where the authors fall along the "neoclassical" and "political economy" divide, we consider ourselves to be political economists. The reasons for our position are explained best, we believe, in Chapters 6 through 8. We do not accept neoclassical economics' emphasis on individual tastes and preferences as a guiding principle for economic behavior and outcomes, nor do we have much faith in the ability of markets to correct glaring inequalities. Nonetheless, we have worked hard to present a positive and clear exposition of the neoclassical view.

This book does not provide a critique of either neoclassical economics or political economy. We wrote this book because when we teach this material, there is an absence of texts that clearly and simply describe the general elements of *both* views, explaining how the economy in general, labor markets, and discrimination operate. This approach is not meant to downplay the importance of critical thinking. Rather, we encourage teachers and students to use what follows as a springboard for analyzing the shortcomings of each theory. We also encourage readers to supplement this book with other materials that focus on specific groups who face labor market discrimination.

## DISCUSSION QUESTIONS

1. If you were in Julie's position and were turned down for the job at Burger Hut, what would you do?
2. Referring to Julie's story, do you think the ending might have been different if the government abolished the minimum wage? Are there reasons why Julie might have found it easier to get a job if the minimum wage was *increased*?
3. Economic historians have found evidence of discriminatory wages for women and blacks dating back at least 100 years, and often earlier. Why do you think it took U.S. economists so long to begin studying this phenomenon seriously?
4. Myrdal called his famous book on racism *An American Dilemma* to highlight the conflict between U.S. ideals and the denial of civil and economic rights to blacks a half-century ago. Do you think that a similar dilemma exists today? What evidence can you cite to support your opinion?
5. Why do you think that neoclassical economists tend to run the political gamut from conservatism to liberalism, while political economists tend to run the political gamut from liberalism to radicalism?
6. Have you ever observed an incident of discrimination? Describe the incident, and explain why you think it occurred.
7. How do you respond to people when you hear them make racist or sexist remarks?

## SUGGESTED READINGS

- Amott, Teresa L. and Julie A. Matthaci. 1991. *Race, Gender & Work*. Boston: South End Press.
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