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EVIDENCE ON DISCRIMINATION IN EMPLOYMENT

There is substantial racial and gender disparity in the American economy. As we will demonstrate, discriminatory treatment within the labor market is a major cause of this inequality. The evidence is ubiquitous: careful research studies which estimate wage and employment regressions, help-wanted advertisements, audit and correspondence studies, and discrimination suits which are often reported by the news media. Yet, there appear to have been periods of substantial reductions in economic disparity and discrimination. For example, Donohue and Heckman (1991) provide evidence that racial discrimination declined during the interval 1965–1975. Gottschalk (1997) has produced statistical estimates that indicate that discrimination against black males dropped most sharply between 1965 and 1975, and that discrimination against women declined during the interval 1973–1994. But some unanswered questions remain. Why did the movement toward racial equality stagnate after the mid–1970s? What factors are most responsible for the remaining gender inequality? What is the role of the competitive process in elimination or reproduction of discrimination in employment?

The Civil Rights Act of 1964 is the signal event associated with abrupt changes in the black-white earnings differential (Bound and Freeman, 1989; Card and Krueger, 1992; Donohue and Heckman, 1991; Freeman, 1973). Along with other important pieces of federal legislation, the Civil Rights Act also played a major role in reducing discrimination against women (Leonard, 1989). Prior to passage of the federal civil rights legislation of the 1960s, racial exclusion and gender-typing of employment was blatant. The adverse effects of discriminatory practices on the life chances of African Americans, in particular, during that period have been well-documented (Wilson, 1980; Myers and Spriggs, 1997, pp. 32–42; Lieberson, 1980). Cordero-Guzman (1990, p. 1) observes that "up until the early 1960s, and particularly in the south, most blacks were systematically denied equal access to opportunities [and] in many instances, individuals with adequate credentials or skills were

From William A. Darity, Jr., and Patrick L. Mason, "Evidence on Discrimination in Employment: Codes of Color, Codes of Gender," *The Journal of Economic Perspectives*, vol. 12, no. 2 (Spring 1998).

not, legally, allowed to apply to certain positions in firms." Competitive market forces certainly did not eliminate these discriminatory practices in the decades leading up to the 1960s. They remained until the federal adoption of antidiscrimination laws.

Newspaper help-wanted advertisements provide vivid illustrations of the openness and visibility of such practices. We did an informal survey of the employment section of major daily newspapers from three northern cities, the *Chicago Tribune*, the *Los Angeles Times* and the *New York Times*, and from the nation's capital, *The Washington Post*, at five-year intervals from 1945 to 1965. (Examples from southern newspapers are even more dramatic.)...

With respect to gender-typing of occupations, help-wanted advertisements were structured so that whole sections of the classifieds offered job opportunities separately and explicitly for men and women. Men were requested for positions that included restaurant cooks, managers, assistant managers, auto salesmen, sales in general, accountants and junior accountants, design engineers, detailers, diemakers, drivers, and welders. Women were requested for positions that included household and domestic workers, stenographers, secretaries, typists, bookkeepers, occasionally accountants (for "girls good at figures"), and waitresses.[1] The *Washington Post* of January 3, 1960, had the most examples of racial preference, again largely for whites, in help-wanted ads of any newspaper edition we examined. Nancy Lee's employment service even ran an advertisement for a switchboard operator—presumably never actually seen by callers—requesting that all *women* applying be white! Advertisements also frequently included details about the age range desired from applicants, like men 21–30 or women 18–25. Moreover, employers also showed little compunction about specifying precise physical attributes desired in applicants.[2]

Following the passage of the Civil Rights Act of 1964, none of the newspapers carried help-wanted ads that included any explicit preference for "white" or "colored" applicants in January 1965. However, it became very common to see advertisements for "European" housekeepers (a trend that was already visible as early as 1960). While race no longer entered the help-wanted pages explicitly, national origin or ancestry seemed to function as a substitute. Especially revealing is an advertisement run by the Amity Agency in the *New York Times* on January 3, 1965, informing potential employers that "Amity Has Domestics": "Scottish Gals" at $150 a month as "mothers' helpers and housekeepers," "German Gals" at $175 a month on one-year contracts, and "Haitian Gals" at $130 a month who are "French speaking." Moreover, in the "Situations Wanted" section of the newspaper, prospective female employees still were indicating their own race in January 1965.

The case of the help-wanted pages of the *New York Times* is of special note because New York was one of the states that had a state law against discrimination and a State Commission Against Discrimination in place, long prior to the passage of the federal Civil Rights Act of 1964. However, the toothlessness of New York's State Commission Against Discrimination is well-demonstrated by the fact that employers continued to indicate their racial preferences for new hires in help-wanted ads, as well as by descriptions of personal experience like

that of John A. Williams in his semi-autobiographical novel, *The Angry Ones* (1960 [1996], pp. 30–1).

Help-wanted ads were only the tip of the iceberg of the process of racial exclusion in employment. After all, there is no reason to believe that the employers who did not indicate a racial preference were entirely open-minded about their applicant pool. How successful has the passage of federal antidiscrimination legislation in the 1960s been in producing an equal opportunity environment where job applicants are now evaluated on their qualifications? To give away the answer at the outset, our response is that discrimination by race has diminished somewhat, and discrimination by gender has diminished substantially. However, neither employment discrimination by race or by gender is close to ending. The Civil Rights Act of 1964 and subsequent related legislation has purged American society of the most overt forms of discrimination. However, discriminatory practices have continued in more covert and subtle forms. Furthermore, racial discrimination is masked and rationalized by widely-held presumptions of black inferiority.

STATISTICAL RESEARCH ON EMPLOYMENT DISCRIMINATION

Economic research on the presence of discrimination in employment has focused largely on black-white and male-female earnings and occupational disparities. The position typically taken by economists is that some part of the racial or gender gap in earnings or occupations is due to average group differences in productivity-linked characteristics (a human capital gap) and some part is due to average group differences in treatment (a discrimination gap). The more of the gap that can be explained by human capital differences, the easier it becomes to assert that labor markets function in a nondiscriminatory manner; any remaining racial or gender inequality in employment outcomes must be due to differences between blacks and whites or between men and women that arose outside the labor market....

REGRESSION EVIDENCE ON RACIAL DISCRIMINATION

When we consider economic disparities by race, a difference emerges by gender. Using a Blinder-Oaxaca approach in which women are compared by their various racial and ethnic subgroups, Darity, Guilkey and Winfrey (1996) find little systematic evidence of wage discrimination based on U.S. Census data for 1980 and 1990.[3] However, when males are examined using the same Census data a standard result emerges. A significant portion of the wage gap between black and white males in the United States cannot be explained by the variables included to control for productivity differences across members of the two racial groups.

Black women are likely to have the same school quality and omitted family background characteristics as black men (the same is true for white women and men). Hence, it strains credibility to argue that the black-white earnings gap for men is due to an omitted labor quality variable unless one also argues that black women are paid more than white women conditional on the unobservables. The findings of Darity, Guilkey and Winfrey (1996), Rodgers and Spriggs (1996) and Gottschalk (1997) indicate that in 1980 and 1990 black men in the United States were suffering a 12 to 15 percent

loss in earnings due to labor market discrimination.

There is a growing body of evidence that uses color or "skin shade" as a natural experiment to detect discrimination. The approach of these studies has been to look at different skin shades within a particular ethnic group at a particular place and time, which should help to control for factors of culture and ethnicity other than pure skin color. Johnson, Bienenstock, and Stoloff (1995) looked at dark-skinned and light-skinned black males from the same neighborhoods in Los Angeles, and found that the combination of a black racial identity and a dark skin tone reduces an individual's odds of working by 52 percent, after controlling for education, age, and criminal record! Since both dark-skinned and light-skinned black males in the sample were from the same neighborhoods, the study *de facto* controlled for school quality. Further evidence that lighter-complexioned blacks tend to have superior incomes and life chances than darker-skinned blacks in the United States comes from studies by Ransford (1970), Keith and Herring (1991) and Johnson and Farrell (1995).

Similar results are found by looking at skin color among Hispanics. Research conducted by Arce, Murguia, and Frisbie (1987) utilizing the University of Michigan's 1979 National Chicano Survey involved partitioning the sample along two phenotypical dimensions: skin color, ranging from Very Light to Very Dark on a five-point scale; and physical features, ranging from Very European to Very Indian on a five-point scale. Chicanos with lighter skin color and more European features had higher socioeconomic status. Using the same data set, Telles and Murguia (1990) found that 79 percent of $1,262 of the earnings differences between the dark phenotypic group and other Mexican Americans was *not* explained by the traditional variables affecting income included in their earnings regression. Further support for this finding comes from Cotton (1993) and Darity, Guilkey, and Winfrey (1996) who find using 1980 and 1990 Census data that black Hispanics suffer close to ten times the proportionate income loss due to differential treatment of given characteristics than white Hispanics. Evidently, skin shade plays a critical role in structuring social class position and life chances in American society, even between comparable individuals within minority groups.

Cross-national evidence from Brazil also is relevant here. Despite conventional beliefs in Brazil that race is irrelevant and class is the primary index for social stratification, Silva (1985) found using the 1976 national household survey that blacks and mulattos (or "browns") shared closely in a relatively depressed economic condition relative to whites, with mulattos earning slightly more than blacks. Silva estimated that the cost of being nonwhite in Brazil in 1976 was about 566 cruzeiros per month (or $104 U.S.). But Silva found slightly greater unexplained income differences for mulattos, rather than blacks vis-à-vis whites, unexplained differences he viewed as evidence of discrimination. A new study by Telles and Lim (1997), based upon a random national survey of 5000 persons conducted by the Data Folha Institute des Pesquisas, compares economic outcomes based upon whether race is self-identified or interviewer-identified. Telles and Lim view interviewer-identification as more useful for establishing social classification and treatment. They find that self-identification underestimates white in-

Interesting: Lighter Af. Am. self-id. as white but are id'd by interviewers as black

come and over-estimates brown and black incomes relative to interviewer-classification.

Despite the powerful results on skin shade, some continue to argue that the extent of discrimination is overestimated by regression techniques because of missing variables. After all, it seems likely that the general pattern of unobserved variables—for example, educational quality or labor force attachment—would tend to follow the observed variables in indicating reasons for the lower productivity of black males (Ruhm, 1989, p. 157). As a result, adjusting for these factors would reduce the remaining black-white earnings differential.[4]

As one might imagine, given the framework in which economists tackle the issue of discrimination, considerable effort has been made to find measures of all imaginable dimensions of human capital that could be used to test the presence of labor market discrimination. This effort has uncovered one variable in one data set which, if inserted in an earnings regression, produces the outcome that nearly all of the black-white male wage gap is explained by human capital and none by labor market discrimination. (However, thus far no one has suggested a reasonable missing variable for the skin shade effect.) The particular variable that eliminates evidence of discrimination in earnings against black men as a group is the Armed Forces Qualifying Test (AFQT) score in the National Longitudinal Survey of Youth (NLSY).

A number of researchers have confirmed with somewhat different sample sizes and methodologies that including AFQT scores in an earnings equation virtually will eliminate racial differences in wages. . . .

The conclusion of this body of work is that labor market discrimination against blacks is negligible or nonexistent. Using Neal and Johnson's (1996) language, the key to explaining differences in black and white labor market outcomes must instead rest with "premarket factors." These studies have led Abigail and Stephan Thernstrom (1997) in a prominent *Wall Street Journal* editorial to proclaim that "what may look like persistent employment discrimination is better described as employers rewarding workers with relatively strong cognitive skills."

But matters are not so straightforward. The essential problem is what the AFQT scores are actually measuring, and therefore what precisely is being controlled for. There is no consensus on this point. AFQT scores have been interpreted variously as providing information about school quality or academic achievement (O'Neill, 1990), about previously unmeasured skills (Ferguson, 1995; Maxwell, 1994; Neal and Johnson 1996), and even about intelligence (Herrnstein and Murray, 1994)—although the military did not design AFQT as an intelligence test (Rodgers and Spriggs, 1996).[5] The results obtained by O'Neill (1990), Maxwell (1994), Ferguson (1995), and Neal and Johnson (1996) after using the AFQT as an explanatory variable are, upon closer examination, not robust to alternative specifications and are quite difficult to interpret.

The lack of robustness can be illustrated by looking at how AFQT scores interact with other variables in the earnings equation. Neal and Johnson (1996), for example, adjust for age and AFQT score in an earnings equation, but not for years of schooling, presumably on the assumption that same-age individuals would have the same years of school-

ing, regardless of race. However, this assumption does not appear to be true. Rodgers, Spriggs and Waaler (1997) find that white youths had accumulated more schooling at a given age than black or Hispanic youths. When AFQT scores are both age and education-adjusted, a black-white wage gap reemerges, as the authors report (p. 3):[6]

> ... estimates from models that use our proposed age and education adjusted AFQT score [show] that sharp differences in racial and ethnic wage gaps exist. Instead of explaining three-quarters of the male black-white wage gap, the age and education adjusted score explains 40 percent of the gap. Instead of explaining the entire male Hispanic-white gap, the new score explains 50 percent of the gap... [B]lack women no longer earn more than white women do, and... Hispanic women's wage premium relative to white women is reduced by one-half.

Another specification problem arises when wage equations are estimated using both AFQT scores and the part of the NLSY sample that includes measures of psychological well-being (for "self-esteem" and "locus of control") as explanatory variables. The presence of the psychological variables restores a negative effect on wages of being African-American (Goldsmith, Veum and Darity, 1997).[7]

Yet another specification problem becomes relevant if one interprets AFQT scores as providing information about school quality. But since there is a school survey module of the NLSY which can be used to provide direct evidence on school quality, using variables like the books/pupil ratio, the percent of students classified as disadvantaged, and teacher salaries, it would surely be more helpful to use this direct data on school quality rather than the AFQT scores. In another method of controlling for school quality, Harrison (1972) compared employment and earnings outcomes for blacks and whites living in the same black ghetto communities, on grounds that school quality would not be very different between them. Harrison found sharp differences in earnings favoring whites.[8]

One severe difficulty in interpreting what differences in the AFQT actually mean is demonstrated by Rodgers and Spriggs (1996) who show that AFQT scores appear to be biased in a specific sense.... [They] create a hypothetical set of "unbiased" black scores by running the mean black characteristics through the equation with the white coefficients. When those scores replace the actual AFQT scores in a wage equation, then the adjusted AFQT scores no longer explain black-white wage differences. A similar result can be obtained if actual white scores are replaced by hypothetical scores produced by running white characteristics through the equation with black coefficients.[9] Apparently, the AFQT scores themselves are a consequence of bias in the underlying processes that generate AFQT scores for blacks and whites. Perhaps AFQT scores are a proxy for skills that do not capture all skills, and thus leave behind a bias of uncertain direction. Or there may be other predictors of the test that are correlated with race but which are left out of the AFQT explanatory equation.

To muddy the waters further, focusing on the math and verbal subcomponents of AFQT leads to inconsistent implications for discriminatory differentials. For example, while a higher performance on the verbal portion of the

AFQT contributes to higher wages for black women versus black men, it apparently has little or no effect on the wages of white women versus white men (Currie and Thomas, 1995). However, white women gain in wages from higher scores on the math portion of the AFQT, but black women do not. Perhaps this says that white women are screened (directly or indirectly) for employment and pay on the basis of their math performance, while black women are screened based upon their verbal skills. Perhaps this is because white employers have a greater "comfort zone" with black women who have a greater verbal similarity to whites. Or perhaps something not fully understood and potentially quirky is going on with the link between these test results and wages.

Finally, since skill differentials have received such widespread discussion in recent years as an underlying cause of growing wage inequality in the U.S. economy—see, for example, the discussion in the Spring 1997 issue of *The Journal of Economic Perspectives*—it should be pointed out that growth in the rewards to skill does not mean that the effects of race have diminished. If the importance of race and skill increase simultaneously, then a rising skill premium will explain more of the changes in *intraracial* wage inequality, which may well leave a larger unexplained portion of interracial wage inequality. For example, when Murnane et al. (1995) ask whether test scores in math, reading, and vocabulary skills for respondents in the National Longitudinal Study of the High School Class of 1972 and High School and Beyond datasets have more explanatory power in wage equations for 1980 graduates than 1972 graduates, their answer is "yes"—the rate of return to cognitive skill (test scores) increased between 1978 and 1986. However, in these same regressions, the absolute value of the negative race coefficient is larger for the 1980 graduates than it is for the 1972 graduates! These results confirm that there are increasing returns to skills measured by standardized tests, but do not indicate that the rise in returns to skills can explain changes in the black-white earnings gap very well.

The upshot is the following. There is no doubt that blacks suffer reduced earnings in part due to inferior productivity-linked characteristics, like skill gaps or school quality gaps, relative to nonblack groups. However, evidence based on the AFQT should be treated with extreme caution. Given that this one variable in one particular data set is the only one that suggests racial discrimination is no longer operative in U.S. employment practices, it should be taken as far from convincing evidence. Blacks, especially black men, continue to suffer significantly reduced earnings due to discrimination and the extent of discrimination.

DIRECT EVIDENCE ON DISCRIMINATION: COURT CASES AND AUDIT STUDIES

One direct body of evidence of the persistence of employment discrimination, despite the presence of antidiscrimination laws, comes from the scope and dispensation of job discrimination lawsuits. A sampling of such cases from recent years... reveals [that] discriminatory practices have occurred at highly visible U.S. corporations often having multinational operations. The suits reveal racial and gender discrimination in employment, training, promotion, tenure,

ayoff policies, and work environment, as well as occupational segregation.

Perhaps the most notorious recent case is the $176 million settlement reached between Texaco and black employees after disclosure of taped comments of white corporate officials making demeaning remarks about blacks, remarks that revealed an outlook that translated into corresponding antiblack employment practices. Clearly, neither federal antidiscrimination laws nor the pressures of competitive markets have prevented the occurrence of discriminatory practices that have resulted in significant awards or settlements for the plaintiffs.

Another important source of direct evidence are the audit studies of the type conducted in the early 1990s by the Urban Institute (Mincy, 1993). The Urban Institute audit studies sought to examine employment outcomes for young black, Hispanic, and white males, ages 19–25, looking for entry-level jobs. Pairs of black and white males and pairs of Hispanic and non-Hispanic white males were matched as testers and sent out to apply for jobs at businesses advertising openings. Prior to application for the positions, the testers were trained for interviews to minimize dissimilarity in the quality of their self-presentation, and they were given manufactured résumés designed to put their credentials on a par. The black/white tests were conducted in Chicago and in Washington, D.C., while the Hispanic/non Hispanic tests were conducted in Chicago and in San Diego.

A finding of discrimination was confirmed if one member of the pair was offered the position and the other was not. No discrimination was confirmed if both received an offer (sequentially, since both were instructed to turn the position down) or neither received an offer. This is a fairly stringent test for discrimination, since, in the case where no offer was made to either party, there is no way to determine whether employers were open to the prospect of hiring a black or an Hispanic male, what the overall applicant pool looked like, or who was actually hired. However, the Urban Institute audits found that black males were three times as likely to be turned down for a job as white males, and Hispanic males also were three times as likely as non-Hispanic white males to experience discrimination in employment (Fix, Galster and Struyk, 1993, pp. 21–22).

Bendick, Jackson and Reinoso (1994) also report on 149 race-based (black, white) and ethnicity-based (Hispanic, non-Hispanic) job audits conducted by the Fair Employment Council of Greater Washington, Inc. in the D.C. metropolitan area in 1990 and 1991. Testers were paired by gender. The audit findings are striking. White testers were close to 10 percent more likely to receive interviews than blacks. Among those interviewed, half of the white testers received job offers versus a mere 11 percent of the black testers. When both testers received the same job offers, white testers were offered 15 cents per hour more than black testers. Black testers also were disproportionately "steered" toward lower level positions after the job offer was made, and white testers were disproportionately considered for unadvertised positions at higher levels than the originally advertised job.

Overall, the Fair Employment Council study found rates of discrimination in excess of 20 percent against blacks (in the black/white tests) and against Hispanics (in the Hispanic/non-Hispanic tests). In the Hispanic/non-Hispanic tests, Hispanic male job seekers were three times