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THE POLITICAL ECONOMY OF LABOR MARKET DISCRIMINATION: A CLASSROOM-FRIENDLY PRESENTATION OF THE THEORY

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Depending upon your point of view, economics is either blessed or cursed with many different theories of discrimination. The main neoclassical models are based on subjective prejudice and statistical discrimination. The alternatives offered by political economy—an eclectic grouping of marxian, institutionalist, postkeynesian and feminist economics—are based on culture and ideology, the exercise of power, class conflict, market incentives, queuing, tipping, crowding and still others. There is no shortage of ideas even if there is a shortage of relevant data and definitive empirical tests.

Neoclassical economists have the advantage of simplicity. Discrimination in their view can be analyzed with the same tools used to understand all forms of market behavior. Discriminators are either maximizing their utility or minimizing their perceived risk. In so doing, they must face the consequences from nondiscriminatory competitors who make better use of their human resources. For this reason neoclassical economists rely more on human capital theory than on the theory of discrimination to explain racial inequality.

Political economists have developed numerous critiques of the neoclassical presumption that competition will automatically erode discrimination.[1] But the presentation of the political economy perspective has been hampered by its methodological diversity as well as by the sheer variety of ideas that have been put forward. This has made the neoclassi-

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cal alternative seem more attractive, at least to students struggling to make sense of a complicated phenomenon.

This paper presents a possible synthesis, which could be called *the* political economy theory of discrimination. In part it seeks to show that such a theory exists and is no less cogent or convincing than its neoclassical alternatives. But it is also motivated by the needs of our students to have a straightforward statement of the political economy theory of discrimination. To this end it summarizes a complicated literature in as simple a manner as possible. It aspires to be intelligible to undergraduates, though it does presume some background with orthodox and heterodox economic theory. Although much of what it says is theoretical, concrete examples are used wherever possible. Its intent is not so much to critique neoclassicism as to present the political economy alternative.[2]

Because the focus is on the mechanisms that perpetuate discrimination and cause it to change, this presentation ignores an interesting literature on the effects of discrimination upon the accumulation process in general and labor market structure in particular.[3] The literature synthesized and reviewed here is instead concerned with the ways in which capitalism reproduces discrimination through the "normal" processes that govern labor market behavior. First, however, it will help to clarify the concept of discrimination used in political economy.

INSTITUTIONAL DISCRIMINATION

Political economists think about discrimination in a way that connects the past to the present. Genocide, slavery, disenfranchisement, violence, poverty, segregation and ghettoization are the backdrops for contemporary discrimination. At the same time, the civil rights movement, the women's movement and other social and political changes have had a great impact on gender and race relations, and have quantitatively and qualitatively altered the way in which discrimination works. When political economists analyze discrimination, they seek to show how the present reflects the past and yet is different from it.

Like many concepts in both neoclassical economics (e.g., utility or marginal productivity) and political economy (e.g., surplus or power), discrimination cannot be directly observed or measured. Nobody in this day and age admits to discrimination. Although numerous court cases have resulted in findings of discrimination, it is impossible to directly determine how much discrimination exists in the aggregate or how it

fluctuates over time. Furthermore, it is frequently difficult to decide what discrimination means or how it should be applied to particular cases.[4]

These empirical and interpretive difficulties have resulted in disagreements over the very definition of discrimination. *Individual discrimination* is carried out as a conscious decision by individuals; this is the type of discrimination focused on by neoclassical economists. They define discrimination in terms of differences in the treatment of equally qualified workers. This presumes that workers can be unambiguously ranked in terms of their qualifications. More often than not, however, qualifications vary in subtle ways between job applicants, opening the door to subjective interpretations about who is more qualified than whom. Employers may honestly deny they have discriminated even when their decision-making consistently leads them to prefer white men. For this reason, political economists focus less on the intentions of employers and more on the institutional context within which their decision-making takes place.

Institutional discrimination occurs when women or minorities are systematically disadvantaged by the rules and incentives of organizations and institutions such as firms, markets and the government. It can be overt (e.g., the government passes segregation laws) or covert (e.g., employers use irrelevant tests), intentional (e.g., banks redline minority neighborhoods) or unintentional (e.g., employers hire by word-of-mouth), rational (e.g., unions create barriers to job competition) or irrational (e.g., unions refuse to organize women workers). In all cases, however, the issue has less to do with the decisions of individuals than with the rules and incentives that govern the behavior of economic institutions, and in so doing, disadvantage women and minorities.

Institutional discrimination is a function of concrete circumstances, not arbitrary choices, ahistorical prejudices or instinctual aversions. As William Julius Wilson puts it, "racial [and, by extension, gender] antagonisms are the products of situations—economic situations, political situations, and social situations."[5] The same could be said about discrimination in general. Institutional discrimination can only be understood in terms of the situations that give rise to it and cause it to change.

Political economists attempt to identify and analyze these situations with four main elements: adaptation, incentives, flexibility and feedback. Each provides a mechanism by which discrimination can persist in the face of competitive pressures and varying circumstances. Each can also help us understand how discrimination can qualitatively and quantitatively respond to changes in its socio-economic environment. Each feeds

into the next so that the theory becomes progressively more complex as it develops. We will begin with the simplest element, that of adaptation.

ORGANIZATIONAL ADAPTATION

Organizational adaptation refers to the tendency of firms and other organizations to adapt to the social conventions of their external environment. Firms need to work cooperatively with the world around them. They do not want to offend the sensibilities of their workers, their suppliers, their customers, their neighbors or the government. Consequently they will establish a division of labor that mimics existing social hierarchies. If white men traditionally exercise authority over women and minorities in society at large, then the same pattern will be followed within the firm. As customary racial and gender patterns change, firms may be able to change their hiring practices; but insofar as these patterns remain fixed, firms will continue to respect them. It is costly, difficult and risky for them to do otherwise.

Organizational adaptation derives from the essentially conservative nature of firms. Firms may be innovators with respect to technology, work organization, marketing strategies or product development. But to do so they need stability and predictability with respect to their external relationships. As a result, business organizations will "almost invariably adjust and conform to the pattern of race relations in the given society."[6] The neoclassical belief that managerial decision-making would be irrational if it took factors such as race and sex into account fails to consider the firm's need to fit harmoniously into its larger environment. As Stanley Greenberg concludes, the belief in a "struggle between businessmen and the capitalist order, on the one hand, and racial privilege and domination, on the other, is wholly imaginary . . . Business enterprise . . . responds flexibly to socially and politically imposed market and labor constraints . . . and frequently takes advantage of, and at times creates these relationships . . . Business enterprise in a racial order [is] adaptive and complicit."[7]

Blumer and Greenberg's arguments with respect to race also hold true with respect to gender. Rosabeth Moss Kanter shows how gender roles are incorporated into the division of labor at a large corporation.[8] Certain jobs are considered to be "appropriate" for men and others for women, and these barriers are disruptive to cross even though men and women may be qualified for each other's jobs. For example, when a woman is introduced into all male work groups, communication and cooperation may diminish due to the inability of the men to accept her as an equal

colleague. This problem is especially acute in work situations that are nonrepetitive and require frequent decision making, such as in managerial positions. Although the woman may be as qualified and hard working as her male colleagues, the productivity of the team as a whole will go down. It would therefore be irrational for the employer to integrate the work group. Social norms as well as productive characteristics thereby dictate the allocation of people to tasks.

The race/sex division of labor used to be almost universal. Virtually all positions that contained power and authority were filled by white men. Over time, however, it has become somewhat more likely to see women and minorities in these positions, though many believe that they are treated as tokens and excluded from positions of real power.[9] The process of organizational adaptation can respond to changes in the external environment, as the occupational mobility of women and minorities after the Civil Rights Act of 1964 attests.

Nonetheless, once a firm establishes a division of labor, it tends to become entrenched and difficult to change. According to James Baron, "The evidence suggests that social forces and discriminatory cultural beliefs prevalent when a job or organization is founded condition the way that positions are defined, priced and staffed, becoming institutionalized within the formal structure and informal traditions of the enterprise."[10] Jobs become socially identified as male or female, white or black, and though change is possible it is usually slow, costly and difficult. New forms of segregation may emerge. For example, new job titles may be created for white men to shield them from integration with women and minorities who hold similar qualifications.[11] Women and minorities may be less likely to wield supervisory authority than comparable white men.[12] Organizational structure can maintain the race-gender hierarchy even as it responds to external political pressures for change.

Wage patterns tend to follow suit. Donald Tomaskovic-Devey notes that "It is well established that the earnings of both males and females fall as the percentage of females in an occupation rises."[13] He concludes that the same is true with respect to race. Holding the characteristics of both workers and jobs constant, the sheer presence of women and minorities has a depressing effect on wages.

The concentration of women and minorities may be correlated with low pay because jobs have social labels. White men have historically been seen to have a greater need for money than women (who were "secondary earners") or minorities (for whom poverty was the norm). Consequently jobs that were allocated to women or minorities were paid

artificially low wages. For example, clerical workers were mostly well-paid males in the nineteenth century, and clerical work included managerial functions. As corporations grew and their need for both clerical and managerial labor expanded, the two aspects of the job were separated. Managerial work was reserved for men and was highly paid. Clerical work was reserved for women and was poorly paid. This transition was not a biological or technological necessity. Instead it reflected the way in which firms adapted their labor needs to existing gender hierarchies. In this way they kept wage scales down for the rapidly expanding clerical sector while maintaining a division of labor that seemed natural because it reinforced traditional gender roles.[14]

If labor were fully mobile, it would be impossible to sustain artificially low wages. The demand for female and minority workers would rise as firms sought to take advantage of low labor costs. Over time, female and minority wages would rise relative to white male wages as a result. But barriers to labor mobility created by adaptive organizational behavior forestall this result. Firms are reluctant to contravene social customs. Furthermore, once their division of labor is established, it is costly and risky to change. As long as an excess supply of labor is available, firms can fill their higher paying positions with white male workers without experiencing labor shortages.[15] They therefore face few incentives to take the risks involved in violating social norms.

DISTRIBUTIONAL INCENTIVES

Once organizational adaptation establishes a race-gender division of labor, those who benefit by it will resist change. These benefits function as incentives for individuals to act on the basis of their perceived group interest. The interests of different groups rarely coincide. In fact, it is the conflicts of interest experienced by different groups that provide the dynamic element in the political economy analysis of discrimination.

The neoclassical presumption that individuals "pay" to discriminate (as they would to indulge any other taste or prejudice) is turned on its head in the political economy framework. Here discrimination is perceived to be in the interests of those who practice it. It is exactly for this reason that the political economy theory of discrimination does not depend upon personal prejudice. Instead discrimination is held to be self-sustaining because it generates rewards for those who are willing to discriminate (or at least unwilling to act against discrimination).

Discrimination can benefit employers as a result of *class struggle ef-*

fects. Profit maximizing employers want to minimize the wage bill and maximize their control over the labor process.[16] These goals are difficult to achieve in the face of labor solidarity. If workers recognize that they have common class interests and act together (for example, by organizing a union) to increase wages and to establish their rights in the workplace, then management will face higher costs and lower profits. But if workers fail to recognize their common interests and therefore are unable to cooperate to achieve these goals, then management can retain the upper hand. Management therefore has an incentive to "divide-and-conquer" its workforce.

Where organizational adaptation provides an external motive for the firm to discriminate, class struggle effects provide an internal motive. Management may assign white male workers to the "best" jobs in order to reduce the chances that they will feel a need to cooperate with women and minority workers who have the most to gain from a wage hike or an improvement in conditions. Women and minorities may blame white male workers as much as management for their problems. If workers fight each other on the basis of race and/or gender, then they will find it that much more difficult to unite on the basis of class to achieve their common goals. As a result, wages for all workers (including white males) are kept down and managerial control is enhanced.[17]

If class struggle effects were the whole story, all workers would have the same fundamental interests, and racism and sexism would be merely "false consciousness." The solution would then be for all workers to "unite and fight" for higher wages, better working conditions and other demands. This is a simple and appealing strategy. Unfortunately, it can be confounded by the benefits that discrimination can confer upon white male employees.

White male workers can benefit from discrimination as a result of *job competition effects.* If women and minorities are excluded from the "best" jobs, then white males will face less competition for them. This will improve their chances to earn higher wages, get promoted and enjoy job security.[18] Furthermore, a reduction in job competition for white males means that they will be better positioned to find jobs for their (white male) relatives and friends. They will also be more likely to work among people like themselves with whom they are comfortable and able to communicate. Job competition effects therefore benefit white males in five ways: higher wages, better promotional possibilities, enhanced job security, nepotism, and social comfort.

Job competition effects depend upon the exclusion of women and

minorities for consideration for certain jobs. Exclusion can occur as a result of direct or indirect intervention. Direct intervention—e.g., a strike in protest of the hiring of black workers—was more common in the early part of the century. Today indirect intervention by white male employees is the common method of exclusion. Instead of boldly presenting their demands, white males can exert pressure in a more covert fashion. Women co-workers may be sexually harassed. Black co-workers may be ostracized and ignored, or subtly informed that they got their new job due to quotas rather than qualifications. Morale at the workplace plummets and with it productivity.

Management is therefore understandably hesitant to introduce women and minorities into previously all white male work groups. Even if none of this actually occurs, the fear of it is ever-present. Of course, management is not necessarily loathe to discriminate. Aside from benefiting by class struggle effects, management may also feel that it can maintain a positive relationship with its white male workers by encouraging them to feel that they have exclusive rights to certain jobs. This set of shared values and interests between management and workers (in this case, specifically white male workers) is called *hegemony*. It is one means by which management maintains control over the labor process.

It is important to note that class struggle effects and job competition effects have contradictory distributional consequences with respect to employers and white male employees (women and minorities are always hurt by discrimination). Class struggle effects benefit employers and hurt white male employees. Job competition effects benefit white male employees. Their consequences for employers are more complicated. On the one hand, employers may benefit from the hegemonic control over white male workers that discrimination may facilitate. On the other hand, job competition effects may reduce the ability of employers to make best use of their human resources. It also may strengthen labor solidarity among white male workers, which can inhibit managerial control over those workers.[19]

Because class struggle effects and job competition effects have contradictory distributional consequences, it is impossible to make simple statements about who gains from discrimination. The incentive system that sustains discrimination can change with circumstances and can vary from one historical period to another. As a result, discrimination is *flexible* in the sense that it can adjust to changes in economic conditions. This may make it especially difficult to eradicate.

FLEXIBILITY

Neoclassical models of discrimination cannot explain endogenous changes in discrimination. Changes in prejudice and changes in perceived risk—the sources of neoclassical discrimination—cannot be connected in any systematic fashion to changes in economic conditions. These models are static in the sense that they rely on exogenous shocks to explain changes in the degree of discrimination. Furthermore, none of them has much to say about changes in the types of discrimination that women and minority workers may encounter in the labor market.

These are serious drawbacks. It would be astonishing if change did not occur, and the whole point of economic models is (or should be) to explain change. A major advantage of the political economy theory of discrimination is its ability to explain quantitative and qualitative changes in discrimination in terms of changes in its economic environment.

The flexibility of discrimination has three meanings. First, discrimination should change in response to changes in the long-run patterns of economic growth. Second, discrimination should change over the business cycle. Third, discrimination should change in response to government policies. These changes can be understood in terms of incentive shifts, including shifts in the external and internal incentives described in the previous two sections.

Political economists acknowledge that firms face costs from discrimination that can arise either from market pressures or from the government. A refusal to hire qualified blacks can result in higher search costs or higher wage costs in the effort to find qualified white males. It can create inefficiencies in the use of human resources. It can also result in government sanctions if the firm is subject to antidiscrimination and affirmative action laws. This part of the argument is similar to the one made by neoclassical economists. However, costs can also arise from ceasing discrimination. If both continuing discrimination and ceasing discrimination can be costly, then the firm's behavior cannot be theoretically preordained. Instead it will depend upon the circumstances that balance these costs against each other.[20]

From the discussion in the preceding sections, we can identify five reasons why ceasing discrimination can be costly. In the first place, a decline in discrimination can disrupt traditional patterns of association and authority. These social patterns lie behind the process of organizational adaptation; realigning them is a risky and time-consuming proposi-

tion, which may threaten the firm's internal and external stability. Placing minorities and women on par with white men can raise costs because it undermines the notions of fairness on which white male morale and productivity depend. Second, ceasing discrimination can raise wage costs and reduce managerial control due to class struggle effects and the reduction of hegemony. Third, a drop in discrimination can change the rules of internal labor markets. Disrupting the established channels of recruitment, screening, allocation, training, wage setting and promotion can "raise the inefficiency of the labor force adjustment process, at least in the short run, thereby imposing costs on both the employer and society. Only where the effect of discrimination has been to create a grossly inefficient internal labor market will there by any offsetting benefits."[21] Increasing competition for a limited set of rewards and changing tried-and-true procedures inevitably creates more conflict and risk. Fourth, a reduction in discrimination can increase training costs (a crucial component of labor costs and productivity) if white male workers refuse to train or work cooperatively with their female or minority co-workers. Finally, a decline in discrimination can reduce team efficiency by reducing social homogeneity and with it trust, communication and cooperation.

Discriminatory practices can therefore be costly and risky to change due to their impact on employers, white male employees and organizational structure. If it is also the case that discrimination increases costs, then the firm faces a set of contradictory pressures. The direction it is prone to take in the face of this contradiction is determined by the strength of the labor market.

Assume that the economy is moving into a recession. As unemployment rises, more qualified white male workers become available to fill vacancies. Consequently the hiring of workers need not be foregone, search time need not be expanded, nor must wages be raised if the firm chooses to discriminate against qualified female and minority applicants. The costs of continuing discrimination thus fall. At the same time, the costs of ceasing discrimination rise. In weak labor markets, workers place a premium on job security. The ability to protect one's job and to maintain some influence over the hiring process becomes increasingly important to white male workers as their occupational alternatives diminish. The significance of informal job distribution channels (i.e., inside information) grows as the availability of jobs declines. White male workers thus face increasing incentives to discriminate as unemployment rises. At

the same time, management is willing to accommodate them since the costs of continuing discrimination have declined. Management has an incentive to do so since wage growth will be dampened as a result of class struggle effects.[22] Management is able to meet short-term goals (stability during a downturn) as well as long-term goals (hegemonic control) by allowing the interests of white male labor to supersede those of female and minority workers. The opposite process kicks in during an upturn. The political economy model of discrimination therefore predicts that the intensity of discrimination should rise in recessions and fall in expansions.

The incentives for discrimination will therefore vary with labor market conditions. Of course the degree of discrimination is also influenced by many other factors, such as laws, popular beliefs, social patterns (e.g., intermarriage), custom, and so on. But economic factors matter as well. For example, the stagnation of wages and the loss of manufacturing jobs since the early 1970s may have exacerbated racial conflict as the competition for "good" jobs increased. The decline of unionism may have reduced labor solidarity and generated class struggle effects. As a result discrimination can continue to be a problem despite the changes in law and popular attitudes, which would lead us to believe that discrimination has declined since the mid-1960s.

It is also the case that the composition (as well as the costs) of discrimination can respond flexibly to changes in circumstances. Government is a case in point. Job discrimination is against the law and many firms are covered by affirmative action requirements. Yet the effect of these policies may have been to alter the type of discrimination rather than its intensity pure and simple. Although all forms of labor market discrimination are illegal, not all are equally easy to prevent. Employment discrimination in particular is more costly and difficult to monitor than wage or occupational discrimination. Hiring decisions are more subjective than wage or allocation decisions, individual performance has not yet been observed, and labor force comparisons are more problematic than work force comparisons. If discrimination is outlawed, the effect may be to reduce wage and occupational discrimination but at the same time to increase employment discrimination. This compositional change in discrimination can occur because a decline in wage and occupational discrimination can reduce the traditional demand for female and minority workers.

African American workers are a case in point. Blacks have historically

been forced to provide low wage menial labor in segregated occupations. This role has enabled employers to splinter their workforce along racial lines and to threaten white workers with their replacement by cheaper black labor.[23] Desire for these "services" was a source of derived demand for black labor. As wage and occupational discrimination have become more costly and risky, the demand for these services—and therefore the probability of black employment—will fall. These trends may account for the simultaneous decline in the black-white wage gap and rise in the black-white employment gap.[24]

In this manner the political economy theory of discrimination is able to explain changes in the intensity and types of discrimination that prevail in the labor market. In so doing it can help us understand the persistence of discrimination in the face of pressures to eradicate it.

POSITIVE FEEDBACK

In addition to its ability to respond flexibly to changing circumstances, labor market discrimination is also sustained through its interactions with its own effects. This type of interaction is called *feedback*. Feedback is akin to a vicious cycle. A problem has effects that reinforce the original problem. As a result the problem becomes self-sustaining.[25]

The four most important types of feedback are perception, socialization, choice and market interactions. Each provides a means by which discrimination alters the environment within which the labor market operates and thereby reinforces discrimination in the labor market itself. In contrast to flexibility, which provides an explanation for the dynamics of discrimination inside the labor market, feedback provides an explanation for the dynamics of discrimination, which connects the labor market to its external environment. We will begin with feedback due to perception.

A half-century ago Gunnar Myrdal argued that white perceptions of blacks are reinforced by black life conditions. Black poverty (and its associated behaviors) reinforces negative white perceptions, which in turn reinforce discrimination by whites against blacks, and hence perpetuates black poverty.[26] In other words, the interaction of perceptions and actions makes discrimination self-reinforcing. Prejudice becomes a self-fulfilling prophecy. For example, white employers may believe that blacks are more likely to be criminals; hence they are less likely to hire blacks; hence blacks become more likely to commit crimes, since they have no other means of supporting themselves.

Feedback from perception can be compared to the neoclassical model of statistical discrimination. In that model, individuals get treated on the basis of the perceived characteristics of their group. This type of discrimination is not self-sustaining, however, for competition should push employers to use tests and other means of learning about individuals in order to make best use of their human resources.[27] In other words, the statistical discrimination model leads to a convergence of expectations with reality. Feedback from perception, in contrast, leads to a convergence of reality with expectations.

Socialization is another source of feedback. Discrimination may change the conditions in which children develop into adults, and in so doing perpetuate itself. For example, residential segregation isolates many blacks in the inner cities where they can grow up with few or no interactions with whites or with people from outside the inner city.[28] As a result, their cultural milieu is different from the mainstream: their speech patterns, appearance, and daily habits may make them stand out and appear inappropriate for mainstream work settings. Consequently they have problems finding and holding jobs, and therefore are more likely to stay trapped in the inner city.

Mary Corcoran and Paul Courant argue that labor market discrimination against women discourages parents from raising girls to specialize in wage work. When girls grow up, their standard of living will depend more on their husband's job than on their own job, in part because discrimination lowers female wages relative to male wages. Consequently parents will raise girls to specialize more in finding a suitable husband than in finding a suitable job. As a result, women will exhibit different work behaviors than men, and employers will be encouraged to continue segregating women and men within labor markets and career paths.[29]

The third avenue by which feedback occurs is through choice. Choice is traditionally considered to be the domain of neoclassical economists; but this is only so because they take choice to be exogenous. It depends solely on given preferences. In political economy, however, choice is endogenous in the sense that it can be influenced by the availability of opportunities. For example, if job discrimination lowers the returns to education, then blacks and women may choose to get less (or a different type of) education than white men. Elaine McCrate argues that black teenagers may be more likely than white teenagers to get pregnant because their future job opportunities (before pregnancy) are lower. Consequently the opportunity cost of teenager birth is lower for blacks than for

whites.[30] These are examples of the way in which choices can respond to circumstances, and in so doing reinforce the circumstances.

Finally, feedback can occur as a result of interactions between the job market and other markets, especially the housing market. For example, residential segregation may result in job discrimination if blacks are physically or socially isolated from job vacancies. If jobs move from the cities to the suburbs, and if blacks are locked into the inner cities as a result of housing discrimination and a lack of transportation, then they are in an unequal position (in comparison to whites) to compete for jobs. Or they may lack access to information about job vacancies, or job vacancies may be traditionally filled by the recommendations of existing employees. In situations such as these, blacks and whites are on unequal footing in the labor market as a result of discrimination elsewhere in society.

Two recent studies provide telling evidence of the impact of segregation on racial gaps in education and employment. Douglas Massey and Nancy Denton's *American Apartheid: Segregation and the Making of the Underclass* analyzes the extent, causes, and consequences of ghettoization and housing discrimination. They show that segregation is largely due to discrimination by banks, realtors, the government and the white population as a whole. Residential location largely determines access to jobs and public resources such as schooling. If residential choices are restricted by discrimination, inequality will be reinforced in other arenas. Here is one example:

> For blacks . . . high incomes do not buy entree to residential circumstances that can serve as springboards for future socioeconomic mobility; in particular, blacks are unable to achieve a school environment conducive to later academic success. In Philadelphia, children from an affluent black family are likely to attend a public school where the percentage of low-achieving students is three times greater than the percentage in schools attended by affluent white children. Small wonder, then, that controlling for income in no way erases the large racial gap in SAT scores. Because of segregation, the same income buys black and white families educational environments that are of vastly different quality.[31]

A similar argument is made by Gary Orfield and Carole Ashkinaze in *The Closing Door: Conservative Policy and Black Opportunity*. They show that strong economic growth and local black political leadership were unable to reduce racial inequality or black poverty over the 1980s

in Atlanta. Job growth primarily took place in white suburbs. As a result of housing segregation, economic opportunity bypassed blacks who were locked into the inner city. The high schools were unable to provide equal educational opportunity in the context of the stratification of their student populations, so black access to college declined. The result was a vicious circle that sustained racial inequality, despite the presence of the political and economic circumstances that many conservatives (and liberals) believe are sufficient to create equal opportunity.[32]

CONCLUSIONS

In the political economy paradigm, capitalism incorporates, transforms, and ultimately reproduces discrimination. This does not mean that the struggle against discrimination has been futile, nor does it mean that the present is as bad as the past. Women and blacks have made impressive occupational strides as discriminatory barriers have come down (or at least have become more permeable). At the same time, many indicators show that the economic gap between women and minorities on the one hand, and white men on the other, has remained surprisingly hard to breech. This article has provided an explanation for why that might be the case.

The question of "who is to blame" for labor market discrimination in the post-civil rights era has no simple answer. The intensity and patterns of discriminatory behavior by firms can vary with social customs (organizational adaptation), the self-interested actions of capitalists (class struggle effects) or white male workers (job competition effects), the pressures of competition and government policy (flexibility), or the self-perpetuating cycle of events set in motion by discrimination (feedback). All of these elements come into play to one degree or another; discrimination has no single cause and therefore no single solution.

These elements function in different ways and carry different weights in different circumstances. As a result, the conclusions of the political economy model are contingent rather than universal. The analytical categories are designed to organize information and not to act as a substitute for it. In contrast to the deductive and determinative reasoning of neoclassical economists, political economists tell an open-ended story about discrimination that can conceivably have many different plots, characters and conclusions.

Consider, for example, a change such as the declining power of white male workers. International flows of labor and capital, deunionization,

tight money policies, corporate downsizing, and other factors have weakened the position of white male workers relative to their employers since the mid-1970s. This change can affect the discriminatory process in a variety of ways, the net effect of which cannot be predicted in an *a priori* fashion.

As the power of white male workers declines, their ability to influence the hiring decisions of management may also decline; however, their desire to do so may increase if their insecurity stimulates their fear of job competition. The balance of these tendencies will determine the direction of job competition effects. At the same time, class struggle effects could also go in either direction. From the perspective of management, weaker white male workers can *both* reduce the potential gains from the use of divide-and-conquer tactics (since wages are falling anyway) *and* increase the potential gains from doing so (since appeals to racism and sexism will be heard more sympathetically and can divert attention from the real causes of economic insecurity). The ultimate effect on discrimination—in terms of its intensity and composition, victims and perpetrators—can be understood only in hindsight.

The strength of this interpretation of the political economy model of discrimination is its ability to incorporate a variety of elements in the context of changing circumstances in a nonreductionist and nondeterministic fashion. What the political economy model loses with respect to formalism, it gains with respect to relevance. In the end, this is what makes it preferable to the neoclassical alternatives.

NOTES

1. For example, see Steven Shulman, "A Critique of the Declining Discrimination Hypothesis," in Shulman and Darity, eds., *The Question of Discrimination: Racial Inequality in the U.S. Labor Market* (Middletown CT: Wesleyan University Press, 1989).

2. For a more extended comparison of the neoclassical and political economy views of inequality and discrimination, see Randy Albelda, Robert Drago, and Steven Shulman, *Unlevel Playing Fields: Understanding Wage Inequality and Discrimination* (McGraw-Hill, 1996).

3. For example, see Patrick Mason, "Accumulation, Segmentation and the Discriminatory Process in the Market for Labor Power," *Review of Radical Political Economics* 25 (2), (1993); Rhonda Williams, "Competition, Discrimination, and Differential Wage Rates: On the Continued Relevance of Marxian Theory to the Analysis of Earnings and Employment Inequality," in Cornwall and Wunnava, eds., *New Approaches to Economic and Social Analyses of Discrimination* (New York: Praeger, 1991); and Howard Botwinick, *Persistent Inequalities: Wage Disparity Under Capitalist Competition* (Princeton: Princeton University Press, 1993).

4. Because the statistical work on discrimination tends to be indirect or inferential while case studies and legal findings are difficult to generalize, some researchers have conducted auditor studies in an attempt to directly measure discrimination in credit, housing and labor markets. In an auditor study, equivalent blacks and whites apply for loans, housing or jobs, and report differences in treatment and outcomes. These studies have provided direct evidence that discrimination still exists; however, they cannot be used to estimate its aggregate incidence or fluctuations. For examples concerning the labor market, see Marc Bendick Jr., Charles Jackson, and Victor Reinoso, "Measuring Employment Discrimination Through Controlled Experiments," *Review of Black Political Economy* (Summer 1994); and Margery Turner, Michael Fix, and Raymond Struyk, *Opportunities Denied. Opportunities Diminished: Racial Discrimination in Hiring*, Urban Institute Report 91–9 (Washington, D.C.: Urban Institute Press, 1991).

5. William Julius Wilson, 1995, "The Political Economy and Urban Racial Tensions," *The American Economist* XXXIX(1), (Spring 1995): 3.

6. Herbert Blumer, "Industrialization and Race Relations," in *Industrialization and Race Relations*, Guy Hunter, ed. (London: Oxford University Press, 1965), pp. 240–241.

7. Stanley Greenberg, "Business Enterprise in a Racial Order," *Politics and Society* 6 (1976): 219.

8. Rosabeth Moss Kanter, *Men and Women of the Corporation* (New York: Basic Books, 1977).

9. Thomas Pettigrew and Joanne Martin, 1987, "Shaping the Organizational Context for Black American Inclusion," *Journal of Social Issues* 43 (1).

10. James Baron, "Organizational Evidence of Ascription in Labor Markets," in *New Approaches to Economic and Social Analyses of Discrimination*, Richard Cornwall and Phanindra Wunnava, eds. (New York: Praeger, 1991), p. 115.

11. Ibid.

12. Gregory Lewis, "Race, Sex and Supervisory Authority in Federal White-Collar Employment," *Public Administration Review* 46 (1), (Jan.-Feb. 1986).

13. Donald Tomaskovic-Devey, *Gender and Racial Inequality at Work: The Sources and Consequences of Job Segregation* (Ithaca: ILR Press, 1993), p. 111.

14. Harry Braverman, *Labor and Monopoly Capital: The Degradation of Work in the Twentieth Century* (New York: Monthly Review Press, 1974), ch. 15.

15. Neoclassical economists believe that the labor market automatically creates full-employment, while political economists believe that the labor market is characterized by persistent involuntary unemployment. In other words, they disagree over Say's Law.

16. Braverman, 1974, op. cit.

17. Michael Reich, *Racial Inequality: A Political-Economic Analysis* (Princeton NJ: Princeton University Press, 1981).

18. Steven Shulman, "Discrimination, Human Capital and Black-White Unemployment: Evidence from Cities," *Journal of Human Resources* 22 (3), (Summer 1987).

19. More complicated distributional patterns may exist as well. For example, white women may benefit from race discrimination, while black men may benefit from gender discrimination. Other groups may experience discrimination but still thrive economically, e.g., Japanese Americans and Jewish Americans. For the sake of simplicity, this paper focuses solely on white men (employers or employees) as the beneficiaries of discrimination.

20. An early version of this argument was presented in Steven Shulman, "Competition and Racial Discrimination: The Employment Effects of Reagan's Labor Market Policies," *Review of Radical Political Economics* 16 (4), (1984).

21. Peter Doeringer and Michael Piore, *Internal Labor Markets and Manpower Analysis* (Lexington, MA: D.C. Heath, 1971), p. 136.

22. This means that white male workers use discrimination to trade-off job security against wage growth. In a recession they will tend to increase the weight they place on job security, because the difficulty of finding a new job increases.

23. Edna Bonacich, "Advanced Capitalism and Black/White Race Relations in the United States: A Split Labor Market Interpretation," *American Sociological Review* (February 1976).

24. Shulman, 1987, op. cit.

25. Neoclassical economists tend to focus on negative feedback effects, while political economists tend to focus on positive feedback effects. Negative feedback occurs when problems create self-correcting effects (for example, when excess supply lowers prices). Positive feedback occurs when problems create self-perpetuating effects. An example is Keynes's analysis of investment in which pessimistic investor expectations become self-fulfilling prophecies.

26. Gunnar Myrdal, *An American Dilemma: The Negro Problem and Modern Democracy, Volume I.* New York: Random House, 1972 (first published in 1944), pp. 75–78.

27. William Darity, Jr., "What's Left of the Economic Theory of Discrimination," in Shulman and Darity, eds., *The Question of Discrimination: Racial Inequality in the U.S. Labor Market* (Middletown, C.T.: Wesleyan University Press, 1989).

28. Douglas Massey and Nancy Denton, *American Apartheid: Segregation and the Making of the Underclass* (Cambridge: Harvard University Press, 1993).

29. Mary Corcoran and Paul Courant, "Sex-Role Socialization, Screening by Sex, and Women's Work: A Reformulation of Neoclassical and Structural Models of Wage Discrimination and Job Segregation" (mimeo, 1986).

30. Elaine McCrate, "Labor Market Segmentation and Black/White Teenage Birthrates," *Review of Black Political Economy* 18 (4), (1991).

31. Massey and Denton, 1993, op. cit., p. 153.

32. Gary Orfield and Carole Ashkinaze, *The Closing Door: Conservative Policy and Black Opportunity* (Chicago: University of Chicago Press, 1991).