Economic and Sociological Views of Discrimination in Labor Markets: Persistence or Demise?

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Neoclassical economic and sociological views of discrimination are compared. We summarize economic models of taste, statistical, error, and monopolistic discrimination. Economists argue that competitive market forces should lead to the demise of discrimination in the long run. After explaining these arguments, we present sociological arguments about institutional and social-psychological mechanisms that promote the persistence of discrimination. A typology of social-psychological feedback effects from discrimination is presented. We conclude that it is important to recognize forces promoting both the erosion and persistence of discrimination and that this requires a perspective drawing upon both sociology and economics.

Economists and sociologists differ markedly in their views of discrimination. While sociological theory suggests mechanisms through which discrimination will persist and disadvantages caused by discrimination will be perpetuated, neoclassical economic theory suggests that market forces cause the demise of discrimination in the long run. These divergences in view have policy implications, with sociologists likely to favor governmental and other collective action, while economists are likely to see competitive markets as the best antidote to discrimination. Below we examine these divergent views of discrimination. Although we will speak only of discrimination on the basis of race or sex, most of the discussion also applies to other ascriptive group memberships such as ethnicity, national origin, disability, or age.
Neoclassical Economic Models of Discrimination

*Taste Discrimination*

Gary Becker (1957) pioneered the modern study of discrimination in neoclassical economics with his “taste” model. (This and the other models of discrimination we discuss are summarized in Table 1.) Becker argued that employers, workers, or customers may have a “taste for discrimination.” By a taste for discrimination he meant that they have a preference not to hire, work with, or buy from a group such as blacks. A “taste” for discrimination implies that discriminators are willing to pay a price to discriminate. This is important since (as explained below) in the neoclassical view an employer eventually loses money by discriminating.

An employer with a taste for discrimination against blacks is unwilling to hire blacks *unless* they offer themselves at a wage far enough below the wage paid whites to completely offset the disutility she or he experiences by employing blacks. How low this wage must be will depend on the extent of the employer’s taste for discrimination.

Some employers discriminate in a response to their customers’ or workers’ tastes rather than because of their own discriminatory tastes. Yet, we would not expect customer discrimination to be widespread. We would expect it to occur only in service firms where employees meet customers. In the case of workers’ tastes, white male workers may require a higher wage to work with women or blacks. Or they may lower their productivity by various forms of sabotage when employers hire women or blacks into “their” jobs (Bergmann and Darby 1981).

Becker (1957) viewed tastes for discrimination to be determined outside the market. Here he was following the neoclassical assumption that all tastes are exogenous to economic models. In later work, Becker suggested that tastes are randomly distributed and unchanging (Stigler and Becker 1977).

*Statistical Discrimination*

Let us define statistical discrimination to occur when decisions are made on the basis of race or sex group averages on indicators of productivity (Arrow 1972, p. 97; Blau and Jusenius 1976; Gordon 1972, p. 46; Lloyd and Niemi 1979, p. 11; Spence 1974, p. 104). Since race or sex groups
have overlapping distributions on virtually all characteristics, using the groups’ means to estimate individuals’ characteristics results in mistaken predictions about individuals who are qualified in a way unusual for their race or sex.

Defining statistical discrimination entails distinguishing it from nondiscrimination. Thurow (1975, p. 172) confuses the issue slightly when he says that statistical discrimination “occurs whenever an individual is judged on the basis of the average characteristics of the group or groups to which he or she belongs rather than upon his or her own characteristics.” While we agree with Thurow that the use of group averages is one of the defining characteristics of statistical discrimination, Thurow’s implication that nondiscriminators use “individual characteristics” rather than “group averages” is nonsensical unless we are to consider virtually all hiring decisions discriminatory. All individual characteristics (e.g. test scores) define groups (e.g. the group with test scores over 600). Thus, there is no operational difference between basing decisions on individual characteristics or on group means. It is the fact that group averages are used that make us call the process statistical while it is the use of ascriptive statuses to define the groups that make us label the process discrimination.

Aigner and Cain (1977) have argued that statistical discrimination is not “really” discrimination against a race or sex group. They posit that racial and sexual discrimination should be defined to require that the average pay of women and blacks is less than the average productivities that group members bring to the labor market. They argue that if group means of productivity are the basis of hiring and pay decisions, racial and sexual groups will receive an average level of pay commensurate with their average productivity. For example, if women are 10 percent less productive at some jobs, employers will be unwilling to hire women in such jobs unless they will work for 10 percent less. Thus, the distortion caused by statistical discrimination is that individuals who are atypical for their group will be paid more or less than their individual productivity, artificially reducing within-group variance in earnings. But average group earnings will not be lowered. Nonetheless, because individuals with productivities higher than the average of their race or sex groups are victims of statistical discrimination, we will still refer to it as discrimination.
Error Discrimination

We suggest the term "error discrimination" to describe actions of employers who underestimate the average productivities of a group, and, based upon this mistaken belief, are unwilling to hire group members or will hire them only for a lower wage. The error about group averages may entail believing that men and women differ in productivity for some job when in fact no group difference exists. Alternatively, the error may entail an exaggeration of the size of the group difference. Error discrimination and statistical discrimination are alike in that the employer has no nonpecuniary distaste for employing blacks or women, but rather is discriminating in an effort to hire a more productive workforce. Error discrimination differs from statistical discrimination in that the former involves erroneous estimates of group averages, whereas the latter involves correct estimates of group averages (though even statistical discrimination causes erroneous predictions for individuals who are atypical for their race or sex group). Some authors (Blau 1984; Bielby and Barron 1986) include what we are calling "error discrimination" in their definition of statistical discrimination. We prefer to distinguish the two because only error discrimination should produce discriminatory group differences in average pay.

Monopoly Models of Discrimination

The "monopoly" model of discrimination involves members of a group formally or informally colluding and acting monolithically rather than as competing individuals. One can interpret white workers' and employers' collusion in discriminating against blacks in South Africa with this model (Lewin 1979). Madden's (1973) monopoly model and Hartmann's (1976) and Strober's (1984) theories of patriarchy all see women as being kept out of good jobs by collusion among men—as husbands, employers, and workers.

A variant of the monopoly model is the Marxist notion of "divide and conquer." This concept holds that employers discriminate to create divisions or hostilities between groups of workers, which prevents workers from organizing cohesively enough to threaten profit levels by raising wages through unionization, strikes, or more radical political action (Gordon 1972, pp. 71-78; Edwards et al. 1975, pp. xiii-xiv; Bonacich 1976; Bowles
and Gintis 1976, p. 1974; Humphries 1976; Reich 1981; Stevenson 1986). It is the fact that employers collude with one group that makes the divide-and-conquer model fall under the broader category of monopoly models.

Table 1. Types of Discrimination

<table>
<thead>
<tr>
<th>Type</th>
<th>Characteristics of the Type As Characterized by Neoclassical Theory</th>
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<tbody>
<tr>
<td></td>
<td>Motivation</td>
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<td></td>
<td>Creates Group Differences</td>
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<tr>
<td></td>
<td>by Arbitrage</td>
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<tr>
<td>TASTE</td>
<td>Nonpecuniary individual gain in utility</td>
</tr>
<tr>
<td>STATISTICAL</td>
<td>Pecuniary individual gain through saving screening costs and obtaining more productive employees</td>
</tr>
<tr>
<td>ERROR</td>
<td>Perceived (but at least partially illusory) individual gain through saving screening costs and obtaining more productive employees</td>
</tr>
<tr>
<td>MONOPOLY</td>
<td>Pecuniary** group gain or pecuniary individual gain through “divide and conquer” of one’s own employees</td>
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</tbody>
</table>

* Unless based on customers’ tastes rather than those of employers or employees.
** Unless based entirely on a “taste” for group loyalty which reclassifies it into the taste model. See text.
*** Unless ways of enforcing the monopoly against free riders are successful.

The Link Between Hiring Discrimination and Wage Discrimination

Within all four neoclassical models described above, hiring and wage discrimination are two consequences of the same underlying propensity to discriminate. For example, a greater taste for discrimination implies both a lower probability of hiring many women and a lower wage one is willing to pay to women. Thus a group will only receive a discriminatory wage if there is a disinclination to hire members of the group somewhere in the market.
An example of economists’ view that wage discrimination is inextricably related to hiring discrimination is their approach to comparable worth. Proponents of “comparable worth” claim that wages in predominantly female jobs are discriminatorily low in comparison with wages in predominantly male jobs (Treiman and Hartmann 1981; England et al. 1982; England et al. 1988; England forthcoming). Those economists who believe such discrimination exists (Bergmann 1986; Killingsworth 1985) conceptualize it as resulting from the same underlying proclivities that cause hiring discrimination. They believe that employers prefer to hire males in “male” jobs, which leads to an excess supply of labor “crowding” the “female” jobs in which employers are more willing to hire women. The result of this oversupply is low wages in female jobs. In their view, the discriminatory wage can only exist as a disinclination to hire women. By contrast, many sociologists believe that comparable worth also involves wage discrimination resulting from a cultural devaluation of tasks done by women, and that this wage discrimination exists whether or not employers are willing to hire women in these or other jobs (England et al. 1988; England forthcoming).

The Demise of Discrimination in Competitive Markets: The Neoclassical View

Most neoclassical economists believe that, in competitive markets, discrimination sows the seeds of its own destruction because of the fact that it eventually acts like a tax charged to those who practice it. (By “competitive” markets, economists mean that there are a number of possible buyers for each seller and vice versa.) Suppose that the discrimination is based on employers’ tastes, and there is a dispersion in tastes across employers.¹ Why do economists believe that those with less discriminatory tastes eventually have lower labor costs and that this erodes discrimination? The alleged mechanism is a process called “arbitrage.” An example of how it might work to erode sex discrimination is as follows: Suppose that we are dealing with jobs that have average requirements for qualifications, and with equivalently qualified men and women. Suppose that men are making $10/hour in both discriminating and nondiscriminating firms, while women are making $10/hour in the nondiscriminating firms

¹ The model of the erosion of discrimination that follows applies whether the tastes belong to employers or their workers. The erosion process will not occur in the case in which customer tastes cause discrimination.
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and between $6 and $9/hour in the discriminating firms, depending on
the extent of employers' taste for discrimination. The less-discriminating
and nondiscriminating employers have an incentive to hire the equally
qualified women whose labor has been cheapened by the actions of
employers who are more discriminatory. As arbitragers, they offer women
from more discriminating firms a wage slightly above what the other firms
are paying. Women have an incentive to move to less discriminating firms.
Over time, the employers with the least taste for discrimination will come
to employ most of the women. They will employ them at a lower wage
than would be prevailing if other employers were not discriminating, which
is what leads economists to call them arbitragers. In this sense,
"nondiscriminators" are taking advantage of the exploited status of women,
thus, some might not want to call them nondiscriminators. Economists
label them nondiscriminators because if other employers' discriminatory
tastes had not provided them with cheapened labor, they would have
been willing to pay men and women the same wage.

Employers who discriminate less or not at all contribute to the erosion
of discrimination because their relatively low labor costs allow them to
sell their products at a lower price and make higher profits. Thus they
gain an increasing share of their product markets and hence expand
employment. As employers who will not hire women lose market share
or go out of business, only the least discriminatory employers are left
employing women or men. Yet since those who cheapened women's labor
are no longer in the market, and only those with the least discriminatory
tastes are left, women's job distributions should converge with men's. Then,
since women no longer need to offer to work at a lower wage than men
to get hired, their wages converge as well. The theory says that these
convergences will occur in the long run; however, how long is an empirical
question that theory cannot specify.

Analogous logic explains how neoclassical economists see the erosion
of discrimination based on factors other than tastes to occur via market
forces. In the case of error discrimination, "arbitraging" employers who
do not have erroneous estimates of black and white average abilities for
particular jobs will get labor at a bargain price and can thus come to
represent a larger share of their markets. Error discrimination should be
even less likely to persist than taste discrimination since employers might
be able to observe the productivity of firms hiring blacks and women
and thereby correct their erroneous perceptions. But even if no employers
change their erroneous perceptions, the fact that there is some dispersion in the degree of employers' error about minority productivity implies that discrimination should diminish to be consistent with the proclivities of the least discriminatory employer. This latter process is arbitrage.

The concept of statistical discrimination had an initial appeal to economists because it seemed capable of explaining the anomaly of the persistence of hiring discrimination in competitive markets. Unlike taste or error discrimination, it is pecuniarily rational for employers to engage in statistical discrimination if the costs of the error it creates in predicting individuals' productivity are less than the expense of developing and administering screening instruments with greater predictive power. The latter costs exist because of limitations in the "technology" of personnel administration. They are examples of what economists call "information," "search," and "transaction" costs. Because of these kinds of costs, it appears at first glance that there is no pecuniary advantage of ceasing statistical discrimination, as there is for taste or error discrimination, and thus that the discrimination may endure even in competitive markets.

However, if we consider the incentives for employers to improve the knowledge or technology underlying the screening devices, we see how such discrimination might erode. If employers develop new techniques of testing, interviewing, or evaluating work records that have greater predictive power than statistical discrimination, they benefit in two ways. First, a more productive work force is hired, the benefits of which might exceed the cost of the new screening devices. Second, the new screening devices allow an employer to hire those whom others discriminate against but whose productivities are above average for their race or sex. These persons can be hired for relatively low wages since their labor has been cheapened by other employers' statistical discrimination. The advantage of finding more sensitive screening instruments than sex or race will lead those who do so to gain market share at the expense of those who do not, much as with taste and error discrimination. The erosion of statistical discrimination is similar to the erosion of error discrimination in that finding new screening devices reduces the unexplained variance or "error term" in employers' predictions about the applicants' productivity. However, the erosion of statistical discrimination is distinct from the erosion of the other types of discrimination in that it cannot proceed through the pure market forces of "arbitrage" as the others can, but requires the development of more accurate personnel screening technologies (such as tests). The
question of whether statistical discrimination will erode in competitive markets also is less important when we remember Aigner and Cain's (1977) deduction that statistical discrimination cannot cause group differences in average earnings.

How do economists think that discrimination involving the noncompetitive feature of group monopolies can disappear? As long as the restrictions against hiring a group, such as blacks, are successfully enforced by law, informal sanctions, or group loyalty, these barriers to competition will keep discrimination from eroding. But economists focus on the fact that the instability of such monopolies inheres in the pecuniary incentive each individual employer has to be a "free rider" and hire cheap black labor while the rest of the group continues to cooperate in the monopoly, thus providing them with the cheapened black labor. White workers do not have such an incentive to violate the terms of the cartel, but both employers and consumers have a pecuniary incentive to sabotage workers' efforts to enforce the monopolistic restrictions. Thus monopolies are unstable because they give many members of the dominant group an individual incentive not to follow the restrictions.

A sociologist might try to counter this argument for the instability of monopolies by positing that members of the dominant group have a group loyalty (e.g. to their fellow whites) strong enough to make them cooperate with the restriction despite the pecuniary loss this decision entails. But such a group loyalty amounts to a taste that one is willing to risk having to pay for. Thus, if the monopolistic restrictions are adhered to by all group members only out of loyalty, we really have a special case of taste discrimination, and the process through which taste discrimination should erode has been discussed above.

Sociological Views of Discrimination and its Persistence

Sociologists often make use of economists' insights about the motivations and mechanisms of discrimination involving tastes, error, statistical-type generalizations, and collusion. However, sociologists are critical of the claim that market forces alone can destroy discrimination. This skepticism comes in part from empirical evidence that discrimination still exists (e.g. Corcoran and Duncan 1979; England and McCleary 1987). It also has a theoretical rationale, which we sketch below, focusing on both institutional and social-psychological levels.
Institutional Factors: Internal Labor Markets and Economic Segmentation

Sociologists are more persuaded by models of internal labor markets and economic segmentation than are neoclassical economists (Farkas and England 1988). Such models do not explain the origins of discrimination, but they help to explain the perpetuation of effects of discrimination. In addition, the models explain why interfirrm mobility is limited. This, in turn, explains the limited ability of competitive markets to erode discrimination, since it is precisely moves by women or blacks from more discriminating to less discriminating firms upon which the neoclassical model relies for the erosion of discrimination.

Internal labor markets refer to structured mobility ladders of jobs within a firm. Jobs higher on the ladder are shielded from competition from workers outside the firm and from workers inside the firm, but not on this ladder. Internal labor market theory was devised by institutionalist economists (Doeringer and Piore 1971) and initially resisted by neoclassical economists. Recently, however neoclassical economists have developed “implicit contract theory” to explain why it might be rational for some employers to structure jobs this way (England and Farkas 1986, Chapter 6). The key idea is that when employers have provided firm-specific training to workers, they have an incentive to avoid worker turnover even if it means paying a premium for workers with seniority even when cheaper workers with equivalent general human capital are available in external markets. Promising seniority-based raises and promotions will lessen turnover and protect employers’ training investment.

Internal labor markets are loosely related to the economic segmentation of firms (sometimes called a “dual economy”). The “new structuralist” research in sociology has shown that firms in certain types of industries offer higher pay, even net of the human capital of their employees (Tolbert, Horan, and Beck 1980; Kalleberg, Wallace, and Althauser 1981; Kaufman 1986; Farkas, England, and Barton 1988). Neoclassical economists also initially resisted these findings. More recently some neoclassical economists have suggested “efficiency wage” theory to explain which firms and industries have higher wages (Lang and Dickens 1988), although this view is still controversial. Whatever the explanation of higher-paying firms, it appears that such firms are also more likely to have internal labor markets, thus linking notions of internal labor markets and economic segmentation.
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The existence of internal labor markets and economic segmentation has several implications for discrimination. First, internal labor markets perpetuate the effects of discrimination in entry level positions. If one is not initially hired into a position attached to a mobility ladder with extensive rewards for seniority, it is unlikely that one can later transfer onto the middle of that "ladder." Thus, the model implies that effects of discrimination will last throughout a person's life cycle. This is an example of what Feagin and Feagin (1978) refer to as effects of past discrimination in the present.

The fact that firms with higher wages often have internal labor markets, and internal labor markets discourage hiring from outside the firm also limits interfirm mobility of blacks and women into higher-paying firms in the segmented economy. Thus, even if blacks and women are willing, due to discrimination, to work for a lower wage, the process of eroding discrimination through arbitrage (described above) will be slowed by the fact that mobility into arbitraging firms is limited to those jobs that hire from outside the firm.

As an example of this, consider how the existence of internal labor markets with employer-provided training might lead employers to honor their workers' discriminatory tastes even when they themselves would be happy to hire women or minorities. As discussed above, if men lower their productivity, sabotage production or demand a higher wage when employers try to hire women as their coworkers, an employer who has provided no on-the-job training could simply fire such men and replace them with women and/or men willing to work without wage premiums. But an employer who has already made a significant investment in on-the-job training of the men before many women became available may not replace these men, because the costs of hiring and training the new workers may exceed the gains from taking advantage of women's availability at a lower wage.

The "efficiency wage" interpretation of economic segmentation suggests yet another limitation on the ability of market competition to erode discrimination (Lang and Dickens 1988; England, Farkas, and Barton 1988). One version of "efficiency wage theory" explains differences in wage levels between industries and firms by suggesting that, in firms where workers' "shirking" is expensive to monitor, paying above-market wages may be a cheaper way to elicit effort than detailed surveillance. While the limited surveillance reduces the probability that one will be caught
shirking, the probability is not zero. Thus, the above-market wage creates an incentive for effort, since a fired worker will end up in a job paying only the market wage. Firms paying efficiency wages will not lower them to market level despite a supply of workers “queued” up trying to get jobs in these higher paying firms. The model contradicts the neoclassical reasoning summarized above that discrimination will erode in competitive markets. If employers cannot lower wages without destroying their “efficiency wage” strategy, the incentive to hire women and minorities because discrimination has cheapened their labor to a bargain price may no longer be compelling.

**Social-Psychological Feedback Effects**

*Feedback effects* are social-psychological consequences of discrimination which perpetuate a group's disadvantage originating in discrimination or creating new discrimination. Table 2 presents a typology of such effects. None of these are emphasized in neoclassical writings, and some are incompatible with neoclassical assumptions or conclusions.

Let us consider first the effects of discrimination on employees who are the victims of the discrimination (Cells I.A.1.-I.A.3. of Table 2). These effects of discrimination on jobs and earnings endure even after discrimination has declined. They involve alterations in employees' behavior caused by the demands and expectations of the jobs they hold. One such effect, rational responses to constraints (cell I.A.1.), is entirely compatible with economic theory. For example, if discrimination steers a group into jobs with little reward for seniority, frequent turnover is a rational response. The resultant lack of seniority will adversely affect later earnings, especially if discrimination lessens. Similarly, sex discrimination makes it more rational for couples to emphasize the man's career and assign domestic responsibilities to the wife. This, in turn, limits the woman's later career prospects.

Discrimination may also affect the training and skills one attains on the job, and this affects future earnings (cell I.A.2.). Examples of this kind of effect abound. Women and minorities are concentrated in jobs offering less on-the-job training and such training has large effects on future earnings (Corcoran and Duncan 1979). When placement into the initial job is discriminatory, this sequence is a feedback effect from discrimination. Thus the common distinction between portions of group
Table 2. A Typology of Feedback Effects From Discrimination

Subtable I. Effects of Discrimination on Current Adults

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<td>A. Employees'</td>
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<td>Behavior that</td>
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<td>Affects Rewards</td>
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<tr>
<td>3. Tastes or Habits</td>
<td>I.A.3.*</td>
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|                               | B. Employers'     |
|                               | Propensity to     |
|                               | Discriminate     |
| I.B.1.**                      |                   |
| I.B.2.**                      |                   |
| I.B.3.*/**                    |                   |

Subtable II. Effects of Discrimination on Next Generation

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<td>A. Employees'</td>
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<td>Behavior that</td>
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<td>Affects Rewards</td>
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<tr>
<td>1. Rational Responses</td>
<td>II.A.1.</td>
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<tr>
<td>3. Tastes or Habits</td>
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|                               | B. Employers'     |
|                               | Propensity to     |
|                               | Discriminate     |
| II.B.1.**                     |                   |
| II.B.2.**                     |                   |
| II.B.3.*/**                   |                   |

* Violates assumptions of neoclassical economic theory. "Habits" imply nonrationality, a violation of the rationality assumption. The notion that discrimination alters tastes violates the assumptions that tastes are unchanging and exogenous to economic models.

** Violates usual neoclassical conclusion that discrimination will eventually disappear from competitive market forces alone.

Differences in earnings due to discrimination and portions due to human capital investment is blurred when discriminatory employers decide whose human capital to develop. Even when the "training" aspects of jobs are invisible, sociologists have shown that jobs with greater cognitive demands increase the intellectual abilities of job-holders, while jobs with less demands erode such abilities, and that this affects future job attainment (Kohn and Schooler 1983). Such effects may exist for other kinds of skills as well.
A sociological view also suggests that discrimination may affect the habits and tastes of current employees (cell I.A.3). By "habits" we refer to behavioral patterns that are learned, perhaps initially because of their adaptive advantage, but that persist when they are no longer helpful and are even harmful. The notion of habits that are harmful to an actor's own interests contradicts economists' rationality assumption. We define "tastes" as economists do, as the preferences for experiences which give one "utility" (satisfaction, happiness, etc.). However, the notion that experiences in labor markets can affect workers' tastes is inconsistent with economists' assumption that tastes are unchanging and exogenous to economic models (Lang and Dickens 1988).

Feedback mechanisms affecting the tastes and habits of current employees are particularly consistent with the "social structure and personality" school of social psychology (e.g. Kohn and Schooler 1983). How might such effects work? If women are discriminatorily assigned to jobs demanding the social skills of nurturing rather than authoritative managing, this may cultivate women's preferences for nurturing work and men's for managerial work (Kanter 1977). This will steer women's future job choices toward nurturing work. Or, if discrimination heightens the chances that blacks are in jobs with no reward for deferred gratification, this may create a habit of "present orientation" that is not broken the minute discrimination lessens, but is a continuing legacy of discrimination. Some sociologists have resisted such reasoning, arguing that locating the source of continuing disadvantage in the characteristics of victims amounts to inaccurately "blaming" them for their victimization. But if feedback effects onto tastes and habits do exist, we suggest pointing out their origin in discrimination, and thus the inappropriateness of blaming victims, rather than ignoring their existence.

Feedback from discrimination may also involve intergenerational effects such that the children of current employees are disadvantaged when they reach employment age because of consequences of discrimination against the previous generation of their race or sex group (cells II.A.1.-II.A.3.). These intergenerational effects may involve rational responses, skills, tastes, or habits. The last two are inconsistent with economists' assumptions. One example of rational responses and skill development would be when a new generation of blacks fails to obtain the schooling for kinds of jobs from which they saw a past cohort of blacks excluded because they believe discrimination will lessen the payoff of their
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investments. Other intergenerational aspects of feedback involving race discrimination and skills are shown by status attainment research (e.g. Featherman and Hauser 1978). Black victims of discrimination have fewer socioeconomic advantages to pass on to their children, leading the next generation to have less education and other less tangible skills.

Intergenerational feedback effects also involve socialization of children that creates tastes and habits (cell II.A.3.). We argued above that discrimination indirectly affects sex differentiation between husbands and wives as a rational response. This effect extends intergenerationally when the observation of such sex differentiated behavior is an important part of children’s gender-role socialization. According to the cognitive-developmental theory in psychology, observation of women and men in different jobs and household roles molds children’s preferences even in the absence of reinforcement (England and Farkas 1986).

Where race discrimination causes a new generation of minority children to be reared in poverty, a “culture of poverty” may be created, featuring preferences and habits (such as a present orientation) that are an adaptation to lack of opportunity, but which may remain for a time even when opportunity increases (cell II.A.3.). This too is seen by some sociologists as “blaming the victim,” while we see it as evidence for the pervasive effects of discrimination.

So far we have discussed feedback effects acting upon current or next-generation employees (cells I.A.1-I.A.3. and II.A.1.-II.A.3.). These involve perpetuation of the disadvantage that arises from discrimination, another example of what Feagin and Feagin (1978) referred to as effects of past discrimination in the present. But since none of them involve the perpetuation or creation of discrimination itself, none of the feedback effects in the A column of Table 2 challenge economists’ view that discrimination will erode in competitive markets. It is the feedback effects involving employers (cells I.B.1.-I.B.3. and II.B.1.-II.B.3.) that challenge this view.

When employers discriminate they create differences in the skills and habits of groups of employees, as discussed above. This in turn creates the conditions for statistical discrimination as a rational response (cell I.B.1.). If employers or their managers discriminate long enough, their “skills” in selecting applicants on the basis of merit may fail to develop or may atrophy, making continued discrimination likely (cell I.B.2.). In addition, the presence of many discriminators in the market may make
others discriminatory by way of a kind of peer-group socialization to discriminatory tastes and habits (cells I.B.3.). A more complex example of the creation of new discriminatory tastes as an effect of prior discrimination (cell I.B.3.) starts with discriminatory occupational sex segregation. Such segregation may create a sufficient "taste" of male solidarity that male managers decide to collude with male workers rather than being the "free-riding arbitragers" that would contribute to the erosion of discrimination. All these effects may be intergenerational as well, such that the next generation of employers and managers grows up with reasons to engage in statistical discrimination, and the skills, tastes, and habits compatible with other types of discrimination (cells II.B.1.-II.B.3.).

**Conclusion: The Persistence or Demise of Discrimination?**

Sociological views of both the institutions of labor markets and the social-psychology of feedback effects pose a challenge to economists' conclusion that discrimination will disappear from market forces. One sociological view, conflict theory, posits that discrimination will not disappear from market forces with time, as economists believe, but rather by collective organization of victims determined to overcome their disadvantage. This may take the form of political mobilization for legislation and/or court battles, struggles for and within unions, or more revolutionary activity. Thus, in matters of policy, sociologists have often favored actions of social movements and governments, while economists have more often favored market solutions. These differences suggest to us that both neoclassical economists and sociologists can learn from each other. While sociologists too often ignore how market forces work against discrimination, economists too often ignore the institutions and social-psychological feedback effects through which discrimination recreates itself and perpetuates disadvantage. Recently, notions more compatible with the sociological view have appeared in economics in the form of theories of efficiency wages and implicit contracts. These developments, sometimes called "the new institutionalism," remain controversial within the neoclassical mainstream. Yet they provide an opening for dialogue between the disciplines on topics such as discrimination.
References


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