

Ethnic Minorities in the Labour Market

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Contents:

Executive Summary	3
1 Introduction	4
2 The Economic Tradition – Human Capital	4
2.1 Education and experience	4
2.2 Qualifications	4
2.3 Language skills	5
2.4 Returns on educational investment	5
2.5 Self-selection	5
2.5.1 Self-selection factors	5
2.5.2 Differing selection biases	6
2.6 Assimilation	6
2.7 Discrimination	6
3 The Sociological Approach	7
3.1 The concept of assimilation	7
3.1.1 Acculturation	7
3.1.2 Structural assimilation	7
3.1.3 Identificational assimilation	8
3.2 Contemporary approaches to assimilation	8
3.3 Patterns of adaption	8
3.3.1 Capital-rich groups	9
3.3.2 Capital-poor groups	9
3.3.3 Groups with ethnic social capital resources	9
3.4 Effects of social capital	10
3.5 Key contributions of the sociological approach	10
4 Integrating sociological and economic approaches	11
4.1 The current position	11
4.2 Methods of integration	11
4.3 Methodological difficulties	12
5 Policy implications	12
5.1 Immigration policy	12
5.2 Education policy	12
5.3 Housing policy	13
5.4 Affirmative action	13
5.5 Dissenting voices	14
6 References:	15

Theory and Research: the American literature

Executive summary

1. Economists have emphasized the importance of human capital, that is of education, work-related skills and work experience, in explaining ethnic wage differentials.
2. Qualifications obtained in the country of origin appear to give migrants lower returns in the labour market than do native qualifications obtained in the country of destination. Fluency in the English language is also an important predictor of wage differentials among migrants.
3. There may be varied processes of self-selection that lead people from different countries of origin to migrate. This could account for some of the observed wage differentials observed in America. There may also have been changes over time in the quality of the human capital that migrants have possessed on arrival in America.
4. Once arrived in America new migrants may start in relatively poorly-paid work but gradually reduce their wage disparities with native workers as they 'assimilate' and gain experience in the American employment. However, recent migrants may fail to ever close the gap.
5. Sociologists have treated assimilation as a multidimensional concept, distinguishing acculturation, structural assimilation, and identificational assimilation. It is expected that subsequent generations will show higher levels of assimilation than the original migrants (the first generation).
6. Social networks linking ethnic minorities to mainstream white society (that is bridging social capital) may be important in the job search in the open labour market. Lack of such networks may explain much of the ethnic disadvantage that cannot be explained by human capital.
7. Social networks linking members of the ethnic minority with each other (bonding social capital) may be important in developing group trust and may provide advantages for ethnic entrepreneurs.
8. Current sociological thinking emphasizes segmented assimilation, that is different patterns of assimilation may occur, depending on the interplay between the individuals' own characteristics and the particular socio-economic environment in which the ethnic group is located.
9. In explaining the lack of economic success of some groups, particularly those concentrated in deprived inner cities, spatial mismatch of jobs with people and downward leveling of aspirations may play a role.
10. While the issue is hotly debated, it appears probable that discrimination against blacks persists in America but that affirmative action can be beneficial in countering this.

Theory and Research: the American literature

1 Introduction

The US literature on ethnic minority disadvantage, as in the British case, has come primarily from economists and from sociologists. The two intellectual traditions have tended to focus on different intellectual issues and to employ different intellectual tools, but there has recently been considerable convergence between the two traditions. In this report we focus on the quantitative research but we should note that there is also an important tradition of ethnographic work going back to classic pre-war studies of immigrant assimilation (eg Thomas and Znaniecki [1920] 1984). We begin by reviewing some of the main ideas from the economic tradition. We next turn to the sociological tradition and then to recent attempts to integrate the two traditions. We conclude with some observations on American policy debates.

2 The Economic Tradition – Human Capital

2.1 *Education and experience*

The economics literature has traditionally focused on the explanation of earnings differentials and a central explanatory concept has been the individual's **human capital**, that is to say the work-relevant skills that individuals possess. **Education** and **length of experience** in the labour market are the usual measures of human capital (Mincer 1974). Broadly speaking, the assumption is that investments in education tend to increase an individual's generic skills and that additional experience in the labour market will improve the individual's job-specific skills. Differences in their investments in education alone can account for about a third of the income differences between blacks and whites (Hirschman and Snipp 1999). Cognitive skills are also sometimes included as human capital, although good measures of cognitive skills are rarely available in studies of labour market outcomes. In one study, however, the AFQT was available and when this measure of cognitive skills was included, three-quarters of the black-white wage gap was accounted for (Neal and Johnson 1996). However, this result has not been replicated.

2.2 *Qualifications*

In the case of migrants, **overseas qualifications** may have less value in the labour market than do domestic ones. Friedberg's work suggests that the returns to education acquired overseas may be less than the returns to education acquired in the host society, and that this may account for the earnings disadvantages of immigrants. "An important determinant of immigrants' economic success is the value in their destination country of the human capital they accumulated in their countries of origin, or the "portability" of their human capital" (Friedberg 1996). Using Israeli data, Friedberg also suggests that education in the host society obtained after migration enables the migrants to improve the returns on their original human capital.

2.3 *Language skills*

English language fluency is a further major aspect of the migrant's human capital that affects earnings and that can explain a substantial part of migrants' disadvantages in the labour market (Carliner 1996; Chiswick 1991).

2.4 *Returns on educational investment*

A major question in the American literature has also been whether the second generation ethnic minorities receive the same **returns** on their educational investments as do native white Americans. The evidence suggests that second or later-generation American blacks have received lower returns to their education than other second-generation ethnic minorities (Perlmann 1988, Borjas 1994b). Notice that when economists talk about the returns to human capital they are referring to the size of the increment in earnings that an additional year of education will bring. This must be distinguished from the baseline wage differential in the earnings of immigrants and natives with the lowest level of schooling. In statistical terms this can be thought of as the distinction between differences in the intercepts and differences in the slopes in regressions of income on education for natives and immigrants.

2.5 *Self-selection*

Another major factor that American economists have explored is that of the **self-selection** of immigrants and changes in cohort quality. As Borjas argues "Immigrants in the United States do not make up a random sample of the population from the countries of origin" (Borjas 1987: 531). One possible assumption is that immigrants are a "select" group and that they are some of the more able and ambitious persons in the country of origin. Borjas however argues that this assumption is unlikely to be correct and that the "quality" of immigrants' human capital may vary systematically from one origin country to another. For example, immigrants from a country that has recently experienced Communist takeover may be of relatively high quality and be drawn from the top-end of the (pre-takeover) income distribution in the country of origin (positive selection). Conversely, immigrants from a highly unequal third-world country may be drawn from the lower end of that country's income distribution since they have more to gain from migration than those already in the upper end of the income distribution (negative selection).

2.5.1 *Self-selection factors*

Self-selection in effect means that immigrants may vary in important ways that are relevant to their economic success in the country of destination but are not measured (or are only imperfectly measured) by the standard human capital measures of education, experience and language. These unmeasured factors might include cognitive skills, motivation and so on. (Social class origins, which are an important feature in sociological explanations of ethnic minority disadvantage might be a valuable proxy for

these unmeasured characteristics, but have not been addressed in the American literature – or indeed in its sociological literature to any great extent.)

2.5.2 *Differing selection biases*

Differential patterns of immigrant self-selection can in principle explain some of the differences in the economic success of different immigrant groups in their country of destination. Borjas shows that various measures of the level of economic development of the country of origin and of its political system can explain much of the variation in wage differentials between immigrants and natives (Borjas 1987). He interprets these wage differentials as indicators of immigrant ‘quality’ but it should be noted that differing levels of discrimination against migrants from different countries of origin are in principle a plausible alternative explanation for wage differentials. (Moreover, Borjas’s own results did not support his hypothesis that levels of income inequality in the origin country explain the variation in the ‘quality’ of migrants.)

In addition to potentially explaining variations between ethnic groups, changing selection-biases could also in principle explain variations over time in the ‘quality’ of immigrants from a given country of origin and hence in their wage differentials in the country of destination. Borjas argues that in the US there has been a decline over time in immigrant quality. (Borjas 1985; but see also Freeman and Holzer 1991; Lalonde and Topel 1990). While there is considerable debate about Borjas’ conclusions, it remains true that changes in immigrant quality are quite likely (although not necessarily to have become worse) as a result of changing conditions in the countries of origin and changing entry rules in the country of destination.

2.6 *Assimilation*

In addition to focusing on the human capital that migrants have acquired before and after migration, the economists have also used the concept of **assimilation** to interpret their results. As Friedberg argues, “When immigrants first arrive in a new country, they are at a disadvantage in the labor market, relative to natives with comparable demographic characteristics and skill levels. One reason is that natives have many country-specific skills and information that immigrants lack. As immigrants spend time in the host country and begin to acquire this country-specific knowledge, their labor market performance may be expected to improve, relative to their native counterparts. The rate at which the earnings gap between immigrants and natives narrows with years since migration is referred to here as the ‘assimilation rate’ “(Friedberg 1996: 4). We should note that the economists do not attempt to measure assimilation directly but instead infer it from differences in their returns to work experience in the country of destination. We consider the concept of assimilation in more detail in the next section.

2.7 *Discrimination*

Economists have hotly debated the issue of whether **discrimination** against blacks persists even after taking account of their possession of human capital. This has been

studied in a number of ways. The dominant approach among economists has been to see if black-white wage differentials are evident even after statistical controls for levels of human capital, language skills, and so on. The results of these studies are ambiguous, depending on which controls are included (see the discussion of the AFQT above). However, there have also been more direct tests involving audit studies. In audit studies, matched pairs of individuals with similar education and experience but of different races/sexes apply to employers, landlords and so on. Assuming the pairs are well-matched, any difference in treatment between race/sex groups should be attributable to discrimination. These studies indicate that significantly fewer minorities or females obtain job offers than white males. (For the best recent reviews see Darity and Mason 1998, Holzer and Neumark 2000 but see also the dissenting view from Heckman 1998.)

3 The Sociological Approach

3.1 *The concept of assimilation*

Assimilation has historically been the key concept used by American sociologists studying ethnicity. Park and Burgess provided an early classic statement, defining assimilation as “a process of interpenetration and fusion in which persons and groups acquire the memories, sentiments, and attitudes of other persons and groups and, by sharing their experience and history, are incorporated with them in a common cultural life” ([1921] 1969:735).

3.1.1 *Acculturation*

More recent treatments of assimilation have treated it as a multidimensional concept (Gordon 1964). For our purposes the key dimensions are those of acculturation, ‘structural’ assimilation, and identificational assimilation. **Acculturation** includes the acquisition of the English language and the adoption of the cultural patterns of the host society. It would also include the acquisition of know-how about the workings of the host society referred to by Friedman above. The economists’ use of the term assimilation therefore equates with this more specific sociological concept of acculturation. The degree of ‘cultural distance’ between an immigrant minority and the host society has been suggested as one possible explanation for differences in the labour market fortunes for different groups.

3.1.2 *Structural assimilation*

The second major dimension of assimilation was termed by Gordon **structural assimilation**. By this he meant “the entry of the minority group into the social cliques, clubs and institutions of the core society at the primary group level”. Essentially this means the development of social networks linking the minority with the host society. The notion of structural assimilation has parallels with contemporary usages of the term social capital. (For a recent review of theory and research on social capital see Portes 1998.) Here it is useful to adopt Putnam’s distinction between ‘**bridging**’ and ‘**bonding**’

social capital (Putnam 2000). Essentially bridging social capital consists of networks that link the members of a given social group with the wider society, whereas bonding social capital links members of the social group with each other. Gordon's notion of structural assimilation corresponds with the development of bridging social capital. The distinction between bridging and bonding social capital is important in understanding the labour market fortunes of ethnic minorities. Bridging social capital is likely to be of considerable importance in the job search. (On the role of social networks in job search generally see Granovetter 1974; on its role in explaining ethnic disadvantage in securing employment see Petersen et al 2000). Bonding social capital may provide a basis for the ethnic enclave and economic success via that route (Light 1984, Light and Bonacich 1988, Portes and Bach 1985.)

3.1.3 Identificational assimilation

The third dimension of assimilation on which we focus is that of **identificational assimilation**, which Gordon saw as "the development of a sense of peoplehood based exclusively on this host society". This is an academic version of Norman Tebbit's 'cricket test' – which side do you cheer for in international competition? Contemporary treatments of identificational assimilation would emphasize the development of hyphenated identities such as Black-British, which has become the identification of choice of many second generation people of Caribbean descent. The changing nature of identities over time as a result of identificational assimilation means that subjective measures of ethnicity may be problematic for over-time comparisons.

3.2 Contemporary approaches to assimilation

An important point is that contemporary discussions of assimilation, unlike the earliest formulations, do not assume that assimilation along these different dimensions in a standard way for different ethnic minorities either over time or between generations. Rates of movement along these different dimensions may be independent of each other and may differ from one ethnic minority to another. However, a general assumption is that much assimilation will take place through the succession of generations rather than by changes on the part of first, migrant generation in the course of their own life-times.

The concept of assimilation became unfashionable partly because it was taken to imply notions of cultural superiority and inferiority and also because some authors implied the desirability and inevitability of one-way assimilation to the host society. However, there is now renewed interest in the concept (Alba and Nee 1997). Contemporary treatments have also moved away from the assumption of inevitable assimilation towards a middle-class Anglo-American way of life and take into account the differing social group and spatial contexts in which ethnic minorities are located.

3.3 Patterns of adaption

A key development here has been that of **segmented assimilation**. Portes and Zhou (1993) have observed three possible patterns of adaptation that are most likely to occur

among contemporary immigrants and their offspring. “One of them replicates the time-honored portrayal of growing acculturation and parallel integration into the white middle class; a second leads straight in the opposite direction to permanent poverty and assimilation into the underclass; still a third associates rapid economic advancement with deliberate preservation of the immigrant community’s values and tight solidarity”. This theory of segmented assimilation accepts that the labour market experiences of ethnic minorities will depend in part on their individual characteristics (such as education, English language fluency and years of experience in the domestic labour market) that the economic approach focuses on. However, it also emphasizes the interaction between individual characteristics and the socio-structural position in which the group predominantly finds itself.

3.3.1 Capital-rich groups

Thus the first of Portes and Zhou’s three patterns is the one to be anticipated among human capital-rich groups (such as the Japanese). For these groups it is expected that there will be relatively rapid entry into professional occupations and the development of bridging social capital linking the ethnic minority with middle-class American society.

3.3.2 Capital-poor groups

The second pattern is to be anticipated among human capital-poor groups, who become concentrated geographically and socially in deprived areas. There are two key aspects of factors that explain this pattern – first, processes of social interaction leading to an oppositional culture (Ogbu 1991) or to resigned adaptation (Wilson 1987) and secondly lack of economic opportunities in the inner city where these less affluent ethnic minorities are concentrated. Thus on the one hand there is expected to be a leveling-down of aspirations among such groups as a result of pressures towards social conformity within the community. While the role of ethnic minority concentration is important in this account (cf Massey and Denton 1993), it should be emphasized that it is essentially a theory of assimilation into the culture of lower-class, inner city America. Portes and Zhou’s account does not rule out the development of social ties with white Americans, but the key point is that these ties are with people who also share lower-class norms of opposition or resigned adaptation and who are not in a position to provide information about job openings (Wacquant and Wilson 1989). (However, the claim that oppositional culture can explain ethnic differences in educational attainment has been called into question by recent quantitative work. See Ainsworth-Darnell and Douglas 1998.) On the other hand, a rather different factor that could explain ethnic minority disadvantage in the inner city is that of lack of economic opportunities. This has been termed ‘spatial mismatch’ theory (Holzer 1991).

3.3.3 Groups with ethnic social capital resources

The third pattern of adaptation is that used by groups with substantial resources of ethnic social capital. For these groups isolation from the wider American society may actually help academic achievement since it may serve to insulate the second generation from the

pressures towards downwards levelling. As Zhou argues, “Since members of racial or ethnic minorities can respond to the disadvantages imposed by the larger society by establishing group solidarity, it is important to consider the extent to which immigrants and their children are able to use a common ethnicity as a basis for cooperation to overcome structural disadvantages. In the segmented assimilation framework, ethnic networks are conceptualized as a form of social capital that influences children’s adaptation through support as well as control” (Zhou 1999:207). In Putnam’s terms this refers to bonding social capital, but the key point is that, when coupled with strong family structures and norms of achievement, such social capital can promote the acquisition of human capital and hence upward mobility. In a sense, then, lack of assimilation into lower-class American life can be advantageous for the economic advancement of the ethnic group.

3.4 Effects of social capital

The positive effects of ethnic social capital can also be seen in accounts of the ethnic economy and the way in which ethnic solidarity and trust can give economic advantages to ethnic entrepreneurs, for example enabling Korean Americans to obtain low-interest loans from other Korean Americans requiring little collateral. (See also Coleman 1988.) (For a review of the vast literature on self-employment and the ethnic enclave see Raijman and Tienda 1999.)

3.5 Key contributions of the sociological approach

The key contributions of the sociological approach, therefore, have been to distinguish different dimensions of assimilation, in particular distinguishing acculturation from the development of social links across ethnic boundaries (structural assimilation). Both are likely to be important in accounting for labour market success and failure. In particular Peterson et al (2000) in an important article show that ethnic minority members’ lack of such links wholly explained their disadvantages in gaining employment in a high technology enterprise. “Once referral method is taken into account, all race effects disappear. In hiring, ethnic minorities are thus disadvantaged in the processes that take place before the organization is contacted. They lack access to or utilize less well the social networks that lead to high success in getting hired.” Similarly Holzer (1987, 1988) has shown that friends are a key source of information about job opportunities, so that intragroup referrals play a major role in the job-search process and might explain the concentration of some ethnic groups in narrowly defined occupations.

Second, the sociologists have emphasized the importance of group processes and what have been termed ‘contextual effects’. Here there are important parallels with the work in the sociology of education (much of it British) on the role of contextual effects on educational attainment. This work has shown that an individual’s attainment depends not only on his or her own characteristics but also on the social composition of the school. For example, ones’ attainment is influenced by the average social class of one’s peers as well as by one’s own individual social class.

Third, recent work in the sociology of ethnicity has revived an interest in social class and the differing social class contexts into which ethnic minorities might assimilate (eg Perlmann and Waldinger 1999).

4 Integrating sociological and economic approaches

4.1 The current position

Even in America there has been relatively little dialogue between the economists and the sociologists. This is possibly because the two groups of scholars are interested in different outcomes – economists in income differentials and sociologists in occupational attainment. It may also be because economists rarely make their work accessible to non-economists and their conclusions are sometimes heavily dependent on strong assumptions. For example, Borjas’s conclusions about changes in immigrant quality are heavily dependent on his assumption that wage differentials can be interpreted as measures of the quality of human capital. Conversely, many sociologists have used qualitative methods and somewhat nebulous formulations of their theories that do not lend themselves to rigorous testing within an econometric framework.

4.2 Methods of integration

However, in principle there is no difficulty about incorporating some of the sociologists’ concepts as extensions of the general human capital framework. If suitable measures are available (a rather larger if), structural assimilation (bridging social capital) can be included in models of income or occupational attainment alongside the standard human capital variables of level of education and years of experience in the labour market. Nee and Sanders (2001) for example develop a ‘forms of capital model’ for understanding the diversity of immigrant incorporation. They show that possession of coethnic social capital and lack of human capital acquired in America predicts entry into self-employment while high levels of human capital acquired in America predict entry into professional/managerial or government posts. They conclude that “The findings imply that, depending on an immigrant’s mix of social, financial, and human-cultural capital, post-immigration job histories can take on an upward movement or they can become stagnated towards the bottom of the job ladder” (Nee and Sanders 2001: 405).

It is also a relatively straightforward matter to include measures of social context into the standard models of income and occupational attainment. One example of this is Borjas’ recent paper on ethnicity, neighbourhoods and human-capital externalities (Borjas 1995; see also Borjas 1992). Borjas draws on sociological work such as that of Coleman (1988) and Wilson (1987) to model what he terms ‘human capital externalities’. (Human capital externalities are similar to the sociologists’ notion of contextual effects.) Borjas suggests that “the skills of ethnic children depend not only on parental skills, but also on the mean skills of the ethnic group in the parents’ generation [which he terms ethnic capital]” (388). He further shows that much of the ethnic capital effect works through the fact that low-income ethnic groups cluster in low-income neighbourhoods. While he does not

refer anywhere to Portes' work, this analysis supports the sociologist's view that it is the social class milieu in which ethnic groups are located that explains differences in occupational attainment. "It seems therefore that a large part of the impact of ethnic capital is simply disguising for neighborhood effects which have nothing to do with ethnicity (Borjas 1995:380). Borjas concludes that these externalities (or contextual effects) explain why it takes a relatively long time for ethnic skills differentials to converge.

4.3 Methodological difficulties

There is then an interesting convergence between economists and sociologists with a shared concern with the role of contextual effects. There are however considerable methodological difficulties in isolating contextual effects (Manski 1993) and the results that have been obtained so far need to be treated with some caution. Moreover, there are also other potential but unmeasured explanations for some of the group differences. As Borjas himself notes "Such factors as discrimination or lack of access to schools, credit markets, or other institutions can also generate a correlation between the skills of children and the average skills of fathers in the ethnic group (after holding constant the own father's skills) (Borjas 1992:145.)

5 Policy implications

5.1 Immigration policy

Some of the major policy concerns in the recent American literature have been with **immigration policy** (DeFreitas 1995, Borjas 199). However, given the very different kinds of immigration that Britain and America currently are experiencing I do not propose to consider this further here.

5.2 Education policy

A second policy concern has been with helping deprived groups (which will include large proportions of ethnic minorities), particularly those in the inner city, to obtain higher levels of education and human capital. This has been a long-standing concern, going back to Lyndon Johnson's War on Poverty. A classic example of this kind was Project Head Start which focused on pre-school education. This was originally evaluated as a failure but later evaluation research suggested that it had had greater long-term benefits (Lazar et al 1979, Lazar and Darlington 1982, Schweinhart and Weikert 1980). Another long-established programme which has received favourable evaluations has been the Job Corps. This provided a wide range of services to disadvantaged youth – vocational skills training, basic education, and health care – typically in residential centres. As Wilensky (1992) explains it pursue several goals: not only increased output from Corpsmembers (and related earnings increases), but also reduced dependence on public assistance and less antisocial behaviour. The programme showed a net gain to society of over \$2200 per Corpsmember. However, this finding depends on what is included in the accounting: "If

we concentrate only on the increased post-programme output and earnings, as is typically done, we would miss almost half the society benefits shown for the Job Corps. For instance, the net social value of reductions in arrests – reductions in criminal justice system costs, personal injury and property damage, and the value of stolen property – amounts to about \$2000 per Corpsmember” (Wilensky 1992:336).

5.3 *Housing policy*

More recently there have been programs focusing on **public housing** and enabling some low-income inner-city families to relocate to less-segregated, wealthier and/or suburban areas. The Gautreaux program resulted from a Supreme Court consent decree in a racial discrimination lawsuit against the Chicago Housing Authority and the US Department of Housing and Urban Development filed on behalf of Chicago public housing residents. It provides low-income blacks originally residing in Chicago public housing (primarily single female-headed households on AFDC) with special housing certificates and assistance to move to neighbourhoods in which the black population has a share of less than 30%, both in the suburbs and in other parts of the city of Chicago. Quasi-experimental comparisons of the household heads and the children of a sample of suburban and urban movers in the programme suggest that moving to the suburbs greatly increased youth educational attainment and labour market outcomes and modestly improved mothers’ employment rates relative to moving to other parts of the city (Rosenbaum 1992, 1995). A more rigorous experimental trial by Katz et al (1999) has also shown encouraging results.

5.4 *Affirmative action*

The other major policy in America has been **affirmative action**. There is a huge literature on this but a thorough recent survey of the evidence suggests that affirmative action has been effective in increasing hiring of blacks (Holzer and Neumark 2000). The research generally involves some comparison of the shares of employment or of employment growth going to ethnic minorities and whites (and to men and women) in establishments that practice affirmative action and those that do not. The key independent variable is usually a measure of whether or not a firm is a federal contractor and thus subject to affirmative action requirements. A fairly typical finding from this research is that black male employment grew 0.8% per annum faster in contractor establishments than in non-contractor establishments. Hozer and Neumark conclude that:

- Affirmative action programmes redistribute employment, university admissions, and government business from white males to minorities and women, though the extent of the redistribution may not be large.
- The educational performance and labor market credentials of minority beneficiaries are weaker than those of their white counterparts. But evidence of weaker performance in the labour market is less frequently observed.
- The potential [negative] effects of affirmative action on performance ... appear to depend on how it is implemented.

- There is mixed evidence regarding whether affirmative action in contracting and procurement props up weak companies (Holzer and Neumark 2000:555-6).

5.5 *Dissenting voices*

However, there are important dissenting voices. Heckman (1998) for example argues that “A careful reading of the entire body of available evidence confirms that most of the disparity in earnings between blacks and whites in the labor market in the 1990s is due to the differences in skills they bring to the market and not to discrimination within the labor market. This interpretation of the evidence has important consequences for social policy....the goal of achieving black economic progress is better achieved by policies that promote skills formation, like improving family environments, schools and neighbourhoods, not by strengthening the content and enforcement of civil rights laws – the solution to the problem of an earlier era” (Heckman 1998: 101-2).

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