Is Equal Opportunity Enough?

By GLENN C. LOURY*

Affirmative action policies have come increasingly under attack in recent years. Both in the courts and in public discourse questions have been raised about the legitimacy of government efforts on behalf of blacks and other racial minorities.[1] The criticism seems to have two central themes. First, it is argued that those policies which have been tried have not had a noticeable effect on the economic standing of minority group members. (See James Smith and Finis Welch.) They thus constitute yet another example of costly but ineffective government regulation, according to this view. The second theme strikes more deeply at the foundation of these policies. Its adherents argue that even if effective programs could be designed, they ought not be implemented. There have been philosophical and empirical arguments advanced to support this conclusion. Essentially, the philosophical argument states that it is wrong for government to intervene on behalf of certain groups (and thus, necessarily, at the expense of others); this amounts to reverse discrimination—a visiting of the fathers' sins upon the sons.[2] The empirical argument concludes that, moral issues aside, such intervention is unwarranted because the consequences of historical discrimination have been (or will soon be) largely eliminated. (See B. Wattenberg and W. Wilson.)

In this essay I would like to offer a defense of affirmative action policies against the second of these thematic criticisms. That is, I shall hold in abeyance questions concerning the efficacy of particular programmatic efforts, and concentrate instead on whether government should in principle be taking actions to facilitate economic progress for minority group members. This would seem to be the logical first step in constructing an intellectual basis for affirmative action policies. Of course, philosophers and legal scholars interested in theories of distributive justice have devoted considerable attention to this question in the past ten years. (See R. Dworkin and T. Nagel.) The approach adopted here differs from these earlier efforts in two ways. First, I shall endeavor to meet the empirical argument directly, by pointing to evidence which suggests that significant racial economic disparity persists. Secondly, I will treat the philosophical argument in a manner in keeping with the economist's traditional approach to the question of the desirability of *laissez-faire*. This approach is based upon the concept of market failure. Intervention is favored over *laissez-faire* when, because of some externality, the market outcome is inefficient. Below I argue that an analogous "market failure" contributes to the maintenance of economic inequality between racial groups in our society. As such, intervention which redresses this inequality is warranted.

I. The Empirical Argument

Since the passage of civil rights legislation in the early 1960's there have been profound changes in the economic experience of racial minorities in this country. A number of analysts have called attention to this change, observing that traditional discriminatory practices, such as unequal pay to equally skilled workers, have been dramatically reduced. (See Richard Freeman, and Smith and Welch.) Moreover, when the data are disaggregated by cohorts, one finds that the disadvantage in wages of younger minority workers is quite small. (See Smith and

*Professor of economics, University of Michigan.

[1] The arguments of this paper are not intended to apply to affirmative action for women.

[2] This argument is developed at length in N. Glazer.

TABLE 1—PERCENT OF MALE WORKERS UNEMPLOYED, BY RACE AND AGE, 1970–79

Age	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979
16–19: White	13.7	15.1	14.2	12.3	13.5	18.3	17.3	15.0	13.5	13.9
Nonwhite	25.0	18.9	29.7	26.9	31.6	35.4	35.1	37.0	34.4	31.5
20+: White	3.2	4.0	3.6	2.9	3.5	6.2	5.4	4.6	3.7	3.6
Nonwhite	5.6	7.2	6.8	5.7	6.8	11.7	10.6	10.0	8.6	8.4

Source: *Economic Report of the President.*

Welch.) Thus, as younger workers continue to enter the labor force and older workers retire, differences by race in the wages of equally skilled workers may be expected to attenuate. This has led some to question the need for affirmative action, since minority workers seem to be catching up without government help.

This conclusion seems to me premature because it is based on only one aspect of economic status—the earnings of employed workers. No observer of the economic experience of nonwhites in the past decade can have failed to notice that unemployment rates are much higher for minority workers than workers as a whole. Table 1 presents unemployment rates for white and nonwhite male workers by age for the years 1970–79. It is apparent that nonwhite workers are unemployed roughly twice as often as their white counterparts, and that unemployment constitutes a chronic problem for young and nonwhite workers. While these aggregate data do not control for differing individual characteristics (for example, education) which may account for part of this racial disparity, one study of youth unemployment has found that no more than half the racial difference in unemployment rates among young workers can be explained in this way. (See Martin Feldstein and David Ellwood.)

Thus, even if racial differences in the earnings of similarly skilled employed workers were to disappear in the near future, a continuation of current trends in the unemployment experience of nonwhite workers would imply significant economic disparity between the groups. These figures do not prove that minority workers are currently discriminated against in employment opportunities instead of wages, nor do they show that historical discrimination accounts for the currently observed unemployment disparity. However, the data on unemployment certainly suggest that the progress of nonwhite workers in the post-civil rights era cannot be accurately assessed by looking at earnings alone. Moreover, these data are clearly consistent with the hypothesis that there exists racial discrimination in employment opportunities. In a market characterized by excess supply and downward price rigidity (for example, the market for young workers with a minimum wage floor) buyers must use some device for rationing their purchases among the more numerous sellers. The possibility that race is among the characteristics influencing a worker's position in this job queue ought not be ignored.[3]

There is another sense in which comparisons of the annual earnings of racial groups incompletely represent their respective economic positions. The use of cross-section data from a sequence of years does not allow the analyst to discern what happens to the incomes of particular individuals over time. There is some evidence that patterns of year-to-year earnings mobility are quite different for white and nonwhite workers. For example, using longitudinal data, several researchers have found that while the entry level wages of young black and white male workers of similar skills are now quite close, the subsequent rate of wage growth is significantly smaller for the black workers. (See Edward Lazear, Saul Hoffman, and Greg Duncan.) An earlier analysis of occupa-

[3]Charles Betsy has regressed unemployment frequency and duration measures on a variety of explanatory variables, finding quite different coefficients for blacks and whites.

tional mobility among mature male workers showed blacks to be less upwardly mobile out of low-paying occupations and more downwardly mobile out of high-paying occupations than whites (See Bradley Schiller). Moreover, there is evidence that black heads of households in poverty in a given year are considerably more likely than whites to remain in poverty in the following year (see Lee Lillard and Robert Willis), while black families with "high" incomes in one year are much less likely than whites to retain that status in the following year (see my paper with Jerome Culp).

It would appear then that, while the nature of economic inequality between the races has undergone significant change, the gap does not appear to be withering away of its own accord. If this conclusion is accepted, a question then arises as to what, if anything, government should do about it.

II. The Philosophical Argument

This question is a crucial one for advocates of affirmative action. In the period since World War II the principle that an individual's opportunities for advancement ought not depend on race has come to be broadly accepted in our society. Given that racial discrimination in the private sector is not currently practiced, government efforts on behalf of minorities would seem to contradict this basic principle. Advocates of affirmative action now argue that the history of discrimination has created an environment in which equal opportunity alone would not permit minority groups to gain economic parity. Their focus is on the results of the income determination process. Critics, on the other hand, note that one cannot logically urge the necessity of equal treatment while simultaneously demanding special favor. Their focus is on the neutrality of the process itself. This distinction between the fairness of procedures and the fairness of outcomes is a critical one in social philosophy,[4] and in my judgment constitutes the core of the debate over the legitimacy of affirmative action. The nature of the ethical problem should be clear: Racial minorities are undoubtedly worse off today by virtue of the historical use of procedures which did not respect their liberty. Yet, to use the power of the state to "correct" history's wrong doing is to condone disregard for the liberty of those citizens not so favored. The aphorism "two wrongs don't make a right" would seem to apply.

One way to think about this problem is to inquire whether, in theory, we should expect the continued application of racially neutral procedures to lead eventually to an outcome no longer reflective of our history of discrimination. If the answer to this question were negative, then adherence to a policy of equal opportunity alone would condemn those whose rights had historically been violated (and their progeny) to suffer indefinitely from what most would regard as ethically illegitimate acts. Since this would (presumably) be an undesirable state of affairs, a case for intervention would thereby be made. Of course, even if the effects of historical discrimination were to eventually be eroded through the application of racially neutral procedures, this "correction" might take so long as to be of little practical significance. The point here is that there are reasons (to be discussed presently) to believe that our society operates so as to pass on from one generation to the next that racial inequality originally engendered by historical discrimination.

The above discussion is intended to persuade the reader that a certain aspect of the dynamic performance of market economies is important in evaluating the ethical legitimacy of affirmative action. The choice between public policy limited to equal opportunity or extended to affirmative action, I submit, should depend upon the extent to which we are confident of the ability of the market to naturally erode historically generated differences in status between groups. It is in this sense that this choice is analogous to the one economists face when considering whether public intervention in the marketplace is desirable. In the latter instance the ability of *laissez-faire* to attain an efficient allocation of resources is the

[4]See R. Nozick's criticism of "end state" theories of justice. John Rawls adopts an opposing view.

crucial issue. Here I suggest that we focus on the extent to which equal opportunity *eventually* erodes discrimination-induced inequality when judging the appropriateness of intervention via affirmative action.

This question, like the question of when does competition lead to efficient resource allocation, is necessarily a logical query about the operations of an idealized economic system. Like the efficiency question, it may be studied by developing a theoretical model of the social phenomenon at issue, and seeking conditions within the context of that model under which the desired outcome obtains. The basic human capital theory of earnings determination, extended to allow for intergenerational effects, is well suited to an investigation of this sort.[5] Elsewhere (1977) I have pursued this question at some length; however, space limitations necessitate that I merely summarize that investigation here. A model is developed in which job assignments are made under conditions of equal opportunity, based solely on an individual's productive characteristics. However, the individual's acquisition of productive characteristics is favorably influenced by the economic success of the individual's parents. Thus, the deleterious consequences of past discrimination for the racial minority are reflected in the model by the fact that minority young people have less successful parents, on average, and thus less favorable parental influences on their skill acquisition processes. Further, the model posits that families are grouped together into clusters or "communities," and that certain local public goods important to subsequent individual productivity (for example, education) are provided uniformly to young people of the same community. This provides another avenue by which background influences achievement, since the nature of the community to which a family belongs also depends on the economic success of the parent.

In order to pose the question most sharply, it is assumed that all individuals have identical preferences with respect to economic choices, and that an identical distribution of innate aptitudes characterizes each generation of majority and minority workers. Thus, in the absence of historical racial discrimination, we should expect that the economic status of minority and majority group members would be equal, on average. I then inquire whether, in this idealized world, the competitive labor market would function in such a way as to eventually eliminate any initial differences in the average status of the two groups.

The results obtained depend upon whether only income, or both income and race, influence the community to which a family belongs. In the former instance, with some additional reasonable assumptions, one can show that equal opportunity always leads (asymptotically) to equal outcomes. In the latter case, however, it is not generally true that historical differences attenuate in the face of racially neutral procedures. Examples may be constructed in which group inequality persists indefinitely, even though no underlying differences in tastes or ability exist.

This last result arises because, when there is some racial segregation among communities, the intergenerational status transmission mechanism does not work in the same way for minority and majority families. An intragroup externality is exerted, through local public goods provision, by the (relatively more numerous) lower income minority families on higher-income minority families of the same community. Because the racial composition of one's community depends in part on the choices of one's neighbors, this kind of effect cannot be completely avoided by an individual's actions. As a consequence, the ability of equal opportunity to bring about equal results is impaired by the desire of majority (and minority) families to share communities with their own kind.[6] Since this social clustering of the races seems

[5]Such an extension is provided in Gary Becker and Nigel Tomes, and my forthcoming paper.

[6]L. Datcher finds that, for young black males, the racial composition of the community in which they were raised has a significant influence, other things equal, on subsequent earnings. An increase of ten percentage points in the fraction white in the community implied an increase in subsequent annual earnings of 3 percent.

to be a continuing feature of our society, the theoretical analysis leads to the conclusion that intervention may be justified.

III. Conclusion

I have argued that current economic differences between whites and nonwhites are such as to obviate the conclusion that the historical effects of discrimination have (or will soon be) dissipated. Additionally, I have suggested some reasons why a *laissez-faire* policy of equal opportunity, but not affirmative action, could leave minority group members perpetually constrained by historically practiced discrimination. Thus, the second thematic argument against affirmative action, mentioned in the introduction, is deemed unsatisfactory.

REFERENCES

G. Becker and N. Tomes, "An Equilibrium Theory of the Distribution of Income and Intergenerational Mobility," *J. Polit. Econ.*, Dec. 1979, *87*, 1153–89.

C. Betsy, "Difference in Unemployment Experience Between Blacks and Whites," *Amer. Econ. Rev. Proc.*, May 1978, *68*, 192–97.

J. Culp and G. Loury, "In Defense of Public Policy Aimed at Reducing Racial Economic Disparity," *Rev. Black Polit. Econ.*, Summer 1980.

L. Datcher, "Effects of Community and Family Background on Achievement," mimeo, Univ. Michigan 1980.

G. Duncan, "The Determinants of Wage Growth, 1971 – 1976," mimeo., Univ. Michigan 1979.

R. Dworkin, *Taking Rights Seriously*, Duckworth 1977.

M. Feldstein and D. Ellwood, "Teenage Unemployment: What's the Problem," Nat. Bur. Econ. Res. disc. paper, 1979.

R. Freeman, "Changes in the Labor Market for Black Americans," *Brookings Papers*, Washington 1973, *1*, 67–131.

N. Glazer, *Affirmative Discrimination*, Basic Books 1975.

S. Hoffman, "Black-White Life Cycle Earnings Differences and the Vintage Hypothesis," *Amer. Econ. Rev.*, Dec. 1979, *69*, 855–867.

E. Lazaer, "The Narrowing of Black-White Wage Differences is Illusory," *Amer. Econ. Rev.*, Sept. 1979, *69*, 553–64.

L. Lillard and R. Willis, "Dynamic Aspects of Earnings Mobility," *Econometrica*, Sept. 1978, *46*, 985–1012.

G. Loury, "A Dynamic Theory of Racial Income Differences," in P. A. Wallace, ed., *Women Minorities and Employment Discrimination*, Lexington Books, Lexington 1977.

______, "Intergenerational Transfers and the Distribution of Earnings," *Econometrica*, forthcoming.

T. Nagel, *Equality and Preferential Treatment*, Princeton Univ. Press, Princeton 1977.

R. Nozick, *Anarchy, State and Utopia*, Oxford 1974.

John Rawls, *A Theory of Justice*, Harvard Press: Cambridge, Mass. 1974.

B. Schiller, "Relative Earnings Mobility in the United States," *Amer. Econ. Rev.*, Dec. 1977, *67*, 926–41.

J. Smith and F. Welch, "Race Differences in Earnings: A Survey and New Evidence," R-2295-NSF, Rand Corp. 1978.

B. Wattenberg, *The Real America*, Doubleday 1974.

W. Wilson, *The Declining Significance of Race*, Chicago 1978.

U.S. Council of Economic Advisers, *Economic Report of the President*, Washington 1980.