RACIAL/ETHNIC INEQUALITY

IN THE U.S.A. LABOR MARKET:

EMPIRICAL PATTERNS AND POLICY OPTIONS

by

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INTRODUCTION

This report examines racial/ethnic inequality in America's labor market and policies designed principally towards addressing this inequality. Because of limited time and resources, the report provides only general overviews and is not intended to be a comprehensive review of topics. The analytical framework, along with the selection of measures, issues and policies, is based largely on the dominant viewpoints within the fields of labor economics and public policy, and on the author's expertise.

This report is organized into four parts. The first part examines labor-market outcomes by race and ethnicity, and includes an analysis based on a standard human-capital model that controls for several factors, including educational achievement. Separate analyses are conducted by gender and nativity using data covering the decades from 1970 to 2000. Part two contains a discussion about housing segregation along racial lines. This is an important element of American race relations, and the existence of segregated communities plays a role in shaping public policy. The third part of the report reviews race-based public policies addressing racial/ethnic inequality. The primary focus is affirmative action, an extremely controversial policy. The report examines its historical context and the current debate. Unfortunately, it is beyond the scope of this report to determine whether this strategy "works" or is cost-effective. Part four examines alternative strategies based on low-income places and on the working class.

PART I: EMPIRICAL ANALYSIS OF EMPLOYMENT OUTCOMES

The statistics and analyses in this part of the report are based on data from the 1% Public Use Micro Samples (PUMS) for the 1970, 1980, and 1990 decennial censuses, and the March 1998, 1999 and 2000 Current Population Survey. The analysis examines prime-working age individuals (25 to 60 years old) who were not attending school. Analysis of earnings from work (that is, excluding self-employment) is based on those with a minimum level of earnings.

For the purpose of this report, four major groups are included: non-Hispanic whites, African Americans, Latinos and Asian/Pacific Islanders. It should be noted that there is no biological basis for these groupings. Instead, the categories are the product of the unique history of this county, and racial and ethnic groups are socially, culturally and politically constructed. These constructed definitions do not necessarily preclude the use of phenotypes, but the concern here is with categories based on popular conceptualizations of race and ethnicity, and, equally important, are associated with prejudicial behavior. These categories are embedded in formal and informal institutions, and membership is ascriptive. One limitation of using these broad categories is that they obscure significant difference by detailed ethnic grouping. Appendix 1 provides some

insight into these within-group variations with statistics compiled from the 1990 5% PUMS for Latinos (Mexicans, Puerto Ricans, Cubans, Central Americans and South Americans) and Asians (Chinese, Filipinos, Japanese, Asian Indians, Koreans and Vietnamese). Despite the limitations of these categories, they nonetheless are useful in understanding fundamental racial/ethnic group differences in the labor market.

One of the salient facts about the racial characteristics of the United States has been a remarkable demographic recomposition of the population over the last three decades. The demographic change is also reflected in the prime-working age population, which grew from 81 million in 1970 to 133 million at the end of the century. In 1970, non-Hispanic whites comprised an overwhelming majority of this population, accounting for 85 percent of those between the ages of 25 and 60 years old. At the end of the 20th century, non-Hispanic whites remained a large majority, but their percentage fell to 73 percent even as their absolute numbers increased. African Americans were the largest minority group in 1970, comprising 10 percent of the working-age population, and remained the largest group three decades later, with 12 percent of the population. The most dramatic growth occurred among Latinos, who comprised about 4 percent of the population in 1970 and about 10 percent by the end of the century. Asian/Pacific Islanders experienced the greatest growth rate, increasing their share from less than 1 percent to 4 percent over this time period.

This part of the report traces the economic status of these four groups and is organized into three sections. The first section examines educational inequality, which is fundamental in understanding labor-market outcomes because it is a primary component of the human capital that affects employment and earnings. The second section examines employment rates, that is, the proportion of the prime-working age population that is employed at the time of the census or survey. The third section examines annual earnings, and includes the results from a limited set of multivariate regressions to determine the role of race and ethnicity after accounting for observable characteristics.

The discussions in each of the following sections are organized first by gender, then by nativity within gender, and finally by race within each gender-nativity grouping. The division by gender is important particularly in the analysis of employment rates and annual earnings because of gender-based norms regarding labor-market attachment. The prevailing norm is that males are expected to work; thus, any deviation from that can be interpreted as being caused by some direct barriers in the labor market or the failure of societal institutions to prepare a man for work. Interpreting labor-market outcomes for females, however, is confounded by norms that support a gender division that assigns the primary responsibilities of unpaid household work to women, even at the cost of forgoing paid employment. Those gender-biased norms have been challenged and weakened but not totally eliminated.

Within gender, there are important differences by nativity (U.S.-born versus foreign-born). This is due to both differences in the amount of human capital and the marketability of that human capital. For U.S.-born individuals, interpreting labor market outcomes as a function of human capital factors is fairly straight forward, and residual

group differences point to potential problems with discrimination-based inequality that may be subject to policy debate and intervention. Group variations in labor-market outcomes among foreign-born are more difficult to interpret, in part because they may be due to many more factors, such as the level of economic assimilation, disparities in English-language ability, and cultural differences that influence employment. Cultural differences across groups with respect to the acceptability or desirability of paid work can be particularly pronounced for females.

Within each gender-nativity category, there are important racial/ethnic differences, which are the primary interest of this report. There are three key questions. The first is whether there is a significant racial hierarchy, and if so, what is the ordering. The second question is whether that racial hierarchy is consistent in educational attainment, employment rates and earnings. And the final question is whether observable factors, particularly human-capital factors, totally explain the differences in earnings.

Educational Attainment: We start by examining those with less than high-school education because this is the most disadvantaged segment in the labor force. Table 1 reports relevant statistics. Among males, there are three overall patterns. The first is that the percentage declined over time, and this is particularly noticeable for the U.S.-born population. This is the product of the implementation of compulsory primary and secondary (elementary and high school) education in this country. Explaining the decline in the percentage without a high school education among the foreign-born is more complicated, but it is likely the product of expanding educational opportunities in the home country and greater selectivity in the immigration process.

The second overall pattern is a secular trend that led to a lower level of educational attainment for the foreign-born than for the U.S.-born. There are differences in the trajectory. U.S.-born Non-Hispanic whites and Asian/Pacific Islanders (A/PIs) performed better than their foreign-born counterparts, but this is not so for blacks and Latinos. Foreign-born blacks fared better (that is, had a lower percent in the less than high school category) in the first two decades, and then fell behind. Foreign-born Latinos were roughly at parity with their U.S.-born counterparts, but then quickly fell behind. Gender difference is small after accounting for race and nativity.

The third overall pattern for males, and, most important for this report, is a distinct and consistent racial hierarchy. U.S.-born A/PIs and non-Hispanic whites were the least likely to have been disadvantaged by a lack of education. Among the foreign-born, A/PIs fared better than non-Hispanic whites in the first two decades but worse in the second two decades. Blacks and Latinos were substantially more likely to have less than a high school education relative to the other two groups. Over time, the relative position of Latinos declined, and by the end of the twentieth century, they were the most disadvantaged in terms of educational attainment.

With a few exceptions, the above three patterns also apply to females. The percent with less than a high school education declined over time for the U.S.-born group because of compulsory education, and the decline among the foreign-born was due to

both better educational opportunities in the sending country and immigration selection. There is a secular trend that led to a lower level of educational attainment for the foreign-born than for the U.S.-born. This disparity by nativity is particularly noticeable for Latinas (female Latinos). There is also a distinct and consistent racial hierarchy, with A/PI and non-Hispanic white females significantly outperforming the other two groups. As with their male counterparts, the relative position of Latinas declined, and by the end of the twentieth century, they were the most disadvantaged in lacking adequate education. While there are gender differences, it is safe to say that for the most part gender disparities are small after accounting for nativity and race. In other words, the primary factors in educational inequality are nativity and race rather than gender.

Table 2 reports the statistics for those with at least a bachelor's degree. With the increasing importance of a college or university education, the percentage in this category is an important precursor to labor-market outcomes. In general, we see similar patterns in the statistics for those with less than high school education, only with the ordering reversed. The percent with more than a bachelor's degree increased over time, and the increase among the foreign-born was due to both increased educational opportunities in the sending country and immigration selection. The selectiveness of immigration produced a foreign-born population that is more likely to have a higher level of educational attainment than their U.S.-born counterparts. The racial hierarchy is much more defined, with A/PIs clearly outperforming all the other groups. They are followed by non-Hispanic whites. African Americans and Latinos are a distant third and fourth. Again, gender plays a smaller role than nativity and race in generating group inequality.

Employment Rates: We start by examining the percent of the prime-working age population that is not employed (or jobless) at the time of the census or survey. A person who does not have a job in the private or public sector and is not actively in the military is considered not employed. The not-employed or jobless rates are broader than the unemployment rates and have the advantage of capturing "discouraged workers," those who have given up actively searching for employment. Table 3 reports relevant statistics. Among males, there are three interesting patterns. The first is an overall increase in the first decade, followed by fluctuations. The initial jump is likely to have been associated with the structural changes in the American economy in response to the oil shocks and other disruptions. Some of the subsequent decade-to-decade differences are likely to have been produced by the business cycles, although determining the cyclical contribution would require at least year-to-year data.

The second pattern in the not-employed rates is a lower rate for foreign-born than native persons. This is due to the fact that most foreign-born are economic immigrants. Their reservation wage is likely lower than for U.S.-born, and are more willing to take any job offer.

The third overall pattern for males and, most important for this report, is a distinct and consistent hierarchy by race and nativity. In general, A/PIs and non-Hispanic whites were the least likely to have been jobless. Interestingly, foreign-born Asians experienced higher rates of joblessness than their U.S.-born counterparts, and this was due to a

relatively high number of immigrants with less than high school education and a lack of English-language proficiency. African Americans and Latinos were more likely to be jobless, although there are large within-race disparities by nativity. The foreign-born were more likely to have a job. The statistics for African Americans is particularly troubling, revealing not only a high rate of joblessness but also an increase from 1970 to 1990. Some of that trend was reversed during the 1990s, but African American males remained substantially more disadvantaged than any other group of males.

With a few exceptions, the not-employed rates for females are substantially lower than for their male counterparts. As stated earlier, American norms and the gender division have made attachment to the labor market tenuous for females; however, gender-biased practices have attenuated, leading to a secular increase in the percent of women working for pay. This is particularly pronounced among U.S.-born females, where the jobless rates fell by about half over the three decades. Despite this trend, the rates for native non-Hispanic white, A/PI and Latino females are still substantially higher than for their male counterparts. The exception is among U.S.-born African American women, whose rates in recent times have been roughly comparable to U.S.-born African American men. The statistics show changes in labor-market attachment for foreign-born females have not been as dramatic as for U.S.-born females. The higher rate of not working for pay is probably due to the prevailing cultural norms and behavior of the home country. The one interesting exception is among foreign-born African Americans, whose joblessness rate started relatively low and remained at that level. There is a racial hierarchy among women that partially mirrors the ranking among men. Non-Hispanic white and A/PI females tend to have lower rates of joblessness, but African American females do not fare far worse than the others.

Table 3 reports the unemployment rates for the civilian labor force, the most commonly used measured of the difficulty of finding work in labor economics. The civilian labor force is defined as the sum of the employed and those actively looking for employment who are categorized as the unemployed. The unemployment rate is the unemployed as a percent of the civilian labor force. In general, the unemployment rates parallel the joblessness rates. The unemployment rates exhibit an inverted U-shape, increasing in the first decade and decreasing in the last decade. This pattern is consistent with the structural shift experienced by the U.S. economy, first in response to the energy-shocks and then to the growth of high tech. The unemployment rates for U.S.-born and foreign-born groups are roughly comparable, with a few exceptions. The racial hierarchy is much more defined, with A/PIs clearly outperforming all the other groups. They are followed by non-Hispanic whites. African Americans and Latinos are a distant third and fourth. Again, gender plays a smaller role than nativity and race in generating group inequality.

Annual Earnings: The analysis of annual earnings starts by examining the median earnings of those with a minimum reported amount.[1] The median (or 50th percentile) is the value that divides the sample with half reporting higher amounts and half reporting lower amounts. For each year and each gender-nativity group, the median is normalized by the median for non-Hispanic whites. For example, the figure for U.S.-

born African American males in 1969 represents the median for that group relative to the median for U.S.-born non-Hispanic white males in 1969. Similarly, the figure for U.S.-born African American females in 1969 represents the median for that group relative to the median for U.S.-born non-Hispanic white females in 1969. This allows us to examine racial/ethnic variations while roughly controlling for gender and nativity. The results are presented in Table 5.

Among U.S.-born males, the relative positions of minorities have remained relatively fixed. Median earnings for A/PIs have been roughly near parity with the median for non-Hispanic whites. It is surprising that this minority group is not above parity given their overall higher educational attainment. The typical U.S.-born Latino male earned about three-quarters of what the typical U.S.-born non-Hispanic white male earned. African American males have had consistently the lowest median earnings.

Unlike their U.S.-born counterparts, foreign-born Asians fared worse than their comparison group, foreign-born non-Hispanic whites, although immigrant Asians have been able to close some of the gap. On the other hand, the position of the other two foreign-born minority groups relative to foreign-born NH whites deteriorated over time, and the decline is particularly noticeable for Latinos. By the end of the century, the typical Latino male immigrant earned only half as much as the typical NH white male immigrant.

U.S.-born minority females had, in general, median incomes that were closer to their comparison group (U.S.-born NH white females) than U.S.-born minority males. The typical U.S.-born A/PI female earned considerably more than the typical U.S.-born NH white female. African American females and Latinas closed the gap over the middle part of the period, but then lost ground in the 1990s. Nonetheless, the racial differences are smaller among U.S.-born women than among U.S.-born men. This earnings compression is also noticeable among foreign-born NH white, African American and Asian women. Latina immigrants, on the other hand, earned substantially less than the three other foreign-born female groups.

Table 6 analyzes annual earnings from a different angle, the relative concentration at the bottom end of the distribution, which is defined for each year and each gender-nativity group by the value for the 25th percentile for the non-Hispanic whites.[2] This is then used to calculate a parity index. The index indicates if a group is overrepresented (over one) or underrepresented (less than one) in the low-income category relative to NH whites. For example, the 2.3 parity score for U.S.-born African American males in 1969 means that this group is over twice as likely to be at the bottom of the economic ladder than U.S.-born non-Hispanic white males in 1969. Similarly, the 1.3 parity score for U.S.-born African American females in 1969 means that this groups is slightly more likely to be at the bottom than U.S.-born non-Hispanic white females in 1969. The parity index allows us to examine racial/ethnic variations while roughly controlling for gender and nativity.

Among U.S.-born males, A/PIs have been at parity with NH whites, while African Americans and Latinos have been overrepresented. While African Americans have been relatively more concentrated at the bottom, there has been some improvement over the last three decades. Among foreign-born males, A/PIs started from being significantly overrepresented but have closed a significant portion of the gap with NH whites. Foreign-born African Americans and Latinos have been at least twice as likely to be at the bottom as foreign-born NH whites, with no real sign of any significant improvement. As with median earnings, the statistics for females show far less variability than the statistics for males. Among U.S.-born females, African Americans and Latinos have been slightly more likely to be at the bottom relative to U.S.-born NH whites, while A/PIs are the least likely to be in this earning category. Among foreign-born females, the parity indices indicate that African Americans and A/PIs are very similar to NH whites, while Latinas are significantly overrepresented at the bottom.

Clearly, the observed racial/ethnic inequality in annual earnings is due to the disparities in educational attainment discussed earlier, as well as other factors, but that is not the entire story. Even after controlling for these factors, there are racial differences. A standard human-capital model is used to control for these factors and to estimate the residual (unexplained) racial/ethnic effect. The log of earnings is the dependent variable. The set of independent variables includes the years of schooling, regions in the U.S. (East Coast, Mid-West, South and West Coast), sector of employment (private and public) and potential years of labor-market experience (age minus the years of schooling minus six) and its squared value. For the foreign-born, the years in the United States and English language ability are included. Dummy variables for the racial/ethnic categories are used to capture unexplained group effects. A separate regression is estimated for each year, gender and nativity combination.

Table 7 reports the regression results for the residual racial differences in earnings relative to NH whites. It is important to note that these differences capture additional problems facing minorities beyond lower educational attainment. Three key findings emerge for males. The first is that a significant racial hierarchy exists in the following order: NH whites, A/PIs, Latinos, and African Americans. The second finding is that the hierarchy holds among both U.S.-born and foreign-born groups. Finally, there has been some but inconsistent and often minor progress in closing the gap. The results are consistent with an assertion that minorities, particularly African Americans and Latinos, face persistent discrimination in the labor market. The results for females are difficult to interpret. A/PIs have consistently fared better than the other groups, but the relative position of NH whites, African Americans and Latinas changes from decade to decade. As stated earlier, the variations can be due to cultural differences, discrimination, or other unobserved factors. One thing worth mentioning is that the differences that do exist among women are smaller than among men. This would be consistent with an assertion that gender-related constraints are significant enough to moderate racial/ethnic constraints.

PART II: HOUSING SEGREGATION[3]

The racial/ethnic inequalities described above have taken on a very distinctive geographic characteristic, which has implications for public policy, as we will see later. Residential segregation by race and ethnicity remains, unfortunately, a persistent phenomenon in the United States. Neighborhood housing patterns have become more complex because of the increased diversity of the population driven by the rapid growth of the Latino and Asian/Pacific Islander (API) populations. Even a cursory tour of America's major cities and surrounding suburbs reveals that these minorities are far from being randomly distributed throughout the metropolitan areas. Instead, many reside in segregated neighborhoods popularly known as ghettos, barrios and enclaves. These nomenclatures reflect differences in racial composition and, more important, suggest variations in the way segregation is constructed and manifested across racial groups.

Segregation is a historical legacy and the product of contemporaneous factors. The earliest minority neighborhoods emerged with the influx of Asians into California, and the development of ethnic enclaves was the product of both external racial hostilities and internal desire for communities that supplied culturally and linguistically appropriate services and goods. Black ghettos developed later, particularly with the great migration of the early twentieth century out of the South and into Northern cities. While earlier blacks had been dispersed throughout the urban areas, twentieth century blacks encountered growing housing discrimination that forced them to reside in racially isolated neighborhoods. The South also changed as housing segregation emerged as a way of maintaining social control when other forms became less acceptable or illegal. Latinos in the Southwest underwent a similar process of residential segregation for the rapidly growing non-Hispanic white population.

Residential segregation has persisted despite dramatic changes in the law. Historically, discriminatory restrictive covenants, land use regulations and zoning ordinances restricted housing options for racial minorities. *De jure* segregation disappeared long ago. The 1948 *Shelley v. Kraemer* ruling ended the legal use of restrictive covenants to restrict the sales of homes in white neighborhoods to minorities. The 1954 *Brown v. Board of Education* decision ended the practice of "separate but equal" schools for African Americans. Moreover, civil rights laws enacted in the 1960s further prohibited racial discrimination in housing and education. Despite the jurisdictional and legal prohibitions against discrimination, and considerable efforts to desegregate neighborhoods and schools, we still remain a divided society. *De facto* segregation remains prevalent in both housing and education.[4]

The extent of segregation can be gauged by the index of dissimilarity (D) as the measure of school and residential segregation. The index, which ranges from 0 to 100, can be roughly interpreted as the percentage of a minority group that would have to relocate in order to be integrated with the dominant population. There is considerable variation in this measure for the three minority groups. The average score for metropolitan areas in the year 2000 is about 65 for African Americans, 51 for Latinos and 42 for Asian/Pacific Islanders. For all three groups, the index is higher in larger metropolitan areas and in the Northeast and Midwest regions of the country. The score

is over 80 for African Americans in places such as New York City, Detroit, and Chicago. The score is over 60 for Latinos in places such as New York City, Los Angeles, and Newark. Areas of relatively high levels of segregation of Asian/Pacific Islanders include New York City, Houston, and San Francisco.

Although the above dissimilarity index provides a simple measure of the level of segregation, it misses some of the complexity. Segregation exists in large part because NH whites in metropolitan areas are very racially isolated, in fact the most racially isolated group. Three-quarters reside in neighborhoods that are predominantly (at least 75 percent) NH white. A far lower proportion (less than half) of minorities reside in neighborhoods that are comprised of residents of their own racial/ethnic group. This is due in part to the existence of multiracial neighborhoods comprised of two or more minority groups. Three-fifths of African Americans and Latinos in metropolitan areas reside in areas where they comprise a majority.

While residential segregation is a reality, it is important to note that there is variation in the level across metropolitan areas. The level of racial isolation is influenced by not only the size of a metropolitan area, but also by its economic base, immigration, demographic composition and governance structure.[5] Despite this variation, the one prevailing fact is that housing segregation is a significant phenomenon in American society. While this form of isolation is unfortunate, it does offer an alternative to a simple race-based approach to address racial inequality. More specifically, it opens up the option of a place-based approach.

A place-based approach can be further refined because minority communities are further differentiated along class lines. In particular, policies can target inner-city ghettos with extremely high levels of poverty.[6] Over the last few decades, these neighborhoods have been hurt by a movement of employment and firms from traditional central business districts into the suburbs. This regional development left behind minorities trapped by housing discrimination. The consequence is a “spatial mismatch,” which is compounded by the fact that many do not possess the skills and education needed for the jobs that remained in the central business districts. Without well-paying jobs and facing high car ownership costs, few could afford their own private vehicle and are forced to depend on inadequate public transportation, thus encountering a “transportation” mismatch. Because of these mismatches, many inner-city neighborhoods experienced an internal downward spiral that stripped the community of its basic institutions and middle-class role models, leading to the development of an “underclass.”

The inner-city is also home to another type of poor neighborhood—immigrant enclaves. This country has experienced a renewal of large-scale immigration over the last four decades. This is partly due to the elimination of racially biased quotas in the immigration laws in 1965, which had previously severely limited immigration from Third-world nations. The increased movement of people can also be attributed to the increase in undocumented migration resulting from uneven global development that has created excess demand in advanced economies for low-wage workers and an excess supply of politically and economically displaced workers in underdeveloped economies.

One of the consequences of this migration is that the numbers of foreign-born people grew from less than 5 percent of the nation's population in 1970 to over 10 percent three decades later. Immigrant settling patterns have concentrated a disproportionate number of immigrants in inner-city neighborhoods, and, in the process, have helped to revitalize parts of the urban core. While employment rates and the level of entrepreneurial activities are relatively high for the inner-city, these neighborhoods are nonetheless poor.

PART III: RACE-BASED POLICIES[7]

In recent years, race-based public policies have been the subject of a heated political debate about what the United States should do to address racial inequality. Race-based policies, which explicitly confer specific status to individuals based on their race, are not new in the United States, but the nature and purpose of race-based policies have changed dramatically. Historically, race-based policies were used to maintain a racial hierarchy with whites at the top and minorities at the bottom. The twentieth century witnessed a reversal in the role of the state in race relations, first by withdrawing from directly and actively buttressing white supremacy and later by undertaking efforts to redress racial inequality. Among the latter efforts, affirmative action is one of the most important, particularly as it relates to economic opportunities.

Affirmative action is rooted in the political fight by blacks and their allies against racism and for socioeconomic justice. The post-World War II civil rights movement transformed American society, first with the 1954 *Brown v. Board of Education* Supreme Court ruling against state-supported segregation in public schools and later in the 1960s when presidential executive orders and new legislation outlawed discrimination by privately-owned facilities open to the public and by federally-funded programs, that extended federal protection to the rights of minorities to participate in elections.[8]
In the economic arena, the efforts focused on ending discriminatory practices by governmental agencies, by federal contractors, and eventually by all private firms. The Equal Employment Opportunity Commission (EEOC) was established to help oversee the implementation of the anti-discrimination labor laws. While the enactment of these laws was facilitated by a robust and growing economy, which minimized inter-group conflict over resources, they were not universally accepted and remained controversial.[9]

The controversy ratcheted up as blacks and other minorities pushed for more aggressive policies. Despite measurable economic gains, particularly by better-educated minorities, many blacks were trapped in poverty and had limited opportunities. As expectations rose faster than actual progress, the resulting frustration exploded in a series of devastating urban unrest between 1964 to 1968.[10] As the civil rights movement moved from nonviolence to militancy, demands shifted from political rights and integration to economic rights. For many, it was not enough to fight individual acts of discrimination. Instead, there was a felt need to attack structural problems and to combat racial inequality directly by assisting the disadvantaged.

Affirmative action evolved as a pragmatic and politically motivated response to these demands. In 1961, public policy was strictly anti-discrimination in nature, promoting hiring and terms of employment "without regard to race, creed, color or national origin." By 1965, affirmative action meant taking concrete actions to increase the number of minority workers in companies, occupations and industries where they were underrepresented. In a broader sense, the goal shifted from equal opportunity to equal results, that is, to ensure "not just equality as a right and a theory, but equality as a fact and as a result."[11] By the end of the decade, federal contractors were required to establish hiring timetables and goals, and this practice spread to state and local governments, public universities, and some private firms and universities.

The affirmative action policy that emerged out of the late 1960s pushed the government into a more active role in redressing racial inequality. It used race as a category in an effort to redistribute opportunities, although this often occurred at the margin. This created tensions because the reallocation required some segments to forgo some opportunities, not a simple process even if the pre-existing privileges were unwarranted. It is difficult to estimate the impacts of affirmative action, but existing studies indicate that this approach has a small but measurable effect on increasing minority (and women) employment in the public sector and private firms with governmental contracts, increasing the viability of minority-owned businesses, and increasing minority enrollment in prestigious universities.[12] This shifting of opportunities, with real and perceived winners and losers, proved to be an extremely controversial policy.[13]

Opponents of affirmative action attacked the policy's race-based nature as being unconstitutional and discriminatory, particularly against white males. Starting in 1970, opponents filed a number of legal suits whose rulings severely restricted the use of affirmative action.[14] In 1978, the U.S. Supreme Court ruled in *Regents of the University of California v. Bakke* against the use of racial quotas in university admissions, but left the door open for the use of race as one flexible factor in the admissions process. In the 1980s, the Court upheld the voluntary use of affirmative action programs, but it also ruled against preferential protection for minorities in layoffs and imposed a greater burden of proof to justify affirmative action.[15] Further restrictions came in the early 1990s when the Court imposed a higher standard before affirmative action can be justified. The government must demonstrate that past governmental action contributed to the specific inequality in question, that there is a compelling government interest, and that the program is narrowly tailored to solve only the problem in question. While the courts have not outlawed all forms of affirmative action, its application has been severely restricted.[16]

Affirmative action also came under attack from executive branch as conservatives captured the White House.[17] Through selective appointments, Republican administrations placed individuals opposed to affirmative action in key positions. In a drive to move civil rights away from race-conscious policies to "color-blind" ones, the appointees weakened affirmative action and the enforcement of anti-discrimination employment and housing laws. The new ideology was that the government should never use race (or gender) for

any public programs, even to remedy past discrimination. This regression was moderated after the Democrats recaptured the White House, but by that time, the debate had shifted to other arenas. The state of California, for example, in 1996 made a political decision to end the use of race, religion, gender, color, ethnicity, or national origins in its college admission process, government contracting and public-sector employment.

Opponents of affirmative action have made direct appeal to the voting public through referendums, although the results are mixed.[18] In 1996, California voters passed Proposition 209, the "California Civil Rights Initiative," which essentially prohibits the state and local jurisdictions from using most affirmative action programs. Voters in the City of Houston defeated a similar measure in 1997, but voters in Washington State passed a similar measure in 1998. The efforts to pass anti-affirmative action initiatives and legislation continue, and some backers have attempted to put a "compassionate" spin on the efforts by simultaneously supporting class-based programs designed to assist individuals from disadvantaged neighborhoods and schools.[19]

Despite the reversal of fortune for affirmative action, the debate over this race-based policy is far from being over. The public faces a conundrum over what actions the government should take to address racial inequality. Most accept the fact that racial discrimination has not been eliminated, many believe that something should be done, particularly against discrimination, but a significant group feels that affirmative action goes too far.[20] While strict racial quotas are taboo, a large majority supports "increased recruitment" and a "sincere effort to hire" fully qualified blacks. Moreover, the public appears to accept the test now imposed by the Courts, that is, affirmative action is acceptable if it can be justified. The objection is not against affirmative action per se but against unfounded preferential treatment. This suggests that former President Clinton's interpretation of the issues is correct, that is, affirmative action should be "mended, not ended." What we have currently is not a coherent policy, and perhaps there never was such a creature.

PART IV: ALTERNATIVE POLICIES

Policies and programs have an indirect or *de facto* effect on racial inequality because they target low-income people and their neighborhoods. Minorities are disproportionately overrepresented in both categories. In fact, many of these policies and programs were developed in response to the problems faced by low-income minorities and minority inner-city neighborhoods.

One strategy is community economic development, which aims to increase employment opportunities in minority neighborhoods through place-based policies. The idea is to stimulate investments that create jobs for local residents. This approach has its roots in the anti-poverty programs of the late 1960s, and more recently, this approach has been redefined around the concept that the inner-city has several competitive advantages that can be tapped through entrepreneurship.[21] The most recent iteration of governmental efforts is the 1994 urban initiative by President Clinton's administration to

establish "Empowerment Zones" and "Enterprise Communities." The goals are to reverse neighborhood decline, particularly in America's poorest neighborhoods. Along with creating jobs, the purported, and ambitious, objectives include increasing job training and educational opportunities, building affordable housing, and addressing a host of safety, health and social-service issues. Federal programs have been complemented by state and local efforts, which provide tax incentives, loans, infrastructure development and technical support to entice firms to invest in inner-city neighborhoods. While the concept of community economic development is appealing, the results are at best mixed and the cost of creating a new job is extremely high.

An alternative is to move minorities out of inner-city neighborhoods to job opportunities in the suburbs. There has been increased interest in this strategy based on the findings of an evaluation of the Gautreux experience, a court-ordered, random-assigned experiment in moving African American residents from Chicago's inner-city to the suburbs.[22] The experiment had a substantial positive impact on both the parents and children, including increasing employment and educational attainment. Positive effects have also been found for recipients of the Housing and Urban Development (HUD) Section 8 voucher and certificate program, which provides a housing subsidy that can be used in the open housing market. Compared to residents of traditional fixed location public housing projects, Section 8 participants appear to enjoy a degree of residential choice and mobility that improved employment opportunities.[23] Despite these positive outcomes, dispersing inner-city residents has not been fully embraced. HUD is currently conducting an evaluation of its Moving to Opportunity (MTO) demonstration program, which was started in 1994 and includes elements related to relocating people. Early and partial assessments of short-term employment outcomes are positive.[24] The problem, however, may not be whether the Gautreux outcomes can be validated in other metropolitan areas. Instead, there may be a major problem of winning public support for the idea.

In contrast to the limited action in the area of community economic development and residential mobility in recent years, other shifts in social policy have produced some dramatic impacts on low-income people, including low-income minorities. The current social policy can be characterized as a system that promotes employment using both the carrot and stick. The stick has come primary in the form of welfare reform. In 1996, Congress enacted the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA), which dramatically altered this nation's social policy. TANF (Temporary Assistance to Needy Families) replaced the old AFDC (Aid to Families with Dependent Children) program, but the transformation went well beyond renaming the welfare system. Instead of providing an income entitlement, the legislation's goals are ending welfare dependency and promoting economic self-sufficiency through employment. New regulations limit cash support, place a time limit on benefits, mandate strong work requirements, and delegate the implementation to the states and local agencies. Time limits have shifted strategies from training and schooling to placing individuals in a job as quickly as possible. It is still too early to determine whether welfare reform has succeeded in achieving its primary goals and objectives. By one measure, it has. The welfare rolls have dropped by about half from its peak. Many of those who left welfare

have found employment. Unfortunately, the jobs pay low wages, benefits are spotty, and turnover is high.

The carrot has come in the form of the Earned Income Tax Credit (EITC), which is designed to encourage work among the poor. The EITC was created in 1976 and greatly expanded under President Clinton's administration, and provides tax credit to working families whose income is below twice the poverty level. For the 2000 tax year, a family with two children and $10,000 in earnings would receive $3,888 by claiming the credit in its tax form. This program has emerged as the single most important anti-poverty program because of its coverage and the size of the income transfer. The Brookings Institution estimates that this year over 18 million low-income working families will collect about $30 billion through the EITC program.[25] There has also been an additional effect in increasing work because it increases the effective wage of employment, thus providing additional incentives to work. While a majority of the funds flow to suburbs, a significant number of those receiving EITC benefits reside in central cities and inner-city neighborhoods. One reason for this may be due to an under-utilization by those in predominantly minority and low-income neighborhoods in the inner-city.

Table 1: Percent with Less Than High School Education

	1970	1980	1990	1998-2000
U.S.-Born Males				
White	38%	22%	14%	8%
Black	66%	43%	32%	16%
Latino	65%	48%	33%	21%
API	29%	14%	7%	4%
Foreign-Born Males				
White	45%	31%	20%	10%
Black	53%	35%	34%	23%
Latino	64%	63%	63%	54%
API	33%	18%	19%	11%
U.S.-Born Females				
White	35%	22%	14%	7%
Black	63%	43%	29%	15%
Latino	66%	51%	34%	21%
API	29%	16%	6%	4%
Foreign-Born Females				
White	46%	31%	22%	11%
Black	58%	37%	34%	23%
Latino	66%	64%	61%	52%
API	36%	28%	26%	15%

Table 2: Percent with at Least a Bachelor Degree

	1970	1980	1990	1998-2000
U.S.-Born Males				
White	16%	24%	27%	32%
Black	5%	9%	10%	15%
Latino	4%	8%	11%	14%
API	18%	31%	42%	44%
Foreign-Born Males				
White	20%	27%	35%	45%
Black	10%	16%	20%	25%
Latino	10%	9%	8%	9%
API	40%	50%	45%	50%
U.S.-Born Females				
White	9%	15%	22%	29%
Black	5%	9%	12%	17%
Latino	2%	5%	9%	15%
API	13%	24%	42%	46%
Foreign-Born Females				
White	8%	13%	23%	36%
Black	4%	9%	15%	21%
Latino	6%	6%	7%	10%
API	25%	32%	35%	43%

Table 3: Non-Employment Rates

	1970	1980	1990	1998-2000
U.S.-Born Males				
White	8%	12%	12%	12%
Black	18%	26%	30%	25%
Latino	13%	17%	20%	16%
API	8%	9%	9%	12%
Foreign-Born Males				
White	8%	11%	12%	11%
Black	14%	18%	20%	17%
Latino	10%	14%	18%	13%
API	8%	10%	11%	13%
U.S.-Born Females				
White	54%	43%	30%	25%
Black	45%	40%	34%	27%
Latino	62%	51%	37%	30%
API	41%	29%	19%	21%
Foreign-Born Females				
White	54%	47%	37%	33%
Black	32%	30%	29%	29%
Latino	56%	50%	48%	46%
API	52%	39%	36%	33%

Table 4: Unemployment Rates by Race/ Ethnicity

	1970	1980	1990	1998-2000
U.S.-Born Males				
White	2.5%	4.3%	4.1%	3.0%
Black	4.2%	9.5%	11.2%	6.8%
Latino	4.1%	6.5%	7.9%	5.0%
API	2.1%	2.7%	2.4%	3.6%
Foreign-Born Males				
White	2.7%	4.4%	4.2%	3.7%
Black	3.8%	7.8%	9.7%	5.4%
Latino	3.4%	6.7%	8.0%	4.8%
API	2.9%	3.1%	3.8%	3.5%
U.S.-Born Females				
White	4.0%	4.6%	4.1%	2.6%
Black	5.9%	8.5%	9.5%	6.0%
Latino	6.5%	7.8%	7.7%	5.4%
API	2.4%	3.0%	1.8%	2.4%
Foreign-Born Females				
White	4.7%	6.0%	5.1%	3.3%
Black	3.5%	7.4%	8.6%	8.1%
Latino	7.5%	10.3%	11.6%	7.5%
API	4.3%	5.1%	5.2%	3.7%

Table 5: Median Salary Percentages Rates by Race

	1969	1979	1989	1997-99
U.S.-Born Males				
Non-Hispanic White	100%	100%	100%	100%
Black	68%	68%	69%	69%
Latino	78%	73%	76%	76%
API	102%	101%	105%	103%
Foreign-Born Males				
Non-Hispanic White	100%	100%	100%	100%
Black	67%	61%	66%	64%
Latino	67%	58%	50%	49%
API	69%	78%	80%	84%
U.S.-Born Females				
Non-Hispanic White	100%	100%	100%	100%
Black	79%	100%	94%	86%
Latino	79%	88%	88%	83%
API	118%	131%	140%	129%
Foreign-Born Females				
Non-Hispanic White	100%	100%	100%	100%
Black	90%	100%	106%	79%
Latino	75%	75%	64%	54%
API	98%	100%	100%	96%

Table 6: Low Earnings Parity Index by Race / Ethnicity

	1969	1979	1989	1997-99
U.S.-Born Males				
Non-Hispanic White	1.0	1.0	1.0	1.0
Black	2.3	2.0	1.9	1.8
Latino	1.9	1.8	1.7	1.7
API	1.1	1.0	0.9	1.0
Foreign-Born Males				
Non-Hispanic White	1.0	1.0	1.0	1.0
Black	2.3	2.2	2.0	2.0
Latino	2.4	2.3	2.6	2.6
API	2.1	1.6	1.5	1.3
U.S.-Born Females				
Non-Hispanic White	1.0	1.0	1.0	1.0
Black	1.3	0.9	1.0	1.2
Latino	1.3	1.1	1.2	1.3
API	0.7	0.6	0.5	0.8
Foreign-Born Females				
Non-Hispanic White	1.0	1.0	1.0	1.0
Black	0.9	0.8	0.8	1.2
Latino	1.3	1.2	1.6	2.0
API	1.0	0.9	0.9	1.0

Table 7: Earnings Gap

	1969	1979	1989	1997-99
U.S.-Born Males				
NH White	n/a	n/a	n/a	n/a
Black	-28%	-25%	-26%	-22%
Latino	-13%	-12%	-15%	-12%
API	-4%	-5%	2% (ns)	-4% (ns)
Foreign-Born Males				
NH White	n/a	n/a	n/a	n/a
Black	-29%	-32%	-30%	-30%
Latino	-23%	-14%	-21%	-26%
API	-23%	-11%	-10%	-11%
U.S.-Born Females				
NH White	n/a	n/a	n/a	n/a
Black	-8%	8%	4%	-2%
Latino	1% (ns)	2%	2%	-2%
API	23%	23%	21%	9%
Foreign-Born Females				
NH White	n/a	n/a	n/a	n/a
Black	4% (ns)	9%	12%	-7%
Latino	-6%	1%	-4%	-16%
API	10%	12%	18%	5%

Table A1: Ethnic Breakdown - Data for 1990

Latino Males, 25-60

	% Foreign-Born	% w/ < HS Education	% Not Employed	% with < $15,000
Mexican	50%	55%	18%	44%
Puerto Rico	66%	45%	30%	29%
Cuban	89%	38%	17%	29%
Central American	95%	57%	15%	50%
South American	95%	28%	13%	30%

Asian Males, 25-60

	% Foreign-Born	% w/ < HS Education	% Not Employed	% w/ < $15,000
Chinese	84%	21%	11%	27%
Filipino	84%	10%	14%	21%
Japanese	35%	5%	8%	10%
Asian Indian	98%	10%	8%	19%
Korean	96%	10%	10%	28%
Vietnamese	99%	34%	18%	29%

Latina Females, 25-60

	% Foreign-Born	% w/ < HS Education	% Not Employed	% w/ < $15,000
Mexican	44%	54%	44%	64%
Puerto Rico	67%	44%	50%	49%
Cuban	89%	36%	34%	49%
Central American	96%	57%	38%	71%
South American	95%	29%	37%	55%

Asian Females, 25-60

	% Foreign-Born	% w/ < HS Education	% Not Employed	% w/ < $15,000
Chinese	85%	26%	31%	42%
Filipino	88%	13%	19%	34%
Japanese	49%	8%	35%	32%
Asian Indian	98%	19%	40%	44%
Korean	97%	22%	39%	53%
Vietnamese	99%	48%	40%	48%

ENDNOTES

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[1] Annual earnings are reported for the year prior to the census or survey. The minimum amount in current dollars was $250 for 1969, $500 for 1979, $1,000 for 1989, and $1,500 for 1987-99.

[2] Because of the tendency to report earnings in very rounded numbers, the 25th percentile often falls within a single reported value; consequently, the bottom quartile must be approximated.

[3] This section is based on Ong, Paul M. and Shannon McConville, "Residential Segregation in Metropolitan United States," unpublished paper, Ralph and Goldy Lewis Center for Regional Policy Studies, School of Public Policy and Social Research University of California, Los Angeles, September 11, 2001; and Ong, Paul and Jordan Rickles, "Inter-Metropolitan Variation in School And Residential Segregation," unpublished paper, Ralph and Goldy Lewis Center for Regional Policy Studies, School of Public Policy and Social Research, University of California, Los Angeles, September 7, 2001

[4] Orfield, Gary, *Schools More Separate: Consequences of a Decade of Resegregation*. Cambridge, MA: The Civil Rights Project, Harvard University, 2001; Glaeser, Edward L., and Jacob L. Vigdor, "Racial Segregation in the 2000 Census: Promising News," Washington, DC: Center on Urban & Metropolitan Policy, The Brookings Institute, 2001.

[5] For some relevant studies on residential segregation, see the following: Frey, W.H. and R. Farley. 1996. "Latino, Asian, and Black Segregation in U.S. Metropolitan Areas: Are Multi-ethnic Metros Different." *Demography.* 33(1): 35-50; Massey, D. S. 1985. "Ethnic Residential Segregation: A Theoretical Synthesis and Empirical Review." *Sociology and Social Research*. 69:315-350; Massey, D. S., and N. Denton. 1987b. "Trends in the Residential Segregation of Blacks, Hispanics, and Asians: 1970 – 1980." *American Sociological Review*. 52: 802-825; Alba, R.D. and J.R. Logan. 1993 "Minority Proximity to Whites in Suburbs: An Individual-Level Analysis of Segregation." *American Journal of Sociology*. 98(6):1388-1427; Taeuber, K. and A.F. Taeuber. 1965. *Negroes in Cities*. Chicago: Aldine; and South, S.J. and K. Crowder. 1997. "Escaping Distressed Neighborhoods: Individual, Community and Metropolitan Influences." *American Journal of Sociology*. 102(4):1040-1084.

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[9] Smith, Tom, "Intergroup Relations in Contemporary America: An Overview of Survey Research," in Winborne, Wayne and Renae Cohen, editors. *Intergroup Relations in the United States: Research Perspectives.* Bloomsburg, PA: Hadden Craftsmen, Inc. for the National Conference for Community and Justice, 1998, pp. 69-155; and Lipset, Seymour Martin and Schneider William. 1978, "The Bakke Case: How Would It Be Decided at the Bar of Public Opinion?" *Public Opinion.* 2 (April): 38-44.

[10] United States. Kerner Commission. 1968, *Report of the National Advisory Commission on Civil Disorders.* New York, NY: Bantam Books

[11] This was a part of his famous 1965 speech at Howard University, where he argued for affirmative action: "You do not take a person who had been hobbled by chains, liberate him, bring him up to the starting gate of a race and then say, 'You are free to compete with all the others,' and still justly believe you have been completely fair. . . . It is not enough to open the gates of opportunity. All of our Citizens must have the ability to walk through those gates. . . . Men and women of all races are born with the same range of abilities. But ability is not just the product of birth. Ability is stretched or stunted by the family you live with, . . . the neighborhood . . . the school . . . and the poverty or richness

of your surroundings. It is the product of a hundred unseen forces playing upon the infant, the child and the man." (Stephanopoulos and Edley, *Affirmative Action Review*, p. 115)

[12] For recent discussions on the impacts of affirmative action, see the following: Bowen, William G., and Derek Bok, *The Shape of the River: Long-Term Consequences of Considering Race in College and University Admissions*, Princeton, N.J.: Princeton University Press, 1998; Badgett, M.V. Lee, "The Impact of Affirmative Action on Public-Sector Employment in California 1970-1990," pp. 83-103 in *Impacts of Affirmative Action Policies and Consequences in America* Ong, Paul, editor, Walnut Creek, California: Alta Mira Press; Rogers, William M. III, "The Impact of Affirmative Action on Public-Sector Employment in California 1970-1990," pp. 103-121 in *Impacts of Affirmative Action Policies and Consequences in America* Ong, Paul, editor, Walnut Creek, California: Alta Mira Press; Larson, Tom, "The Impact of Affirmative Action on Public-Sector Employment in California 1970-1990," pp. 133-171 in *Impacts of Affirmative Action Policies and Consequences in America* Ong, Paul, editor, Walnut Creek, California: Alta Mira Press; Conrad, Cecilia A., "The Impact of Affirmative Action on Public-Sector Employment in California 1970-1990." pp. 171-197 in *Impacts of Affirmative Action Policies and Consequences in America* Ong, Paul, editor, Walnut Creek, California: Alta Mira Press; Ward Thomas, "Mitigating Barriers To Black Employment Through Affirmative Action Regulations: A Case Study," *Review of Black Political Economy*, 27(3):81-102, Winter 2000; and Paul Ong, "Set-Aside Contracting In S.B.A.'s 8(A) Program," *Review of Black Political Economy*, forthcoming.

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[14] Most of the early rulings reaffirmed the legality of anti-discriminatory laws in employment. The Supreme Court ruled that firms could not use employment tests that are not job-related and have a disparate impact on protected groups, and that employers must have some legitimate nondiscriminatory business reason for rejecting minority applicants. *Griggs v. Duke Power Co.* (1971), *McDonnell Douglas v. Green* (1973), *Albermarle Paper Co. v. Moody* (1975), and *Washington v. Davis* (1976).

[15] *United Steelworkers of America, AFL-CIO-CLC v. Weber* (1979*), Firefighters Local Union No. 1794 v. Stotts* (1984), *Wygant v. Jackson Board of Education* (1986), and *Johnson v. Transportation Agency of Santa Clara County* (1987).

[16] The progressively greater restrictions are correlated with an ideological realignment of the Court. From 1969 to 1991, the Republican presidents appointed a new Chief Justice as well as nine additions to the Supreme Court.

[17] See Amaker, Norman C. 1997, "The Reagan Civil Rights Legacy," in Schmertz, Eric J. Datlof, Natalie, and Ugrinsky Alexej, editors, *Ronald Reagan's America, Volume I*, Westport, CT: Greenwood Press; Robert R. Detlefsen, "Affirmative Action and Business Deregulation: On the Reagan Administration's Failure to Revise Executive Order No. 11246," and Lamb, Charles M. and Twombly, Jim, "Decentralizing Fair Housing Enforcement During the Reagan Presidency," in Riddlesperger, James W., and Jackson, Donald W, editors. 1995, *Presidential Leadership and Civil Rights Policy.* Westport, CT: Greenwood Press, pp. 39-70 and pp. 127-148; Gottschalk, Peter, "Retrenchment in Anitpoverty Programs in the United States: Lessons for the Future," and Weaver, R. Kent, "Social Policy in the Reagan Era," in Kymlicka, B. B. and Matthews, Jean V., editors. 1988, *The Reagan Revolutions?* Chicago, IL: The Dorsey Press, pp. 131-145 and 146-165; Raymond Wolters, *Right Turn: William Bradford Reynolds, the Reagan Administration, and Black Civil Rights*, New Brunswick, NJ: Transaction Publishers, 1996.

[18] The specific language of Proposition 209 prohibits "discrimination against, or granting preferential treatment to, any individual or group on the basis of race, sex, color, ethnicity, or national origin in the operation of public employment, public education, or public contracting." For a discussion on the development of Proposition 209, see Chavez, Lydia, 1998. *The Color Bind: California's Battle to End Affirmative Action.* Berkeley, CA: University of California Press. The 1997 Proposition A states "Shall the Charter of the City of Houston be amended to end the use of affirmative action?" The Washington State initiative states "The state shall not discriminate against, or grant preferential treatment to, any individual or group on the basis of race, sex, color, ethnicity, or national origin in the operation of public employment, public education, or public contracting." Election result taken from http://www.metrokc.gov/elections/98nov/respage1.htm .

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[24] Rosenbaum, Emily and Laura E. Harris, "Residential Mobility and Opportunities: Early Impacts of the Moving to Opportunity Demonstration Program in Chicago," *Housing Policy Debate*. 12(2):321-346.

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