Exclusion and Discrimination in the Labor Market

Maitreyi Bordia Das

Social Development Department
The World Bank
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Exclusion and discrimination in the labor market

Background paper for the WDR 2013

Maitreyi Bordia Das

Section I: Introduction

It is almost impossible to “prove” discrimination in the labor market, yet most would acknowledge that it exists and some would argue that the job you get and/or how much you are paid depends to some extent on who you are and the circles you move in. The insidiousness, the opaqueness, and indeed the sophistication surrounding the processes of discrimination are complex and difficult to separate out. Disadvantaged groups therefore frequently risk being accused of being paranoid or indulging in baseless conspiracy theories. That being so, the idea of differential labor market outcomes for different groups has long been the subject of theorizing as well as empirical work from across disciplines. It has for the most part focused on race, ethnicity, gender, caste, religion and more recently, age, disability status and sexual orientation as the major axes along which discrimination operates.

This paper moves from the assumption that the labor market is a crucial site for the play of social relations (Polanyi, 1944). In that, it reflects the existing and historical inequalities in a society. So, placing the analysis of the labor market within the overall context of social stratification and social norms provides a more nuanced understanding of the processes that accompany discrimination and also helps in refining the notion of exclusion and discrimination. This paper is a step in the direction of unpacking the subtle processes by understanding mechanisms that abet and enable labor market discrimination. In doing so, it provides a typology of processes that underpin discrimination. Second, it develops a framework to understand how excluded groups respond to both the processes and the outcomes of discrimination or what they may perceive as being discrimination. A notion of submission and subversion is developed in this regard. Finally, the paper cites examples of how policy and institutional incentives can enable mobility within the labor market.
The frameworks developed in this paper are based on a review of the literature on processes of discrimination and the norms and attitudes that accompany them. A large part of the review draws from previous work on the Indian labor market and is a follow up to the India poverty assessment program\textsuperscript{1}, It also draws heavily on analysis undertaken by Das and Dutta (2008) and by Das (2006) on exclusion in the Indian labor market. The Indian caste system is an interesting example to understand labor market processes, since it is at the core an occupational division of labor, ratified by an elaborate religious ideology. From an epistemological perspective these characteristics set it apart from other forms of stratification and their bearings on the labor market.

\textbf{Intended as a background paper to the World Development Report 2013 this paper will also feed into the Social Inclusion Flagship Report by the Social Development Department at the World Bank.} It is divided into six sections. This Section I is an introduction to the objectives and provides the context for this work. Section II is a brief discussion of the conceptual underpinnings and measurement of labor market discrimination from a cross-disciplinary perspective. Section III lays out a typology of processes of discrimination, while Section IV is a discussion of the mechanisms of discrimination and the ways in which candidates are screened. Section V addresses the question of how discriminated groups react to discrimination. The final section addresses some of the ways in which occupational and labor market mobility is possible for disadvantaged groups and what policy implications it could have.

\textsuperscript{1} See World Bank 2011a and 2011b.
II. Conceptual underpinnings and measurement of discrimination in the labor market

A. Conceptual underpinnings

The notion of discrimination in the labor market encompasses restrictions (formal and informal) on the entry of subordinate groups through selective inclusion and unequal treatment. Theories of discrimination in the labor market were developed mostly in the context of gender and race (see for example Arrow 1973, Becker 1957, 1971). One strand of the literature on the economics of discrimination predicts discrimination at the hiring stage that then translates into lower earnings (Arrow 1973). For instance, in the presence of imperfect information, employers may be unable to accurately assess the quality of other-group workers. As a result, employers may offer higher wages and higher positions to same-group workers (see also Phelps 1972). Thus, in the presence of incomplete information, employers may screen candidates on the basis of perceived differences in productivity. As a result, Black or Latino workers in some cases may have lower reservation wages in order to compete with otherwise observationally identical groups. Only screening based on subjective criteria such as stereotypes of race, ethnicity or gender would be classified as discrimination; that based on correctly perceived differences in productivity would not be so classified. However, this paper argues that such perceptions are oftentimes the product of ingrained understandings both in the minds of the employers and prospective job applicants and that these are mutually reinforcing. For instance, low levels of on-the-job training, poorer work conditions, lack of responsibilities and perceived promotional opportunities, and/or lower wages for lower caste Indian workers may result in lower productivity among these workers (Banerjee and Knight 1985).

A simplistic interpretation of human capital theories places the onus of differential labor market outcomes solely on differential human capital endowments. So, workers who are less qualified will earn less than their more able counterparts. The story becomes more complicated when two groups of workers have observationally similar human capital endowments but dramatically different outcomes. As Loury 1999 points out, “If the concern is economic inequality between the groups, then looking mainly through the lens of wage and price discrimination is unlikely to shed much light on the problem.” (Loury 1999: 14). So we move to
the next strand of the literature that deals with segmented markets. For instance, Becker (1957) famously predicted the segregation of workers into sub-economies as a result of discrimination in perfectly competitive product and labor markets. Within these sub-economies, however, workers with identical characteristics receive equal wages (as the model assumes constant returns to scale). However, wage differentials between observationally similar workers could arise if product and/or labor markets are imperfect so that rents are shared with workers in the form of higher wages or efficiency wages are paid to workers resulting in wage premia across industries, occupations and firms. In addition, employers and firms may practice a ‘taste for discrimination’ based on different market valuations of group-specific characteristics (Arrow 1973, Becker 1971). As a result, wage differentials would arise in the presence of such discriminatory practices on the part of employers and similar workers doing the same job would be paid differently depending on their social group.

The sociological literature on segmented labor markets tends to focus on the importance of social relationships in driving labor market segmentation. Dual market theories for which Doeringer and Piore (1971) became famous, talk of primary and secondary markets—the first being highly coveted with better wages and the second comprising workers who are discriminated against and who get lower pay and worse conditions of work. Thus, while economic theories see differences in labor market outcomes between different groups as arising from the marginal commitment to the labor market that such groups might have—for instance, women’s lower commitment compared to men’s—sociological theories attempt to get to the social dynamics that lead to primary and secondary markets.

At the core of labor market segmentation are social groups and institutions. The processes governing allocation and pricing within internal labor markets are social, opposed either to competitive processes or to instrumental calculations. The marginal labor force commitment of the groups which creates the potential for a viable secondary sector of a dual market is social. The structures which distinguish professional and managerial workers from other members of the labor force and provide their distinctive education and training are also social. - Piore, 1983:252
Taking forward Piore’s (1983) conception of the labor market being a social entity, a strong body of literature focuses on the role of norms, values and culture in determining labor market outcomes and processes. For instance, most economic theories distinguish between demand for and supply of labor, but this paper argues that once you take into account the effect of macro level norms, the distinction between demand and supply of labor gets blurred. Take the case of women’s market work. That norms operate at multiple levels, permeating the household as well as the public spheres is now well recognized (see most recently World Bank 2012). Thus, there are significant differences in labor force participation of women by region, ethnicity, religion and social status across the world. In the case of South Asia, female labor force participation rates are extremely low in general, but most of all for Muslim women. Despite the considerable heterogeneity in the employment rates and trajectories of Muslim women across the globe, the practice of veiling and the physical segregation of women, prevalent in Muslim societies is implicated in preventing women from participating in the labor market in the same way as their male counterparts. Hiring authorities in India bemoan the low numbers of female Muslim applicants to public sector jobs, but Das (2004) in an analysis of Muslim women’s employment using national labor force data and qualitative interviews points out that deep-rooted cultural norms such as that of veiling might lead Muslim households to withdraw women from the labor force.

The labor market has internalized the so-called seclusion ethic of Muslim women. This may translate into a situation where the prevailing notion ... may prevent them from being hired—leading to something of a self-fulfilling prophecy. My conversations in Maharashtra with government personnel in positions where they recruit clerks, office assistants, teachers or nurses indicated that the stereotype of the veiled Muslim woman is firmly ingrained in the collective psyche of the governmental recruiting authorities. (Das 2004 page 203)

It is difficult to say whether this is “discrimination” but it is easy to see that even after controlling for human capital endowments, Muslim women are less likely than Hindu women to be employed. And the ingrained stereotypes of Muslim women seem to pervade authorities in ways that become normative in and of themselves. In essence, the multilayered
minority status—being a woman and being a Muslim—affects women and certain minorities (people with disabilities, people from certain neighborhoods etc.) more than others.

One of the most insidious ways in which privilege, status, norms and values play out in the labor market is through assignment to occupations—or what the sociological literature terms “occupational segregation.” So, at the lower and bottom ends of the labor market, and in particular, while explaining gender differences, it is not as much a question of whether an individual has a job (because few at the lowest end can afford to stay unemployed over a long stretch), but what their occupation is (see England 1982; 1985). Since occupations are a good, though not perfect proxy for earnings, most multivariate analysis will find that once human capital endowments and occupation are controlled for, the effect of race, ethnicity, gender or any group based identity may either disappear or get severely muted. The question that seems much more important is why individuals end up in the occupations that they do. And of course, human capital is a large part of that as well, but an important part is the difficulty of “breaking into” preferred occupations even if a worker has the requisite entry level skills.

The literature on occupational segregation in explaining labor market inequalities is strongest for women’s work particularly in the US, but some recent analysis tries to explain the processes by which disadvantaged groups select into non-preferred occupations and once there, why they find it so much more difficult to “break into” preferred occupations. Using data from India, and comparing Scheduled Castes\(^2\) and non-Scheduled Caste males, Das (2006) and Das and Dutta (2008) devise a notion of “glass walls” where occupationally “bonded” castes face barriers to leaving their traditional occupations. Micro studies point to the possibility of small entrepreneurs belonging to the lowest castes, especially in India’s rural areas being prevented from moving out of caste based occupations into self-employed ventures through social pressure and ostracism (see for instance, Venkteswarlu, 1990, cited in Thorat, 2007) and in other ways being denied fair opportunities to participate in more lucrative trades. Iversen and Raghavendra (2006) also find similar patterns in small eating places in Southern

\(^2\) The term Scheduled Castes is used to refer to the erstwhile untouchables—lowest in the Indian caste hierarchy. After independence, the Indian Constitution abolished untouchability, and former untouchables came to be known in administrative and legal parlance as Scheduled Castes (SCs) through Constitution (Scheduled Castes) Order 1950.
India where workers are typecast into their traditional caste occupations. Box 1 summarizes the labor market implications of social stratification along lines of caste in India and Nepal.

The idea of “glass walls” draws on the more readily understood notion of “glass ceilings” which are invisible barriers to advancement within the hierarchy of the labor market. The latter idea was originally devised in the context of gender differentials in earnings organization but can be applied to race or ethnicity as well. The existence of a glass ceiling implies that the gap between earnings of disadvantaged workers and those from privileged backgrounds would be higher at the top end of the earnings distribution rather than at the bottom or middle, conditional on worker characteristics. Thus, glass ceilings manifest as wide differentials at the upper end of the conditional distribution (i.e., after taking productive characteristics into account) but there is less disparity at the low and middle portions of the conditional distribution. The notion of glass walls fills this gap and contributes to the understanding of why workers from disadvantaged groups get trapped in the lower middle or lowest end of the distribution.

Chances are that both glass ceilings and glass walls are likely to be in evidence, indicating respectively a vertical segregation (within the same employment type, workers from different social groups may be represented differently in the hierarchy of positions) and horizontal segregation (workers restricted to their occupations). In both cases, the movement of workers upward through occupational categories and social hierarchies may be hampered by institutional barriers and social attitudes. Women for instance in most developing countries are concentrated in agricultural and allied industries and underrepresented in those occupations which pay the highest (Das and Dutta, 2008).

Box 1: Studying labor market discrimination through a system of social stratification: Caste in India and Nepal

In the case of India and Nepal, the ritually ratified system of caste is fundamentally an occupational division of labor with sub-castes being assigned to different occupations, which also determines their social standing. Lower castes are restricted to menial, low paying and often socially stigmatized occupations while upper caste groups are concentrated in preferred occupations. This horizontal segregation results in workers from different social groups being ascribed into different occupations and jobs and being socially constrained from moving out. The caste system has an elaborate ideology which determines norms and values in other spheres of social interaction as well. All these have an impact on the world view of both privileged and underprivileged groups and spill into market interactions as well—most notably labor market interactions.
B. Measurement Issues

As pointed out earlier, the complexity of the processes surrounding both the demand and the supply of labor makes it almost impossible to accurately measure discrimination. That being so, the most commonly used techniques rely on decomposition, using traditional and easy to procure labor market surveys. They are based on measures of discrimination derived from between-group comparisons of market outcomes for “favored vs. disfavored groups”, controlling for productivity-related individual characteristics (Salkever and Domino, 1997). Such analyses for the most part look at earnings as the outcome of interest, while controlling for human capital endowments. Another way to get at discrimination is through audit studies, in which matched pairs of interviewees (actors) of different race or gender, respond to advertisements and attend interviews (see for example Yinger 1986, Neumark et al 1996). Well-known concerns with audit studies include imperfect matching (and training) of actors, the inability to double-blind (auditors may wish to please the researcher, and do not care about actually landing the job), expense (which limits both sample size and the scope of studies, which are typically focused on narrowly-defined occupations), and the need to deceive employers, which raises issues of informed consent (Kuhn and Shen, 2009).

Perhaps the most accurate way of measuring discrimination is through experimental studies first conducted by Daniel (1968) and soon after by Jowell and Prescott-Clarke (1970). The spate of studies that followed have focused mainly on race and gender as the axes of discrimination, but there are increasing number of studies being conducted to test for discrimination based on ethnicity, immigrant status, disability status and other axes. These studies do not attempt to provide any generalized picture of discrimination but have been instrumental in the widespread acceptance that discrimination exists.

Since discrimination depends to a great extent on societal values and attitudes, an increasing number of surveys are attempting to measure these aspects inter alia, in relation to labor market. The World Values Surveys, the Life in Transition Surveys, Latino Barometer and the Afro Barometer are examples of surveys that capture cross-country attitudes. Some governments have taken the initiative to field their own surveys showing their commitment to
making a dent in discrimination. The Scottish Social Attitudes Survey conducted three times since 2002, examines views on whether different groups of people are equally suitable to a particular employment role (that of primary school teacher) and compares responses to this question with views about these same groups marrying into a person's family. It also explores gender stereotyping in attitudes to parental leave, attitudes to older people working and perceived labour market competition from particular groups. The aim of this survey is specifically to provide inputs into policy to address discrimination. Other smaller studies have looked at perceptions of discrimination, and tried to “get into the minds” of hiring managers and disadvantaged workers. For instance, Jodhka and Newman (2007) interviewed human resource managers on the hiring practices of their firms, and found that caste-based stereotypes do color the hiring process so that very low caste and very high caste candidates are disadvantaged.

**Ultimately, measurement depends on the outcomes of interest.** Where does discrimination play out? Studies of the labor market have historically looked at hiring practices, wages and promotion. In economies with large informal labor markets and concentration of workers in self-employment, these categories capture only some arenas of potential discrimination. Others are mobility across occupations, access to successful entrepreneurship, to credit and other markets, including information. To get around this issue, some researchers have used a hierarchy of preferred employment types and looked at group based access to different types of employment (see Das, 2002; Lanjouw and Shariff 2002; Barooah 2010).

**III. Processes of exclusion and discrimination**

**Processes of discrimination are not planned conspiracies.** For the most part the “code” is hidden sometimes even to those who are executing the act of discrimination, since it is so ingrained in social norms. In this section, we lay out an organizational framework to think about processes of exclusion and discrimination and propose a typology (Figure 1).

**Whether a particular practice is considered “discrimination” has a strong cultural and temporal dimension.** The same practice which would not have been regarded as discriminatory some years ago may now be accepted as discrimination. Take the case of harassment in the
workplace. Behaviors that are now considered to be harassing or bullying were once normative, and there was no recourse to reporting them. Basu (2003) points out that even after the passage of the Civil Rights Act of 1964, US federal courts typically refused to view sexual harassment as a form of employment discrimination under the meaning of the statute. He goes on to describe how sexual harassment, which emerged as a concept of discrimination in the US first, moved from being defined as overt threats to innuendo and now to the harasssee’s feelings of being harassed. Moreover, sexual harassment used to be considered specific to men’s harassment of women, has now gained acceptance as women’s harassment of men and same sex harassment as well. He documents through case law how this came to happen. With increasing awareness, lobbying and legislative backing, sexual harassment is acknowledged in many other countries, but is much more difficult to pin down even now than are other forms of discrimination. Take also the case of nepotism. What is widely believed in countries like the US as an inappropriate use of kinship ties or conflicts of interests is still not regarded as egregious in many other contexts. The literature on norms and attitudes is rich, but divided in its conclusions about what enables change.

Similarly, in periods when the labor market is tight and “good jobs” are few, potential employers try and maximize their own utility by imposing additional filters. For instance, the Washington Post reported that in the currently tight labor market, pregnant women tend to lose their jobs more frequently than do other workers. The United States EEOC saw a growing number of charges from FY 2009, which culminated in close to a record 100,000 charges in FY 11 (EEOC, 2012). This increase is likely to be related to the shrinking job market.

Exclusion and discrimination have many forms and underlying processes—many of these are intangible and some are invisible and hence, un-measurable. Conscious discrimination occurs when a firm or employer has decided it wants to hire only a certain type of worker and consciously reject others. It may equally be unconscious, and be based on stereotypes, prejudices and stigmas which are socially constructed and influence a range of day to day social interactions between groups and individuals. This includes labor market interactions.

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3 http://www.eeoc.gov/eeoc/statistics/enforcement/charges.cfm
Stereotypes about groups can be so ingrained that hiring managers or peers do not even realize that they have them (see Deshpande and Newman, 2007; Loury 1999) or may not consider them stereotypes at all—but rather facts of the labor market. For instance, the stereotype of Roma or African American workers as being “lazy” or of women’s low commitment to the labor market, are so internalized by the majority that they are often regarded as truisms. Such stereotypes pervade hiring authorities in ways that have significant bearing on hiring processes. Cornell and Welch (1996) show that employers are able to judge job applicants' qualities better when candidates belong to the same group as them, and the top applicant is likely to have the same background as the employer. They moreover point to some “reinforcing effects” of such “screening discrimination”. For instance, employers may infer the quality of applicants from the behavior of other employers amounting literally to herd behavior, under which preferences expressed by third parties drive decisions.

**Box 2: Sometimes laws assign a business case for discrimination**

Discrimination can often be overt, legal, and justified for business interests. The differential retirement ages for stewardesses in India’s state owned airline is a case in point. A Supreme Court review allowed Air-India to lower the flying age for women crew members from 58 to 50. Male crew members are allowed to fly until they are 58, the official age of retirement for all public sector employees.

In addition, women are not eligible for supervisory positions on board. All crew undergo a weight check before boarding a flight. But women are grounded or penalized if they are overweight. Male crew members are permitted to fly even if they are 40 kg overweight. Women crew members above 35 years have to undergo an annual gynecological examination, while male crew members are not subjected to any form of medical examination. Women are allowed to have only two children while men do not have such restrictions. And until recently, stewardesses were not allowed to wear spectacles, as it would affect their looks.

*Source: Katakam (2003).*

**Discrimination may be overt and announced or it may be covert.** In the case of the former, job ads can openly ask for females for certain jobs. Or there may be differential retirement ages for men and women. In other cases it may be covert discrimination that is not easily identifiable. Covert discrimination is the manner in which occupational sex segregation sorts women into “female” occupations and men into “male” ones. There is no observable evidence of discrimination either empirically or in the policy realm. As we saw earlier, the manner in which sexual harassment as a process discriminates against less powerful workers is also for the most part covert and very difficult to establish.
Here the distinction between *legal and illegal* discrimination becomes especially relevant. Thus, differential retirement ages for men and women in China is legal, but not conscious, because the hiring authorities do not regard it as being discriminatory, but rather a concession to women. The fuzziness around whether something is discrimination or it is not, in legal terms, makes international conventions and national laws especially difficult to abide by, unless there is a strong push towards enforcement of existing legislation. For instance, the ILO acknowledges that while ratifications of the two fundamental Conventions in this area—the Equal Remuneration Convention, 1951 (No. 100), and the Discrimination (Employment and Occupation) Convention, 1958 (No. 111)—stand at 168 and 169 respectively, out of a total of 183 ILO member States, the enforcement is patchy and tends to slacken during times of economic downturn (ILO, 2011). On the other hand, some laws are discriminatory, in and of themselves. In Italy, for example, lawfully resident non-EU migrants have been prevented from holding public sector jobs, including in the nursing field. A 2008 law on export processing zones (EPZs) in Madagascar includes provisions for lower wages and inferior social security coverage for migrant workers (ILO, 2011)

**Finally, discrimination may be perceived or real.** Perceived discrimination may well be the result of historical inequalities that relegate certain groups to a lower place in the social hierarchy, because of which they collectively and individually perceive themselves as being discriminated. The literature on race is replete with descriptions of perceived discrimination. It may also be real, whether or not it is legal and overt.
IV. Mechanisms of discrimination and screening

This section outlines some of the ways in which status and privilege play out in assigning workers to different jobs or to the labor market in general. Since discrimination is so subtle and so difficult to put a finger on, it is set up in a variety of ways, although the set-up itself may in some cases be unconscious. These could include the way job ads are framed, where they are posted, the way interviews are conducted and how status is gleaned. A large number of studies have documented discrimination along lines of race, ethnicity and gender but increasingly, studies are also documenting the more “invisible” axes of discrimination—along lines of neighborhood or residence, good or plain looks, skin color, family background, elite or non-elite status, the way candidates speak English or the lingua franca. Figure 1 shows that discrimination can occur along a number of processes—some are formal, overt, legal and conscious, while others are not. In some cases, the sheer invisibility and intangibility of the processes makes people wonder if they are real or perceived.

As mentioned earlier, many firms have a vision of the culture they want in the workplace and would value homogeneity and an “upper class” ethos in management jobs (see Loury 1999). The term “homophily” has been used in the sociological literature to describe the
propensity of people who are similar to each other to bond together. As McPherson et al (2001) point out, “Homophily is the principle that a contact between similar people occurs at a higher rate than among dissimilar people. The pervasive fact of homophily means that cultural, behavioral, genetic, or material information that flows through networks will tend to be localized” (pg 416). Rivera (2008) makes the important point that homophily is not only an implicit cognitive bias that is an inevitable by-product of social interaction, but also an explicit criterion that firms use to screen candidates, but not necessarily for the purposes of resource control or opportunity hoarding. “Rather, in many instances, homophily appears to be more of a sense-making device in which individuals consciously and unconsciously seek points of commonality and make generalizations based on the presence or absence of common experience. Yet, regardless of the level of intentionality or “usefulness” in evaluation, selecting on similarity results in the reproduction of culturally homogenous organizations, even when not demographically so” (Rivera 2008, emphasis mine). Such “homophily” or gravitation towards candidates that most closely resemble the dominant workforce in an organization can be realized through the use of filters or screens used to make such selections; some of these screens are measurable and others are not. However, it is also important to add here that with increasing evidence on the value of heterogeneous work environments and the increasing evidence on discrimination, a large number of organizations are making efforts to seek out candidates that come from social strata different from the established culture of the firm.

This section documents processes of discrimination based mainly on the empirical literature on the subject. It also outlines filters through which candidates may have to pass. Those who expect to be discriminated against (perception of a discriminatory labor market) may not even reach the screening stage, largely because they select out of the “game”. At the policy level, a large number of countries have laws and institutions in place to guard against overt discrimination, but enforcement is often patchy.

When discrimination is overt, employers openly express their preference for a certain type of applicant. Kuhn and Shen’s (2011) study of gender discrimination in a large sample of job advertisements taken from an internet job board in China, found that explicit, advertised gender discrimination is commonplace and over one third of the firms that advertised on the board
during the authors’ twenty-week sample period placed at least one advertisement stipulating a preferred gender. Thus, when it is legal to express such preferences, a large share of employers does so. They also find that large firms, state-owned firms, and firms seeking workers with high levels of experience tend to prefer men. Foreign-owned firms, and firms hiring for certain customer-contact occupations tend to prefer women.

**Status and “suitability” for a job can often be gleaned from an applicant’s residence, as neighborhoods are often (unreliable) proxies for social class and implicitly, for human capital endowments.** While clustering confers benefits of solidarity and networks for minorities, an address can also be an identifier and a stigmatizer. Clark and Drinkwater (2000) show that an individual’s probability of being observed in a particular labor market state depends on the ethnic composition of the neighborhood in which s/he lives. In a study of England and Wales, they found that ethnic minorities who live in enclaves have a higher likelihood of being unemployed and a lower probability of self-employment than compatible individuals who live in less concentrated areas. They acknowledge that individuals could sort non-randomly but also suggest that that the potential benefits of living with co-ethnics are trumped by the deprived nature of the urban areas in which minorities tend to cluster.

**Like neighborhoods, language and accents can also be seen as identifiers and filters—they give salient clues about an individual’s social status and family background.** It is perfectly acceptable to ask for language skills as part of eligibility criteria but when spoken language identifies the social status of an applicant and has no bearing on the needs of a job, but influences hiring decisions, it is an enabler of discrimination. Once such an applicant is hired, the lack of a sophisticated spoken language can lead to discriminatory behavior in the workplace in much the same way as it does in educational institutions. This in turn could affect earnings and/promotion. That foreign accents or those that reflect stereotypes about a worker’s social status affect hiring decisions is known anecdotally, but this is also borne out in some of the empirical literature. Bendick et al (2009) in a controlled experiment in New York found that the way applicants spoke English mattered significantly in the likelihood of being hired (but that race mattered over and above English proficiency). White applicants with slight European accents were 23.1
percent more likely to be hired than white testers with no accent. However, accents in nonwhite applicants made no difference.

A study commissioned by Restaurant Opportunities Center of New York (ROC-NY) and the New York City Restaurant Industry Coalition in 2005 on the other hand gives evocative accounts of the perception of discrimination that are attributed to poor English skills among workers. Filters or screens such as language seem to matter more when rationing of “good jobs” is in evidence; that is, when there are fewer good jobs and a larger pool of applicants. In such markets, Desai et al (2008) find based on Indian data, that knowledge of English has a statistically significant association with getting “good jobs”. Once in employment, non-preferred workers may face discriminatory attitudes that prevent them from being integrated into the labor market on equal terms as the dominant group. ILO (2011) cites an example from Flanders, Belgium, where an internal rule of an automobile components company in which 70 per cent of the employees are of foreign origin, stated that workers using languages other than Dutch on three consecutive occasions were liable to be dismissed. The justifications of this rule were “security reasons” and “respect for other workers”.

In other cases, **language and social skills that are essential for a job may exclude a certain category of applicants.** Thus, unilingual applicants do worse than bilingual or trilingual applicants in many labor markets and this can be the nature of their human capital endowments. But like other aspects of human capital, there may be a pattern in stronger or weaker language skills. Upadhya (2007) finds from a study of the Indian outsourcing industry, that English-speaking graduates who also have western social skills fare much better in the burgeoning market. These criteria manage to exclude Scheduled Castes from the pale of this growing opportunity. She shows that, for the most part, three-quarters of the workers in jobs in information technology are from higher castes, while the remainder is from the Other Backward Class (OBC) category—individuals who are placed higher in the caste hierarchy than the Scheduled Castes. Deshpande and Newman (2007) interviewed postgraduate university students and found that Scheduled Castes in degree programs show lower expectations about jobs than their high caste counterparts and see themselves as disadvantaged because of their caste and family backgrounds. Because they arrive at college with weaker skills, on average, they often do
not succeed in pulling even with more advantaged students; hence, they enter the job market with weaker English language and computing skills. In addition, they lack the social awareness and other abilities that dominate in the private sector culture. However, these small samples are in no way representative of the entire information technology industry and Banerjee et al (2009) find no evidence of discrimination against non-upper-caste (i.e. Scheduled Caste, Scheduled Tribe, and Other Backward Class) applicants for software jobs. They find large and significant differences between callback rates for upper-castes and Other Backward Classes (and to a lesser extent Scheduled Castes) in the case of call-center jobs.

A new line of enquiry looks at the role of good looks and presentability as predictors of labor market outcomes. Hamermesh and Biddle (1993) find that plain people earn less than people of average looks, who in turn earn less than good-looking people. The penalty for plainness in their analysis was 5 to 10 percent, which was slightly larger than the premium for beauty. The effects were slightly larger for men than women; but unattractive women were less likely than others to participate in the labor force and were more likely to be married to men with unexpectedly low human capital. Better-looking people seem to sort into occupations where beauty is likely to be more productive; but the impact of individuals' looks on their earnings is mostly independent of occupation. Villarreal’s (2010) study in Mexico similarly found that skin color matters, and that individuals with darker skin tone have significantly lower levels of educational attainment and occupational status. Success in the labor market was also tested for taller and shorter workers, by Case et al (2008), who found that each inch of height is associated with a 1.5 percent increase in wages, for both men and women in the UK. Half of the premium in their analysis can be explained by the association between height and educational attainment and of the remaining premium, half can be explained by taller individuals selecting into higher status occupations and industries. In a more stark experiment, O’Brien et al (2012) found that obese women are more likely to be discriminated against when applying for jobs and also more likely to receive lower starting salaries than their non-overweight counterparts. Based on a new measure of anti-obesity bias, the authors showed survey participants resumes with pictures of female candidates before and after they had undergone bariatric surgery—so, the same woman’s picture was viewed more than once, in a set of resumes. The obese women were found to be
regarded as much less suitable for employment, for leadership and regarded as being less deserving of higher remuneration.

**Employer preferences for a certain type of physical appearance sometimes translate into a preference for age; so, younger workers are considered more attractive and more suitable for some jobs.** This is particularly the case for female workers. Lahey’s (2005) labor market experiment to determine hiring conditions for older women in entry-level jobs in Boston, MA and St. Petersburg, FL found that a younger worker is more than 40% more likely to be offered an interview than an older worker. The hospitality industry is notorious for such screening for both men and women. The case of female crew in India’s state airline, Air India showed that even the Supreme Court upheld lower retirement ages for women than for men (see box 2). Differential retirement ages are not always illegal and many countries routinely retire women earlier than they do men. In China for instance, women’s retirement ages are lower than those of men in almost every category of state employment.

**In many countries, age based discrimination against women is perfectly acceptable and is often a matter of the state regarding women as its wards.** Thus, in a bid to eliminate cross-border trafficking and exploitation of women, several countries have age restrictions and other safeguards in place. The Indian Emigration Act was amended to prevent women under age 30 from migrating as housemaids and caregivers. NGOs expressed concerned that this would lead to illegal and undocumented migration of younger women and prevent them from accessing any benefits they may be entitled to in the receiving country. Other countries also have age limits for women migrants, but whether this contributes to women’s welfare or increases vulnerability is unclear (Manchanda 2007). There are three clear aspects to age based discrimination. First, it could be legal and justified on the basis of the state’s paternalistic attitude towards women and their families, such as in China or in respect to migration policies. Second, it could be illegal and difficult to “prove” that it occurs systematically, such as in the case of Lahey’s study. Third, it could be illegal but justified as a business case (“women are unable to cope physically with the demands of the job”) such as in the Air India case.
Finally, an important marker of status is family background. As noted earlier, employers unconsciously may select candidates that are from their own background, but in other cases, employers may have a clear vision of the entity they wish to create. Here, social background of their employees, as opposed to only their human capital endowments, plays an important part in building that vision. That names can be identifiers for social status is well known. Caste names in India and Nepal are dead giveaways (unless they are deliberately changed). Deshpande and Newman (2007) found that prospective hiring managers almost universally ask questions about family backgrounds during employment interviews. Upper caste students can offer biographies that are much closer to the upper-middle-class professional ideal. While Scheduled Caste students perceive a hidden agenda in questions on family background, the same questions appear to upper caste students to be innocuous and sensible inquiries from a human resources perspective. Experimental studies in the US and elsewhere show that first names (that conform to racial or national stereotypes) can also mar individuals’ chances in the labor market (see for instance Bertrand and Mullainathan 2003). In another instance, while Bravo et al.’s (2008) experiment in Chile showed no statistically significant difference in callbacks to applicants by employers based on social class, gender or neighborhood, yet it is instructive that their proxy for social class was surname. Finally not merely lower class, but upper class lineage can also be easily identified by names and Ying Pan’s (2011) analysis found that Chinese husbands and wives of the largest local lineage (identified by name) were more likely to become village administrators, and young men of the largest local lineage were more likely to have local non-agricultural jobs and higher wages.
V. HOW DOES CHANGE HAPPEN?

This paper has outlined the complexity of exclusion and discrimination in the labor market; a complexity that has implications for measurement as well as for policy and programs. We noted in the introduction that the labor market is a site for a number of processes to play out. Hence many of the processes that mediate opportunities in the labor market also mediate opportunities in other markets and spaces.

That values and the normative foundations of exclusion and discrimination have undergone substantial change over the years is testimony to their mutability and amenability. The more complex question is—what are they amenable to? And do attitudes change first or do they follow behaviors? What enables change in behaviors? Is there a threshold after which changed behaviors become the norm? Who drives the change—individuals, groups or the state? Answers to these questions are tentative and the body of evidence is thin. This section will cite some examples in a bid to understand the mechanisms through which change can occur.

This final section outlines the manner in which change happens, or in other cases, where the status quo is maintained for a number of reasons (see figure 2). Change can come about through a variety of complex processes and there are robust theories of social change in several disciplines, the evaluation of which is not within the remit of this paper. For this paper, we broadly group change into deliberate actions and non-deliberate actions (or externalities from other actions) that affect discrimination.

- **Deliberate actions with the intended objective of reducing discrimination against non-preferred groups.** They can be led by the state or by non-state entities. Non-state actions often coalesce into active social movements for change. Other deliberate actions by non-state actors are led third parties like trade unions, NGOs and lobbyists, as well as by employers and firms.

- **Non-deliberate actions** are the unintended consequences or externalities of changes in, say, new opportunities in the labor market. When opportunities for Asian labor opened up in the Middle East, it was primarily an externality of the demand for labor in the Middle East, rather than an action to enable certain groups to migrate. While this example
did not explicitly have an effect of discrimination, later in this section we outline other recent opportunities that had the explicit, though intended consequence of reducing discrimination.

- **Deliberative actions that work within status quo.** These include actions by excluded groups who tend to “huddle together” and make the most of their own networks, rather than seek overt change. These are actions of submission, although many of them may well lead to incremental change and are discussed in greater details below.

**Figure 2: How Does Change Happen? Actions that Affect Discrimination**
A. Action by excluded groups: submission and subversion

Do excluded or non-preferred groups just sit back and take the discrimination that they perceive exists? The answer is that that may do so in some cases but not in others. They could react in two ways to a labor market they perceive as being discriminatory; the first is to submit to discrimination by opting out, staying within the occupations assigned to them and averting risk. The second is to subvert the market through a range of strategies that involve quiet circumvention to overt opposition. Strategies of subversion are often overt or covert determinants of change.

**Figure 3: Submission and Subversion: Actions by Excluded Groups**

![Diagram showing submission and subversion actions](image)

Let us consider “submission” to the discriminatory labor market by disadvantaged groups who perceive the labor market to be discriminatory, by opting out of certain jobs, and not competing for them at all. Das (2006) suggests that this may be happening with women in the Indian labor market and that macro level gender inequality, as measured by wage discrimination and barriers to entry into preferred jobs are disincentives for them to join the labor force. This is different from a “discouraged worker” effect—these are women who never tried to enter the labor market. A more egregious effect of discrimination on disadvantaged groups has also been
reported and indicates loss of confidence, dejection and consequent non-performance as a self-fulfilling prophecy.

A psychological externality can occur when individuals draw on their own encounters with the market, and on the encounters of others to whom they are socially connected, to reach conclusions about, say, the extent to which effort accounts for market rewards—as opposed to ability or luck. In this scenario, the degree to which an individual believes that bad personal outcomes are due to inadequate personal “effort” can depend on the aggregate experience of other members of the group.

Loury 1999: 17

Elmslie and Sedo (1996) hypothesized that discrimination negatively affects human capital characteristics and used the concept of “learned helplessness” to show that negative events, such as an episode of discrimination, that are considered beyond the individual's control resulted in decreased learning ability. Discrimination therefore, can create helplessness and resignation which diminishes human capital resulting in decreased future employability. Goldsmith et al (2004) show that perceived discrimination can alter both the expectations of a job seeker from the labor market as well as their future labor supply decisions. Hoff and Pandey (2004), using controlled experiments with lowest caste junior high school students in a village in Uttar Pradesh, India found that beliefs shaped by a history of prejudicial treatment can have a significant impact on children’s cognitive performance when opportunities are presented to them.

Let us consider the second reaction now—how do disadvantaged groups subvert a discriminatory labor market, and so contribute to change? They can subvert both at the group level and at the individual level, at times by “reinventing themselves”. At the individual level, non-preferred workers can change their location by moving to cities that confer greater anonymity or by changing their names if names can identify their class, caste or race. Jodhka and Gautam (2008) in a study of Scheduled Caste entrepreneurs in two locations in the states of Haryana and Uttar Pradesh, India show that reinventing their identities is intrinsic to the success of their businesses when they live in mixed caste areas. Almost 48 percent of the authors’
respondents actively hid their caste identity. Iversen and Raghavendra (2006) find that lowest caste workers in south Indian eating places in Bangalore and Mumbai still find it necessary to hide their identity to minimize workplace conflicts and also compete for jobs. The Roma in Europe and residents of some areas try and hide their identity in a bid to gain access to a labor market that they perceive will discriminate against them. The former for instance, respond to Census questions by denying their ethnicity, just as favela residents in Brazil often give addresses that are not associated with the favela. Essentially, these are all individual level strategies aimed at de-stigmatizing themselves so as to gain entry into an otherwise discriminatory labor market.

The more impressive strategies of subversion are at the group level and usually involve political coalition building. In the case of the Indian caste system, for instance, the social anthropologist M.N. Srinivas articulated the idea of “horizontal solidarity” which is in essence a form of coalition-building for group based social mobility. For instance, the anti-Brahmin backward caste movement in the state of Tamil Nadu in the 1920s entailed that non-Brahmins then got access to a range of opportunities and subsequently solidified their social mobility through political power. India has seen such political movements across states, encompassing both the lowest castes and the lower middle castes (or Other Backward Classes). This form of social mobility accompanied by political solidarity is based on access to economic opportunity that is underpinned by the system of affirmative action by which historically excluded groups get preferential treatment in publicly funded education and public sector jobs.

In addition to horizontal solidarity, non-preferred groups strengthen internal bonds in a variety of ways. Jodhka and Gautam (2008), in their survey of Dalit entrepreneurs, found that almost 94 percent of their respondents claimed membership of some form of association with Dalit movements in their region or in the country. About 63 percent were involved with a local Dalit nongovernmental organization or a Dalit religious organization. This is confirmed by Munshi and Rosenzweig (2006), who use data on school enrollments, caste, and income in Mumbai over a period of 20 years to show that caste networks in the city, organized at the level of the sub-caste, to ensure that members of lower castes send their children (boys) to schools in which the local language is spoken. The goal is to keep the boys within the network, which can
help them later in job searches. This is of course partly in response to the incentives created by a strong affirmative action program. In other countries, such as the US, non-preferred groups such as Blacks and Latinos organize after school programs and tutoring centers where younger workers are taught implicitly how to skirt discrimination and to build human and social capital. While this is an organized form of group based social mobility, access to economic opportunity and political power, it is by no means the only form. State or non-government organization (NGOs or religious organizations) sponsored tutoring centers and “soft skill training” (like interviewing skills, resume development) initiatives for minority groups are also common in many countries.

Immigrants in the US may build what Portes et al (Wilson and Portes, 1980; Portes and Jensen, 1989; 1992; Wilson and Martin, 1982) call “ethnic labor markets”. The main thrust of their argument is that these immigrants are discriminated against because they are unfamiliar with the language and culture and are obviously distinct from the mainstream. In many cases they may also have restrictions on work due to their immigrant status. Often they live in geographical concentrations or ghettos. However, Portes and others disagree with the conventional notion that all immigrants enter the labor market at the bottom end, and with assimilation, work their way up. On the contrary, they argue, when immigrants have the necessary human capital, they build their own “ethnic enclaves”—self-employed ventures which are a part of an “ethnic labor market”. The role of ethnicity in labor markets has been empirically tested in other places as well (Semyonov, 1988 for Israel; Evans, 1989 for Australia; Clark and Drinkwater, 1999 for UK), and the ethnic enclave idea has held up in a variety of cultural and geographical settings.

The contention of Portes et al is that “ethnic enclaves” in fact provide positive rewards to their members and “ethnic entrepreneurship” is an “unorthodox, but important avenue for social mobility of ethnic minorities …..(and can) suggest alternative policies for those still mired in poverty” (Portes and Jensen, 1992:418). Thus, immigrant entrepreneurs reproduce the characteristics of the primary market in terms of income and those of not of the secondary market. These entrepreneurs also prefer to hire individuals from their own ethnic group (in the process perhaps creating relationships based on hierarchy, privilege and exploitation among their
own ethnic group) thus creating a social and labor network, which interacts as a group with the outside market. In so doing, the enclave has the solidarity and protection of numbers, and helps its members to subvert discrimination. It also skirts competition from the mainstream and majority. While the work of Portes and his colleagues has been contested on methodological and definitional grounds, that debate is not the subject of this paper (see Sanders and Nee 1987; 1992). A large body of work by Marcel Fafchamps also focuses on the positive role that networks play especially in trading.

In the face of asymmetrical information and opaque rules of the game, subordinate groups may use their networks to “close ranks”, leading in turn to retaliation by dominant groups. For instance, entry of commercial interests such as real estate developers or industry into the favelas of Brazil is notoriously difficult. While a large part of this is due to the control of the drug lobby, a small part of it is also due to the logic of the organization of the favela. Kishwar (2002), for instance, documents how government sweepers in New Delhi who belong predominantly to the lowest castes and have quota of secure public sector jobs, asserted their monopoly over cleaning and garbage collection on public land, and resisted the efforts of street vendors to self-regulate garbage disposal. While the reaction of the non-preferred groups is a response to a discriminatory labor market, this in turn can be seen as cartels by the primary market. In more competitive labor markets, this can escalate into deep polarization between the “mainstream” market and the “enclave labor market”. Anti-foreigner and “sons of the soil” movements often lead to protectionist policies, which are at one level the response of the majority to safeguard their stake in the face of a perceived threat from enclave labor markets. Mumbai, the commercial capital of India is also notorious for violence against migrants from other states, some of whom may also be from lower castes.

B. Actions by employers and their associations

Employers and firms have begun to play an important role in non-discrimination. An increasing number of firms are realizing the value of diversity and seeking out minority candidates. From a social good perspective, they are showing their commitment to social and environmental concerns in different ways, of which non-discrimination is one. Business conclaves and associations have similarly taken actions that have shown their commitment to
safeguarding their workforce and in the process indirectly, addressing discrimination. Take the issue of physical safety in general and women’s safety in particular, that has been taken up, for example, by India’s National Association of Software and Service Companies. Backing by such influential lobbies is important in ensuring that security concerns are addressed (World Bank, 2011b).

C. Actions by third party advocates
Trade unions, NGOs and other advocates of discriminated groups have also played an important role in spurring action and in raising awareness. Take for instance, the case of wage setting and collective bargaining. While trade unions were once a dynamic force to ensure the interests of workers, a survey of existing research shows a mixed picture of the impact of unions on the economy and strengthens the argument for a contextual, country-specific approach rather than an aggregate or even a region specific one. However, one effect of collective bargaining emerges clearly - unions in both industrial and developing countries are successful in securing a wage markup for their members and other workers covered by collective agreements4. There is of course the issue that in most low income countries, the role of the formal sector is rather limited, thus limiting the impact trade unions can have, unless they reach out to informal workers. In the case of women in the informal sector, trans-national networks such as Women in the Informal Economy Globalizing and Organizing (WIEGO) have advocated effectively for their rights and helped national networks access international forums. In other cases, advocacy groups that work for the interests of indigenous peoples for instance, take on several issues of relevance to their constituencies, of which labor market issues are often very salient.

D. State-led action
Legislation is a deliberate state led action and plays a very important role in addressing discrimination. Laws, when progressive and enforceable, are perhaps the single most potent medium by which social change comes about. But, as we have shown elsewhere in this paper, legislation can be a double edged sword and be used as a means of discrimination in itself and many forms of discrimination are legal (Box 2). The case of the Indian Emigration Act or differential retirement ages are examples of law supporting discrimination.

Other state led responses against discrimination range from constitutional safeguards to proactive legislation, targeted programs and enforcement mechanisms. Affirmative action has been used by states to ensure representation of historically subordinate groups. India and Malaysia for instance are two countries where quotas for underrepresented groups—the Scheduled Caste, Scheduled Tribes and OBCs in the former case and Bumiputras in the latter case—are enshrined in the respective constitutions. Both countries have shown that quotas work very well, but also become severely politicized. Quotas have also been very successful in specific programs. In Bangladesh for instance, where women’s employment rates were extremely low and driven to a large extent by the exclusion of the poorest women from paid work as a whole, the Employment Generation Program for the Poorest put in place a 30% quota for women. This led to a doubling of women’s participation in the program within the space of a year, with participants reporting a high level of satisfaction with their access.

Many countries have institutional architectures that uphold non-discrimination and enforce laws. Several countries set up enforcement mechanisms for non-discrimination. Not all of them have teeth and some are set up as tokens or to appease political interests. The case of the U.S. Equal Employment Opportunity Commission (EEOC) and the Brazilian Special Secretariat for Policies and Promotion of Racial Equality are two examples of institutions with teeth that have furthered the non-discrimination agenda. The EEOC in the US enforces federal laws that make it illegal to discriminate against a job applicant or an employee because of the person's race, color, religion, sex (including pregnancy), national origin, age, disability or genetic information. It is also illegal to discriminate against a person because the person complained about discrimination, filed a charge of discrimination, or participated in an employment discrimination investigation or lawsuit. Most employers with at least 15 employees are covered by EEOC laws (20 employees in age discrimination cases). Most labor unions and employment agencies are also covered. The laws apply to all types of work situations, including hiring, firing, promotions, harassment, training, wages, and benefits⁵.

⁵ Source: http://www.eeoc.gov/eeoc/index.cfm
Brazil’s Special Secretariat for Policies and Promotion of Racial Equality promotes initiatives against racial inequalities in the country. It is committed to the construction of a government policy that takes into consideration the interests of the black population and other discriminated ethnic segments, such as the gypsies. It involves, promotes and follows the execution of cooperation programs with public and private, domestic and foreign entities, for the protection of the rights of individuals and racial and ethnic groups affected by discrimination.

E. Opportunities and non-deliberate actions

Other than state initiatives and individual or collective action, the changing nature of the labor market and new opportunities can end discrimination without expressly intending to do so. Kuhn and Shen’s (2011) analysis of job ads in China shows that explicit preference for men declines when jobs that are being advertised for, require high levels of skill. So, in the high skilled labor market, men and women are treated equally at least at the advertising stage. In another case, “night work” by women was illegal in India the state assumed its paternal role in upholding women’s safety and morals. But with the growth of information technology (IT) call centers, there was an increasing demand for women’s labor and night work also became safer for women. As a result, the Indian Shops and Establishments Act 1953 that had prevented night work for was amended so that the IT industry was exempt from restrictive provisions regarding night work for women. This led to the large-scale entry of young educated women into this growing sector. While women employed in the IT sector represent a small proportion of all women workers, there is widespread recognition that the visibility of young women in the IT workforce is changing social mores about what is acceptable female employment. Thus, a small amendment can lead to a transformation of cultural norms that are perceived to be restrictive. In Bangladesh similarly, female labor force participation increased dramatically since 2003. This was explained by two factors - the first was growth in the garment sector and the second was growth in the teaching and health care sectors (World Bank, 2008).

Amendments enabled IT companies to employ women between 8 p.m. and 6 a.m., provided they make special arrangements for security, employ women in groups with a minimum of 10 female employees, ensure toilet and rest facilities, and have at least 50 employees in a given shift. Although the amendments to the act were prompted more by the need to tap into a larger supply of skilled labor for the burgeoning IT industry, it opened up the job market for women in the IT industry.
Oftentimes, changes in work conditions can go a long way in enabling the participation of excluded groups, particularly women, even if such changes are not intended as actions to end discrimination. That benefits such as those for maternity, social security and flexible working conditions draw women into the workforce is well established. In many countries, women also stay away from the labor market due to fears of physical insecurity. Making public spaces safe for women is often a major step forward in enhancing their access to these spaces. Anecdotal evidence of local pressure on Indian city administrations in Bangalore, Hyderabad, and Pune, where the new outsourcing industry employs young women on night shifts, suggests that the government often responds positively to such pressure. Yet neither the pressure nor the state’s positive response is articulated in terms of ending discrimination, but rather in terms of rights based perspective or as an essential public security measure.

Globally, the movement towards transparency and disclosure is also likely to have had a number of effects. One of these has been to increase confidence of non-preferred groups in the labor market. Right to Information Acts that have been passed in countries as diverse as the UK and India have meant an increasing number of demands for accountability on a range of topics, of which employment is likely to be one. The literature on these aspects is evolving and it would be interesting to see the impact of these movements on collective confidence of subordinate groups.

This concluding section has shown that progress towards non-discrimination can be made by collective or individual action of the subordinate or discriminated group members, by the state and by firms. Going forward, a better understanding of how norms and attitudes change and how these can affect non-discrimination in the labor market will be important to understanding the potential and limits of policy.
References


