

CHAPTER 12 - GENDER, RACE, AND ETHNICITY IN THE LABOR MARKET

This chapter represents a comprehensive inquiry into wage differentials across gender, racial and ethnic groups. It begins with a section on earnings differences by gender, in which the overall differential is broken into two parts: that associated with measurable productivity differences and that associated with unobserved (unexplained) differences. The latter differences are associated with (but not confined to) current market discrimination. Discrimination is defined and problems of its measurement are discussed in the context of analyzing gender differences in earnings.

Black-white earnings differentials are analyzed next in a subsection that includes a brief treatment of differences in the ratios of employment to population. Earnings by ethnicity are also discussed. In each case, the analysis includes a review of attempts to estimate the effects of discrimination, with special emphasis on the effects of such hard-to-observe factors as English language proficiency, cognitive achievement, and school quality.

The second major section of the chapter analyzes theories of market discrimination. Becker's theories of employer, customer, and employee discrimination are discussed, and the theory of statistical discrimination is explained, along with noncompetitive models of discrimination (occupational crowding, dual labor markets, search-based monopsony, and theories involving collusive action).

The chapter concludes with in-depth discussions of governmental efforts to reduce or eliminate market discrimination: the Equal Pay Act of 1963 and the Civil Rights Act of 1964. Included in our discussion of the last are the evolution of the disparate impact standard by the courts (as opposed to a disparate treatment standard), legal decisions involving seniority, and the emerging comparable worth remedy. The chapter closes with an analysis of the federal contract compliance program, including the standards against which affirmative action plans are judged and the results of studies that have tried to assess the effects of the program.

The appendix to Chapter 12 contains an introduction to the problems of estimating comparable worth "earnings gaps." The purpose of this appendix is twofold: to give students a brief illustration of the use of regression analysis and to show them how comparable worth comparisons are made.

List of Major Concepts

1. Income disparities between men and women may have their roots in different incentives to acquire productive characteristics.
2. Current labor market discrimination is said to exist when the market places values on personal characteristics of workers that are unrelated to productivity.

3. Earnings differentials caused by differences in productive characteristics are termed "premarket."
4. Occupational segregation is one form of discrimination, and it can be measured by an index of occupational dissimilarity; however, it is difficult to distinguish between the effects of occupational choice and those of employer discrimination.
5. To measure the extent of wage discrimination, one must determine what the earnings ratio would be if the protected class and white males had the same productive characteristics. However, the adjusted differential is in reality an *unexplained* differential, and it could reflect the effects of unmeasured worker characteristics as well as market discrimination.
6. Much of what appears to be labor market discrimination against women takes the form of occupational segregation, which, while still rather marked, seems to be declining somewhat recently.
7. When productive characteristics are controlled in an analysis of earnings differentials, they account for all but roughly 10 percentage points of the gender wage differential.
8. Differences in the black-white employment-to-population ratio are a function of both higher unemployment rates and lower labor force participation rates among blacks.
9. Studies using convention ally-measured variables for productive characteristics suggest that about 11 percentage points of the observed disparity between black and white males may be due to current labor market discrimination. Studies that control for cognitive achievement scores as well suggest that black men earn from 8 percent more to 8 percent less than white men with comparable productive characteristics.
10. Human capital and language-proficiency differences account for A but 3 to 7 percentage points of the Hispanic wage differential.
11. If employers discriminate against some group of workers, they will act as if they believe the marginal product of those workers is lower than it really is. Thus, they will hire fewer such workers than would be called for by profit maximization, and those who are the most discriminatory will make the least profits.
12. Under employer discrimination, the behavior of prejudiced employers will reduce demand for the minority group and cause a wage differential to exist. The size of the differential depends on the size of the minority population relative to the distribution of prejudiced employers in the market.
13. The implication that prejudiced employers will be less profitable suggests that discrimination ought to be eliminated over time as nonprejudiced (profitable) employers buy out less profitable, prejudiced employers.

14. Like employer discrimination, customer discrimination implies a shift to the left of the demand curve for the services of a protected class. However, with customer discrimination, a reduction in productivity is, from the employer's perspective, genuine.
15. Employee discrimination generates supply-related behavior that might cause employers to segregate their plants by race or sex if possible. If not, wage differentials will arise as a result of the need of employers to retain workers in the prejudiced group.
16. Statistical discrimination arises from a screening problem in which job applicants are evaluated both on their individual characteristics and on average characteristics of the group to which they belong. Statistical discrimination should be reduced in situations in which the variance of individual characteristics around the group average widens.
17. Both the crowding hypothesis and theories emphasizing the dual labor market suggest the presence of noncompeting groups, but they do not satisfactorily explain the creation of these groups.
18. If search costs create upward-sloping labor supply curves to individual employers, and if discrimination raises the search costs of certain groups of workers, then monopsonistic behavior will create wage differentials among otherwise identical workers.
19. Some theorists use collusive action on the part of employers to explain the creation and persistence of noncompeting groups. Employers are seen as deliberately dividing the labor force to guard against cohesive collective action by workers, but the theory does not explain how an employer cartel is maintained in the face of clear-cut incentives to cheat.
20. Anti-discrimination programs by the government must set standards for both employment and wages. If employment standards are the only ones used, prejudiced employers may comply by paying protected-class workers less than white males. If a wage standard is the only one applicable, then prejudiced employers will respond to increased wages for protected classes by reducing employment.
21. A disparate treatment standard imposed under the Civil Rights Act judges that discrimination has occurred if different procedures are used for different groups of people and if it can be shown that there was an intent to discriminate. Proving intent is difficult, and policies that may appear to be neutral on the surface may nevertheless perpetuate the effects of past discrimination.
22. Courts have moved towards a disparate impact standard, by which it is labor market results, not motivation, that counts. Under this standard, policies that lead to different effects by race and sex are prohibited unless a business "necessity" can justify their use.

23. Because of occupational segregation, men and women often occupy dissimilar jobs. The comparable worth remedy is based on comparing the skill content, responsibility, and working conditions in jobs for purposes of pay comparisons; however, mandating wage increases for women could reduce the incentives of employers to hire them.
24. The Federal Contract Compliance Program seeks to shift the demand curve for protected classes to the right. Federal contractors are required to file affirmative action plans that state their goals for hiring and promoting members of protected classes (taking account of "availability").
25. Realistic estimates of availability should account for the compensation policy of the firm, the willingness of workers to commute to the firm, the degree to which the firm has incentives to train new employees, and the extent to which job applicants can be induced to move to the firm's labor market area.
26. Studies to evaluate the effects of government anti-discrimination efforts have focused on time series analyses of earnings ratios and effects on federal contractors (emphasizing changes in employment levels, wages, and quit rates for protected-class workers).
27. (Appendix) Estimating comparable worth earnings gaps typically involves evaluating characteristics of jobs for men and women and estimating the relationship between these characteristics and compensation for white males. This relationship can then be used to estimate what women would receive if they were paid on a basis comparable to men.
28. (Appendix) A precise and informative way of estimating the relationship between point scores and compensation would be to use ordinary least squares regression techniques to fit the "best" line through the observed points on the graph. The estimated coefficient on the point score variable is an estimate of how much a unit change in that variable affects earnings.