

Review Notes – Gender, Race, Ethnicity and Labor Markets

- Gender and Racial Wage Differentials.
 - Why do differences in wages exist by race/gender? Consider two possible answers.
 1. Differences in qualifications by race/gender.
 - What are the relevant qualifications and do they differ? We looked at data – make sure that you know the general trends. These are human capital qualifications.
 2. Wage discrimination.
 - What is discrimination? Exists when two equally qualified individuals are treated differently on the basis of their gender, race, age, etc. Wage discrimination occurs when paid differently.
 - We examined the evidence on gender wage differentials with respect to both developed and developing countries. What is it?
 - How does one estimate the existence of wage discrimination?
 - Uses multiple regression analysis to control for differences in qualifications.
 - Divides the gender wage differential into that explained by the differences in these qualifications and that unexplained by the differences in qualifications (i.e., explained by differences in returns to qualifications).
 - The unexplained portion of the gender wage differential is potentially discrimination. What about problems with omitted and imperfectly measured qualifications?
 - You should know generally the evidence on how much of the gender/racial wage gap is explained and how much is potentially discrimination.
 - How about discrimination in the acquisition of qualifications?

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- Personal Prejudice Theories of Market Discrimination
 - Three groups who may have personal prejudice – employers, consumers, and employees.
 - Employers have personal prejudice.
 - Use males/females as an example.
 - For males $MRP_M = W_M$.
 - For females $MRP_F - d = W_F$, where d = a measure of the employers discrimination (How?).
 - If $MRP_M = MRP_F$ and $d > 0 \Rightarrow W_M > W_F$.
 - Implications.
 - This is not profit maximizing behavior. We showed a graph in class to demonstrate this. Make sure you know it and why not profit maximizing. What happens with competition from non-discriminating firms?
 - If both discriminating and non-discriminating firms \Rightarrow women would choose to work first at non-discriminating firms \Rightarrow use graphs to show the following:
 1. Relative wages W_F/W_M decrease as number of non-discriminating firms decreases.
 2. Relative wages W_F/W_M decrease as number of female workers seeking work increases.
 3. As the level of competition in the market increases (decreases) \Rightarrow expect discrimination to decrease (increase). Why? Examples?

- Consumers have personal prejudice.
 - Consumers are willing to pay less if served by women/blacks/etc => MRP_F decreases => W_F decreases even with same qualifications.
 - Is this behavior profit-maximizing by the firm? Will competition drive it out?
 - Implications.
 - Segregation in occupations (why?)
 - Firms with prejudiced customers will tend to hire only males/whites.
 - We discussed some evidence supporting these results in the real world.
- Employees have personal prejudice.
 - In this case, whites or males may quit or avoid working for firms who are non-discriminatory in hiring or promotions => must pay a higher wage for whites/males.
 - Why pay the higher wage? (Assumes W/M large portion of labor force.)
 - Also tends to lead to segregation
 - Evidence?

- Theories of Discrimination not based upon Personal Prejudice
 - Statistical discrimination
 - Assume:
 1. Firms are profit maximizing and want to gain individual information about productive characteristics of individual workers.
 2. Costly to obtain information.
 3. the two groups of workers have a different distribution of marginal productivity.
 4. Can obtain information about average MP of the two group (i.e., men vs. women, blacks vs. whites).
 - Profit maximizing firms will therefore use the data about average productivity as a proxy for individual productivity and reduce wages for the group with lower productivity.
 - Implications
 - Statistical discrimination occurs when no personal prejudice but the group discriminated against has lower average productivity.
 - If no personal prejudice exists => as the firm gains information about a worker's actual productivity (how might they do that?) => differences in wages will only reflect differences in productivity.
 - Non-competitive models of discrimination.
 - Market crowding
 - Assumes segregation in the markets.
 - Then, suppose more women/blacks enter the segregated market => drives down their wages relative to counterparts.
 - Problem here is to explain the segregation. As long as MP is equal for the two groups => no profit maximizing reason for the segregation or the crowding.
 - Dual Labor Markets
 - Similar to crowding
 - Primary sector with higher wages and better working conditions
 - Secondary sector just the opposite with blacks/women primarily in this sector.
 - Again, the issue is why do the two sectors exist in the first place and why are blacks/women in these sectors?

- Search related monopsony power.
 - Suppose some but not all firms don't hire women (perhaps due to personal prejudice of firm/customers/workers) but not true for males.
 - This implies that women must search longer to find a job than males, increasing search costs.
 - Recall our search cost model which concludes that this alone would reduce wages for women.
 - Collusion
 - Firms may collude to decrease wages for women/blacks in order to increase their profits.
 - Why? Workers divided by race/gender are harder to organize => increases the firm's monopsony power => decreases wages and increases profits.
 - Implies that all workers, but especially blacks/women, lose from "discrimination".
 - What are problems with this view?
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- Federal Programs to Reduce Discrimination

- What are the approaches that federal programs have taken in attempting to reduce discrimination?
 - Mandate non-discrimination.
 - Affirmative action – firms must be conscious of race/gender in decisions like hiring/promotions.
 - What are the laws? You should know some of the details including problems in enforcement of the following laws:
 1. The Equal Pay Act (1963)
 2. Title 7 of the Civil Rights Act (1964)
 - How effective have the federal programs been?
 - Review of federal affirmative action programs shows a slight redistribution of employment to blacks/women.
 - The programs tend not to have decreased standards for women and only slightly for blacks with less evidence that job performance decreases.
 - Has this change in one sector of the economy (with federal affirmative action programs) affected the entire economy?
 - Ratio of black/white income has increased since 1960. Why? Anti-discrimination laws or other reasons? Some other reasons include:
 - Increasing educational attainment of blacks (20-25% of increased income)
 - Increasing quality of education (15-20% of increased income).
 - Decreasing LFPR of blacks – why is another explanation? (10 to 20 % of increased income).
 - Approximately 33 percent of increased income left to explain by other factors including anti-discrimination laws but also other things as well.
 - Points to make about the issue.
 - There exists a sudden increase in black income between 1960 and 1975 coinciding with federal programs.
 - The largest increase in Black income in south where largest levels of discrimination and federal efforts were also the largest.
 - Although individual programs were individually weak => overall may have been larger impact.
 - In the 1960s and 1970s there existed clear returns to the anti-discrimination programs. This is not true after 1980 => evidence that once the most blatant forms of discrimination are dealt with effect of federal programs are weaker or non-existent.
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