ECO 450G Notes - Spring 2003 Semester – March 13, 2003

Chapter 10 – Discrimination in the Labor Market

I. Racial Discrimination in the Labor Market
II. Class Discrimination in the Labor Market
III. Sex Discrimination in the Labor Market

I. Racial Discrimination in the Labor Market

If minority workers are discriminated against in the labor market, their incomes will be depressed. If discrimination is prevalent at the "bottom" of the labor market, then minorities will be heavily represented among the poor.

There are substantial gaps in the poverty rates across race, gaps that could be explained by a host of factors including discrimination. Note that Schiller claims that the white/non-white gap in average incomes is $24,000, while the number given in chapter 7 was only $17,000.

Discrimination may manifest itself in a number of ways:

Nonmarket discrimination: Part of the differences in incomes results from differences in schooling, and part comes from regional and urban differences.

Past labor market discrimination: Prior discrimination would result in minorities being less skill, less experiences, and lower seniority.

Current labor market discrimination: As we saw in the Bertrand and Mullainathan study, there is credible evidence of discrimination in the labor market today.

Figure 10.1 shows that among *workers*, the mean earnings of white males was about 50% higher than for black or Hispanic males – about $38,000 versus $25,000 per year.

Several questions come up about these number from the 1998 CPS supplement.

- Chapter 7, which was alluded to on page 174-5 of this chapter, cites incomes of $43,000 for white families and $26,000 for black / hispanic families (see page 134 of Schiller, first full paragraph).
- The numbers in chapter 7, on the surface, seem inconsistent with these numbers because the gap between earnings and family income is only on the order of $1,000-$5,000. This would seem to imply that either (a) very few of these men are married, (b) they are married, but have non-working wives.
- The other explanation, which is probably correct, is that these numbers are only for those who worked at all – the unemployed who have zero earnings – are probably not included. If they were included, these numbers would be somewhat lower. In Table 10.2, Schiller cites unemployment rates for whites around 4%, Hispanics around 6%, and Blacks around 8%.
- Note that the title to figure 10.1 says the earnings are "mean" earnings, while the last sentence on page 176 / first sentence on page 177 says they are "median" earnings.

Part of the 50% earnings gap is surely because of differences in education – as Table 10.1 illustrates, once education is accounted for, the average earnings are more similar in general (but are still not equal).

- Again, several questions arise with Table 10.1 – this table apparently is used for the graphs in Figure 8.2 on page 146. These numbers, then, provide further evidence of the typos by comparing Table 8.1 and Figure 8.2.

Schiller points out that although controlling for years of schooling does reduce the gap in earnings, even with the same education grouping, there are differences in the quality of schooling. Therefore, the earnings gap would shrink further if we were able to control for differences in quality.

The conclusion from these graphs, therefore, is that much of the earnings disparity between whites and blacks can be attributed to prior (nonmarket) discrimination. Only about one-fourth of the disparities are directly attributable to discriminatory labor market practices.

The conclusion, therefore, is that most of the problems occur outside of the labor market, not inside it. To the extent that labor market discrimination exists, however, one can break down earnings differentials by employment levels, occupational differences, wage differences, and training differences.

- Although each of these gaps helps explain the white/non-white earnings differential, they neither "prove" nor "disprove" discrimination.
- Unemployment rates are higher for blacks and Hispanics (Table 10.2)
- The duration of unemployment is higher for blacks, but not Hispanics.
- There are differences in occupational status (e.g., the distribution of white-collar, blue-collar, service jobs, and farm workers). See Table 10.3. It is clear from this table, however, that the differences in occupations by gender is <u>far</u> more dramatic than the differences by race. Men are relatively more concentrated in "blue-collar" jobs, while women are relatively more concentrated in the "white-collar" and service jobs.
- Holding constant occupation and hours of work, Table 10.4 shows that white men almost uniformly make more money per week than black or Hispanic men. To the extent that the jobs with these occupations really are similar, this would provide the most conclusive evidence on wage disparities due to race (although it still does not control for education differences or job tenure).
- Training: Schiller cites a study that whites get nearly double on-the-job training as minority workers, but does not say what percentage this is.

There are several ways that discrimination in the labor market may manifest itself. The term "institutionalized discrimination" may be unintended efforts that disproportionately benefit white workers. For example, "word-of-mouth" recruiting is an efficient way of finding job applicants, but may exclude those who are already shut out from the firm. Companies may also be less likely to recruit in minority residential areas, especially ghetto areas.

> At least at most universities (and probably large firms), there are very explicit efforts to spread the message about job openings. Many universities, for example, require job announcements to be made in public places (for example, the internet), and have an application period.

There is also potentially overt discrimination based on outright racism. In the past, some labor unions have been guilty of such practices. It is also claimed by Schiller (page 185) that "employers will often ignore potential minority workers, not as a result of their own prejudice, but because they fear that such hiring will trigger the prejudices of white employees or existing customers."

> This seems inconsistent with many recent debates over affirmative action. Many large private companies have come out very publically supporting affirmative action efforts. For example in an extremely important upcoming Supreme Court case (*Gratz v. Bollinger* and *Grutter v. Bollinger*) several white applicants are suing the University of Michigan for using race as a factor in admissions. Microsoft, Intel, American Airlines, Procter & Gamble, Eastman Kodak and PepsiCo are among more than 40 Fortune 500 companies siding with the University of Michigan in the case – see http://www.washtimes.com/business/20030208-84263001.htm .

Firms may also have objective, but discriminatory hiring practices like the use of employment tests and other credentials. These are discriminatory when the tests have no direct relationship to job performance.

Another practice, besides overt discrimination, is *statistical discrimination*. Like overt discrimination, statistical discrimination is illegal. The notion is that, because on average, white workers have more education, skill, and experience than non-white workers, an employer is statistically safer in hiring white workers. That is, race is correlated with objective characteristics that the employer does want to screen on – at least on average.

It is argued that competitive pressures would leave discriminating firms at an economic disadvantage. That is, if minority workers were paid wages below their productivity, some opportunistic firm could enter the market and make above-average profits.

> Schiller notes that this would be true in a *perfectly competitive* market, but many markets are imperfect – there are barriers to entry, information imperfections, brand name loyalty, etc.
>
> Nonetheless, even if competitive practices do not entirely wipe out discrimination, they probably put important limits on it.

II. Class Discrimination in the Labor Market

The notion here is that equally qualified individuals from low income backgrounds are denied access to better jobs and pay.

Corporations may fail to recruit in poor areas and ghettos, and may rely on recruiting mechanisms like word of mouth contact. Moreover, Schiller cites that "Conduct, speech, and dress are among those factors that create communications barriers. Employers tend to see these differences as indicators of ability rather than the result of socioeconomic environment."

- It is important to note that the line between what is discrimination is very difficult here. Issues like conduct, speech, and dress are potentially indicators of ability to do a job.

III. Sex Discrimination in the Labor Market

Women tend to enter the labor market with less human capital, training for different kinds of work, and potentially different preferences for full- versus part-time work. As Table 10.6 shows, the occupational distributions for men and women are somewhat different, and the presumption is that women are "pushed into" traditional jobs for women.

- Note that for most jobs, there is no biological basis for stating that they should be male-jobs or female-jobs.
- The table implicitly defines traditional jobs not by any biological basis, but by the sex composition.
- It is therefore true in a mechanical sense that "traditional female" jobs will have a majority of female employees, and "traditional male" jobs will have a majority of male employees.

Occupational segregation, job interruptions due to childbirth, and discrimination are the likely causes of these wage gaps.