

## Introduction on labor market differentials

*Mariola Pytliková*

VŠB-Technical University Ostrava,

CReAM, IZA, CCP and CELSI

*Info about lectures:* <http://home.cerge-ei.cz/munich/labor14/>

*Office hours:* by appointment

*Contact:*

Email: [Mariola.Pytlikova@vsb.cz](mailto:Mariola.Pytlikova@vsb.cz)

Mobile: 739211312

VŠB-Technical  
University Ostrava

## Study Materials and Reading List

- Slides of the lectures (provided one day in advance or on the day of the class)
- All materials provided on: <http://home.cerge-ei.cz/munich/labor14/>
- J. Altonji and R. Blank. (1999) "Race and Gender in the Labor Market." In O. Ashenfelter and D. Card, eds., *Handbook of Labor Economics*, vol. 3C, 3143-259.
- M. Bertrand. (2010) "New Perspectives on Gender," *Handbook of Labor Economics*, vol. 4B, 1543-90.
- Ehrenberg and Smith: "Modern Labour Economics: Theory and Policy"; Chapters 8 and 12, not compulsory
- F. Blau and L. Kahn. (2003) "Understanding International Differences in the Gender Pay Gap," *Journal of Labor Economics* 21, not compulsory
- Borjas: Labor Economics, Chapters 5 and 9

VŠB-Technical  
University Ostrava

## OUTLINE

1. Differences on labour markets by gender and ethnicity: some facts and evidence
2. Factors explaining wage differentials
  1. Workers characteristics
  2. Job and firm characteristics

*In the next lectures on January 28<sup>th</sup>:*

- **Compensating wage differentials**
- **Discrimination – theory and empirics;**

VŠB-Technical  
University Ostrava

## DIFFERENCES ON LABOUR MARKETS by GENDER

*Women are more likely to not to work; when they do have jobs, they earn less than men*

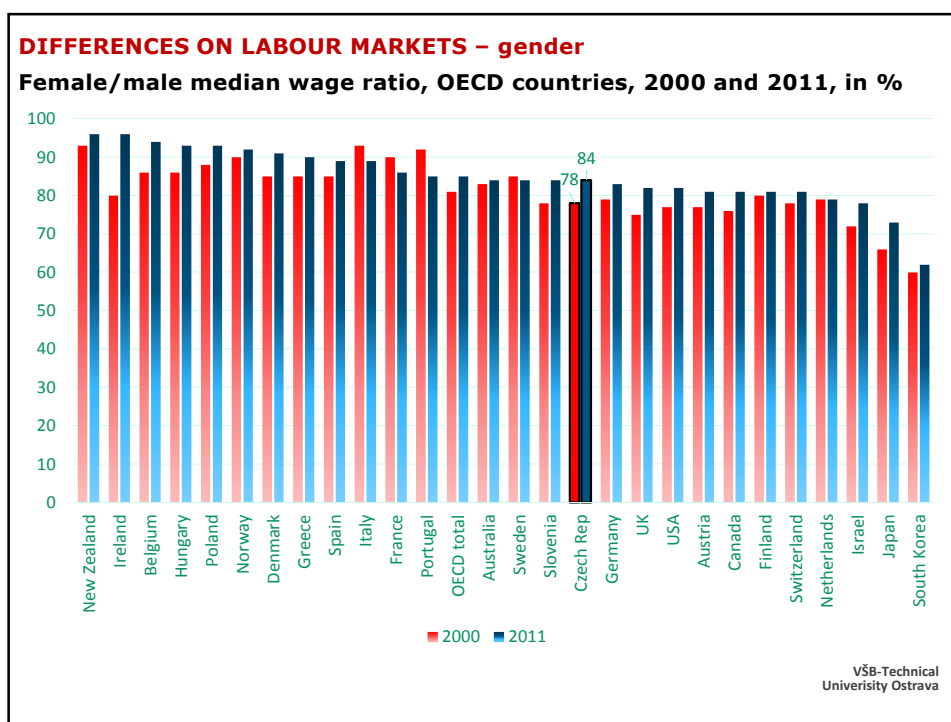


- Labour force participation
- Earnings
- Glass ceiling: share of women on boards

VŠB-Technical  
University Ostrava

**DIFFERENCES ON LABOUR MARKETS – gender**  
**Gender labour force participation gap, OECD countries, 2000 and 2012**

Country	2000		2012			2000		2012	
	Female	Male	Female	Male		Female	Male	Female	Male
Australia	65	83	70	83	Japan	60	85	63	84
Austria	62	80	70	81	Korea	52	77	55	78
Belgium	57	74	61	73	Netherlands	65	83	74	84
Canada	70	82	74	82	New Zealand	67	83	73	83
<b>Czech Rep.</b>	<b>64</b>	<b>79</b>	<b>64</b>	<b>80</b>	Norway	76	85	76	81
Denmark	76	84	76	81	Poland	60	72	60	73
Finland	72	78	73	77	Portugal	64	79	70	78
France	62	75	67	75	Slovakia	63	77	62	77
Germany	63	79	72	82	Spain	53	80	69	81
Greece	50	77	58	77	Sweden	76	81	78	83
Hungary	53	67	58	71	Switzerland	72	89	77	89
Ireland	56	80	62	77	United Kingdom	69	84	71	83
Israel	56	67	67	76	United States	71	84	68	79
Italy	46	74	54	75	OECD Total	59	81	<b>62</b>	<b>80</b>



**DIFFERENCES ON LABOUR MARKETS – gender**  
**Female Earnings in the U.S. as a % of Male Earnings, by Age and Education, Full-Time Workers, 2008**

**Female Earnings as a Percentage of Male Earnings, by Age and Education, Full-Time Workers, 2008**

Age	High School Graduate (%)	Bachelor's Degree (%)	Master's Degree (%)
25–34	75	74	79
35–44	65	71	67
45–54	68	63	59
55–64	79	60	66

VŠB-Technical University Ostrava

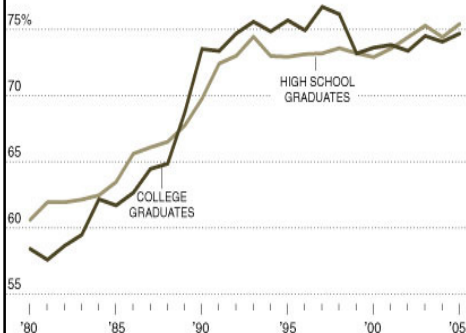
**Glass Ceiling - Trends in the US**

**Few Cracks in the Glass Ceiling**

While the gap in pay between men and women narrowed in the 1980s and 1990s, some groups of women are actually losing ground. Highly educated women are faring less well than a decade ago, and women making the most face a larger gap than those with lower income.

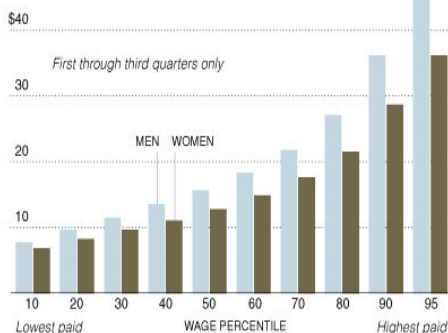
**Women's pay as a percentage of men's at different education levels**

Wage and salary workers, 36- to 45-year olds



**2006 hourly pay at each wage ranking**

Wage and salary workers, 18- to 64-year olds



Sources: Economic Policy Institute; U.S. Department of Labor

The New York Times  
 VŠB-Technical University Ostrava

### Glass Ceiling - Trends in the EU

- Under-representation of women in management positions
- Some progress of women reaching senior management positions over time, but very slow

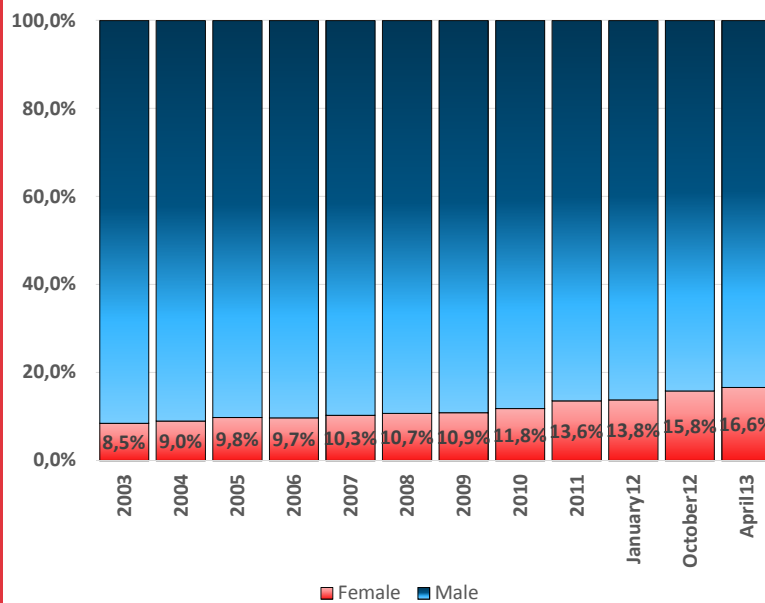


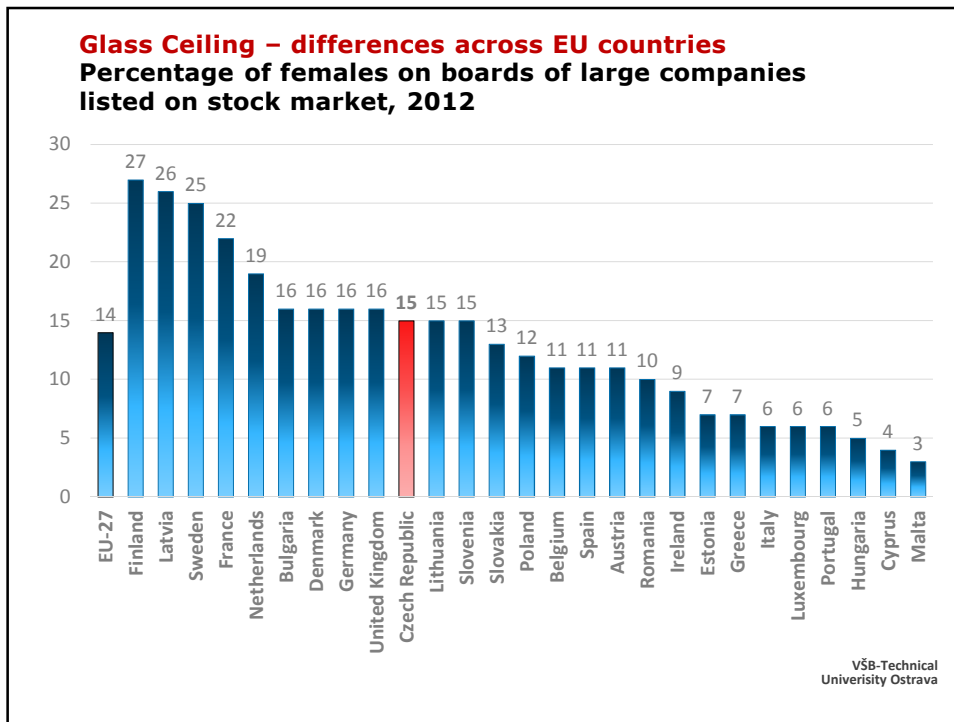
VŠB-Technical University Ostrava

### Glass Ceiling - Trends in the EU

There is a progress on measures of female representation on boards, in particular in recent years, yet the share continues to be low.

Source: European Commission, Database on women and men in decision-making





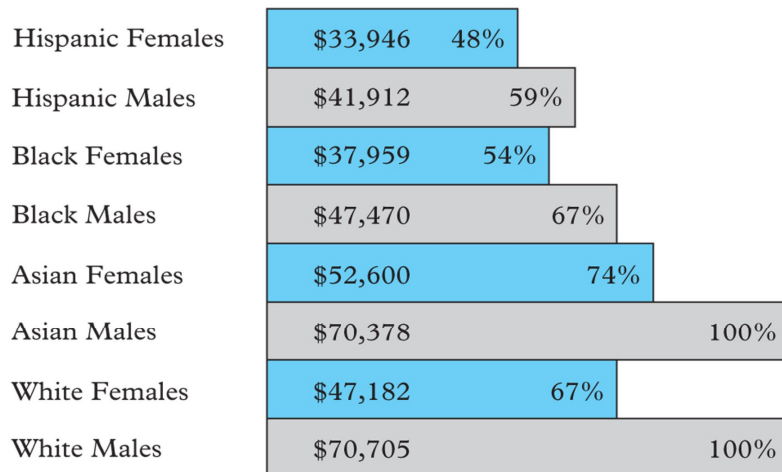
**DIFFERENCES ON LABOUR MARKETS by ETHNICITY and RACE**

- Earnings
- Labour force participation

VŠB-Technical University Ostrava

**DIFFERENCES ON LABOUR MARKETS – ethnicity**

**Mean Earnings in the U.S. as a Percentage of White Male Earnings, Various Demographic Groups, Full-Time Workers over 24Years Old, 2008**



**DIFFERENCES ON LABOUR MARKETS – Race and gender**

**Employment Ratios, Labor-Force Participation Rates, and Unemployment Rates in the U.S., 1970–2009**

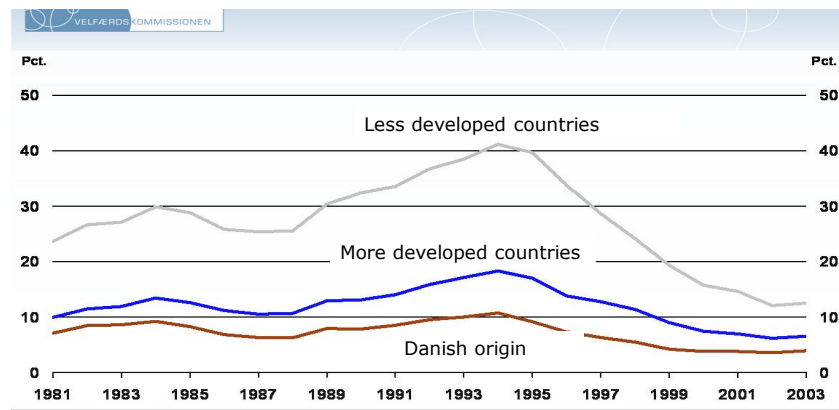
Employment Ratios, Labor-Force Participation Rates, and Unemployment Rates, by Race and Gender,<sup>a</sup> 1970–2009

Year	Employment Ratio		Labor-Force Participation Rate		Unemployment Rate	
	Blacks (%)	Whites (%)	Blacks (%)	Whites (%)	Blacks (%)	Whites (%)
Men						
1970	71.9	77.8	77.6	81.0	7.3	4.0
1980	62.5	74.0	72.1	78.8	13.3	6.1
1990	61.8	73.2	70.1	76.9	11.8	4.8
2000	63.4	72.9	69.0	75.4	8.1	3.4
2009	53.7	66.0	65.0	72.8	17.5	9.4
Women						
1970	44.9	40.3	49.5	42.6	9.3	5.4
1980	46.6	48.1	53.6	51.4	13.1	6.5
1990	51.5	54.8	57.8	57.5	10.8	4.6
2000	58.7	57.7	63.2	59.8	7.2	3.6
2009	52.8	54.8	60.3	59.1	12.4	7.3

VŠB-Technical University Ostrava

## DIFFERENCES ON LABOUR MARKETS – ethnicity

### Unemployment in Denmark by region of origin



Source: Velfærdskommissionen, "Fremtidens velfærd og globaliseringen", 2005<sub>to</sub> VŠB-Technical University Ostrava

## FACTORS EXPLAINING WAGE DIFFERENTIALS

### Why do different workers get paid differently?

• **Worker characteristics** - differences in the attributes that different workers bring with them:

1. Human Capital – *and factors that we can measure*: Age, education, work experience/tenure, being a specialist
2. Effort, ability, trust, work ethics;
3. Social preferences, Gender identity
4. Personality traits – big five and others
5. Attitudes towards negotiations



## FACTORS EXPLAINING WAGE DIFFERENTIALS

### Job characteristics:

1. Unpleasantness of job
2. Risky jobs (risk of injury, risk of unsafe sex)
3. Attractiveness of job (comfort, prestige, but also geographical)
4. Work flexibility (flexi-time, flexi-place, firm-childcare etc.)
5. Management practices – objective/subjective evaluations, mentoring programs, diversity goals and diversity management

Firms with unpleasant, risky, not-attractive, not-flexible working conditions must offer *some offsetting advantage* in order to attract workers. OR for the opposite case of attractive/desirable job - a given worker would be willing to accept a *lower* wage for an especially desirable job, relative to other jobs. In addition, workers have different preferences. Management practices matter too.

**Compensating wage differentials theory** tells: how workers and firms "match and mate".

*More on compensating wage differentials during the next lecture on January 28<sup>th</sup>*

VŠB-Technical  
University Ostrava

## FACTORS EXPLAINING WAGE DIFFERENTIALS

2. Non-compensating wage differentials
  1. Barriers to mobility – geographical, legislation.
  2. Discrimination

- **Discrimination** exist if individuals who have identical characteristics are treated differently because of the demographic groups to which they belong.

*More on discrimination (theories and empirics) on the next lectures on January 28<sup>th</sup>*

VŠB-Technical  
University Ostrava

## **FACTORS EXPLAINING WAGE DIFFERENTIALS - a gender perspective**

### **Human capital model** (Mincer & Polachek, 1974; Becker, 1985)

- E.g. gender differences in qualification - given the traditional division of labour by gender in the family:
  - Women tend to accumulate less labour market experience than men;
  - Women anticipate shorter & discontinuous work lives, they have lower incentives to invest in market-oriented formal education and on-the-job training (*changing*);
  - The longer hours women spend on housework may also decrease the effort they put into their market jobs compared to men (*changing*);

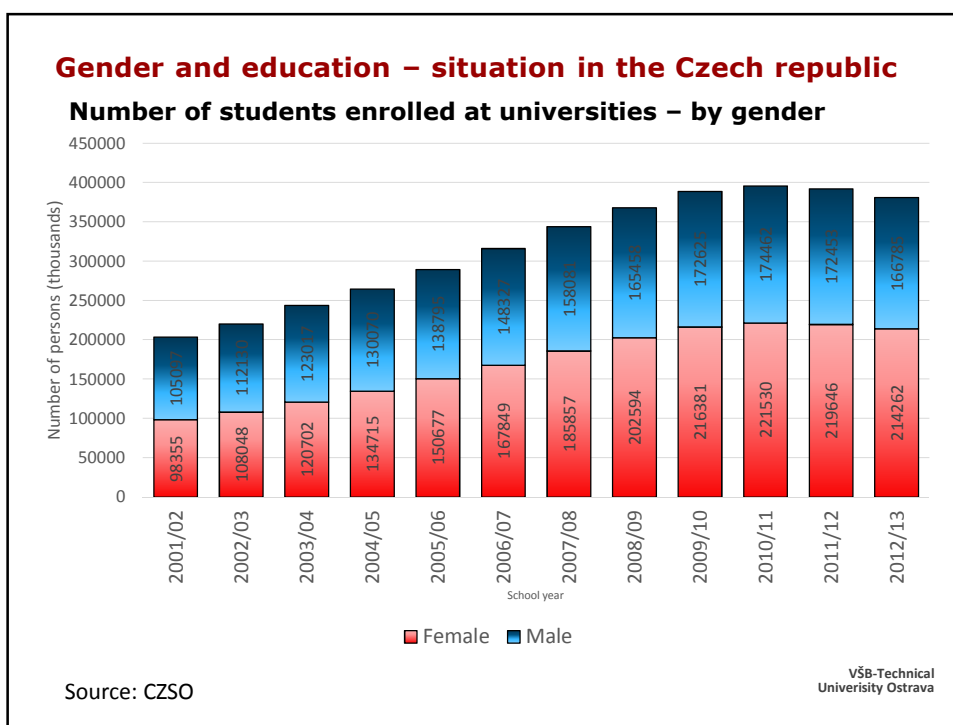
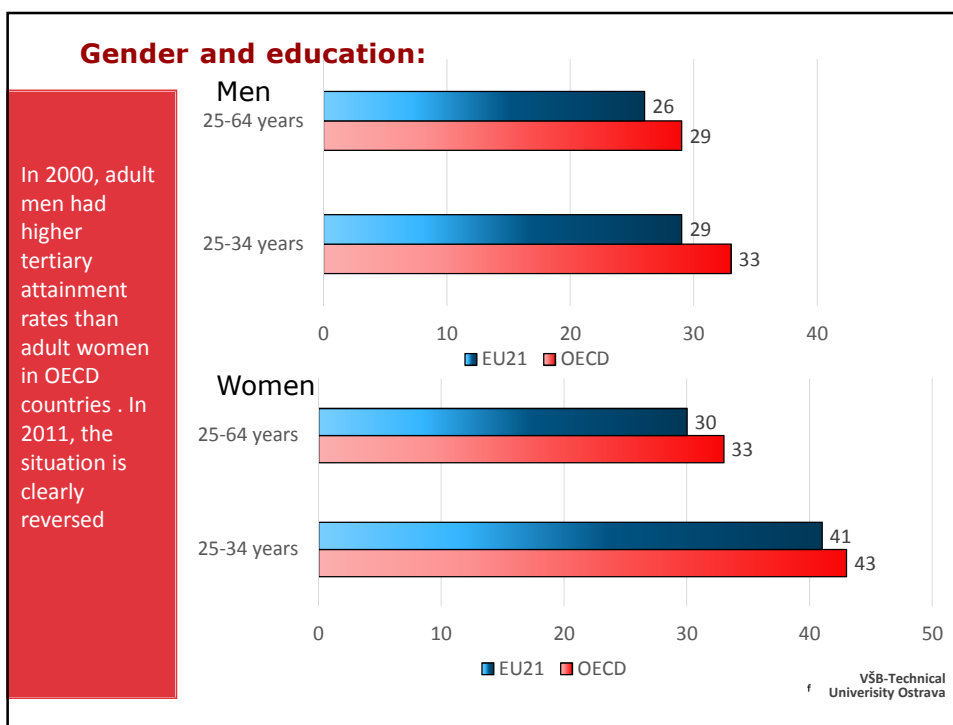
*MORE on HC model in a separate lecture by DM. But now a few observations from the gender perspective...*

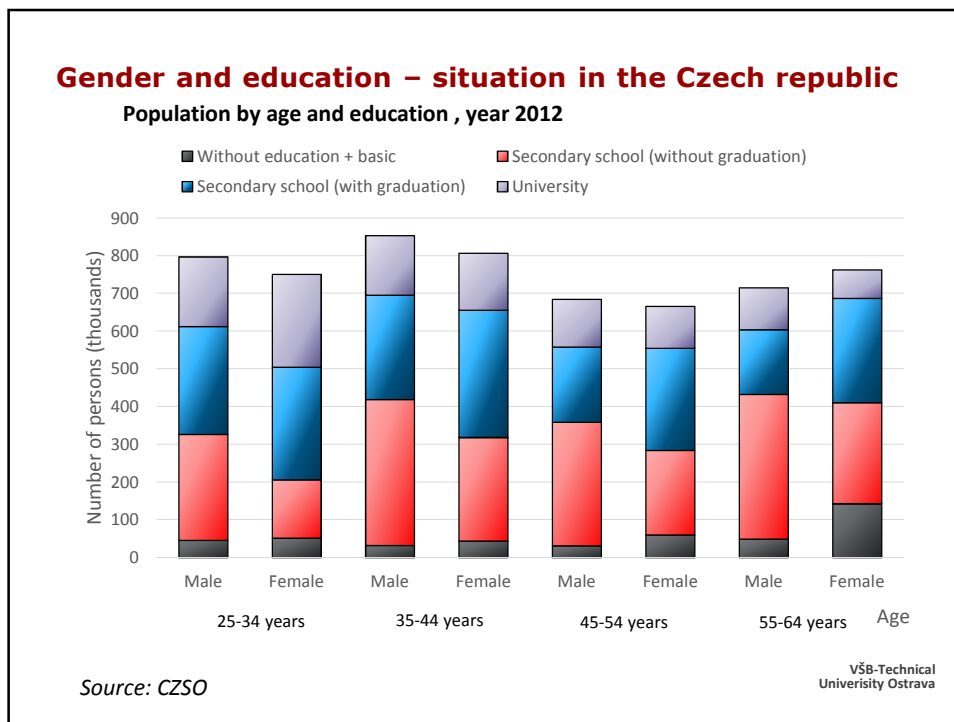
VŠB-Technical  
University Ostrava

### **Gender - Age and education**

- Women used to have less education than men, but the differences have vanished over time; more recent cohort of females have similar and even higher education levels than men

VŠB-Technical  
University Ostrava





### Gender - Age and education

- Women used to have less education than men, but the differences have vanished over time; more recent cohort of females have similar and even higher education levels than men
- Women's age/earnings profiles are flatter than men's (less training?)
- However, age and education do not fully explain the earnings differential between men and women

### Gender - Occupation

- Men and women do not generally choose to work in the same occupation
- Much of the gender wage gap is due to differences in occupational choice
- Those occupations that are disproportionately filled by women offer lower wages, on average, than those occupations that are disproportionately filled by men
- One issue that is not easy to resolve is whether this difference in occupational choice is due to differences in preferences and planned lifetime labor force activities (and compensating wage diff) or whether it is due to discriminatory employment practices in higher paid occupations.

VŠB-Technical  
University Ostrava

### Men and women comparison by occupations (US, 2009)

#### Female/Male Earnings Ratios and Percentages of Female Jobholders, Full-Time Wage and Salary Workers, by Selected High- and Low-Paying Occupations, 2009

	Percentage Female in Occupation	Female-to-Male Earnings Ratio
<i>High-Paying<sup>a</sup></i>		
Chief executives	24	0.75
Computer software engineers	21	0.85
Lawyers	37	0.75
Pharmacists	43	0.76
<i>Low-Paying<sup>a</sup></i>		
Cashiers	71	0.86
Cooks	37	0.93
Food preparation	52	0.95
Waiters and Waitresses	66	0.87
Personal and home care aides	83	0.96

VŠB-Technical  
University Ostrava

### Gender - Experience and Hours of Work

- Women typically have less work experience than men at the same age
- Empirical analyses show that labor market experience is very important factor explaining differences between men and women's wages (within the same occ.)
- Women with children have less experience – they more often work part time and are away from the labor market in periods (maternity penalty)
- Women are less flexible on the labor market
- Women self-select into family-friendly jobs with flexible working schedules
- Women are less likely to be promoted

VŠB-Technical  
University Ostrava

### GENDER IDENTITY – SOCIOLOGICAL RESEARCH

Preferences – C. Hakim (2000, 2008)

The preference theory puts forth a typology of women based on their relationship to family and paid work. Hakim distinguishes 3 types of women based on lifestyle preferences:

- *Home-centred women*, prefer to devote themselves to the family and household and tend to have larger families; they only seek work if it is necessary to maintain the family budget.
- *Work-centred women*, who realize themselves more through work than through family; they form a kind of counterpart to the preceding type.
- *Adaptive women*, who try to combine their work at the workplace and at home; they are a kind of mixture of types 1 and 2.

The empirical data from UK and Spain produce a normal distribution curve and show that 20% of women are home-centred, 60% adaptive, and 20% work-centred (*Hakim, 2000: 6*).

VŠB-Technical  
University Ostrava

## PERSONALITY TRAITS

### Differences in Psychological factors, e.g.:

- *Risk attitudes*: individuals that are less willing to take risk tend to sort into occupations with more stable earnings; these occupations, due to compensating wage differentials in environments with risk-averse agents, also tend to pay less on average; Research shows gender differences in risk-aversion
- *Competitiveness* - high-earning occupations often take place in highly competitive settings where winners and losers are singled out and winners are disproportionately rewarded; women less competitive.
- Other:
  - *Locus of control*
  - *Grit*
  - *Self-esteem*

VŠB-Technical  
University Ostrava

## ATTITUDES TOWARDS NEGOTIATION

- Research on gender differences in competition and gender differences in social preferences has been linked to an earlier literature on gender differences in negotiation.
- Women –less performance in *negotiation* (a traditional saying “WOMEN DON’T ASK” for pay increase or promotion).
- Research shows that women’s performance in negotiation improves significantly when negotiating for someone else as opposed to for themselves; whereas if men negotiate for themselves or for others has little effect on their negotiation performance.

VŠB-Technical  
University Ostrava

**THE NEXT LECTURE: 16.1.2015 with Daniel Münich**

**OUR NEXT LECTURES: 28.1.2015, 8.30-12**

- Compensating wage differentials
- Discrimination – theory and empirics; methodology – decompositions, experiments;
- Empirical evidence from the Czech rep.