

Discrimination

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Study Materials and Reading List

- Slides of the lectures (provided 1 day in advance or on the day of the class)
- All materials provided on: <http://home.cerge-ei.cz/munich/labor15/>

Compulsory:

- Borjas: Labour Economics; Chapter 9 Labor market discrimination.
- M. Bertrand and S. Mullainathan. (2004) "Are Emily and Greg More Employable than Lakisha and Jamal? A Field Experiment in Labor Market Discrimination," *AER* 94 (Sept), pp. 991-1013.

Optional:

- M. Bertrand. (2010) "New Perspectives on Gender," *Handbook of Labor Economics*, vol. 4B, 1543-90.
- G. Becker (1957), *The Economics of Discrimination*.
- Hamermesh and Biddle. (1994) "Beauty and the Labor Market," *AER* 84
- J. Altonji and R. Blank. (1999) "Race and Gender in the Labor Market." In Ashenfelter and Card, *Handbook of Labor Economics*, vol. 3C, 3143-259.
- Lang & Lehmann, 2012. "Racial Discrimination in the Labor Market: Theory and Empirics," *JEL*, vol. 50(4), pp. 959-1006
- M. Niederle and L. Vesterlund. (2007) "Do Women Shy Away from Competition? Do Men Compete to Much?" *QJE* 122 (August), 1067-1101.
- Ehrenberg and Smith: *Chapter 12*, "Gender, Race and the Ethnic Labor Market"

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OUTLINE

1. Discrimination – theory
2. Discrimination - empirics

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DISCRIMINATION:

We know from previous lectures:



Why do different workers get paid differently?

- **Worker characteristics** - differences in the attributes that different workers bring with them
 - **Job characteristics & Compensating wage differentials**
 - **Discrimination**
- **Definition: Discrimination** on the labour market exists if individuals who have identical productive characteristics are treated differently because of the demographic groups to which they belong.
 - **Examples:** Men and women, natives and immigrants
 - Women in their late 20s without children
 - Immigrants with high education end up as taxi drivers

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Types of discrimination

- **Wage discrimination:** Present if prices paid by employers for given productive characteristics are systematically different for different demographic groups, e.g. men and women
- **Occupational discrimination:** Present if individuals with same educ. and productive potential are working in lower-paying occupations or with lower levels of responsibility than similar individuals from another demographic group, e.g. natives and immigrants, men and women etc.
- Occ. segregation is present if the distribution of occ. differs between demographic groups, e.g. men and women (female or male dominated occupations)
- It can be difficult to distinguish between occupational segregation and occupational discrimination
 - Occupational choices driven by preferences or discrimination?
 - Reverse causality?

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DISCRIMINATION: Theory

- Personal prejudice models (Becker, 1957) - Becker defines prejudice as a distaste/aversion for contact with other minority members.
 - Employers discrimination;
 - Discrimination of customers;
 - Employee discrimination;
- Statistical discrimination (Phelps, 1972),
- Appearance discrimination (Hammermesh, 1998);
- Crowding model (Krueger, 1962),
- Dual labour markets.

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DISCRIMINATION: Theory

Employers discrimination model (Becker, 1957):

- it says that if employer is white and white employer has a choice between black and white workers who are perfect substitutes, then a prejudice would make an employer to behave as if hiring a black worker is more expensive than it is. This is because a prejudiced employer would have to be compensated for interacting with blacks.
- =>a prejudiced employer would hire minority workers only if they receive a sufficiently lower wage than whites in order to make up for this discomfort => differences in wages between white and black workers depending on how strong employer's prejudice is.
- In a competitive market, non-discriminating firms will have higher profits than those firms that discriminate - firms that discriminate do so at a cost to their profit. In the long run, we would expect that this discrimination would be eliminated as a result of competition.

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DISCRIMINATION: Theory

Employers discrimination model (Becker, 1957):

- Assumptions;
- Model;
- Implications;
- Criticism;

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DISCRIMINATION: Theory

Employers discrimination model (Becker, 1957):

Assumptions;

- Either employers, customers, or employees have prejudicial tastes, i.e. do not associate with certain demographic groups
- Employer discrimination
 - The more prejudiced an employer is against equally qualified women or minorities in hiring, the more he will act as the latter were less productive than preferred group e.g. white males, i.e. actual productivity will be discounted (and the lower the wages of discriminated groups)
 - Max. utility (satisfying prejudicial preferences) instead of profit

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DISCRIMINATION: Theory

Employers discrimination model (Becker, 1957),

Model:

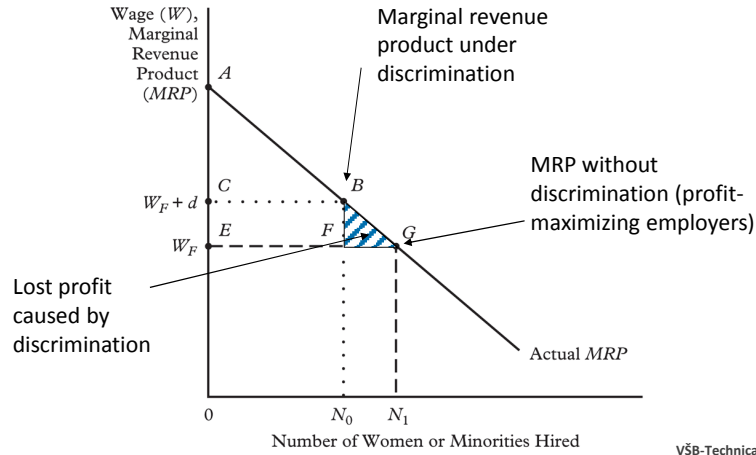
- Market equilibrium for white males:
- $MRP = W_M$
- $MRP - d = W_F \Rightarrow MRP = W_F + d$
- $W_F = W_M - d$
- MRP – marginal revenue productivity, d – extent to which this productivity is devaluated for minorities and women (discrimination factor), W – wage, M, F – male, female
- -> thus if the actual productivity of women and minorities is devaluated by employers, workers in these groups must offer their services at lower wages than white males to compete for jobs.

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DISCRIMINATION: Theory

Employers discrimination model (Becker, 1957)

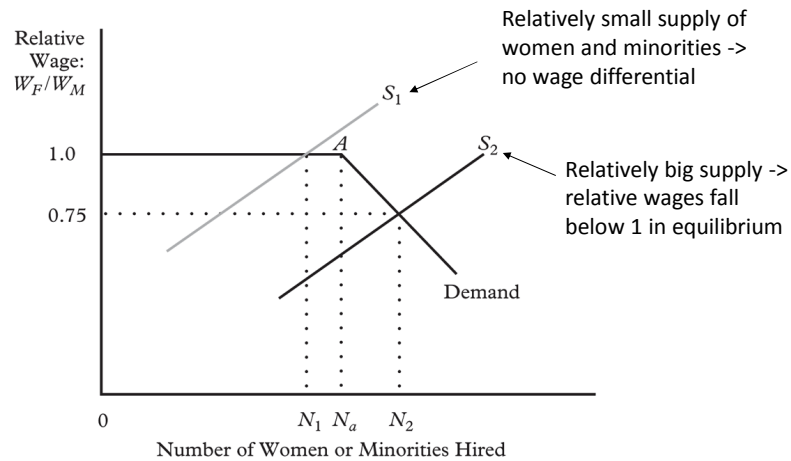
Implications - employment:



DISCRIMINATION: Theory

Employers discrimination model (Becker, 1957),

Implications - wages:



DISCRIMINATION: Theory

Employers discrimination model (Becker, 1957):

- **Critique** - observed persistence of wage gaps over time. Some recent articles try to explain, imperfect markets, or e.g. Kerwin Kofi Charles and Jonathan Guryan (2008): "Prejudice and Wages: Empirical Assessment of Becker's The Economics of Discrimination". Journal of Political Economy.
- Not only a story on discrimination, but also on **segregation**.

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DISCRIMINATION: Theory

Customers discrimination (Becker, 1957):

- Customer prejudice occurs when customers are willing to pay a higher price to buy goods and services from a favored worker group.
- The significantly lower wages of self-employed ethnic minority members are likely to be the result of customer prejudice.
- Customer discrimination raises product costs for those customers that discriminate and lowers the wages of the groups that are the targets of the discrimination.
- Consumer discrimination also leads to **occupational segregation** - at least occupations or workplaces with employees that interact with customers.
- Discriminatory taste of consumers - *example*:
 - *Customers prefer to be served by e.g. white males - Physicians, waiters, etc.*

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DISCRIMINATION: Theory

Employee discrimination (Becker, 1957):

- Employee discrimination occurs when workers avoid employment, in which they would interact with groups that are the target of their prejudice. In competitive markets, it would be profitable for firms to hire only the targets if such discrimination (due to their lower wages).
- If an employee has discriminatory pref. he will tend to quit or avoid employers who hire and promote on a non-discriminatory basis – otherwise he needs to be paid a wage premium
- However, in many occupations, there are insufficient numbers of minority or female workers available to fill such positions. The majority status of white males in some of these occupations allows for the continued existence of this form of discrimination.
- *Example:*
 - supervisors x workers
 - Men with a female boss, sharing responsibility with a minority member

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DISCRIMINATION: Theory

Statistical discrimination (Phelps, 1972):

- Information problems
- The differences of treatment of groups by ethnicity, race, gender arise from average differences between the groups in the expected value of productivity (or in the reliability with which productivity can be predicted) => this leads employers to discriminate on the basis of that average;
- If group characteristics are factored into the hiring decision, statistical discrimination can happen even in the absence of personal prejudice
 - E.g. individuals from a specific school has a good or bad reputation
- => part of the "screening problem" => firms use info on *individual* and *group* characteristics for their hiring decision;
- If not a prejudice, the employers will show evidence of "learning" and will rely less on "group affiliation";
- Sheep-skin hypothesis;
- *Example*

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DISCRIMINATION: Theory

Appearance discrimination (Biddle & Hammermesh, 1998, Hammermesh,...) – *Economics of Beauty*

- Differences in success between good-looking and ugly people;
- Differences stronger in private compared to public sector;

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DISCRIMINATION: Theory

Crowding model (Krueger, 1962):

- One group imposes some barriers of entering into the group;
- In order to be realistic – there must be certain barriers for some workers.
- *Example*

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DISCRIMINATION: Theory

Dual labour markets:

- The labour market is divided into two non-competing sectors
- Primary sector: characterized by high-wage jobs and stability
- Secondary sector: characterized by low-wage jobs, unstable, low return to education, (and female dominated)

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DISCRIMINATION: Theory

Non-competitive forces

- Search-related monopsony: Restricted mobility caused by job search costs for employees. Labour market is not completely competitive -> lower wage to individuals with high search costs.

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DISCRIMINATION: Summary of the theory

- No one model is superior to the others in explaining the facts
- All models agree that any persistence of labour market discrimination is the result of forces that are either non-competitive or very slow to adjust to competitive forces
- Potential for government intervention to eliminate non-competitive influences
 - Mandate non-discrimination
 - Force employers to hire a certain amount of minorities
 - Ensure "equal pay and equal opportunities" for people of comparable productivity

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WHAT DOES THE EMPIRICAL EVIDENCE SAY? Methods & Evidence:

1. Measuring Wage discrimination:

Oaxaca-Blinder decomposition – 4 step procedure:

- **decomposition into *characteristics* and *coefficients* .**
 - *Characteristics* – observables; what people bring into labour market.
 - *Coefficients* – "unexplained".
 - Wage gap is decomposed into differences in characteristics and differences in coefficients; the last one measures discrimination.

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WHAT DOES THE EMPIRICAL EVIDENCE SAY?

Methods & Evidence:

1. Measuring Wage discrimination:

Oaxaca-Blinder decomposition

- Measurement problems
 - Data-intensive, a potential for omitted variables bias
 - How to distinguish between labour market payoffs to productive char. and premarket choices about them?
- Empirical analyses show that labour market experience is very important factor explaining differences between men and women's wages (within the same occ.)
 - Women have less experience
 - Women's payoff to one extra year of experience is lower than for men
 - Frequency and timing of non-work may be important

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WHAT DOES THE EMPIRICAL EVIDENCE SAY?

Methods & Evidence:

2. Measuring Occupational Segregation

- **measures using matched employee-employer data, see e.g. study by Bayard, Hellerstein, Neumark and Troske (2001): "New Evidence on Sex Segregation and Sex Differences in Wages from Matched Employee-Employer Data"; similar studies on ethnic segregation.**
- **Measuring occupational segregation - Index of dissimilarity:** The percentage of the other gender/race/ethnicity that would have to change occupation in order to produce a completely even occupational distribution
 - [0,100] ← all occupations completely segregated
 - ↗ men and women are equally distributed across occ.
- The index is somewhere between 50 and 70 according to empirical studies and it is declining
- No measure available for distinguishing between preference-based segregation and discrimination
- The decline in the index is not the same as saying that discrimination is disappearing

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WHAT DOES THE EMPIRICAL EVIDENCE SAY? Methods & Evidence:

3. Experiments

- Field experiments provide a direct evidence on discrimination, however, limited to discrimination in hiring practices only.
- *audit and correspondence testing studies* - carefully matched pairs of testers (from different gender and ethnic groups) apply for the same job and evidence on discrimination is inferred from the degree of cross-group asymmetry in the distribution of successes.

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WHAT DOES THE EMPIRICAL EVIDENCE SAY? Methods & Evidence:

– Some Experimental Evidence on discrimination in hiring:

- e.g. Magnus Carlsson and Dan-Olof Rooth (2008): "Is It Your Foreign Name or Foreign Qualifications? An Experimental Study of Ethnic Discrimination in Hiring" - having foreign sounding name explains 77% of the total gap in the probability of being invited to an interview in Sweden, while having foreign qualifications explains only 23 %.
- E.g. Bertrand and Mullainathan (AER2004): "Are Emily and Greg more employable than Lakisha and Jamal?" study race in the labor market by sending fictitious resumes to help-wanted ads in Boston and Chicago newspapers. To manipulate perceived race, resumes are randomly assigned African-American- or White-sounding names. White names receive 50 percent more callbacks for interviews. They conclude that differential treatment by race still appears to be prominent in the U.S. labor market.

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Empirical evidence from the Czech republic

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