1. Discrimination: Overview

   a. Focus is on discrimination in labor markets

   b. We define “labor market discrimination” as treating equally productive workers differently (in hiring, promotion, or pay) on the basis of some characteristic, say, race, ethnicity, or gender.

   c. Distinction between pre-market/market outcomes. Labor market discrimination tries to measure differential treatment in markets, given pre-market attributes. That said, market discrimination can affect societal expectations and aspirations and lead to lower premarket investment (schooling, etc.)

   d. Empirical focus on wage differences by race, sex, ethnicity for “similarly productive” workers. How much can be explained? How much cannot? The residual or unexplained portion is our crude estimate of wage discrimination.

   e. Audit studies measure employment discrimination. Employment discrimination need not lead to substantial wage discrimination.

2. Discrimination: Theory

   a. Becker taste/preference models: source of discrimination is preferences of employer, employee (co-worker), and consumer. What are the implications of each?

      i. Employer preferences: employer willing to pay a price to discriminate, but this varies with strength of bias and extent of discretion allowed by market competitiveness. If there is wage differential between equally productive workers, then employer discrimination is costly and inconsistent with profit max. The more competitive the market, the more limited the scope for discrimination. Note two extremes: If all or most discriminate then discrimination puts firms at less of a competitive disadvantage, but once some firms stop discriminating it can break down quickly (many examples). Other extreme: with more limited discrimination and no wage differences, individual discrimination becomes costless, so prejudiced employers can flourish in a low-discrimination world. There can be many instances of illegal discrimination (as seen in audit studies), but no large wage difference. But a sizable wage gap from employer discrimination is inconsistent with profit-maximizing behavior.
ii. **Consumer preferences**: Most important for service industries where customers deal directly with firm employees. Important point is that MRP is affected by consumer bias and firms respond. This form of discrimination is consistent with profit maximization. Discuss: Airlines and flight attendants; professional sports (performance, popularity); pay for babysitters.

iii. **Employee/co-worker preferences**: Probably not important in U.S. today; some importance historically. If it is important, we would expect to see segregated plants doing similar work. If a group is small (Latvians) then it can lead to wage discrimination since all-Latvian plants/firms unlikely, and integrated plants will have higher costs.

b. **Crowding theories of discrimination.** More compelling for women than for race.

c. **Statistical discrimination.** Information on individual productivity is imperfect. Individuals judged in part by group productivity (based on schooling, age, race, sex, etc.). Insurance risk analogy. Not clear groups are harmed or paid incorrectly *on average* (if group means are correct). But individuals above mean productivity for their group are hurt (and vice-versa). Most important at worker ports of entry; effects should diminish as workers’ productivity observed with experience.

d. Empirical evidence does not in general clearly distinguish among the alternative theories.

a. Wage gaps and wage ratios. Ratio of \( W_b/W_w \) or \( W_f/W_m \) = .80 implies a .20 or 20% gap

b. Unadjusted (raw)

c. Race: Gap closing through about 1980 but not since. Unadjusted ratios \( W_b/W_w = .75 \) for men and .84 for women. Half to 2/3+ can be explained. Sensitive to inclusion of achievement score tests (AFQT). Large decline following 1964 Civil Rights Act and much of the closing of gap was in the south. Much (not all) of what remains is a skill differential, due in part to less HC within family and lower quality schooling. Selection bias in standard estimates due to lower LFPR for blacks.

d. Ethnicity: Varies tremendously across groups. Hispanic results look much like those for blacks using standard methods, but English proficiency and time in U.S. account for much of the Hispanic gap.

e. Gender: \( W_f/W_m \) about .80. Discuss history. This 20% gap cannot be explained away by our usual measures. Important to have measures of actual work experience and hours. But large gap remains. Either we do not have competitive world or the true gap is much smaller (say 5-10%, which is still nontrivial). Most economists focus on married women and family responsibilities, arguing that division of labor in family whereby women bear disproportionate responsibility for children and home production is the key. This leads to less attachment to labor force, fewer hours, less flexibility for travel, occupations choice, etc. Neither women (nor men) can have it all. As long as there is a gender gap in home production and the division of labor there will be a gender gap in wages.

f. Raw mean wages and wage gaps (2014 CPS): All Wage and salary workers: $22.69

i. F/M $20.24/$24.98 = .81 F/M wk earnings $776/$1,118 = .69
ii. F/M white 20.48/25.40 = .81 F/M black 17.18/19.16 = .90
iii. B/W men 19.16/25.40 = .75 B/W women 17.18/20.48 = .84
iv. H/W men 17.50/25.40 = .69 H/W women 15.16/20.48 = .74
v. A/W men 31.60/25.40 = 1.24 A/W women 25.08/20.48 = 1.22