

Chapter 11 – Discrimination In The Labor Market

I. Racial Discrimination in the Labor Market

III. Class Discrimination in the Labor Market

IV. Sex Discrimination in the Labor Market

I. Racial Discrimination in the Labor Market

Figure 11.1: 1-in-3 Blacks, and 1-in-5 Hispanics believe they have personally suffered from discrimination in the labor market. At the same time, 1-in-10 Whites also answer yes to this question.

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. In Chapter 8 (*The Underclass: Culture and Race*, p. 149), Schiller says “In 2001 median income among black and Hispanic households was around \$32,000, while among white Americans it was \$46,000.” Later in chapter 8 (p. 153), Schiller claims “an existing income disparity of \$20,000 per year.” In this chapter, he again asserts the \$20,000 difference.

Discrimination may manifest itself in a number of ways:

- *Nonmarket discrimination*: Part of the difference in income results from differences in schooling, regions and urban location.
- *Past labor market discrimination*: Prior discrimination would result in minorities being less skill, less experiences, and lower seniority.
- *Current labor market discrimination*: The Bertrand and Mullainathan study showed there is credible evidence of discrimination in the labor market today – at least in terms of call-back rates.

Disparities in Earnings

Figure 11.2 shows that among workers, the mean earnings of white males was about 50% higher than for black or Hispanic males – about \$52,000 versus \$34,000 per year. Blacks earn 67% of that of whites, and Hispanics, 58%.

Several questions arise from the numbers in the 2001 March CPS supplement.

- Chapter 8, which was alluded at the beginning of this chapter, cites incomes of \$46,000 for white families and \$32,000 for Black/Hispanic families.

- The numbers in Chapter 8, on the surface, seem inconsistent with these numbers because the gap between male workers' earnings and family income is only \$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.
- Another explanation – which is probably correct – is that the male worker numbers are only *for those who worked at all*. The unemployed who have zero earnings are probably not included. If they were included, the numbers in Chapter 11 would be somewhat lower. In Table 11.2, Schiller presents unemployment rates for whites around 4%, Hispanics around 6%, and Blacks around 8%.
- The title to Figure 11.2 says the earnings are “mean earnings”, while the Table 11.1 does not indicate whether the earnings are mean or median. In an earlier edition, Schiller claimed the earnings in Table 11.1 were median earnings, but they are not. Table 11.1 is apparently is used for the graphs in Figure 9.2 on page 161.

Part of the 50% earnings gap is surely because of differences in education – as Table 11.1 illustrates, once education is accounted for, the average earnings are more similar in general (but are still not equal). Earnings of Black and Hispanic males is 75-80% of that of whites.

Schiller points out that controlling for years of schooling reduces the gap in earnings, but does not eliminate it. Controlling for *quality* of schooling would shrink further if we were able to control for differences in quality.

The conclusion from these tables, therefore, is that some of the earnings disparity between whites and blacks can be attributed to prior (nonmarket) discrimination. Schiller says “Black workers of equivalent educational backgrounds, including both quantity and quality of schooling, earn incomes approximately 90 percent as large as their white counterparts. ... As a rough approximation, then, we may say that two-thirds of the \$18,000 earnings disparity is due to nonmarket discrimination (education, residence); one-sixth due to past market discrimination (work skills and experience); and one-sixth to current labor-market discrimination.”

- The bottom line, 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 11.2)
- The duration of unemployment is higher for Blacks, but not Hispanics.
- There are differences in occupational status (e.g., the distribution of white-collar, bluecollar, service jobs, and farm workers). See Table 11.3. It is clear from this table, however, that the differences in occupations by sex is far

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, Table 11.4 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.

Who Discriminates?

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 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. Schiller claims (page 201) 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 is inconsistent with many recent debates over affirmative action. Many large private companies have come out very publicly supporting affirmative action efforts. For example in an extremely important Supreme Court case (Gratz v. Bollinger and Grutter v. Bollinger) several white applicants sued 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.

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*. 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.

- This would be true in a perfectly competitive market, but many markets are imperfect – there are barriers to entry, information imperfections and brand name loyalty.
- 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.”

- 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 11.6 shows, the occupational distributions for men and women are somewhat different, and the presumption is that women are “pushed into” traditional jobs for women.

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.