Learning Objectives

By the end of this section, you will be able to:

- Analyze earnings gaps based on race and gender
- Explain the impact of discrimination in a competitive market
- Identify U.S. public policies designed to reduce discrimination

**Discrimination** involves acting on the belief that members of a certain group are inferior solely because of a factor such as race, gender, or religion. There are many types of discrimination but the focus here will be on discrimination in labor markets, which arises if workers with the same skill levels—as measured by education, experience, and expertise—receive different pay or have different job opportunities because of their race or gender.

A possible signal of labor market discrimination is when an employer pays one group less than another. Figure 13.18 shows the average wage of black workers as a ratio of the average wage of white workers and the average wage of female workers as a ratio of the average wage of male workers. Research by the economists Francine Blau and Laurence Kahn shows that the gap between the earnings of women and men did not move much in the 1970s, but has declined since the 1980s. According to the U.S. Census, the gap between the earnings of blacks and whites diminished in the 1970s, but has not changed in 50 years. In both gender and race, an earnings gap remains.

![Figure 13.18 Wage Ratios by Sex and Race](image)

Figure 13.18 Wage Ratios by Sex and Race: The ratio of wages for black workers to white workers rose substantially in the late 1960s and through the 1970s, but has not changed much since then. The ratio of wages for female to male workers changed little through the 1970s, but has risen substantially since the 1980s. In both cases, a gap remains between the average wages of black and white workers and between the average wages of female and male workers. Source: U.S. Department of Labor, Bureau of Labor Statistics.

An earnings gap between average wages, in and of itself, does not prove that discrimination is occurring in the labor market. We need to apply the same productivity characteristics to all parties (employees) involved. Gender discrimination in the labor market occurs when employers pay women less than men despite having comparable levels of education, experience, and expertise. (Read the Clear It Up about the sex-discrimination suit brought against Walmart.) Similarly, racial discrimination in the labor market exists when employers pay racially diverse employees less than their coworkers of the majority race despite having comparable levels of education, experience, and expertise. To bring a successful gender discrimination lawsuit, a female employee must prove the employer is paying her less than a male employee who holds a similar job, with similar educational attainment, and with similar expertise. Likewise,
someone who wants to sue on the grounds of racial discrimination must prove that the employer pays them less than an employee of another race who holds a similar job, with similar educational attainment, and with similar expertise.

The FRED database includes earnings by earnings by age, gender and race/ethnicity.

CLEAR IT UP

What was the sex-discrimination case against Walmart?

In one of the largest class-action sex-discrimination cases in U.S. history, 1.2 million female employees of Walmart claimed that the company engaged in wage and promotion discrimination. In 2011, the Supreme Court threw out the case on the grounds that the group was too large and too diverse to consider the case a class action suit. Lawyers for the women regrouped and are now suing in smaller groups. Part of the difficulty for the female employees is that the court said that local managers made pay and promotion decisions that were not necessarily the company’s policies as a whole. Consequently, female Walmart employees in Texas are arguing that their new suit will challenge the management of a “discrete group of regional district and store managers.” They claim these managers made biased pay and promotion decisions. However, in 2013, a federal district court rejected a smaller California class action suit against the company.

On other issues, Walmart made the news again in 2013 when the National Labor Relations Board found Walmart guilty of illegally penalizing and firing workers who took part in labor protests and strikes. Walmart has already paid $11.7 million in back wages and compensation damages to women in Kentucky who were denied jobs due to their gender.

As a result of changes in law and culture, women began to enter the paid workforce in substantial numbers in the mid-to late-twentieth century. By 2016, 64% of adult women held jobs while 75% of adult men did. Moreover, along with entering the workforce, women began to ratchet up their education levels. In 1971, 44% of undergraduate college degrees went to women. By 2017, women received 57% of bachelor’s degrees. In 1970, women received 5.4% of the degrees from law schools and 8.4% of the degrees from medical schools. By 2017, women were receiving 50% of the law degrees and 54% of the medical degrees. These gains in education and experience have reduced the female/male wage gap over time. However, concerns remain about the extent to which women have not yet assumed a substantial share of the positions at the top of the largest companies or in the U.S. Congress.

There are factors that can lower women’s average wages. Women are likely to bear a disproportionately large share of household responsibilities. A mother of young children is more likely to drop out of the labor force for several years or work on a reduced schedule than is the father. As a result, women in their 30s and 40s are likely, on average, to have less job experience than men. In the United States, childless women with the same education and experience levels as men are typically paid comparably. However, women with families and children are typically paid about 7% to 14% less than other women of similar education and work experience. (Meanwhile, married men earn about 10% to 15% more than single men with comparable education and work experience.)

We possibly could call the different patterns of family responsibilities discrimination, but it is primarily rooted in America’s social patterns of discrimination, which involve the roles that fathers and mothers play in child-rearing, rather than discrimination by employers in hiring and salary decisions.

LINK IT UP
The information provided by Catalyst will help you learn more about the persistently low numbers of women in executive roles in business and in the U.S. Congress.

Non-caucasians experienced blatant labor market discrimination during much of the twentieth century. Until the passage of the Civil Rights Act of 1964, it was legal in many states to refuse to hire a non-caucasian worker, regardless of the credentials or experience of that worker. Moreover, non-caucasians were often denied access to educational opportunities, which in turn meant that they had lower levels of qualifications for many jobs. At least one economic study has shown that the 1964 law is partially responsible for the narrowing of the gap in non-caucasians–caucasians earnings in the late 1960s and into the 1970s. For example, the ratio of total earnings of African American male workers to Caucasian male workers rose from 62% in 1964 to 78.8% in 2019, according to the Bureau of Labor Statistics.

However, the earnings gap across ethnic and racial categories has not changed as much as the earnings gap between men and women has in the last half century. The persistence of the earnings gap across race and ethnicity seems related both to continuing differences in education levels and to the presence of discrimination. Table 13.16 shows that the percentage of African Americans who complete a four-year college degree remains substantially lower than the percentage of caucasians who complete college. According to the U.S. Census, both caucasians and African Americans have higher levels of educational attainment than Hispanics and lower levels than Asians. The lower average levels of education for African American workers surely explain part of the earnings gap. In fact, African American women who have the same levels of education and experience as caucasian women receive, on average, about the same level of pay. One study shows that caucasian and African American college graduates have identical salaries immediately after college; however, the racial wage gap widens over time, an outcome that suggests the possibility of continuing discrimination. Another study conducted a field experiment by responding to job advertisements with fictitious resumes with either very African American sounding names or very caucasian sounding names and found out that caucasian names received 50% more callbacks for interviews. This is suggestive of discrimination in job opportunities. Further, as the following CLEAR IT UP feature explains, there is evidence to support that discrimination in the housing market is connected to employment discrimination.


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<thead>
<tr>
<th></th>
<th>Caucasian</th>
<th>Hispanic</th>
<th>African American</th>
<th>Asian</th>
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<tbody>
<tr>
<td>Completed four years of high school or more</td>
<td>93.0%</td>
<td>66.7%</td>
<td>87.0%</td>
<td>89.1%</td>
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<tr>
<td>Completed four years of college or more</td>
<td>36.2%</td>
<td>15.5%</td>
<td>22.5%</td>
<td>53.9%</td>
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CLEAR IT UP
How is discrimination in the housing market connected to employment discrimination?

In a recent study by the Housing and Urban Development (HUD) department, realtors show black homebuyers 18% fewer homes compared to white homebuyers. Realtors show Asians are shown 19% fewer properties. Additionally, Hispanics experience more discrimination in renting apartments and undergo stiffer credit checks than white renters. In a 2012 U.S. Department of Housing and Urban Development and the nonprofit Urban Institute study, Hispanic testers who contacted agents about advertised rental units received information about 12% fewer units available and were shown 7% fewer units than white renters. The $9 million study, based on research in 28 metropolitan areas, concluded that blatant “door slamming” forms of discrimination are on the decline but that the discrimination that does exist is harder to detect, and as a result, more difficult to remedy. According to the Chicago Tribune, HUD Secretary Shaun Donovan, who served in his role from 2009-2014, told reporters, “Just because it’s taken on a hidden form doesn’t make it any less harmful. You might not be able to move into that community with the good schools.”

The lower levels of education for black workers can also be a result of discrimination—although it may be pre-labor market discrimination, rather than direct discrimination by employers in the labor market. For example, if discrimination in housing markets causes black families to live clustered together in certain poorer neighborhoods, then the black children will continue to have lower educational attainment than their white counterparts and, consequently, not be able to obtain the higher paying jobs that require higher levels of education. Another element to consider is that in the past, when blacks were effectively barred from many high-paying jobs, obtaining additional education could have seemed somewhat pointless, because the educational degrees would not pay off. Even though the government has legally abolished labor market discrimination, it can take some time to establish a culture and a tradition of valuing education highly. Additionally, a legacy of past discrimination may contribute to an attitude that blacks will have a difficult time succeeding in academic subjects. In any case, the impact of social discrimination in labor markets is more complicated than seeking to punish a few bigoted employers.

The 1992 Nobel Prize economics winner, Gary Becker was one of the first people to analyze discrimination in economic terms. Becker pointed out that while competitive markets can allow some employers to practice discrimination, it can also provide profit-seeking firms with incentives not to discriminate. Given these incentives, Becker explored the question of why discrimination persists.

If a business is located in an area with a large minority population and refuses to sell to minorities, it will cut into its own profits. If some businesses run by bigoted employers refuse to pay women and/or minorities a wage based on their productivity, then other profit-seeking employers can hire these workers. In a competitive market, if the business owners care more about the color of money than about the color of skin, they will have an incentive to make buying, selling, hiring, and promotion decisions strictly based on economic factors.

Do not underestimate the power of markets to offer at least a degree of freedom to oppressed groups. In many countries, cohesive minority groups like Jews and emigrant Chinese have managed to carve out a space for themselves through their economic activities, despite legal and social discrimination. Many immigrants, including those who come to the United States, have taken advantage of economic freedom to make new lives for themselves. However, history teaches that market forces alone are unlikely to eliminate discrimination. After all, discrimination against African Americans persisted in the market-oriented U.S. economy during the century between President Abraham Lincoln’s Emancipation Proclamation, which freed the slaves in 1863, and the passage of the Civil Rights Act of 1964—and has continued since then, too.
Therefore, why does discrimination persist in competitive markets? Gary Becker sought to explain this persistence. Discriminatory impulses can emerge at a number of levels: among managers, among workers, and among customers. Consider the situation of a manager who is not personally prejudiced, but who has many workers or customers who are prejudiced. If that manager treats minority groups or women fairly, the manager may find it hurts the morale of prejudiced co-workers or drives away prejudiced customers. In such a situation, a policy of nondiscrimination could reduce the firm’s profits. After all, a business firm is part of society, and a firm that does not follow the societal norms is likely to suffer. Market forces alone are unlikely to overwhelm strong social attitudes about discrimination.

LINK IT UP

For more information on the gender pay gap in the United States you can visit Wikipedia, which also presents an interesting summary on the history and statistics in the region.

A first public policy step against discrimination in the labor market is to make it illegal. For example, the Equal Pay Act of 1963 said that employers must pay men and women who do equal work the same amount. The Civil Rights Act of 1964 prohibits employment discrimination based on race, color, religion, sex, or national origin. The Age Discrimination in Employment Act of 1967 prohibited discrimination on the basis of age against individuals who are 40 years of age or older. The Civil Rights Act of 1991 provides monetary damages in cases of intentional employment discrimination. The Pregnancy Discrimination Act of 1978 was aimed at prohibiting discrimination against women in the workplace who are planning to get pregnant, are pregnant, or are returning after pregnancy. Passing a law, however, is only part of the answer, since discrimination by prejudiced employers may be less important than broader social patterns.

These laws against discrimination have reduced the gender wage gap. A 2007 Department of Labor study compared salaries of men and women who have similar educational achievement, work experience, and occupation and found that the gender wage gap is only 5%.

In the case of the earnings gap between African Americans and Caucasians (and also between Hispanics and Caucasians), probably the single largest step that could be taken at this point in U.S. history to close the earnings gap would be to reduce the gap in educational achievement. Part of the answer to this issue involves finding ways to improve the performance of schools, which is a highly controversial topic in itself. In addition, the education gap is unlikely to close unless African American and Hispanic families and peer groups strengthen their culture of support for educational achievement.

Affirmative action is the name given to active efforts by government or businesses that give special rights to minorities in hiring and promotion to make up for past discrimination. Affirmative action, in its limited and not especially controversial form, means making an effort to reach out to a broader range of minority candidates for jobs. In its more aggressive and controversial form, affirmative action required government and companies to hire a specific number or percentage of minority employees. However, the U.S. Supreme Court has ruled against state affirmative action laws. Today, the government applies affirmative action policies only to federal contractors who have lost a discrimination lawsuit. The federal Equal Employment Opportunity Commission (EEOC) enforces this type of redress.

Racial and ethnic diversity is on the rise in the U.S. population and workforce. As Figure 13.19 shows, while the white Americans comprised 78% of the population in 2012, the U.S. Bureau of the Census projects that whites will comprise 69% of the U.S. population by 2060. Forecasters predict that the proportion of U.S. citizens who are of Hispanic
background to rise substantially. Moreover, in addition to expected changes in the population, workforce diversity is increasing as the women who entered the workforce in the 1970s and 1980s are now moving up the promotion ladders within their organizations.

![Figure 13.19 Projected Changes in America's Racial and Ethnic Diversity](image)

**Figure 13.19 Projected Changes in America's Racial and Ethnic Diversity** This figure shows, using government-provided definitions of ethnicity, projected changes in the ethnic makeup of the U.S. population by 2060. Note that "NHPI" stands for Native Hawaiian and Other Pacific Islander. "AIAN" stands for American Indian and Alaska Native. Source: US Department of Commerce

Regardless of the future, optimists argue that the growing proportions of minority workers will break down remaining discriminatory barriers. The economy will benefit as an increasing proportion of workers from traditionally disadvantaged groups have a greater opportunity to fulfill their potential. Pessimists worry that the social tensions between men and women, and between ethnic groups will rise and that workers will be less productive as a result. Anti-discrimination policy, at its best, seeks to help society move toward the more optimistic outcome.

The FRED database includes data on foreign and native born civilian population and labor force.

**SELF-CHECK QUESTIONS**

1. Explain in each of the following situations how market forces might give a business an incentive to act in a less discriminatory fashion.
   1. A local flower delivery business run by a bigoted white owner notices that many of its local customers are black.
   2. An assembly line has traditionally only hired men, but it is having a hard time hiring sufficiently qualified workers.
   3. A biased owner of a firm that provides home health care services would like to pay lower wages to Hispanic workers than to other employees.

2. Does the earnings gap between the average wages of women and the average wages of men prove labor market discrimination? Why or why not?