Discrimination in Labor Market

Labor market discrimination is defined as a situation where workers or groups of workers are treated differently in terms of recruitment, pay, benefits and promotion from other workers or groups due to their non-economic characteristics, including gender, race, religion and age. This means that while workers may be equally productive, they are not treated the same. Treatment may be positive, where certain groups are favored, or negative, where groups are treated less favorably.

Despite a large influx of women into mainly service sector jobs over the past four decades, women continue to be underrepresented in the labor market, and they earn less on average than men. These gender differences are almost certainly linked to greater de facto responsibilities of women in child-rearing and household work, but there are major and intriguing differences across rich democracies.

Causes of gender discrimination and gaps in labor market

Gender gaps are one of the most pressing challenges facing the world of work today. Globally, women are substantially less likely than men to participate in the labor market, and once in the workforce, they are also less likely to find jobs than men. Indeed, their access to quality employment opportunities remains restricted. Overall, for example, women are more likely to work longer hours than men when both paid and unpaid work is taken into account. Moreover, when in paid employment, on average, women work fewer hours for pay or profit either because they opt to work part-time or because part-time work is the only option available to them.

These gender gaps persist despite the preference of most women worldwide to work in a paid job – underlining the fact that women's choices are constrained by a number of factors.

The analysis by ILO economists, covering 142 countries and territories, found the following:

- Having a spouse or partner reduces the probability for women to participate in the labor market in emerging, developed and the Arab States and Northern African (ASNA) countries. In developing countries, however, the effect is reversed: partnerships/marriage have a positive effect on participation (3.3 percentage points). This latter finding highlights the economic necessity to work, despite partnership status, in developing countries.
- Women suffering from severe poverty are more likely to participate, irrespective of gender norms. In developing countries, the probability of participating in the workforce increases by 7.8 per cent; in emerging, by 6.4 per cent; in ASNA, two regions with the widest gap in participation rates, the probability increases further, at 12.9 per cent.
- Globally, the lack of affordable care for children or family members affects women's participation negatively. In ASNA countries, it decreases the probability to participate by 6.2 percentage points; in developing countries by 4.8 percentage points; and in developed countries by 4.0 percentage points. Having children, however, has a small negative effect on participation but it is not significant; in fact, in developing countries, there is a small positive effect (0.7 percentage points).
- Limited access to safe transportation is the greatest challenge to participation that women face in developing countries, reducing their participation probability by 15.5 percentage points.

- Religions embody a complex system of values that extends to gender roles. In developing countries, the probability to participate is substantially reduced by religion, a proxy indicator for more restrictive gender role conformity. In developed and emerging countries, the results are mixed: in some cases, the effect is positive, in others negative.

A comprehensive approach to address the multiplicity of challenges is merited in order for women to realize and achieve their full economic empowerment.

Theories of labor market discrimination

Demand and supply theories of discrimination

The demand for female labor may be reduced relative to the demand for equally productive male labor because of erroneous information, prejudiced employers, prejudiced male co-workers, or prejudiced customers who prefer the services of males (for example, a male car mechanic).

A reduction in the demand for female labor relative to male labor will result in a reduction in the employment of females and a reduction in the relative wages of females compared to males (assuming that supply of female labor is not perfectly elastic).

The crowding hypothesis argues that females tend to be segregated into “female-type” jobs and the resulting abundance of supply lowers their marginal productivity and the relative wage for “female-type” jobs.

Because of conditioning in a male-dominated labor market, females may also erroneously underestimate their own labor market worth and have a lower reservation wage, which would shift the labor supply curve vertically downward.

In theory male-female wage differentials for equally productive workers are inconsistent with competitive equilibrium.

As long as females could be paid a wage lower than that of an equally productive male, firms that do not have an aversion to hiring females could increase their profits by hiring females and the resultant increase in the demand for females would bid up females wages and eventually eliminate the male-female wage gap.

Firms that do not have an aversion to hiring females would maximize profits by hiring many females and firms that have an aversion to hiring females would be foregoing profits by employing only males (eventually such firms will go out of business as they forego profits to discriminate).

In a competitive labor market, discrimination leads to a segregation of males and females (into prejudiced and non-prejudiced firms), but not wage discrimination.

Noncompetitive theories of wage discrimination

Several noncompetitive theories of discrimination have been advanced to explain the persistence of male-female wage differentials (discussed below):

Firms that pay an efficiency wage premium will have a queue of available workers seeking these premium wage jobs and such firms may ration these scarce, premium wage jobs by discriminating on the basis of sex (or race). Monopsony is another noncompetitive factor that can affect female wages relative to male wages; females may be relatively immobile (because they are tied to their husbands' place of employment) and may be paid less than a competitive wage by a monopsonist employer.

Systemic discrimination has been advanced to explain discrimination that may be the unintended byproduct of historically determined practices, such as informal word-of-mouth recruiting networks (the "old-boy" system) and job requirements, such as height or strength, which may no longer serve a legitimate purpose.

Productivity Differences: Choice or Discrimination?

Females wages may differ from male wages because of productivity differences that arise from differences in acquired human capital (education, training, and labor market experience) and differences in absenteeism and turnover of males and females. It may be economically rational for females (or their employers) to be reluctant to invest in human capital that is labor-market-oriented.

Given their dual role in the household and in the labor market, women traditionally have a shorter expected length of stay in the labor market and thus a reduced benefit period from which to recoup the costs of human capital formation. In addition, a woman's time in the labor market can be intermittent and uncertain, which can lead to a depreciation of her labor market human capital and may inhibit her from acquiring continuous labor market experience.

Whatever the reason, females tend to acquire less labor-market-oriented human capital than males, and consequently their wages and employment opportunities are reduced in the labor market. Productivity and hence wage differences may also occur because of higher rates of absenteeism and turnover of females. Compared to males, absenteeism is only slightly higher for females without children or with school-age children but is seven times higher for females with pre-school children.

In addition to causing lower wages, higher absenteeism and turnover may be the result of low wages: cause and effect work in both directions, reinforcing each other.

Neoclassical theories of discrimination

Here, we shall basically deal with labor discrimination under the neoclassical label which builds on the human capital theory. To deal with the problem of such discrimination, it becomes important to answer two basic questions (i) To what extent is there a difference in the employment structure of various group based on differences in education and training and in contrast, to what extent are similarly qualified individuals belonging to different groups unequally treated? (ii) If such discrimination, as suggested, does exist, what are the explanations that can be provided to justify these?

i. Consumer discrimination

Customer discrimination is a manifestation of personal prejudice of consumers such that they prefer to trade with individuals belonging to a certain group over others. A prevalent fact states that customers do not like being served by minorities or women.[5] For example, a white customer may like to be served by a white worker. This leads to two consequences (i) There is a reduction in the demand for good that are

sold by African-American workers and (ii) If the cost of the product is P, the customer acts like he is paying P(1 + d), where Pd is the cost of discrimination.[citation needed] The fact that customer discrimination is still prevalent in the market leads to a number of consequences, one, that it leads to segregation of jobs such that minorities and women are segregated into jobs that do not require a high level of personal contact with customers and two, the decline in the manufacturing industry and a growth in the service sector will only aid in increasing the effects of this discrimination with a growth of jobs requiring face-to-face contact.

ii. Statistical discrimination

Statistical discrimination is said to occur when an employer projects group characteristic upon an individual which leads to him or her being discriminated against in the employment market. In the process of selecting a suitable candidate for a job, the employer has access to only that information which defines the productivity of the individual such as education, training, experience, age etc. These although do play a role, are not perfect measurements of productivity. In such cases, the employer supplements such information with other information that is prominent of the group he or she belongs to, for example, one's race and sex is easily identifiable from an interview. Thus, the employee may attach the characteristics of his/her race or sex to quantify or guess his productivity. This, thus, is a form of discrimination that arises not because of a deep-rooted personal prejudice that an employer holds against a prospective employee. Consider an example to illustrate this: Women, on an average, tend to have a shorter career life than males do and thus, even if they possess equal qualification as men, they tend to be less valuable to the company. Now, a career minded woman with equal qualifications as a man may be disadvantaged when applying for a job, because the employer may take into consideration the prevalent characteristics of the average women when comparing the two applications. Hence, the career minded woman is discriminated against. Statistical discrimination leads to a systematic preference of a worker over other individuals with the same characteristics, and leads to a situation where women or minorities equal to their counterparts in qualifications are paid less. The manifestation of the stigma is not due to personal preference but it has the same effects as if prejudice was present.