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Economics Revision Focus: 2004

# A2 Economics

## Labour Market Discrimination

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## Revision Focus on Labour Market Discrimination

### A2 Syllabus Requirements:

Candidates should be able to discuss the impact of gender, ethnic and other forms of discrimination on wages, levels and types of employment.

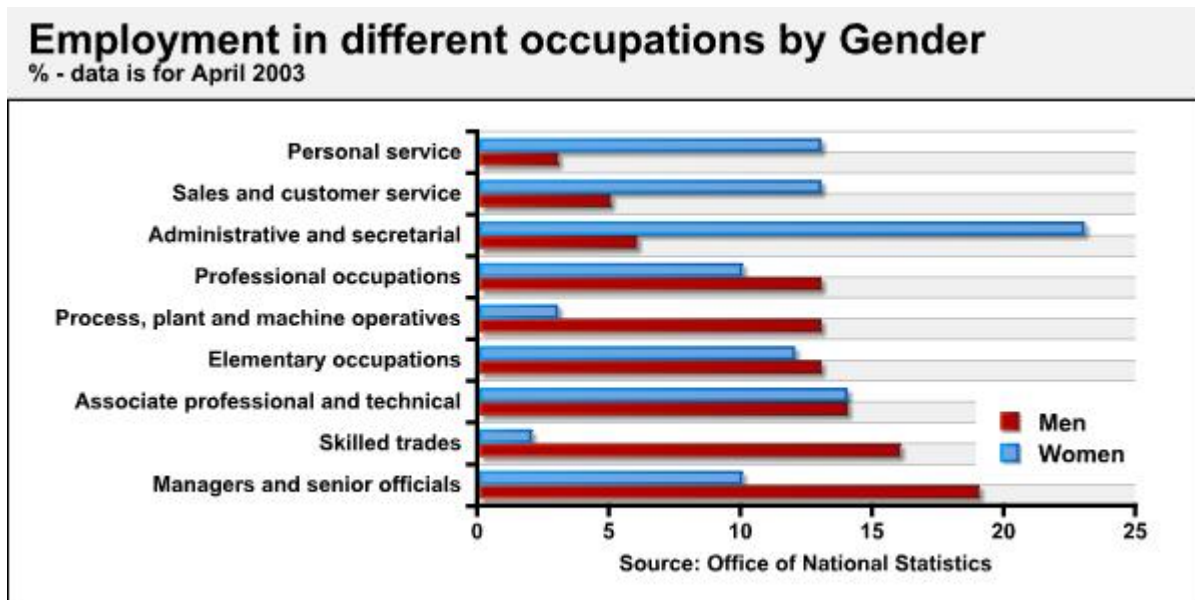
### What is discrimination?

Nobel-prize winning economist Kenneth Arrow has defined discrimination as “the valuation in the market place of personal characteristics of the worker that are unrelated to worker productivity”. These personal characteristics may be sex, race, age, national origin or sexual preference.

Discrimination is a **cause of labour market failure** and a source of **inequity in the distribution of income and wealth** and it is usually subject to government intervention e.g. through regulation and legislation. Discriminatory treatment of minority groups leads to **lower wages** and **reduced employment opportunities**, including less training and fewer promotions. The result is that groups subject to discrimination earn less than they would and suffer a fall in relative living standards.

### Why does discrimination occur in the labour market?

1. **The 'Taste' Model (Becker)** - Discrimination arises here because employers and workers have a distaste for working with people from different ethnic backgrounds or final customers dislike buying goods from salespeople from different races i.e. people prefer to associate with others from their own group. They are willing to pay a price to avoid contact with other groups. With reference to race, this is equivalent to **racial prejudice**.
2. **Employer ignorance** – Discrimination arises because employers are unable to directly observe the productive ability of individuals and therefore easily observable characteristics such as gender or race may be used as proxies – the employer through ignorance or prejudice assumes that certain groups of workers are less productive than others and is therefore less willing to employ them, or pay them a wage or salary that fairly reflects their productivity, experience and applicability for a particular job.
3. **Occupational crowding effects** – Females and minorities may be crowded into lower paying occupations

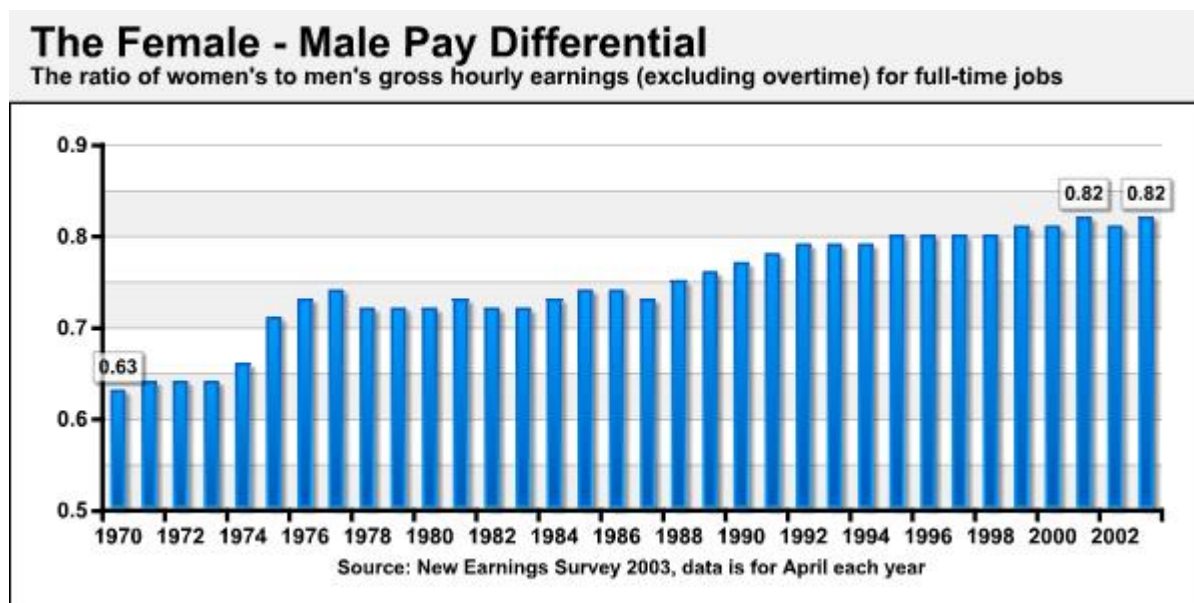


### Discrimination against female workers - the “gender pay gap” in the UK

There is little doubt that a permanent gap exists between average pay rates for females and males in the UK labour market. However there is evidence that this gap is closing albeit slowly. Evidence of the gender pay gap comes each year from the New Earnings Survey.

1. **Hourly earnings:** Since 1999 women’s hourly earnings have remained at just over 80 per cent of men’s earnings. The average hourly wage rate for men in 2003 was £12.88 while the rate for women was £10.56.
2. **Weekly earnings** Average weekly earnings of full-time employees in 2003 for women (£396.0) were 75.4 per cent of those for men (£525.0). Women's weekly earnings were lower than men's partly because they worked on average 3.5 fewer hours per week

Britain's equal pay record is poor when compared to other European countries - tenth out of fifteen countries surveyed. Over a lifetime, the gender pay gap can cost a childless mid skilled woman just under £250 000



### What factors explain the gender pay gap in the UK?

**Human capital:** i.e. there are differences in educational levels and work experience between males and females. This is most marked when one compares married males with married females. Breaks from paid work, including time to raise a family, also impact on women's level of work experience. It is calculated that a mid skilled mother of two, loses an additional £140 000 of her potential earnings after childbirth.

**Part-time working:** a significant proportion of women work part-time and part-time work typically pays less well than full-time jobs. Nearly 50% of women in the UK whose youngest child is under 5 are not in employment and of those who do work, 65% work part-time.

**Travel patterns:** on average, women spend less time commuting than men with the result that they will have a smaller pool of jobs to choose from. It may also result in lots of women wanting work in the same location near to where they live which will result in lower equilibrium wages for those jobs.

**Occupational segregation:** women's employment tends to be concentrated in certain occupations. Indeed, indeed 60 per cent of working women work in just 10 occupations. Occupations which are female-dominated are often relatively poorly paid jobs and there is continued under-representation in higher paid jobs within occupations – the so-called "glass ceiling" effect.

**Employer discrimination:** Work by the LSE calculates that up to 42% of the gender pay gap is attributable to direct discrimination against women. Since 1995 the number of equal pay cases registered with employment tribunals has more than doubled.

**The effects of monopsony power:** Females may be relatively geographically immobile (because they are tied to their husbands' place of employment) and may be paid less than a competitive wage by a monopsonist employer

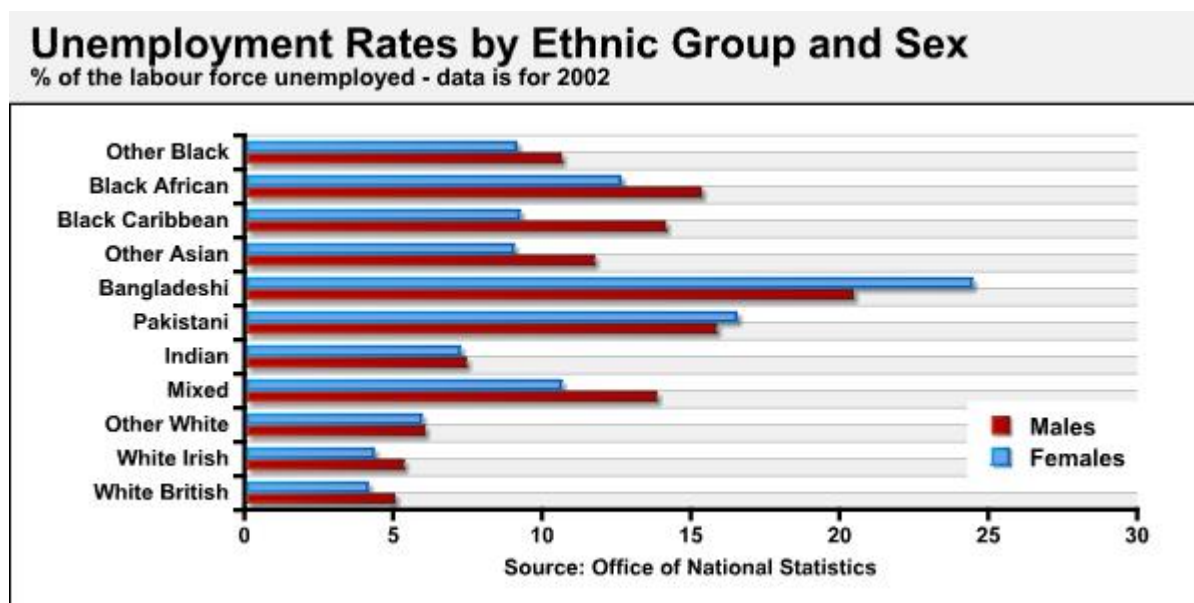
A reduction in the demand for female labour relative to male labour will result in a reduction in the employment of females and a reduction in the relative wages of females compared to males (assuming that supply of female labour is not perfectly elastic)

## Government Intervention to reduce the gender gap

Intervention has taken several forms. The **Equal Pay Act** introduced in 1970 sought to provide legal protection for female workers and encouraged employers to bring the pay for males and females into line. The **Sex Discrimination Act** of 1975 outlawed unequal opportunities for employment and promotion in the workplace because of gender and it set up the Equal Opportunities Commission.

Attention has switched in recent years away from legislation towards encouraging more women to stay on in further and higher education providing and targeted assistance for single parents to find work and thereby increase the labour market participation ratio among female workers.

## Earnings Differentials between Ethnic Groups



Ethnic minority groups in the UK are more likely to experience unemployment than White Irish or White British groups. Despite sustained, record low unemployment among the white population at 4.4 per cent, among black and Asian people unemployment is two and half times greater at 11.3 per cent.

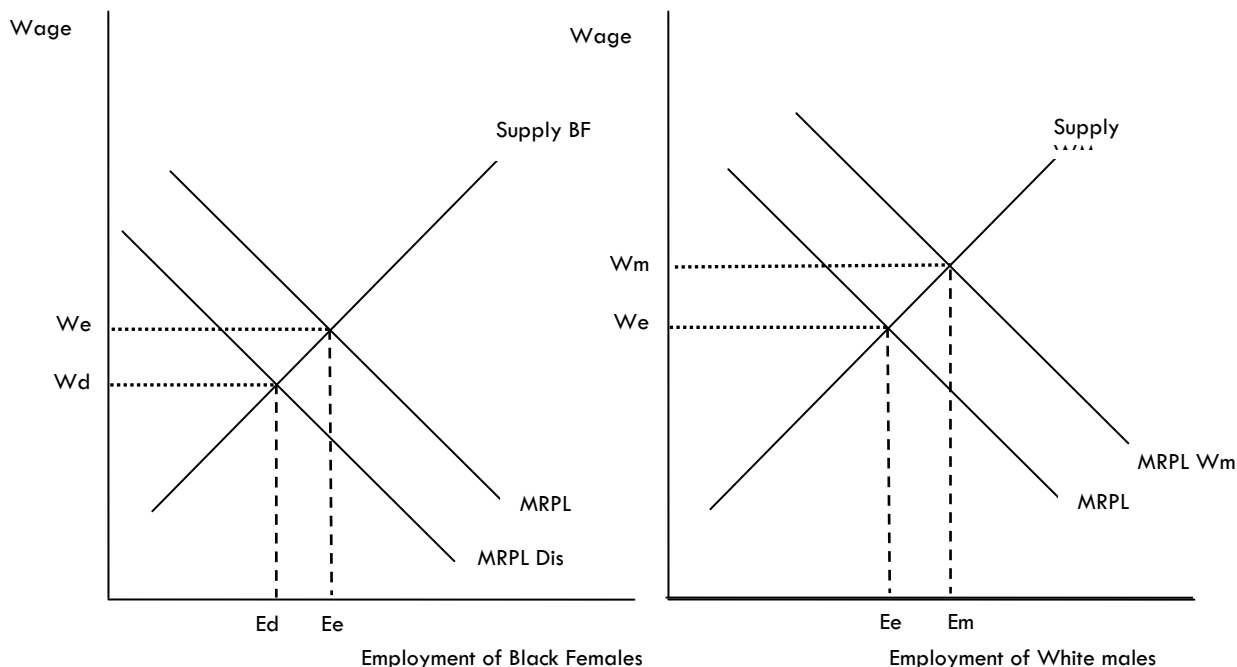
And in terms of their earnings from the labour market, ethnic minority workers in Britain are **over-represented in low-paying occupations** such as service industries, which employ three-quarters of ethnic minority male employees and self-employed work compared to around three-fifths of white men. Fifty-two per cent of male Bangladeshi employees and self-employed work in the restaurant industry, compared to only 1 per cent of white men. High proportions of Indian and Pakistani women work in the retail trade, another low-paying sector. **Occupational segregation** is one reason for persistent earnings differentials between whites and non-whites in the UK labour market.

Ethnic minorities face two kinds of discrimination in the UK labour market:

1. Less access to higher status occupations than their white counterparts
2. Lower pay for a given job. The latter effect is the more powerful, accounting for a five percentage point difference between white and ethnic minority wages.

### Theory of labour market discrimination

We can model the effects of discrimination using a simple labour demand and supply framework



If employers are prejudiced about the relative productivity of different groups of workers, this will be reflected in their estimates of the marginal revenue productivity of each group. The MRPL of discriminated groups is lower than for other groups. This is reflected in lower relative wages and a lower level of employment

It is difficult to be precise about the effects of discrimination in the labour market. Employers rarely have full information about the productivity of all of their workers, let alone prejudiced or ignorant views about the relative merits and de-merits of different groups. Increasingly employers' organisations along with trade unions are working hard to break down barriers to the employment of different minority groups and in highlighting instances of discriminatory behaviour.

The issue of labour market discrimination will remain with us for many years. It is closely linked to the issue of labour migration and in particular, the risks of discrimination of the many thousands of workers from Eastern Europe who are expected to come into the UK either on a temporary or permanent basis now that ten new countries have joined the European Union.