

Cinderfella

The Economics of Workplace Discriminations

In his January 2014 State of the Union address, President Obama gave a shout-out that in this country women take home only 77 percent of what males make and called for action. In the second 2012 presidential debate, in a Town Hall format, Mitt Romney fielded a question from a female college student who said a woman is paid only 80 percent of a man's wages and asked as president what he would do about it. And from the November 2013 *AARP Magazine*: "On average, women at 25 have earned \$6,000 less than men at 25. By 55, the gap in lifetime earnings is \$243,000."

The implication in these three instances is that the differential is attributable to sexist employers and is unethical and illegal. But what are the economics of this highly-charged issue?

While it is true that on average women are paid less than men, in comparing apples and oranges, or males and females, there are several important "yeah, but . . ." qualifiers to eliminate extraneous factors.

For example, employment that entails greater risk of injury or layoff will command a higher salary; one perceived as more pleasant and steady will pay less, in part because employees are getting some non-monetary benefits. Thus one must adjust for occupation.

Perhaps males and females have different personal and career goals, values and motivations. Women arguably don't find some hard-nosed competitive environments and negotiation as attractive as men seem to. And they have lives, friends, and specialize less than men, for which they pay a price in the marketplace.

Jobs that require more education will generally pay more, in part to compensate someone for committing time and financial resources for skill acquisition. So we must factor in schooling – not just the quantity in years, but also the quality in terms of educational institution, one's academic performance and major.

Are we comparing hourly wages or yearly earnings? Why does it matter? Because over the course of a year, males work about eight percent more hours than females, and thus would be expected to bring in larger annual paychecks.

Unless one is drop-dead gorgeous or can throw a baseball 95 miles an hour, we would expect earnings to increase with age and peak around age 50-55. So? The typical male in the labor force cur-

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rently is more than five years older than the typical female.

We must control for age.

Next, a single male or female may be free to explore virtually unlimited personal whims and professional ambitions, but marriage entails substantial joint-decision making. Both spouses cannot be "air warriors", trek to O'Hare on Monday morning, and fly back Friday night; the dry cleaning wouldn't get picked up, the dog



would be dead, and the children missing. In addition, women may exit the labor force periodically for child-bearing and child-rearing, and will miss out on some human capital acquisitions and advancements. Thus we may want to restrict our comparisons to single apples and oranges.

Finally, some observed inequalities may have originated at early ages within the household as parents steer their children toward—or away from—mathematics and the sciences, which affects later career options and incomes.

Summing up: Take, say, a 40-year-old single male and a 40-year-old single female with a similar academic record and working in the same occupation. What would this, in economist-speak, "holding things constant" comparison show? Less than a five-percent differential, not a 20 percent gap.

Ground Zero for studying discrimination stems from my long-time colleague and Nobel laureate Gary Becker, who died last month. In his 1957 book, *The Economics of Discrimination*, Becker posited that employers in competitive markets will be less likely to discriminate on the basis of sex, race, or other extraneous factors—because it would be costly to them and reduce their profits.

But without an explicit profit motive to worry about, customer discrimination is more likely and harder to dispel, and may cut against women and minorities, though female figure skaters and supermodels may out-earn their male counterparts. NFL players are all male, but NFL and NBA cheerleaders are all women.

Not persuaded? Those who feel they have a legitimate discrimination beef can do what any red-blooded (or blue-blooded) American does these days: Sue! □