

Comments on Ekkehart Schlicht, Selection Wages and Discrimination

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Discrimination theories

Econometric studies show that there are systematic differences between wages paid to men and women, blacks and whites, and natives and immigrants. Even if controlling for different characteristics at least part of the differences remain. Employees are not getting equal pay for equal work. Some groups are discriminated in the labour market.

There are several competing or complementing theories of discrimination.¹ The three main candidates are 1) the preference based theory (Becker, 1957), 2) the incomplete information based theory (Phelps, 1972) and 3) the monopsony based theory (Robinson, 1933). There are different variations on the three main themes. The preference theory could be based on prejudice against a group or favoritism for one's own group with slightly different implications. The incomplete information theory could be based on that the employer has incorrect information about the productivity of members of a specific group², or has correct information on the average information for members of each group which differ but not for each individual (statistical discrimination). A special case is that the average productivity is the same for the groups compared but the employer's estimated variance of the productivity differ depending on which group the individual belongs to (the employer is better at estimating the actual productivity for members of his own group).

¹ See Lundahl and Wadensjö (1982) for a survey of different theories of discrimination.

² See McCall (1973).

Monopsony

Ekkehart Schlicht (2009) has as a starting point the monopsony theory which has earlier been utilized mainly for explaining wage differences between men and women but also in some cases for explaining wage differences between blacks and whites in the US. The case he analyzes is wage differences between men and women.

The traditional monopsony model explains the male-female wage difference by that the male labour supply is more sensitive to the wage an employer offers than the female labour supply. Men are searching for jobs not only in workplaces close to where they live but in a wider area. Women on the other hand often restrict their job search to vicinities close to where they live. This means that an employer cannot get a much larger female labour supply by setting a high wage and female employees are not quitting if they get a low wage. A profit-maximizing firm is therefore setting a higher wage for men than for women.

Schlicht is extending the monopsony model by combining it with one of the formulations of the efficiency wage theory: higher wage offers lead to more applicants and make it possible to improve the average productivity of the staff (selection wages). Men are reacting more to higher wages so the employer increases the male wage rate (and decreases the female wage rate). It is an interesting combination of two theories. A further development would be to also combine the monopsony model with the effort based variety of the efficiency wage theory (the shirking model). As women have fewer outside options they are more sensitive to losing their job and make a greater effort to diminish the risk of losing it. It means that the employer can set a lower wage for women than for men.

Schlicht discusses some implications of the model. One is that the discrimination in one workplace enforces discrimination in other workplaces as employers are competing to get the most qualified applicants. Wage differences between men and women due to the discriminatory wage setting may also lead to that the traditional roles of men and women are strengthened leading to a reinforcement of the differences in wage elasticity leading to even higher wage differences. We get a vicious circle of the type discussed by Gunnar Myrdal (1944).

Counteracting discrimination

The possibility of counteracting discrimination is also discussed in the paper. One way of doing so proposed by Schlicht is equal pay legislation (unions getting agreements on equal pay for equal work would give similar effects). A problem with such a policy could be that the employers invent different positions for identical tasks (giving men the better paid positions), another that they promote men more often than women.

Other policies not discussed in the papers would be to influence the work division in the household inducing women to do more market work and men to do more work in the household. Individual income taxation as in the Scandinavian countries would be one step in that direction. Another step would be better day care facilities and longer schooldays (education and leisure activities combined) making it possible for both parents to work full-time. Improvements of the possibilities to commute could also influence female labour supply by making it possible for them to search for jobs in a wider area and by that increasing the sensitivity to wage changes and wage differences.

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