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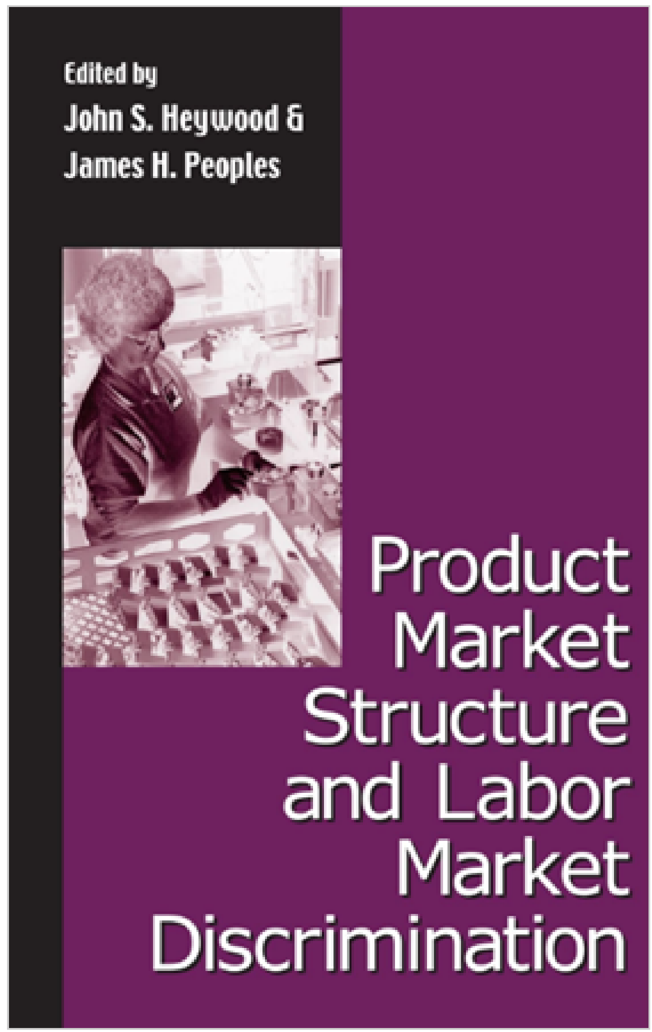
Can competitive product markets reduce workplace discrimination?

Product Market Structure and Labor Market Discrimination. Edited by John S. Heywood and James H. Peoples. Albany, NY: State University of New York Press, 2006, 234 pp., $33.95 paperback.



Reid Kelley
kelley.reid@bls.gov

Reid Kelley is an economist in the Office of Employment and Unemployment Statistics, U.S. Bureau of Labor Statistics.

Scholars of labor economics have spent a significant amount of time studying how commonly employers discriminate against their employees on the basis of race or gender (or other similar demographic characteristics). Efforts to build theories describing what enables discrimination have outstripped efforts to empirically test those theories—an issue *Product Market Structure and Labor Market Discrimination* seeks to address. The book's editors, John S. Heywood and James H. Peoples, present eight separate studies that look at the various ways in which the structure of the market for goods affects whether goods producers can discriminate against their workers. In particular, as Heywood and Peoples explain in the book's first chapter, the goal of the studies is to test Gary Becker's hypothesis about the relationship between competition and discrimination. Becker proposes that a firm's market structure controls how much latitude that firm's management has to discriminate. Discrimination is costly because it moves the firm's wage-setting and hiring behavior away from the profit-maximizing level, at which differences in salary among workers should stem only from differences in productivity. Thus, management can discriminate only at the cost of productive inefficiency and reduced profit. In a competitive industry that offers little economic profit, managers have limited ability to discriminate against their workers, whereas in more monopolistic industries management can essentially spend “profits” to discriminate against workers with certain characteristics.

The first half of the book, which encompasses chapters 2 through 5, tests this prediction as it applies to traditional market settings. In the second chapter, Jacqueline Agesa and Kristen Monaco use an interesting quantile regression method on earnings data for manufacturing workers. Their results show that there are large earnings disparities between Black employees and their White counterparts in noncompetitive industries—the effect is markedly reduced in more competitive industries. Further, the effect is present only in the lower portion of the earnings distribution, essentially skewing the Black earnings distribution to the left. The authors suggest that this result is due, in part, to a rather small supply of higher-skilled Black employees. In the next chapter, Clive Belfield and Heywood, relying on a matched employer–employee dataset from the United Kingdom, show that the subjective belief of managers that their particular market is competitive is associated with considerably smaller differences in pay between men and women. This finding suggests that managers facing greater competition value worker productivity more than they do other employee characteristics. In the fourth chapter, Uwe Jirjahn and Gesine Stephan, using matched employer–employee data from Germany, show that payment systems based on piece rates (i.e., fixed rates paid to employees for each unit of output produced) tend to increase the wages of women relative to those of men, closing the gender pay gap, and that such systems are more commonly used in relatively competitive markets, particularly those with large export shares. Further, they find that, even after accounting for the use of piece rates, increased exposure to international markets pushes down the gender wage gap. This suggests that firms facing competitive pressures seek ways to bring pay in line with productivity. Lastly, in the fifth chapter, Heywood and Xiangdong Wei, using data from firms in Hong Kong, show that firms in a dominant position within their respective markets tend to employ fewer women than do firms facing a highly competitive product market. Given that at the time of Heywood and Wei’s data collection Hong Kong had no antidiscrimination laws, this finding shows that competition can temper employment discrimination even without such laws.

The second half of the book, which includes chapters 6 through 9, broadens the scope of the analysis in a number of specific areas. In particular, it looks at changes to the regulatory environments for certain industries (changes in the form of privatization or deregulation), attempts to account for customer preferences as a source of discrimination, and improves the analysis of managerial discretion. In the sixth chapter, Peoples and Wayne Talley use Current Population Survey earnings data to show that, in at least some cases, privatizing certain local government services helps reduce the racial wage gap among government workers. The results are less conclusive than those reported in some of the book’s other studies—a difference that may be due to a positive correlation between privatization and the number of Black public-sector workers in a city. In the next chapter, Marjorie Baldwin, relying on data for disabled men from the 1990 and 1996 Surveys of Income and Program Participation, uses differences in the visibility of, and the reported prejudice toward, various disabilities to show that consumer distaste is at least partially responsible for labor market discrimination against people with disabilities. Most importantly, she finds that men with visible disabilities are less likely to have jobs that involve interaction with consumers and more likely to receive considerably lower wages in those same jobs than men with less visible disabilities or men with no disability. In the chapter that follows, Kaye Fealing and Peoples use Current Population Survey earnings data to demonstrate that deregulating several major “network” industries, such as trucking, energy utilities, and airlines, is associated with smaller racial disparities in high-wage employment. Further, the effect seems stronger the more competitive the postderegulation environment becomes. In the last chapter, Heywood and Patrick O’Halloran, analyzing data from the National Longitudinal Survey of Youth 1979, report results similar to those provided by Jirjahn and Stephan, suggesting that piece rates and commissions reduce racial earnings disparities. They go further, however, and find that there are even larger disparities when bonus payments are examined, presumably because these payments extend managerial discretion even beyond standard hourly wage or salary decisions.

The book as a whole is accessible to nonspecialists. While the studies themselves stand fairly well individually, each of them repeats large portions of the literature review, introducing some redundancy. I would have preferred this discussion be brought to the front, perhaps to an early chapter reviewing the broader state of the literature. As for the merits of individual studies, I found Jirjahn and Stephan's discussion of the channels of discrimination particularly informative, because it provided greater focus on what specifically needed testing. In addition, I thought Baldwin's study was important, since it began to grapple with the issue of separating the effects of the different sources of discrimination. Fealing and Peoples' work was particularly useful because it presented something approaching a quasi-experimental setup, which could help isolate the effect of deregulation. Meanwhile, I was less convinced by Peoples and Talley's work. Their idea to examine discrimination through the lens of privatization was interesting, but the connection between their variable assessing privatization and wages was tenuous; testing that idea would have fit well with Fealing and Peoples' methodology. More generally, I found the empirical results of studies that used matched employer–employee data more convincing than the results of studies that relied on Current Population Survey data. My belief stems from the realization that, while the Census Bureau's occupation and industry coding is quite precise, it nonetheless allows for a much more tenuous connection between the worker and the market structure his or her employer faces.

Overall, the book's studies support the Becker hypothesis at least partially: in a wide variety of settings, increased competition reduces discrimination against the various groups of workers examined. At the same time, they show the limits of that hypothesis: in none of the studies was it clear that discrimination was ever truly eliminated. It remains unclear whether this finding is due to a lack of perfect competition or some other factor, such as consumer or fellow-employee prejudice. Regardless, the book could be useful to both researchers and policymakers in directing their future efforts to study and fight workplace discrimination.