

## 06. Labor Market Discrimination

Labor market discrimination is the unequal treatment of equally qualified employees in hiring, pay, or promotions based on non-productivity factors like race, gender, age, or disability. It stems from biases, stereotypes, and structural inequalities, leading to significant wage gaps, higher unemployment for vulnerable groups, and reduced economic efficiency.

### Key Aspects of Labor Market Discrimination

**Forms:** Includes direct discrimination (intentional), indirect discrimination (policies with adverse impact), and harassment.

### Areas of Impact:

- ❖ **Wage Discrimination:** Paying different, lower wages to workers of a certain group with the same skills and experience as others.
- ❖ **Employment/Hiring Discrimination:** Unfairly denying jobs to specific, qualified, groups, often identified through resume studies.
- ❖ **Promotion/Occupational Discrimination:** Limiting career advancement opportunities for certain groups.

**Causes:** Often driven by employer prejudice, customer bias, or coworker prejudice.

- ❖ **Affected Groups:** Frequently affects women (leading to the gender pay gap), ethnic minorities, older individuals, and people with disabilities.
- ❖ **Economic Impact:** Leads to an underutilization of labor market potential, causing higher unemployment rates for targeted groups.
- ❖ **Discrimination remains a persistent, global issue where subjective assessments often override objective qualifications.**

**Employment discrimination** is a form of illegal discrimination in the workplace based on legally protected characteristics. In the U.S., federal anti-discrimination law prohibits discrimination by employers against employees based on age, race, gender, sex (including pregnancy, sexual orientation, and gender identity), religion, national origin, and physical or mental disability. State and local laws often protect additional characteristics such as marital status, veteran status and caregiver/familial status. Earnings differentials or occupational differentiation—where differences in pay come from differences in qualifications or responsibilities—should not be confused with employment discrimination. Discrimination can be intended and involve disparate treatment of a group or be unintended, yet create disparate impact for a group.

### Definition

In neoclassical economics theory, labor market discrimination is defined as the different treatment of two equally qualified individuals on account of their gender, race, disability, religion, etc. In religion, the Catholic Church prohibits disabled persons from becoming priests which excludes them from a paid role. Discrimination is harmful since it affects the economic outcomes of equally productive workers directly and indirectly through feedback effects. Darity and Mason [1998] summarise that the standard approach used in identifying employment discrimination is to isolate group productivity differences (education, work experience). Differences in outcomes (such as earnings, job placement) that cannot be attributed to worker qualifications are attributed to discriminatory treatment.

In the non-neoclassical view, discrimination is the main source of inequality in the labor market and is seen in the persistent gender and racial earnings disparity in the U.S. Non-neoclassical economists define discrimination more broadly than neoclassical economists. For example, the feminist economist Deborah Figart (1997) defines labor market discrimination as "a multi-dimensional interaction of economic, social, political, and cultural forces in both the workplace and the family, resulting in different outcomes involving pay, employment, and status." That is, discrimination is not only about measurable outcomes but also about unquantifiable consequences. It is important to note that the process is as important as the outcomes. Furthermore, gender norms are embedded in labor markets and shape employer preferences as well worker preferences; therefore, it is not easy to separate discrimination from productivity-related inequality.

Although labor market inequalities have declined after the U.S. Civil Rights Act of 1964, the movement towards equality has slowed down after the mid-1970s, especially more in gender terms than racial terms. The key issue in the debate on employment discrimination is the persistence of discrimination, namely, why discrimination persists in a capitalist economy.