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Research in Social Stratification and Mobility

journal homepage: <http://www.elsevier.com/locate/rssm>

Gender-oriented statistical discrimination theory: Empirical evidence from the Hong Kong labor market[☆]



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ARTICLE INFO

Article history:

Received 27 February 2013

Received in revised form 13 October 2013

Accepted 20 November 2013

Available online 10 February 2014

Keywords:

Statistical discrimination

Occupational segregation

Gender inequality

Earnings inequality

Labor market inequality

ABSTRACT

This paper proposes a simple search model to shed light on the role of aggregate fertility as a form of statistical discrimination against young working women in the labor market. Our proposed theory assumes that workers generate identical production value that does not differ by gender. When matched with a firm, the worker and the firm bargain over wage rates. Since female pregnant workers receive wages during maternity leave and generate no production value, a matched pair with a female worker generates lower expected profit to the firm. Rent-sharing ensures a male worker to be paid more than a female worker even with the absence of overt discrimination, thus resulting in statistical discrimination against female workers. Using the 5% random subsamples of census and by-census data in Hong Kong in 1996, 2001, and 2006, the study provides unequivocal evidence that age-specific fertility rates exert negative impact on female wages, after controlling for other observable characteristics. More importantly, the negative effects of fertility on women's earnings are notably greater in female dominated occupations, whereas similarly situated men are unaffected. Since fertility rates tend to be increasing with age during the early stage of women's work careers, our theory partially explains why the gender gap rises with age.

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1. Introduction

According to the seminal work of Becker (1972), it has been argued in the neo-classical economic literature that minority workers (women and racial/ethnic minorities)

tend to receive lower wages because their nonminority co-workers demand a wage premium whereas their employers demand a wage discount in order to interact with them. Both the theories of physical and social distance of discrimination (Thurow, 1975) have been proposed to account for observed wage differentials. On the other hand, Arrow (1972, 1973) argues that wage differentials arising from overt or taste of discrimination should disappear in the long run because minority workers could avoid working with discriminatory agents. Discriminating firms that are still paying wage premium to those discriminatory agents will become less profitable and eventually be driven out of the market under competition. Nonetheless, other works that employ search models are able to illustrate that discrimination arises from distaste toward minority workers can remain persistent (Black, 1995; Rosen, 2003;

[☆] Chi Man Yip is a doctoral candidate in Economics at McGill University; Raymond Sin-Kwok Wong is a Professor in the Division of Social Science at the Hong Kong University of Science & Technology. We thank Hongbo Wang and Fangqi Wen for assistance. The research was supported by two generous grants to the second author from the Hong Kong Research Grants Council (RGC), Public Policy Research Grant (6001-PPR-09) and the General Research Funding (GRF643609). All errors or omissions remain the responsibility of the authors.

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Sasaki, 1999). In particular, Black (1995) and Rosen (2003) examine employer discrimination whereas Sasaki (1999) examines co-worker discrimination; they both arrive at the same conclusion of persistent wage differentials.

In contrast, one of the main results from our work is that wage differentials can persist even when there is an absence of taste bias. In addition to the state of being employed and unemployed, we introduce the state of being pregnant into the search model. That is, female workers can take maternity leave when they become pregnant. During the leave period, pregnant female workers do not contribute to the firms but continue to receive pay and be able to secure their jobs upon return. As a result, a matched pair with female worker reduces firms' expected profit. Rent-sharing returns female workers lower bargaining earnings even though they generate identical amount of production value and revenue as compared to their male counterparts. The net outcome can lead to persistent wage differentials even with no prejudice. This interpretation is entirely consistent with existing findings such as Cotton (1988), Neumark (1988), and Oaxaca and Ransom (1994). They all conclude that nonminority workers gain wage advantages over minority regardless of the presence of discrimination.

Several economic studies have paid attention to the effect of maternity leave on the wage of female workers. They highlight that during maternity leave, pregnant women experience interruption of human capital accumulation such as intermittent labor market experience (Mincer & Polachek, 1974), loss of seniority (Becker, 1975), loss of good job match opportunity (Jovanovic, 1979), start over with new boss (Lazear, 1981), and depreciation of their existing skills owing to non-use (Mincer & Ofek, 1982) that lead to earnings losses. Instead of focusing on the wage effect after maternity, our work pays specific attention to the effect of maternity leave (realized and unrealized) on young women's wage.¹

With the exception of Lai and Masters (2005), there exists little empirical research that examines the possible effects of maternity leave on wages. In particular, Lai and Masters (2005) locate strong and negative wage effect on young women after the mandatory maternity leave policy was implemented in Taiwan since 1984. Through the use of the difference-in-differences method, they argue that the protection of pregnant female workers adds costs to firms and lowers aggregate labor demand, which in turn depresses the wages of young female workers. Our work contributes to the labor market literature by proposing yet another mechanism through which the mandatory maternity leave can depress the wages of *all* female workers even when their revenue flows are identical.

Instead of focusing exclusively on the cost of mandatory maternity leave, the likelihood of taking maternity leave itself can be utilized to give support on its influence in the female earnings effect. Hence, the present study

¹ In the case of Hong Kong, all female employees who have been employed under a continuous contract for not less than 40 weeks immediately before the commencement of schedule maternity leave are eligible to 10 weeks of paid maternity leave. For those who do not qualify, they are still eligible for 10 weeks of leave without pay.

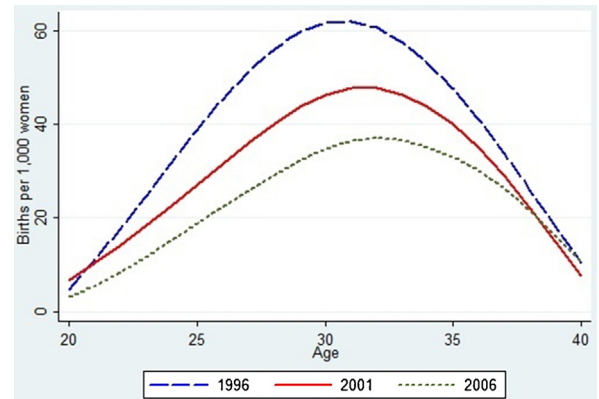


Fig. 1. Age-specific fertility rates in Hong Kong, 1996–2006.

estimates the female earnings effect of age-specific fertility rate (ASFR). According to our theory (detailed in the next section), ASFR should have no impact on the mean earnings of male workers but they would lower the mean earnings of female workers instead.² Since ASFR tends to rise with age until the prime fertility age (as shown in Fig. 1 in the case of Hong Kong), our theory partially explains why the gender wage gap increases with age. It should be noted that Manning and Swaffield (2008) offer similar finding that both female and male workers receive comparable earnings when they first enter the labor market in the United Kingdom. Furthermore, O'Neill and Polachek (1993) and Manning and Swaffield (2008) provide evidence that the gender wage gap rises with age in the case of the United States and United Kingdom, respectively. Thus, our prediction about the pattern found in Hong Kong is entirely consistent with American and British experiences and should be broadly applicable elsewhere as well.

One important extension of our theory is that it provides explanation why lesbian workers (the minority) should receive higher earnings than their heterosexual counterparts (the nonminority), whereas gay workers (another minority) do not enjoy similar privileges. Since lesbian workers are less likely to become pregnant and take maternity leave, they generate higher expected profit than their heterosexual counterparts. Consequently, homosexual female workers (the minority) gain earnings premium during the earnings bargaining process.³ Such explanation again is consistent with empirical literature.⁴ In particular, Blandford (2003) estimates that the lesbian wage premium is about 17–23% over their heterosexual workers conditioning on their observable characteristics such

² Of course, we do not claim that statistical discrimination based on women's fertility is the only factor at play. Other factors may operate within and beyond the limited age range of the present study. Future studies should try to assess their relative contribution and whether other forms of statistical discrimination, if any, may operate differently at different stages of work careers.

³ By employing similar statistical strategies in a separate study, we find strong support that the wage premium among lesbian workers in the United Kingdom can be explained by ASFR.

⁴ For details, see Black et al. (2003), Blandford (2003), Carpenter (2005, 2008), Antecol et al. (2008).

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