

Earnings differentiation in the tourism industry: Gender, human capital and socio-demographic effects

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Abstract

This paper draws attention to a somewhat neglected field within tourism research, namely the production side of tourism. Set within a human capital framework, the purpose of the study is to examine if and how the variables education, work experience and the socio-demographic variables parenthood and marriage affect Norwegian tourism employees' annual wages in the 1994–2002 period. Furthermore, the study specifically examines how the variables gender and time affect these wages. Among several findings, four are of major importance. (1) Male tourism employees receive about 20% higher wages annually than their female counterparts, *ceteris paribus*. (2) There is a concave (i.e. inverted U) relationship between work experience and annual wages for both female and male employees, but this pattern is much less distinct for females. (3) Both parenthood and marriage affect wages, but their effects differ between male and female employees. (4) All tourism employees experience a positive annual wage development in the period studied.

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1. Introduction

Tourism research is for obvious reasons abundant with papers describing, and sometimes explaining, the whereabouts and doings of tourists. For this reason, we know a lot about tourism consumption and its determinants and consequences. This is not the case for tourism consumption's flip side: tourism production. That is, not nearly as much is known about the employees doing the tourism jobs and thereby providing the tourism services. The aim of the present paper is to make a contribution to the supply side of tourism research by examining the differentiation in tourism employees' earnings. The study's theoretical rationale lies in the human capital framework as set forth in labor economics and sociology. The empirical analyses' point of departure is the examination of how the key human capital variables education and years of work experience, as well as certain socio-demographic variables, explain variation in tourism employees' annual wages. Special attention is also given to the gender wage gap and

how this is brought about. The empirical analyses are based on longitudinal data from administrative registers in Norway and pertain to more than 100,000 tourism employees covering the period from 1994 to 2002.

The study is organized as follows. The next section presents the general human capital model of earnings differentiation, some important insights from the literature on gender differences in earnings, and the prior tourism studies dealing specifically with remuneration. With Section 2 serving as a background, the present study's specific empirical goals are then spelled out in more detail in Section 3. Section 4 describes the data, variables and regression models, whereas Section 5 presents and discusses the results. Section 6 is a short summary and a conclusion.

2. Earnings differentiation as a function of human capital, gender and socio-demographic factors

2.1. Human capital and earnings

Human capital refers to skills and knowledge that are acquired and valued mainly for their productive potential

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in an economic sense (Becker, 1962). The two most important human capital variables are (years of) education and (amount of) work experience (Becker, 1975; Mincer, 1958). In its core, the human capital model posits that individuals with more human capital are more productive and, hence, more attractive from the viewpoint of potential employers. Therefore, since employers are willing to pay a premium for productive employees, more education or more work experience is expected to be associated with higher earnings. In this way the human capital explanation of earnings differentiation (or inequality) is that people receive the payment they “deserve” according to their human capital investments. Within this framework a great number of studies in labor economics and sociology have aimed to disentangle the various ways in which earnings or wage differentiation arises. The baseline empirical specification in this respect has been the so-called Mincer regression model named after its developer, Jacob Mincer (Mincer, 1974; Mincer & Polachek, 1974).¹ In its most basic form, this model states that an individual worker’s earnings can be expressed as

$$\ln w_i = \alpha_0 + \beta_1 E_i + \beta_2 Exp_i + \beta_3 Exp_i^2 + \varepsilon_i, \quad (1)$$

where $\ln w_i$ is the natural logarithm of earnings of individual i , E_i denotes years of completed schooling, Exp_i denotes work experience in years, ε_i is a stochastic error term and α_0 , β_1 , β_2 and β_3 are the parameters to be estimated. The quadratic coefficient for work experience indicates that earnings tend to rise steeply during the younger years (where the human capital investments are at their most intense), plateau out during midlife, and eventually deteriorate at older ages. In their latest worldwide review of the returns to investments in education, Psacharopoulos and Patrinos (2004) estimate the mean rate of return to another year of schooling to be around 10%. Yet they also find substantial variation in these returns and that they tend to be highest in low-income and middle-income countries. No such point estimate can be identified for the effect of work experience, but an overwhelming number of studies have documented the inverted U-shape between experience and earnings (e.g. Murphy & Welch, 1990; Robinson, 2003).

2.2. Human capital, gender and earnings

No matter which western country we focus on or how earnings are measured, whether it be hourly, monthly or annually, it is a well-established fact that men tend to receive higher earnings than women on average (Almond & Rubery, 1998; Blau & Kahn, 1992, 1996, 2006). In other words, when the variable gender (coded 1 for males and 0 for females) has been added to the Mincer regression model in past research, its coefficient has tended to be positive and

significant. Accounting for this gender gap has been a frequent topic of research in both labor economics and sociology (Bayard Hellerstein, Neumark, & Troske, 2003; Datta Gupta & Rothstein, 2005; Meyersson Milgrom & Petersen, 2006; Petersen & Morgan, 1995). The a priori human capital explanation of this gender earnings gap would be that women possess less human capital than men. In terms of education, this explanation does not appear to fit well with the available evidence; i.e. “... gender differences in education levels have never explained a large portion of the overall gender pay gap...” (Blau & Kahn, 2006, p. 42). Also, in many Western countries there are only very small differences between the genders in terms of educational attainment. In contrast, due to maternity leave, marriage, and a traditional division of labor within the family (that also explains women’s higher propensity for working part-time), women accumulate market-valued work experience more slowly than men (Blau & Kahn, 2006; Mincer & Polachek, 1974; Polachek, 2006). Gender differences in work experience, thus, partly account for the overall gender gap in earnings.

In many of the Mincer regressions to date, separate analyses for males and females have been carried out in addition to the analysis pertaining to the pooled sample of men and women. This practice stems from the empirical experience that human capital variables and socio-demographic variables also have gender-specific effects on earnings. For example, according to Dougherty (2005), the returns to education tend to be higher among women than among men. Furthermore, male employees tend to have a more distinct concave experience–earnings profile than female employees, providing support for the so-called life-cycle human capital model (Ben-Porath, 1967). The prediction from this theory, which has been tended to be supported empirically, is that men’s earnings should rise in a steeper fashion than women’s during the middle and late twenties and young thirties, due to women’s greater involvement with childrearing and household responsibilities (e.g. Polachek, 2006).

2.3. Parenthood and marital status and earnings

Recent research has also examined how certain socio-demographic variables influence earnings. In particular, the effects of parenthood and marital status on wages have been scrutinized (Budig & England, 2001; Høgsnes, Penner, & Petersen, 2006; Korenman & Neumark, 1992; Lundberg & Rose, 2000; Waldfogel, 1998). For both of these socio-demographic variables, the effects on earnings appear to differ between men and women. Presence (or number) of children in the family seems to be negatively associated with women’s earnings, all else equal, whereas no association or a positive association tends to be the case for men (Høgsnes et al., 2006; Lundberg & Rose, 2000; Waldfogel, 1998). This effect has also been labeled the motherhood penalty (Anderson, Binder, & Krause, 2002). A number of studies have in a similar fashion documented the so-called

¹Indeed, Lazear (2000, p. 118) has claimed that Mincer’s regression model “... has probably been estimated more times, by more researchers, and on more different data sets than any other relation in economics.”

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