Summary

Investigating the link between competition and discrimination The article is inspired form the theory formulated by Gary Becker in 1957 that says; in a perfectively competitive market structure, only those employers who do not discriminate can exist in the long run. The author refers to her research on how intensified trade in manufacturing and deregulation in the banking sector can reduce discrimination in the labor market. This assumption is tested by comparing the wage differentials due to increased trade in concentrated and competitive industries. The authors work with Elizabeth Brainerd is based on two hypotheses. Firstly, competitive industries do not have discrimination, so in case of an exogenous shock (increased trade) the effect of discrimination is negligible. Secondly, in less competitive industries, scope of discrimination is more, so in case of the same exogenous shock narrowing the gender wage gap would be considerable. Since theoretically, the wage differential in competitive industries is nil, by providing for increased trade, the authors could compute the gender wage gap in concentrated industries. The survey covering the period 1977-94 used data from Current Population Survey. The population comprised of individuals aged 18 to 64 and working as full time. First log wage of all individuals was regressed on education, age, agesqaured and nonwhite dummy variable. Then the residual gender wage gap was computed from difference in average residual wages for male and female at industry level. The industry level results were matched to trade level results, with trade measured as import shares. The findings show that an increase in import share leads to reduction in gender wage gap in concentrated industries. However overall increase in trade have a negative impact on relative wages of women. These results can also be factored on decline in unionization and not discrimination

impact. To avoid this industry level unionization impacts have been incorporated in the regression. The authors study with Philip E Strahan shows the reduced discrimination in baking industry as it becomes deregulated. The report studies wage differentials prior to deregulation of the banking industry in 1970 and 25 years after the gradual deregulation of the sector. The reduced gender wage differential in the later years re-affirms the fact that competition reduces discrimination. The data used is same as that of the earlier study. The survey estimates the changes in wage of banking and non-banking industry employees in the deregulated and non-deregulated state. The finding of the report is after deregulation male wages fell by 12 percent while female wages fell by a meager 3 percent and the wage difference was found to be statistically significant. This was also validated by some further observations. The number of women holding managerial positions in the banking industry rose by around 4 percentage points. The change in the percentage of workers in the banking sector in each State was noted to rule out the effect being a cause of decline in labor. The above two analysis are based on the economic principle that discrimination is an additional cost to the employer. If he does not want a female employee, he will employ a male of the same skill level but would pay him a higher salary. When companies are concentrated they enjoy a sort of monopoly power, which gives them leverage to produce at a higher cost and still enjoy high profits. However in a perfectly competitive market structure, the companies do not have the privilege to incur additional cost because of their ‘ taste for discrimination’. It will lead to losses by the firm in the short run and finally an exit from the industry in the long run. The two research studies show that increased trade and deregulation of banking industry re-affirms Becker’s theory that

competition leads to lowering of gender wage differentials. References Black, Sandra E Black. “ Investigating the link between competition and discrimination”. Monthly Labor Review. (1999): 39: 43