Economic Pluralism in the Study of Wage Discrimination: A Note

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DISCUSSION PAPER SERIES

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ABSTRACT

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Economic pluralism proposes that economists and social planners should consider alternative theories to establish a range of policy actions. Neoclassical, Feminist and Marxian theories evaluate well-grounded causes of wage discrimination. Racist attitudes, uncertainties regarding minority workers' productivity and power relations in lower-status sectors might generate discriminatory wages. Each cause deserves corresponding policy action. Given pluralism, wage discrimination might be reduced by implementing equality campaigns, creating low-cost tests to predict workers' productivity and abolishing power relations towards minority workers. Pluralism might be jeopardised if there is a limited desire to engage with less-dominant theoretical frameworks. Also, pluralism might be misled with rejection of dominant theories.

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1. Introduction

Wage discrimination is a complex phenomenon requiring a range of policy actions put forward by different schools of economic thought. Pluralism suggests that no theoretical framework is sufficient in itself to evaluate and address the complex nature of the phenomenon and the different aspects surrounding it (Reardon, 2009; Garnett et al., 2010). A synthesis of the diagnosis of the causes is recommended to maximise the relevance of economic insights and policy actions (Reardon, 2009; Garnett et al., 2010). However, a reluctance to consider less-dominant theories among different schools of economic thought restricts analysis and proposed policies, resulting in a monism method (Davis, 2008; Reardon, 2009). Monism rejects synthesis, and, through its unwillingness to evaluate phenomena from multiple perspectives, rejects pluralism in order not to deal with that synthesis (Dequech, 2008; Reardon, 2009; Garnett et al., 2010).

Pluralism is about "both-and" rather than "either-or" (Reardon, 2009; Garnett et al., 2010). Economists and social planners should work in order to build their skills and be able to consider a range of different policies for a given research question. The cases of wage discrimination provide us with a unique opportunity to evaluate the importance of plurality of theories and synthesis of policy implications. By focusing on Neoclassical (Robinson, 1933), Feminist (Bergmann, 1986) and Marxian (Edwards et al., 1975) theories, alternative causes of the phenomena are presented and corresponding policies are offered.

In what follows, the next section provides a review of the theoretical literature on wage discrimination. In section 3, the significance of a pluralistic analysis is demonstrated by addressing empirical patterns of wage discrimination. Section 4 presents limitations, followed by conclusions.

2. Causes and policy implications of wage discrimination

We examine how wage discrimination can be evaluated by Neoclassical- (Robinson, 1933; Becker, 1957; Phelps, 1972), Feminist- (Bergmann, 1986) and Marxian-oriented (Edwards et al., 1975) theories. In Table 1, we present key definitions for understanding schools of economic thought. Wage discrimination is commonly defined as unequal pay for the same work in the same firm for comparably skilled workers (Becker, 1957; Bergmann, 1986). Wage discrimination is examined by focusing on comparable majority and minority population groups. Most economists have focused on researching wage discrimination owing to gender, race and ethnicity (Blau and Kahn, 2017; Drydakis, 2017).

Table 1. Key definitions for understanding schools of economic thought

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Schools of economic thought are groups of economic thinkers who share common principles on the way economic systems (should) operate.

Neoclassical economists evaluate that under capitalism individuals are free to maximise their interests and social planners' interventions are needed only to regulate deviations from optimal conditions. Contemporarily, this school is perceived to be the dominant one among all the others.

Feminist economists challenge their discipline by emphasising that women have been in socially, economically and politically inferior positions as compared to men, preventing them from equally progressing in education, employment and society.

Marxian economists suggest that capitalism creates a dominant wealthy class of capital owners and a poor dominated class of workers. The former class is powerful and able to exploit the latter class in order to maximise its profits.

We concentrate on three prominent Neoclassical theories of wage discrimination. The first theory entitled Taste for Discrimination (Becker, 1957) states that if employers are racist they pay minorities lower wages for similar productivity to compensate for the psychological loss they experience in associating with members of the minority group. The theory suggests

that, in the long run, competition will eliminate discriminators. So long as employers discriminate and social planners penalise them, labour will cost more than for non-discriminatory employers. Fair employment laws raise the cost of discrimination and discourage employers from practising discrimination. In reality, studies suggest that wage discrimination is a timeless phenomenon (Weichselbaumer and Winter-Ebmer, 2005; Drydakis, 2012; Blau and Kahn, 2017; Drydakis et al., 2017).

The second Neoclassical model entitled Statistical Discrimination (Phelps, 1972) suggests that employers use average group characteristics as a cost-effective way of predicting individual worker productivity in order to set a corresponding wage. Statistical discrimination causes incorrect predictions for the productivity of workers who are atypical for their minority demographic characteristic. If a demographic characteristic (e.g. health impairment) is related on average to lower productivity but a worker with this characteristic is not less productive he might experience wage discrimination if the employer does not evaluate the actual worker's productivity, but relies on beliefs around the group's characteristics. The case becomes very problematic if the information for an average group characteristic is unreliable or wrong. This is an example of so-called erroneous discrimination. The theory suggests that employers that rely on stereotypes and practice wage discrimination will face a competitive disadvantage because they cannot retain good-quality workers. In terms of policy implications, employers should develop low-cost but reliable tests to predict workers' productivity.

The third Neoclassical model entitled Monopsonistic Discrimination (Robinson, 1933) suggests that under imperfect competition, a monopsonist is able to practice wage discrimination if a minority worker does not have any other alternative but to work in only one firm. The adverse effects of imperfect competition can be minimised through wage anti-discrimination legislation, enhancement of unions' and workers' bargaining power and

addressing workers' lack of mobility to find a new job. Given these policies, Neoclassical theory suggests that in the long run wage discrimination should not exist. In practice, this hypothesis cannot be accepted either. Wage discrimination harms hundreds of thousands of people (Drydakis, 2014; 2015; 2017; Blau and Kahn, 2017).

Feminist theories (Bergmann, 1986) evaluate that women are segregated into low-paid sectors as a result of societal gender bias, which causes wage differentials between equally skilled sectors. It is theorised that women in female-dominated jobs experience lower wages than in equally skilled male-dominated jobs. Feminist economists (Bergmann, 1986) suggest that in societies where males dominate females, by restricting their rights, opportunities and conditions in terms of family, education, employment and society, it is not surprising that women face discriminatory wages (Weichselbaumer and Winter-Ebmer, 2005; Drydakis, 2012; 2017). Feminist economists fight for the abolition of male dominance against women, and women's right to freedom of opportunity, conditions and choice, which will affect their education, career and wages. A comparable analysis holds for racial and ethnic minorities (Drydakis, 2012; 2017).

The Labour Market Segmentation framework (Edwards et al., 1975), influenced by Marxists (Marx, 1989), suggests that capitalism uses racism to divide workers for profitable purposes. Employers are able to experience higher profits from a racially divided working class than from a united one (Marx, 1989). In the secondary sector, where workers' power is weak, employers can practice greater wage discrimination against minority population groups. In secondary sectors, where the asymmetry of power between employers and minority workers is strong, wage discrimination against minorities is a labour cost-reduction strategy. The theory evaluates that equally skilled workers, in equally skilled sectors, regardless of their demographic background, must receive the same wage. To achieve this, power relations resulting in segmentation in societies must be abolished. Adopting economic pluralism can

provide us with a plethora of theoretical causes of wage discrimination and corresponding policy implications.

3. Case study: Empirical patterns of wage discrimination

In Table 2, we present the results of a 2012–2015 correspondence test study measuring wage discrimination in the UK for low-educated individuals (Drydakis et al., 2017). The results suggest that Black-British experience lower hourly wages as compared to equally qualified White-British. In addition, it is observed that in lower-status jobs Black-British experience higher wage discrimination than in higher status jobs. In pink-collar jobs (i.e. services), wage discrimination against Black-British is 7.75%. However, in blue-collar jobs (i.e. manufactory) wage discrimination against Black-British is 10.42%.

Table 2. Wage discrimination of low-paid individuals in the UK

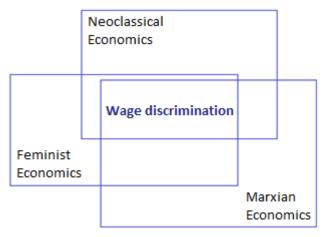|	Pink-collar jobs	Blue-collar jobs
White-British individuals	£12,09	£11,33
Black-British individuals	£11,22	£10,26

Notes: 2012–2015 correspondence test results measuring wage discrimination on hourly wages against equally skilled Black-British as compared to White- British. Source (Drydakis et al., 2017).

The empirical patterns call for policy intervention from Neoclassical (Robinson, 1933; Becker, 1957; Phelps, 1972), Feminist (Bergmann, 1986) and Marxian (Edwards et al., 1975) perspectives. Based on Neoclassical economics, if Black-British face lower wages because employers want to compensate for the psychological loss they face in interacting with them, there is a need for wage anti-discrimination laws to ban discriminators, as well as equality campaigns to reduce prejudices (Becker, 1957). Given the study's context, if erroneous discrimination is in play, social planners should introduce equality campaigns to reduce

incorrect stereotypes (Phelps, 1972). In the case of monosponistic-based discrimination, the role of trade unions and social planners is crucial in reducing markets' imperfections by challenging bias in workplace environments and increasing workers' mobility (Robinson, 1933).

The outcome that in lower-status sectors Black-British experience higher wage discrimination should receive policy evaluation from Feminist (Bergmann, 1986) and Marxist segmentation (Edwards et al., 1975) theories. In the former case, in order for social planners to address segregation and its consequences, they have to guarantee equality in opportunities and conditions regardless of race. In the latter case, in order for social planners to address segmentation and its consequences, they have to challenge asymmetry in power for profitable purposes in the workplace. Through economic pluralism, we are able to evaluate the empirical patterns by utilising several frameworks and proposing relevant policy implications. In Figure 1 we present that a synthesis of frameworks is recommended to maximise the relevance of economic insights into reducing wage discrimination.

Figure 1. Economic pluralism in the study of wage discrimination

Notes: A synthesis of theories is recommended to maximise the relevance of economic insights into reducing wage discrimination. Source: Author's idealism.

4. Challenges in pluralist approaches

Our analysis so far has attempted to evaluate whether pluralism might allow for a multi-dimensional understanding of economic phenomena (Reardon, 2009; Garnett et al., 2010). We should highlight that pluralistic approaches require thoughtful research of different school of thoughts and the process might be time-consuming (Dequech, 2008; Garnett et al., 2010). In the study of wage discrimination, we utilised the theoretical theories of three schools of economic thought. Economists and social planners should undertake an in-depth investigation of the existing theories. The strength and the limitations of each theory should be evaluated and compared in order to identify a range of plausible explanations of the causes of the phenomena.

Pluralistic approaches require rigorous investigations in order to avoid inconsistencies (Dequech, 2008). Policy implications are the result of analysis based on concrete assumptions and principles. A poor investigation might entail an inconsistent study. Readers should be presented with the main assumptions of each school of thought, how a particular phenomenon is defined and measured given the principles of each theory, what the main predictions and policy implications of each theory are, and the theoretical and empirical limitations, to name a few. Links between the theoretical causes, policy implications and empirical patterns should be offered as well. Individuals should be trained to work in such a way. In the study of wage discrimination, we have adopted the described steps. Policy implications from three main schools of economic thought were offered once important insights of each theory had been provided.

It is not only time that one needs to dedicate in order to adopt a pluralist approach but also the desire to engage with less-dominant, or less-well-known, theories (Davis, 2008; Dequech, 2008; Garnett et al., 2010). If economists and social planners do not accept less-dominant theories, pluralism is not in play. In this study, wage discrimination was evaluated

through both dominant (Neoclassical) and less-dominant (Feminist and Marxian) theories, resulting in rich policy implications. Economists and social planners' distaste for certain theories might restrict their capacity to challenge real causes of the phenomena and conceal troublesome factors. One might consider how less well-informed this study might have been if we had not included frameworks from Feminist and Marxian theories. We suggest that monism approaches restrict our knowledge of policy strategies (Davis, 2008; Dequech, 2008; Garnett et al., 2010).

Pluralism might be misled with the rejection of dominant theories (Garnett et al., 2010). In general, disagreements between economists and social planners in relation to dominant and less-dominant theories exist. It might be suggested that those adopting pluralistic approaches heavily criticise dominant theories and reject them (Garnett et al., 2010). Pluralism should not be attached only to the study of less-dominant theories because this feature might result in a monism approach, as well (Dequech, 2008; Garnett et al., 2010). Based on our case study, we have utilised and synthesised both dominant and less-dominant theories in order to identify and challenge the causes of wage discrimination. Pluralism should aim to utilise a range of theories in a process to describe reality and offer concrete policy actions (Davis, 2008; Dequech, 2008; Garnett et al., 2010).

4. Conclusions

Economic pluralism proposes a synthesis of different theoretical theories within the same study (Reardon, 2009; Garnett et al., 2010). Pluralism states that no framework can evaluate the complex nature and dynamics of economic phenomena and the different aspects surrounding them (Dequech, 2008; Reardon, 2009; Garnett et al., 2010). Pluralism is critical of the idea that we can get one ultimate version of a pattern. Wage discrimination is seen as multi-dimensional, where dialogical awareness is needed. Monism restricts the diagnosis of

the causes of wage discrimination, and also restricts the range of policy strategies to reduce them (Reardon, 2009; Garnett et al., 2010).

Utilising economic pluralism, we examined the cases of wage discrimination by focusing on Neoclassical (Robinson, 1933), Feminist (Bergmann, 1986) and Marxian (Marx, 1989) theories. We proposed that a synthesis of policy actions might challenge the phenomenon. Through a pluralistic lens, we showed that wage discrimination can be reduced if social planners implement equality campaigns, abolish power imbalances against women and ethnic workers and firms create low-cost but reliable tests to predict workers' productivity. In addition, the role of trade unions in establishing and protecting workers' rights is important. Similarly, anti-discrimination employment legislations are fundamental to securing minimum standards.

Both economists and social planners might find it useful to adopt a pluralistic approach for inclusive policy actions. The proposed approach and implications may have an important contribution to make in challenging wage discrimination. However, one should dedicate rigorous efforts to observing the strengths and limitations of alternative models and informing policies (Dequech, 2008). Economics students, economists and social planners should be trained in and become familiar with both dominant and less-dominant theories and build their policy actions portfolio. In the literature there are several schools of less-dominant theories, such as Post-Keynesian, New-Keynesian, Evolutionary, Eclectic, Regulationist, Sraffian and Neo-Austrian, making it difficult to conduct a full, informative and inclusive pluralistic study (Davis, 2008). In the study of wage discrimination, such informative pluralistic studies are not regularly observed in the literature.

In addition, there are several different kinds of pluralism, such as strategic, external, critical, mainstream, radical, fundamental and structured pluralism. Each kind provides guidelines for how researchers should approach economic phenomena (Reardon, 2009;

Garnett et al., 2010). In the study of wage discrimination, there is not much work utilising different kinds of pluralism. Furthermore, although pluralistic studies consider theoretical-based policy implications, little work has been on empirical pluralistic studies. Although there are alternative theoretical policies to reduce wage discrimination, there are not many studies that have empirically tested and compared whether one policy might provide more favourable outcomes than the other. This feature restricts economists' capacity to evaluate the consistency of frameworks among different schools of economic thought.

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