10 CLASSIC LABOUR MARKET DISCRIMINATION

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The simplest definition of labour market discrimination is the following: members of a certain group receive unequal treatment – for example, during recruitment, wage setting, or promotion – compared to another group, and this differentiation is not based on their productivity but on their membership in the particular group (for example based on gender, age, ethnicity) (*Arrow,* 1998, *Loury,* 2002). As a result of discrimination in the labour market, the members of the disadvantaged group may have, on average, a lower employment rate, occupational level, and wage.

In addition to their productive characteristics, the labour market situation of employees also depends on their individual preferences. This determines which jobs they apply for given their level of human capital, how much time they spend working, and how much effort they put into getting promoted. The main difficulty of measuring discrimination empirically is that the *actual* productivity and preferences of individuals are rarely observed. This makes it difficult to establish to what extent any observed mean differences in wages and other outcomes at the group level are a consequence of discrimination, and to what extent are they due to the different characteristics and preferences of the groups.

Characteristics and preferences seen in the labour market are also influenced by discrimination prior to entering the labour market (for example, when teachers or parents discourage girls from choosing certain areas of study). Pre-labor market differences ingroup-level characteristics may be further increased by the expectations of the discriminated group: they may invest relatively less in their human capital if the expected returns in the labour market are smaller. Discrimination should therefore be regarded as a cumulative process, often manifesting in more than one area (*Blank et al.* 2004).

The situation in Hungary

In view of the above theoretical considerations, we assess the available data sources in order to analyse the extent of labour market discrimination against women in Hungary. First, using the 2016 Wage Survey, various specifications of the gender wage gap are estimated. Next, the occurrence of discrimination is described using the limited labour market discrimination tests, data on the legal cases brought in front of the Equal Treatment Authority (ETA), and population surveys on the perception of labour market discrimination.

Gender wage gap estimates

Public and political discourse often cites the gender wage gap as evidence of discrimination against women. However, when interpreting any wage differ-

ences, it is important to be aware of what they actually measure – and what they don't. We estimated the gender wage gap in the private sector using data from the *Wage Survey* (*Table 10.1*). The estimated wage equations contain the logarithm of wage as the dependent variable, and the unexplained (residual) wage difference is represented by the coefficient of the female dummy variable. The advantage of relying on an administrative database is that it is representative; however, due to unobserved differences (for example, ability or motivation) these estimates do not precisely measure discrimination.

Table 10.1: Gender wage gap estimates, private sector

Dependent variable	(1)	(2)	(3)	(4)	(5)
	logarithm of monthly wages	logarithm of hourly pay			
Female coefficient	−0.136***	−0.093***	−0.130***	−0.123***	−0.092***
Control variables					
Educational attainment			x	x	x
Experience				x	x
Region				x	x
Type of employment contract				x	x
Occupation					x
Number of observations	159,752	159,753	159,753	159,753	159,753
R^2	0.010	0.006	0.285	0.332	0.379

*** Significant at the 1 percent level.
Source: Authors' wage equation estimates based on the 2016 Wage Survey.

The model in column (1) of *Table 10.1* shows the raw average wage gap in monthly wages. The estimated coefficient is 0.136, thus women's pay is 13.6 per cent lower than that of men. The monthly wage gap is partly due to the fewer hours women work. Therefore the hourly wage gap presented in model (2) is closer to the extent of labour market discrimination, and shows a smaller difference of about 9 per cent. Model (3) controls for the effect of gender differences in educational attainment on the wage gap. Accounting for these, the wage gap increases to 13 per cent, showing that women have higher educational attainment on average, and if this is also taken into account, their wage disadvantage is greater. We should note that so far as differences in educational attainment depend on innate skills and preferences, it is important to control for them, since the resulting wage differences are not due to labour discrimination. At the same time, by including education-related control variables, we restrict the estimation to the short-term impact of labour discrimination, and exclude the impact of any pre-labor market discrimination.

Model (4) controls for additional observed individual characteristics:[1] work experience, region, and the type of employment contract. When work experience is controlled for, the impact of child-related labor market absences – whether they are a result of individual preferences or external pressure – are also eliminated. The estimated wage gap barely changes after including these

1 The control variables were included in order to account for the effects of dissimilar characteristics, but at the same time, the effects of any discrimination that occurs through these variables are also excluded from the estimated wage gap.

controls: it decreases to 12 per cent. Model (5) additionally controls for occupation (based on the first digit of the HSCO code) and the unexplained wage gap is reduced to 9 per cent. However, we do not know, to what extent the part controlled for by the inclusion of occupation variables is due to the individual preferences of women (for example they do not wish to work in better paid but more stressful positions), and to what extent it is due to discrimination by employers (for example, women are not hired or promoted into certain types of occupations). Therefore, this estimation may underestimate the extent of labour market discrimination.

Discrimination testing and legal cases

Labour market discrimination testing, which is increasingly popular in the United States and in Western Europe (see *Bertrand–Duflo,* 2016), is able to measure the extent of employers' discrimination present in an area more precisely, because it is based on controlled experiments. The limitations of the method include the fact that the results come from a small sample and thus are not representative, that it usually provides information only on the first phase (application) of finding a job, and also that it is costly and therefore rarely used. In Hungary, the last comprehensive testing of the differences in the opportunities for entering the labour market (by sending CV-s and applying via the phone) took place in 2008 (see *Sik–Simonovits,* 2008). The extent of rejection due to gender was measured in the occupations of shop assistant, bartender/catering staff, cleaner, courier, and telemarketers via telephone applications, and the study pointed to the (approximately 20 percent) disadvantage of men in these positions. The fact that employers prefer hiring women for certain jobs suggests that the occupational segregation revealed by the above wage gap estimation is not exclusively due to the preferences of employees.

The results of legal cases can also confirm the presence of discrimination in individual cases. These findings cannot be generalised, because the official statistics available only show 'the tip of the iceberg'. Adopting the equal treatment and equal opportunities laws[2] in accordance with European directives was a precondition to the EU accession of Hungary. The institutional system for enforcing the laws is ensured by the Equal Treatment Authority (ETA), established in February 2005. The legal cases of discrimination reported in a given year are available on the ETA website,[3] and based on this, the number of cases investigated and the number of decisions on gender discrimination seem very low: in 2018 the ETA found infringement in only 10 cases out of a total of 24 cases investigated, and a settlement was reached in 14 cases.

Perception of labour market discrimination

Questionnaires on the perception of discrimination provide representative information on the perceptions of the population, but it is questionable how

2 Act CXXV of 2003 of Equal treatment and the promotion of equal opportunities.
3 ETA.

precisely they measure the actual extent of discrimination. Opinions on these offences are highly dependent on individual factors (sensitiveness, judgement of the situation) as well as the legislation and culture of the given country (if it is a matter of shame or it is acknowledged) (*Sik–Simonovits,* 2010). The database of the European Institute for Gender Equality (EIGE)[4] shows that, based on responses to the Eurobarometer questionnaire, a relatively high share of Hungarians (12.5 per cent) think that discrimination against women is a significant problem: this is the 4th highest share among EU member states.

A comprehensive survey titled 'Women's affairs 2018' was recently carried out regarding how Hungarian women feel about the division of labour in the family and labour market participation (*Gregor–Kováts,* 2018). The survey – conducted at the end of 2017 – showed that the four major groups of problems affecting the lives of Hungarian women are the following: 1) being a single parent, 2) raising a permanently ill child, 3) the expenses of raising a child, and 4) the low pay for part time work. Lower-status women were especially likely to report work and subsistence related problems, while gender-specific problems (such as the conflict between work and family life, the difficulties of returning to the labour market following maternal leave) were primarily reported by higher status women. This trend also reveals the hidden problems of perception surveys. Discrimination in a wider sense – including unequal treatment and the lack of appreciation – accounted for nearly one-tenth (9 per cent) of the total gender-specific problems reported ($N = 688$); discrimination was spontaneously reported by nearly every fifth female respondent (19 per cent) in the 50–59 age group.

Conclusions

Labour market discrimination against women is difficult to prove and to measure. Results based on different methods indicate a certain level of labour discrimination against women exists in Hungary; however, the disadvantage caused by this is difficult to quantify precisely. Estimates based on the Wage Surveys reveal an unexplained gender wage gap of about 0.09–0.13. The scarce available testing results point to occupational segregation and the related preferences of employers. The small number of legal cases suggests that rights awareness and demand for legal remedies are weak in the society. Perception surveys indicate that various forms of discrimination against women are present in the labour market and other areas of social life, and the problem is the most severe among older women.

4 Gender Statistics database.

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K10.1 Labour market discrimination, 1995–2016

GÁBOR KŐRÖSI

The wage survey data is available annually since the 1990's in a mostly comparable structure. Thus, the wage model can be estimated for two decades with a slight modification. It is eminently interesting how the gender wage gap changed over this period. A model very similar to Model 4 in Table 10.1 was estimated for the period between 1995 and 2016. The labour contract type had to be omitted from the regression. *Figure K.10.1* presents these esti-mates, together with the raw wage gap.

The gender wage gap declined until 2006, and stagnated afterwards. It is clear that the raw wage gap was not only smaller than the true discrimina-tion, measured in a wage model, but the 'true' dis-crimination decreased less than one would guess from the raw gender wage gap.[1] *Figure K.10.1* also presents the difference in the gender specific me-dian wages: the difference between a 'typical' fe-male and a 'typical' male employee is significant-ly smaller than the average difference, indicating that the two wage distributions are different. That also means that the gender wage gap is not uni-form for all.

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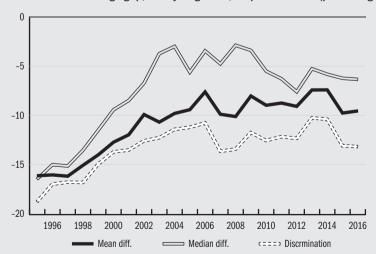1 The raw gender wage gap is given by Model 1 in Ta-ble 10.1.

Figure K.10.1: Gender wage gap, hourly wage rate, corporate sector (percentages)