

# Monopsony, Wage Discrimination, and Public Policy

Brianna L. Alderman<sup>1</sup>, Roger D. Blair<sup>2</sup>, and Perihan Ö. Saygin<sup>3</sup>

<sup>1</sup> Ronald E. McNair Research Scholar, Department of Economics, University of Florida.

<sup>2</sup> Professor, Department of Economics, University of Florida, and affiliate faculty, Levin College of Law, University of Florida.

<sup>3</sup> Assistant Professor, Department of Economics, University of Florida, and affiliate faculty, Education Policy Research Center and Center for Gender, Sexualities, and Women's Studies Research, University of Florida.

Differences in the wages paid to say, men and women, may be due to differences in the supply functions of men and women in the local labor market. Wage discrimination resulting from profit maximization may run afoul of the federal statutes.

**Monopsony power is pervasive in labor markets.**

# Outline

## Monopsony in the Labor Market

- The general profit maximization solution

## Wage Discrimination and Public Policy

- The legal statutes
- Compensation and deterrence

## Economic Consequences of Public Policy

- Economic effects of compliance
- Economic effects of eliminating wage discrimination

## Conclusions

# Implications of Profit Maximization

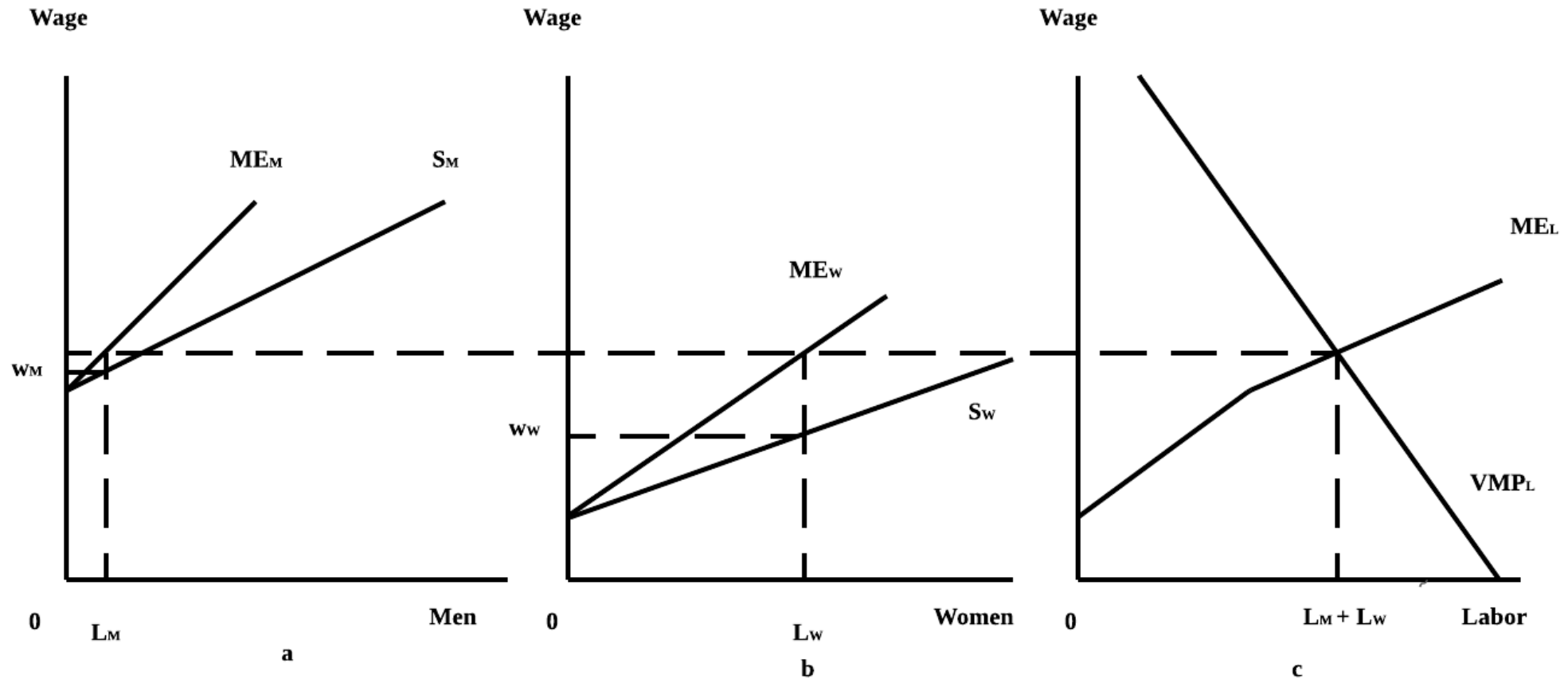


Figure 1

# Federal Statutes Regarding Wage Discrimination

## Equal Pay Act of 1963

- ▶ Forbids gender-based differences in compensation for equal work
  - ▶ “equal work” refers to work that demands equal skill, effort, and responsibility, and is performed under similar working conditions
  - ▶ Motivation is not a relevant factor
  - ▶ Involves burden shifting
  - ▶ There are four statutory defenses an employer can argue

## Title VII of the Civil Rights Act

- ▶ Provides broader protection for workers that are not covered by the Equal Pay Act
  - ▶ Prohibits employment discrimination based on race, color, gender, sexual preference, gender identity, religion, and national origin
  - ▶ Expands beyond compensation to include employment opportunities

- ▶ **The economic approach to deterring undesirable conduct is to make it unprofitable. If the costs in the form of fines or penalties outweigh the gains from the undesirable conduct, that conduct will be deterred.**

**In the case of employment discrimination, however, public policy may be somewhat ineffective in deterring wage discrimination for three related reasons.**

- **Public sanctions are nonexistent or nearly so.**
- **The private remedies do not really compensate the victims.**
- **The victim may feel that it is not worth it to file a suit.**



## Two Potential Cases

Compliance

Eliminating wage  
discrimination

- ▶ In order to obey the law, the employer must pay men and women the same wage despite the differences in their labor supplies, but still exploits its overall monopsony power.

## Economic Effects of Compliance with Federal Statutes



# Economic Effects of Eliminating Wage Discrimination Once it is Discovered

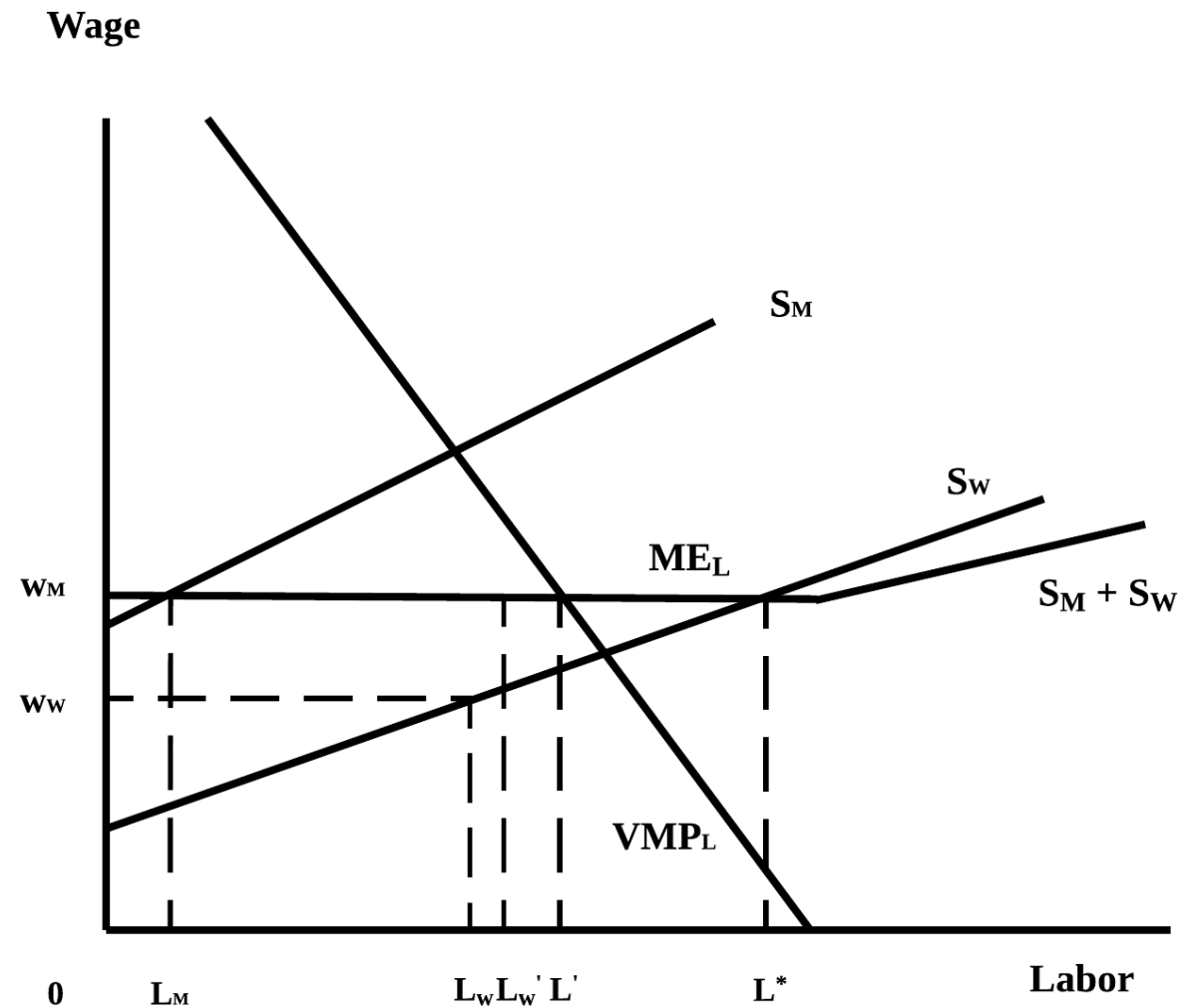


Figure 2



# Concluding Remarks