The Economics of Discrimination, Becker(1957)

Chapter Three: Employer Discrimination

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Introduction

Taste-Based Discrimination

- Gary Beckers 1957 book The Economics of Discrimination has been the starting point of an enormous economic literature on discrimination.
- In his model, employers have a taste for discrimination, meaning that there is a disamenity value to employing minority workers (the theory equally applies to all minorities who may be the target of discrimination).

Introduction

Employer Discrimination

- Let W denote majority group membership and B denote minority group membership.

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- An employer when faced with the money wage rate π_B, acts as if $\pi_B(1+d)$ were the net wage rate, with d being a **Discriminatory Coefficient(DC)** measuring the intensity of his taste for discrimination

- The theory of taste-based discrimination starts from the presumption that discrimination stems from peoples tastes.

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- An employer may refuse to hire Negroes solely because he erroneously underestimates their economic efficiency. His behavior is discriminatory not because he is prejudiced against them but because he is ignorant of their true efficiency.

The theory of statistical discrimination sets a fundamental counterpoint: Discrimination against a group can result simply from imperfect information about workers and does not require that anyone has a distaste against the discriminated group.

Single Employer

Assumption

- Assumptions:
  - B and W workers are perfect substitudes
  - perfect information
  - capital is given (suppose short run)
  - production function is the same across firms
  - competetive product market

- Firms will maximize:

$$U = pF(L_W + L_B) - w_W L_W - w_B L_B - dL_B$$

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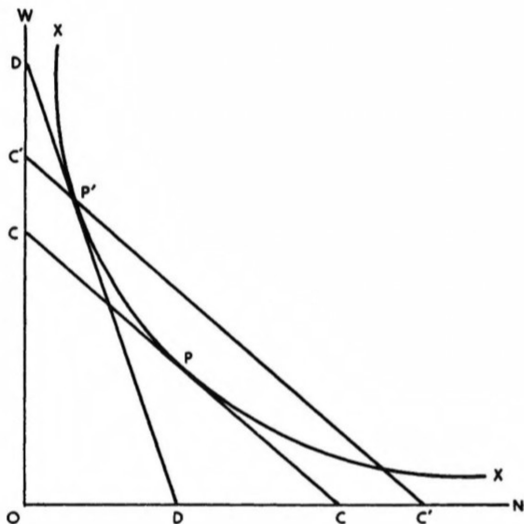
$$w_W - w_B > d$$

Single Employer

Net cost of discriminatory firm



The effect of discrimination by a firm on its costs and employment

Competetive Industries

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- in this case, how much will be the market discriminatory coefficient?

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- the form of production functions
- the amount of competition relative to monopoly

- The equilibrium racial wage gap is not determined by the average level of prejudice among all employers.
- Black wages are determined by the prejudice of the most prejudiced employer with whom blacks interact in equilibrium

- Equilibrium in the short run requires that the markets for white and black workers clear, at equilibrium wages w_W^* and w_B^*.
- The prejudice of this marginal discriminator, d^* , is in fact equal to the equilibrium racial wage gap:

$$w_W^* = w_B^* + d^*$$

- margial discriminator:
  if rms are of equal size and if p is the percentage of blacks in the workforce, the marginal employers prejudice will be the pth percentile of the employer prejudice distribution.
- share of blacks in the market:
  The equilibrium wage gap is increasing in the number of blacks in the market, with employer prejudice held constant.

- The smaller (in absolute value) the DC of any firm, the less would be its unit net costs.
- The firm with the smallest DC would produce the total output, since it could undersell all others.
- the equilibrium MDC would equal this firm's DC. A change in the relative supply of B would not affect the equilibrium MDC.

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- market discrimination is exactly the same under "transferable monopolies" as under competitive conditions

- If the "franchise" were not transferable,the average value of his DC would equal the average DC in the employer class.
- suppose in the market W supplies more labor than B, then competitive industries discriminate less, on the average, than monopolistic ones.

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- the number (or fraction) of blacks in the workforce is negatively related to racial wage gaps, with prejudice held constant.
- prejudice in the right tail of the employer prejudice distribution should not matter for racial differences whereas higher prejudice in the left tail of the prejudice distribution should affect racial wage gaps.