Summary of Effective Discrimination

Howard Riady

December 1, 2012

Introduction

Questions to consider: Why don't Negroes retaliate when White discriminate against them? Discrimination by Whites presumably reduces income of Negroes, but does it affect their own incomes as well? This paper shows that discrimination by group W reduces their own income as well as N's and retaliation by N makes it worse for N rather than better.

Model

- Two societies: W and N
- They do not trade commodities but factors of production used in producing commodities
- W exports capital and N exports labor. How much N being exported is the difference between the total amount of labor in N and the amount used domestically.
- In equilibrium without discrimination:

1. Payment to each factor would be independent of whether it was employed in N or W
2. The price of each product would be independent of whether it was produced by N or W
3. The unit payment to each factor would equal its marginal value product.

- In equilibrium with discrimination (i.e. if members of W discriminate against labor and capital owned by N):

1. W is willing to forfeit income in order to avoid working with N. This reduces the net return that W capital can receive by combining with N labor.

2. This leads to a reduction in the amount of W capital exported.
3. This also reduces the income that N labor can receive by combining with W capital since less N labor is exported.
4. In the new equilibrium, less labor and capital are exported by N and W, respectively.
5. Therefore, reduces both incomes of W and N.

- The incomes of W and N are both reduced by discrimination. However, the return to W capital and N labor decreases, while the return to W labor and N capital actually increases. Thus, this has distributional effect.

Discrimination and Segregation

- Trade between two societies is maximized when there is no discrimination.
- If the taste for discrimination is very large, then it would no longer pay to trade. Then, we have complete economic segregation.
- Therefore, increase in discrimination leads to increase in segregation.
- The total MDC (market discrimination coefficient) against N is defined as the difference between the actual ratio of the incomes of W and N and this ratio without discrimination. "Effective discrimination" against N occurs when MDC is positive.
- If effective discrimination occurs against N at all levels of discrimination by W, the income of N relative to W must be less when completely isolated from W than when freely trading with W. Under this circumstances, N gains more form trade than W does.
- Complete segregation reduces the absolute and relative income of the minority and therefore, increases rather than decreases, the market discrimination against it.

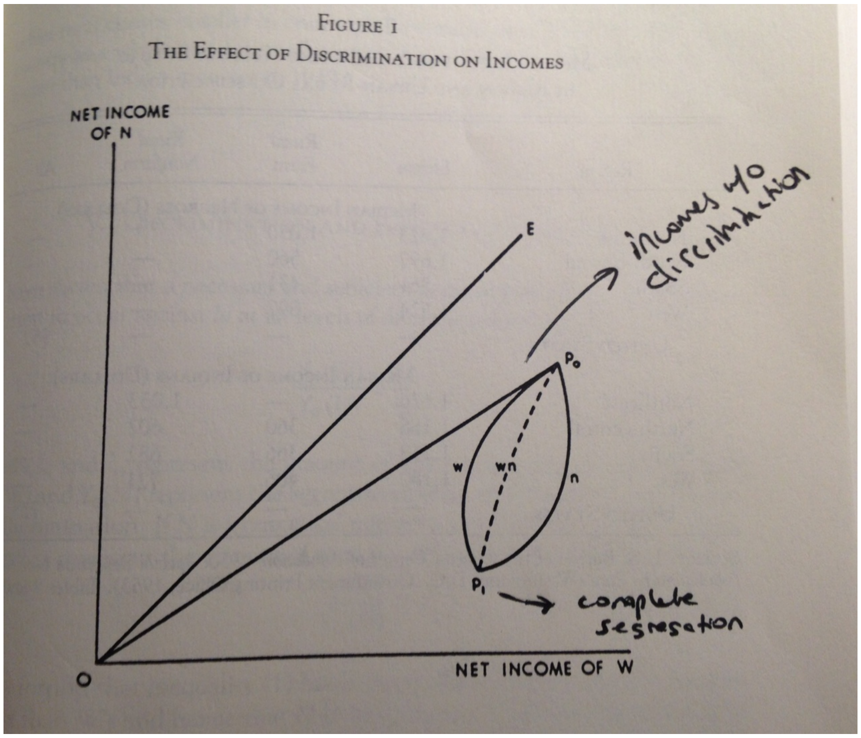

FIGURE 1
THE EFFECT OF DISCRIMINATION ON INCOMES

Discrimination and Economic Minorities

- A necessary and sufficient condition is that N be more of an economic minority than a numerical majority. $\frac{Y_0(W)}{Y_0(N)} > \frac{l_n}{l_w}$, where l_n and l_w represent labor supplied by N and W. $Y_0(W)$ and $Y_0(N)$ represent aggregate incomes of W and N in the absence of discrimination. If N is a numerical minority, then $l_n < l_w$and $c_n < c_w$, where c represent the amount of capital supplied. Thus, $\frac{Y_0(W)}{Y_0(N)} > 1$.

- A necessary condition for effective discrimination against N is that N be an economic minority.

- A sufficient condition is that N be a numerical minority

- It is a mistake for minority to retaliate since effective economic discrimination occurs against them, not because of the distribution of tastes, but because of the distribution of resources. That is, majorities have a more balanced distribution of labor and capital and minorities gain so much by trading with the majority.