

The Forces Determining Discrimination in The Marketplace

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1 The Analytical Framework

If an individual has a “taste for discrimination”, he must act as if he were willing to pay something, either directly or indirectly or in the form of a reduced income, to be associated with some persons instead of others. By using the concept of a discrimination coefficient(DC), we have the following:

1. An employer were faced with the money wage rate of π of a particular factor; he is assumed to act as if $\pi(1 + d_i)$ were the net wage rate, with d_i as his DC against this factor
2. An employee, offered with money wage rate π_j for working with a factor, act as if $\pi(1 - d_j)$ were the net wage rate, where d_j as his DC against this factor
3. A consumer, faced with a unit money price of p for commodity produced by a factor, act as if the net price were $p(1 + d_k)$, with d_k as his DC against this factor

2 Tastes for Discrimination

Discrimination by an individual against a particular group(group N) depends on the following:

- The social and physical distance between them and on their relative socioeconomic status
- If he works with N, it also depends on their substitutability in production
- The relative number of N in the society as large also may be very important: it has been argued that an increase in the numerical importance of a minority group increases prejudice against them, since the majority begins to feel their growing power; on the other hand, some argue that greater numbers bring greater knowledge and that leads to a decline in prejudice. The latter argument comes from the fact that employers undermining the efficiency of group N due to ignorance and spread of knowledge can solve this problem
- Differences in personality

3 Taste for Discrimination

- Direct contact must be necessary for the development of a desire to discriminate.
- Intense contact can be associated with little discrimination for three reasons: (1) discrimination may be caused by ignorance, and contact may eliminate this ignorance; (2) Negroes and whites may have different physical and social characteristics and contact may lead Negroes and whites to value their own characteristics; (3) Negroes may discriminate less and have more contact with one another precisely because they value their own characteristics

- Reasons for high discrimination against older and better-educated nonwhites: (1) Positive connection between discrimination and occupation, since older and better-educated nonwhites have higher and more responsible occupational positions; (2) their income is large relative to the persons whom they are employed; this interpretation emphasizes that level of contact can also be measured by income, and discrimination by whites may be a decreasing function of their income relative to nonwhites

4 Market Discrimination and Segregation

Suppose there are two groups, designated by W and N, with members of W being perfect substitutes in production for members of N. In the absence of discrimination, the equilibrium wage rate of W would equal that of N. Discrimination could cause their wage rates to differ; the market discrimination coefficient between W and N (MDC) is defined as the proportional difference between these wage rates:

$$MDC = \frac{\pi_w - \pi_n}{\pi_n}$$

$$\pi_i = \text{Wages for group } i$$

The MDC is zero if there were no discrimination and is an increasing function of amount of discrimination against group N. On the other hand, market segregation of members of N exists if they have more contact with one another than they would have if there were no discrimination; a market segregation coefficient (MSC) could be defined as the difference between a measure of actual contact and what it would be if there were no segregation.

In the model, members of W and N owned various quantities of two homogeneous factors of production—labor and capital. Discrimination must decrease the total net incomes of both N and W. 'Effective discrimination' occurred against N if discrimination by either W or N reduced N's total net income by a greater percentage than W's. If effective discrimination occurs, then the following holds:

$$\frac{Y_w}{Y_n} > \frac{l_n}{l_w}$$

$$Y_i = \text{Income of group } i \text{ without discrimination}$$

$$l_i = \text{Labor supplied by N and W}$$

- Thus, effective discrimination would occur against N if W was more of an "economic majority" than N was a "labor majority"
- If $l_n < l_w$ and if N is relatively well supplied with labor, effective discrimination must occur against N. This explains why Negroes in the US suffer more than whites from discrimination; substantial discrimination by whites reduces the net income of Negroes
- MDC against members of N selling a particular kind of labor depends on average taste for discrimination of all groups—factors of production, employers, and consumers—working with N in the marketplace
- A given taste for discrimination causes more market discrimination if the group is complementary to, rather than substitute for N. Take for instance in a factory where both W and N are complementary in production. This means more N would be hired together with W, and more discrimination of N by W.
- Those working with N have relatively small discrimination coefficients against N

- If relative supply of a particular factor by N (relative to W) increase, this must mean that some of those working with W must be induced to work with N; since those working with W have relatively large discrimination coefficients (this is the reason they chose to work with W instead of N in the first place), they must be paid a higher return. This means that MDC must increase.
- Segregation of Negroes and whites occurs because Negroes want to discriminate less against other Negroes than whites do. Complete market segregation does not occur because the relative supply of factors owned by Negroes and whites differs, and it is profitable for Negroes to “trade” with whites despite discrimination
- Case study of difference between segregation and discrimination: Negro housing. Many whites do not live near to Negroes, and this is a primary cause of residential segregation, not of residential discrimination. The latter only occurs only if many whites were willing to forfeit income in order to avoid renting or selling a dwelling to Negroes who would live near other whites