How Gary Becker Saw the Scourge of Discrimination

Becker's analysis would extend the reach of economics, and completely reshape the field—and social-science research in general, but it took decades to do so.

By Kevin M. Murphy June 15, 2015 CBR - Economics

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In the 1950s, few economists thought of phenomena such as racial discrimination as under their purview. That changed in 1957, when Gary S. Becker, Professor of Economics and of Sociology at the University of Chicago and at Chicago Booth before his death in 2014, published *The Economics of Discrimination*, a book based on his 1955 PhD thesis.

Becker's analysis would extend the reach of economics, and completely reshape the field—and social-science research in general, but it took decades to do so. "For several years it had no visible impact on anything," he later recalled. "Most economists did not think racial discrimination was economics, and sociologists and psychologists generally did not believe I was contributing to their fields."

Think You're Not Racist?

While overt racism may be on the wane in the US, research suggests it remains just below the surface.

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This Problem Has a Name: Discrimination

It's been a dozen years since Harvard's Sendhil Mullainathan and I sent out nearly 5,000 fictitious resumes in
ads in Boston and Chicago.

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Now the impact is clear. Not only is racial discrimination viewed as a subject about which economics has something useful to say, but economists are among the top academics in any field researching the topic.

Becker's discipline-changing insight was to frame race discrimination within a market context, using the framework to analyze and identify reasons for the black-white wage differential. In this way, he was able to illustrate standard features of economics while applying them to the questions of why wage differentials exist and persist between races.

"Becker's model reduced a charged social issue to supply and demand."

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Three features of the economic approach define his analysis. First, he used a rational individual, utility-maximizing model. People often caricature the rational player as a poor representation of human behavior. But at its simplest, the model recognizes that we, unlike atoms or rocks, actually have some interest in the outcome of things, and generally attempt to affect those outcomes and thereby pursue our own interests.

Second, Becker's model was based on the idea of a market, or more generally, interaction between people. The market represents one form of social interaction, and economics uses all sorts of other contexts in which people interact, such as dating and marriage.

Third, his model used the economic notion of an equilibrium—a point at which individuals both act in their interests and interact with one another.

Employing this approach, Becker made a central observation: discrimination has consequences for people being discriminated against, as well as for the people engaged in it. If discrimination depresses the wages of black workers relative to those of similarly qualified whites, a discriminator who, say, does not want to hire black staff will have to pay more to hire white employees. This creates two costs: the black worker is paid less, and the discriminating employer incurs greater expense to obtain the same productivity.

Becker predicted that over time black workers would be pushed out of places where discrimination was prevalent and disproportionately work where discrimination was least evident. This, in turn, would reduce the impact on black workers relative to a world where they were allocated randomly across employers. Becker's economic model reduced a charged social issue to an economic fundamental, supply and demand.

Two things mattered: the proportion of discriminatory employers, and the number of black workers—the more black workers there were, the broader the base of employers needed to hire them in equilibrium. Becker used this to explain why some places might have bigger wage differentials between races than others.

Becker's economic approach also highlighted one potential way black people could circumvent employers' discrimination, which was simply to avoid the discriminators. He applied that idea to black college graduates, whom he found were doing well compared to less-educated black workers. His explanation: the college graduates had avoided discrimination by becoming professionals—such as ministers, doctors, and lawyers—who served the black community.

Becker's work suggested that an incentive existed for nondiscriminating employers to hire black workers: they could increase profits by hiring black workers rather than whites. Since black workers were paid less than white workers in equilibrium, if enough nondiscriminating employers entered the market—to hire a relatively cheap source of labor—they could even eliminate the wage differential between races.

Becker therefore thought that greater competition would act as a strong force in reducing labor-market discrimination. It was clear to him, however, that competition would not completely eliminate it. Even if an employer weren't racist, he or she could have customers who preferred not to conduct business with black people. Such customers, to avoid dealing with a black employee, would end up paying a higher price in equilibrium, thus subsidizing discrimination.

Moreover, black workers would still experience "premarket" discrimination (things that happen to people before they enter the labor market) and political-based modes of discrimination (prejudicial rules governing zoning, housing, and education). Becker argued that in terms of schooling, the United States had routinely discriminated, because the competitive forces that govern the market are not present in state-provided elementary and secondary education. He expected customer-based race discrimination and premarket discrimination to persist more than discrimination among owners of capital, since, as he explained, strong incentives existed to reduce the latter.

Becker's research in this area was published just as civil disobedience by US civil-rights activists was becoming mainstream: the Montgomery Bus Boycott began in 1955, heralding a movement focused on attaining legal equality and remedies for historic injustices against black people.

While the rise of the civil-rights movement helped Becker's work to win wider acclaim in the 1960s, the legal remedies sought by the campaigners played no significant role in his analysis. From an economic perspective, legal remedies have corrected some problems but exacerbated others. Strict hiring and pay rules have made it more difficult to discriminate in terms of wages or among job applicants, but firms intent on discriminating in their hiring practices can move to locations without significant minority populations. More fundamentally, if people have a tendency to discriminate on the basis of race, legislation cannot eliminate that tendency.

Politicians cannot merely legislate a new outcome, or legislate preferences away. They can only change the way discrimination manifests itself.

That is not to say that Becker thought discrimination was a fixed preference. Although not a behavioral economist, he argued preferences could be influenced. Becker believed that society and factors outside the individual had a significant effect on preferences, which were formed, rather than God given—and that the processes that form preferences merited further study.

One obvious question begged by Becker's work was, who benefits from discrimination? While he did not directly address this, he did suggest that one beneficiary might be labor unions, which have traditionally represented white workers. Unions historically supported many aspects of discrimination since their members competed for jobs with black workers.

The Economics of Discrimination remains relevant, first, as an inspiration for academic research. A recent example is work by Kerwin Kofi Charles of the University of Chicago Harris School of Public Policy and Jonathan Guryan of Northwestern University, who use Becker's approach in an effort to understand how theoretical arguments about wage differentials between black and white workers fit with empirical data.

Secondly, Becker's use of the equilibrium concept, applied to discrimination, remains critical in gauging the impact of antidiscrimination legislation—economists continue to use it to measure how it has affected pay and education, and where employers locate.

Third, the attention Becker drew to premarket factors as a key area of discrimination continues to shape public-policy debates. Seeing an opportunity to tackle the problem, Becker thought market forces—in education, through charter schools and vouchers—could help minorities advance economically.

For Becker, race discrimination represented the first of many forays outside the core areas of economics research. He subsequently brought an economist's perspective to the issues of crime, the family, organ donations, drugs, and human capital, among other subjects. It was this innovative approach that won him the Nobel Memorial Prize in Economic Sciences in 1992.

A 2000 paper by Stanford University's Edward P. Lazear argues that economics's use of a model based on rational, maximizing individuals; equilibrium; and efficiency has allowed the discipline to spread its intellectual reach into many areas previously thought to be beyond its realm. That imperialistic march began in earnest with The Economics of Discrimination. It is still going on.

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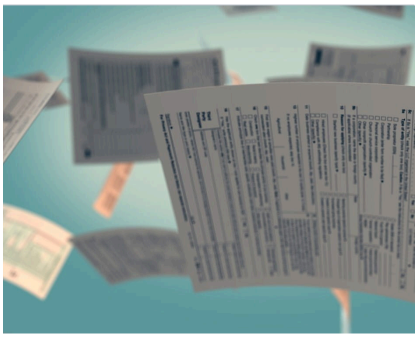

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