

Employee and Customer Prejudice

ECON 383: Economics of Discrimination

Winter 2018

Employer prejudice

- In the (simplistic) Becker model, employer prejudice against workers can cause segregation and a wage gap
- Competition (more firms, lower barriers) will reduce profitability of prejudiced firms, reducing discrimination in the long run

Other prejudice

- Hiring managers may not be the only discriminating agents in the market
- Prejudice against customers
- Employee prejudice
- Customer prejudice

Prejudice against customers

- Assume, as before, that firms receive a dissatisfaction penalty for selling to type B consumers
- Each unit sold to a type B consumer gives them $p - PC$ revenue
- Firms try to maximize their (adjusted) profit

Firm supply

- In competitive markets, firms take price p as given
- They can sell all of their product at the given price, no consumers will buy at less than that price
- Firms make production decisions on the margin, choose output such that marginal revenue = marginal cost

Market power

- Non-prejudiced firms will choose the *profit maximizing* price and quantity to sell to all customers
- Charging more to type B customers (or not selling to them) will necessarily reduce profits
- Non-discriminating firms out-compete prejudiced firms in long run
- With market power, may see segregated market

Civil Rights Act (1964)

Title II:

All persons shall be entitled to the full and equal enjoyment of the goods, services, facilities, privileges, advantages, and accommodations of any place of public accommodation, as defined in this section, without discrimination or segregation on the ground of race, color, religion, or national origin.

Legality today?

Supreme Court seems divided in case of baker who refused to create a wedding cake for a same-sex couple

- Washington Post, December 2017

Price discrimination

- *Price discrimination* occurs whenever a firm charges different prices to different customers
- Can increase profits if firms can distinguish between customers
- Examples: Student discounts, senior citizen discounts, bulk prices, airline tickets, etc

Price discrimination and prejudice

- There can be price discrimination without prejudice
- Price discrimination results in lower prices for groups with lower willingness to pay
- Groups with lower income will tend to pay less than groups with higher income
- Similar in nature to *statistical discrimination* (next week)

Employee discrimination

- Suppose type A workers don't like working with type B workers
- Each type A worker has a prejudice coefficient PC
- Market wage rate for A workers: w_A
- Market wage rate for B workers: w_B
- Type A workers will only work with type B workers if they earn $w_A + PC$
(they will quit and move to a type A firm)

Hiring

- Suppose $w_A > w_B$
- Type A firms decide to hire another worker
- If they hire type A, pay w_A
- If they hire type B, pay $w_B + N_A PC$, where N_A is number of A workers (type A workers must be compensated for B coworker)
- Hire type B worker (integrate) if $w_B + N_A PC < w_A$
- May be integrated firms if wage gap is large

Segregated firms

- Suppose firm integrates because wage gap is high
- Competitive labor markets, firm decision does not affect w_A or w_B
- Consider the *last* type A worker that was hired
- The firm can replace them with a type B worker and costs will decrease
 $w_B + (N_A - 1)PC < w_A$
- Profits increase if they replace all of their workforce with type B workers!

Equilibrium

- Large wage gaps can exist in the short run
- In the long run, any wage gap will mean type B firms are more profitable than type A firms
- Type A firms transition to type B firms, increasing demand for B workers
- No wage gap in the long run
- Firms still segregated

The long run

- In the Becker model, competition generally eliminates discrimination in the long run
- But we see short-run discrimination even when workers are economically identical (same productivity)
- How do workers gain productivity?

Adjustment costs

- If the long run is "long," short-run outcome gaps may be passed on to future generations
- If a short-run wage gap persists for 20 years, type B workers will have less to invest in their children
- Productivity gaps may be created by initial prejudice
- Discrimination may exist based on skills/productivity *even if* initial prejudice disappears

Measurement

- It can be very difficult to measure productivity
- Also difficult to measure prejudice
- Difficult empirically to identify source of discrimination
- Results from other fields suggest prejudice exists and can have long-lasting effects

Healthcare access

Table A. Infant, neonatal, and postneonatal deaths and mortality rates, by race and Hispanic origin of mother: United States, 2013
linked file

Hispanic origin and race of mother	Live births	Number of deaths			Mortality rate per 1,000 live births		
		Infant	Neonatal	Postneonatal	Infant	Neonatal	Postneonatal
Total ¹	3,932,181	23,446	15,893	7,553	5.96	4.04	1.92
Non-Hispanic white	2,129,196	10,766	7,119	3,647	5.06	3.34	1.71
Non-Hispanic black.	583,834	6,488	4,355	2,133	11.11	7.46	3.65
American Indian or Alaska Native	45,991	350	189	161	7.61	4.11	3.50
Asian or Pacific Islander	265,673	1,082	794	288	4.07	2.99	1.08
Hispanic	901,033	4,507	3,200	1,308	5.00	3.55	1.45
Mexican	545,202	2,672	1,911	761	4.90	3.51	1.40
Puerto Rican	68,302	405	289	115	5.93	4.23	1.68
Cuban	18,854	57	43	14	3.02	2.28	*
Central and South American	131,305	565	410	155	4.30	3.12	1.18

Examples from medical literature:

- [Doctors treat black and white pain differently](#) (harder to work when in pain)
- [Black women less likely to receive postpartum care](#) (harder to get to doctor when income is low, less healthy children as a result)
- [Discrimination discourages follow-up care](#)

Policy

- Promoting competition can be a powerful force to reduce discrimination
- May not be enough to overcome prejudice
- What can be done?
- Reading: [*The Case for Reparations*](#)