The Economics of Antipathy and Stereotyping

Bryan Caplan

Dep't of Economics and Mercatus Center

George Mason University

bcaplan@gmu.edu

Difference vs. Discrimination

- Individuals have unequal outcomes – and so do groups.
- Males are vastly more likely to be in jail.
- Black Americans earn lower incomes than white Americans.
- Hindus are America's richest religious group.
- Asians are greatly overrepresented at Harvard.
- 85% of orthopedic surgeons are male; 84% of OBGNs are female.
- The differences are undeniably real. But do all of these differences reveal discrimination? Do any of them?
- The question may be taboo, but it's totally reasonable.

Detecting Discrimination

- Discrimination, or just difference? Most people rely on ideology to answer.
  - Liberals see discrimination against blacks, women, and gays.
  - Conservatives see discrimination against the religious, fellow conservatives, and Asians.

- Is there a better way than invoking ideology? Sure. Don't just look at averages; instead, try to do an "apples-to-apples" comparison.
  - Ex: Far more males are in prison. But what if you compare law-abiding men to law-abiding women?

- The most informative apples-to-apples comparisons use statistics to search for patterns (or lack thereof).
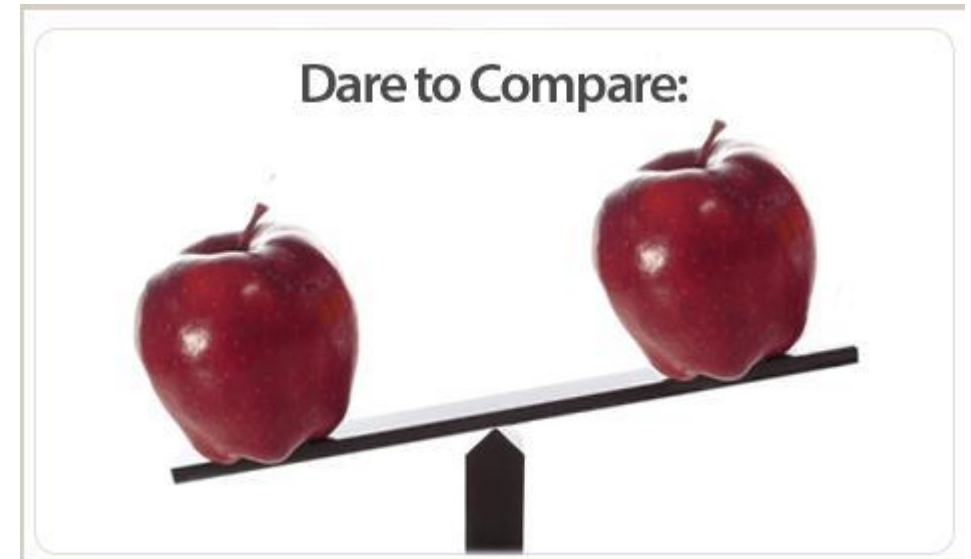
Dare to Compare:

Standard Methods, Standard Results

- To measure discrimination, an apples-to-apples comparison has to compare people who have the *same* productivity but *different* race/sex/religion, etc.
- Social scientists rarely have direct measures of productivity, so they use proxies: education, test scores, experience, family status, and so on.
- Ex: For gender discrimination, you might want to compare single childless men to single childless women.
- The research is vast, but researchers almost always find that the bulk of observed differences are *not* discrimination.
  - Debate usually ranges from "Discrimination explains 0% of the raw gap" to "Discrimination explains 20% of the raw gap."
- Furthermore, discrimination and difference occasionally move in opposite directions.
  - Ex: Asians at Harvard.

The Beckerian Heresy

- Many people greet these research findings with surprise, or even disbelief.

- But a few economists, most notably Gary Becker, predicted that discrimination would be mild a decade before computers or data were good enough to run such tests.

- Let's walk through Becker's basic story.
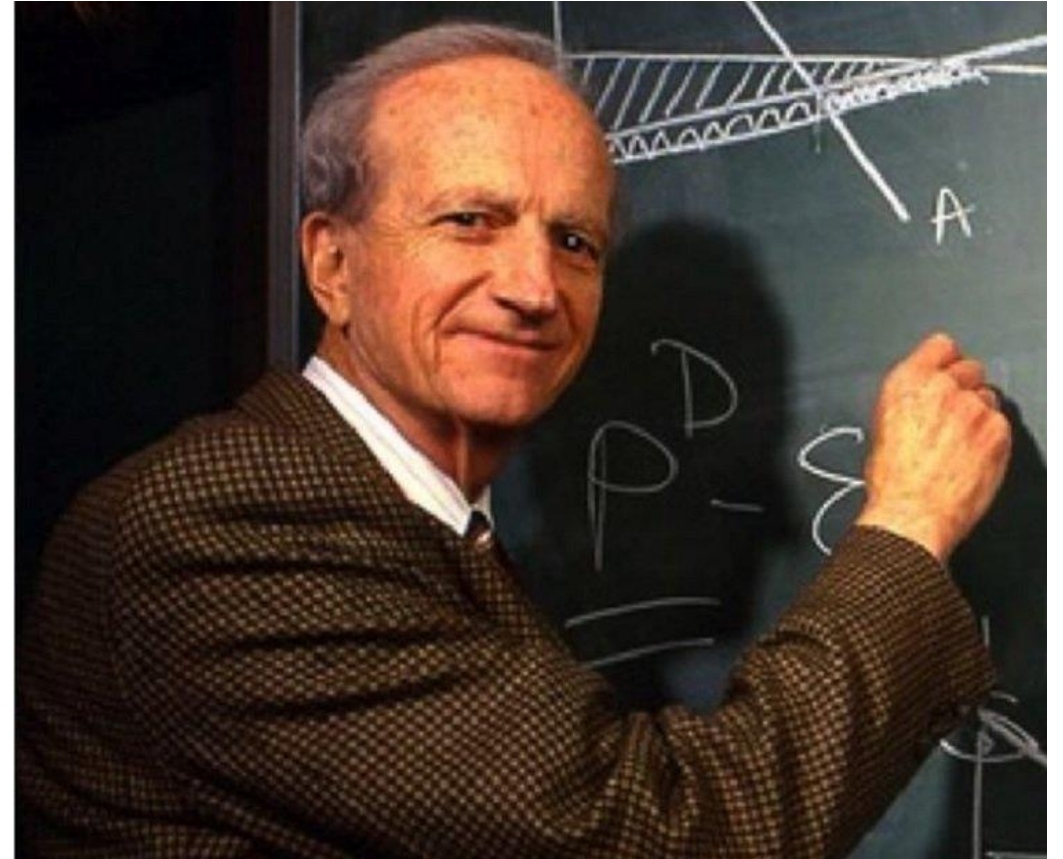
The Economics of Discrimination

- Imagine men and women are equally productive. *Most* employers are too sexist to treat women equally, but a few employers only care about money.

- What happens? Demand for women is lower, so their wages are lower – just as the standard view predicts.

- Yet that's not the end of the story. If (a) men and women are equally qualified, (b) women are cheaper, and (c) some employers *aren't* sexist, then the non-sexist employers will hire lots of women – *and make lots of extra money!*

- If discrimination is real, non-discrimination is a "get rich quick" scheme. Replace men with women, make $$$ fast!

- Over time, non-sexist employers survive and expand, while sexist employers shrink and go bankrupt.

Wishful Thinking?

- Critics often call this "wishful thinking" or "market fundamentalism," but it's not.

- Suppose someone said, "We don't need pollution regulation, because lots of businesses are run by nice people who want to protect the Earth."

- Naïve? Yes. While there are some green CEOs, firms that put the planet before profit have a clear competitive disadvantage.

- Becker's theory of discrimination works the same way: Firms that put *prejudice* before profit have a clear competitive disadvantage.
  - Under apartheid, it was *il*legal *not* to discriminate in favor of whites!

- General principle: Markets weed out decision-makers who put anything – good or bad - above profit.

The Case of Illegal Immigrants

- Few groups are as reviled today as illegal immigrants.
- Discrimination against illegal immigrants isn't merely legal; it's mandatory!
- Question: What's the point of making it mandatory?
  - Answer: Because despite widespread antipathy toward illegal immigrants, most people think that many employers would still happily hire them.
- Is this because people think employers are cosmopolitan crusaders?
  - No, it's because they think employers are too greedy to pass up the chance to make a buck.
- Becker – and common-sense – concur. If you want discrimination to endure, make it mandatory.

Statistical Discrimination

- Suppose employers use stereotypes to expedite hiring. If stereotypes are true on average, is this "discrimination"?
  - Yes, because you're not treated as an individual.
  - No, because the differences are based in fact, not prejudice.
- Rather than argue semantics, economists just give it a special name: "statistical discrimination."
- Statistical discrimination is clearly a big deal in many industries, like insurance.
- Question: Is statistical discrimination bad for all members of affected groups?
- Answer: No! It's bad for people who are *above*-average for their group, but *good* for people who are *below*-average for their group.
  - Within-group conflict between career women and future moms.
  - "You're making me look bad."
- Clear sign of statistical discrimination: Cheap information transforms the situation.
  - Taxis vs. ride-sharing

FEBRUARY 7, 2016

$100.00 Charged

Just a quick update, Sydney

⊙ 02:17am
Austin, TX

⊙ 02:31am
Austin, TX

CAR	MILES	TRIP TIME
uberXL	6.50	00:14:17

You accepted 3.5x surge at 2:12am
by typing it on this screen

MY FARE WILL BE

3 . 5

TIMES THE NORMAL FARE

WE MADE A FARE CORRECTION

"We recently learned from your driver about an incident with your recent Uber trip that resulted in a mess that caused your driver to take the vehicle to get cleaned. Because of this, we do need to charge a cleaning fee to compensate for the time and charges incurred. You can check out http://t.uber.com/cleaning-fee for more details on our cleaning fee policy. Sorry about the trouble around this extra charge, but hope you understand that policies like this are in place to protect the drivers we partner with and provide you with the best service we can. Feel free to reply to this receipt with any questions."

- CAABAY.

Previous Charge	68.85
Charged Personal •••• 1002	100.00
New Total	$168.85

What Do Discrimination Laws Do?

- According to the Beckerian story, banning discrimination is like banning the burning of money.
- If you correctly identify discrimination, you're punishing something that hardly ever occurs.
- If you *in*correctly identify discrimination, however, you're forcing employers to treat workers the same even though they're different.
- What's so bad about that? Employers try to avoid hiring people the law pressures them to overpay.
  - Visualize the Bryan Caplan Protection Act.
- The law in practice: Large majority of lawsuits come from disgruntled employers, not people who were never hired in the first place.
  - Question: When would a serious bigot start discriminating?
- The limits of Becker: If profit-maximization drives non-discrimination, then we should focus on discrimination in the *non-profit sector*.
  - Government
  - Schools
  - Other?