The Economics of Antipathy and Stereotyping

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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).
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 illegal 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.
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
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 incorrectly 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?