Circular discrimination theory

An attempt to bridge the (presumed) gap between taste-based and statistical discrimination theories

Abstract

Labor Market Discrimination is a widely recognized and well-documented phenomena (see for example Kreimer 2009), despite legal efforts to reduce it. For economists it signifies an imperfection – either stemming from preferences based on prejudices (and therefore an imperfect irrational economic actor) or based on imperfect information about individual and/or group performances. These two economic theories of discrimination – taste-based and statistical discrimination have been discussed as opposites, as alternative (and sometimes complementary) explanations of employment gaps between different social groups. (Becker 1971) describes discrimination as a result of employer's, employee's and/or customer's tastes (rooted in prejudices) for interacting with certain social groups. This taste manifests in different willingness-to-pay for interacting with certain groups, reflecting the benefit (or cost) of dealing with a person of such a group. Discrimination therefore is a direct result of (hostile) prejudices against certain groups respectively a preference for the other group. Statistical discrimination theories (see for example Phelps 1972, Arrow 1971, Aigner, Cain 1977) on the other hand explain discrimination as a result of imperfect information about the productivity of individual employees. Therefore group productivity and (perceived) belonging to a certain social group (may it be gender, ethnicity, class or other social categories) is used as an indicator of an individual's productivity. The arising imperfection has two effects – first, employers using belonging as an indicator for productivity make mistakes in attributing productivity and discriminate due to lack of information. Secondly, employees of both groups now have differential incentives to invest in human capital as their probability to get returns on this investments as well as (perceived or real) returns depend on group belonging. This "feedback effect" can turn discrimination into a self-fulfilling prophecy.

The presumed incompatibility of these models in the literature is based mainly on the conflicting role of competition to change discriminatory practices in markets. In Beckers (1971) model increased competition will decrease competition, in an employer-discrimination model discrimination can even disappear through competition (though not in models where colleagues and customers discriminate). In a statistical discrimination framework, competition does not necessarily lead to a decrease of discrimination, due to the feedback effect. The feedback loop can even produce the very productivity differences it is built upon. Furthermore they anchor discrimination in different assumptions about markets (rationality vs. information) and due to the aforementioned role

of competition, result in different policy recommendations. Both taste-based and statistical discrimination have been studied empirically (for taste-based discrimination see Weichselbaumer, Winter-Ebmer 2007, Weber, Zulehner 2009, Charles et al. 2009; for statistical discrimination see Altonji, Pierret 2001, Bielby, Baron 1986, Dickinson, Oaxaca 2006). In social theories discussing discrimination (for example in gender studies) on the other hand a multitude of structure, process, institutions and mechanisms at the individual levels is used to explain the construction of differences and the resulting unequal treatment of individuals (Wetterer 2010, Becker-Schmidt 201212). Theories of inequality rely on a interdependence of manifold reasons and mechanisms of inequality to realistically reflect the existing social stratification.

Through a feminist lens we can apply both theories of economic discrimination not only as coexisting, complementary and/or simultaneous, but as interdependent (or intersectional). Just as social categories are intersectional - depend on each other and are built on each other - mechanisms of discrimination can be thought of as intersectional, e.g. building on similar underlying assumptions and instruments. Historical processes of discrimination, embedded in institutionalized structures, led to prejudices as well as to a cycle of statistical discrimination including a feedback loop. Furthermore I hypothesize that taste-based discrimination can induce cycles of discrimination through a feedback loop (as well as through institutionalization and processes outside of markets) and statistical discrimination can vice versa lead to stereotyping of people based on perceived belonging to a social group and even go as far as creating (or strengthening) prejudices about individuals having certain ascriptive attributes. This paper is an attempt to build a model that integrates both a taste-based and a statistical approach to discrimination and test it in a classroom (read: laboratory) experimental environment. Discrimination mechanisms often result in circular arguments that aim at rationalizing and legitimating discriminatory behavior ((Wetterer 2002). The work proposed aims at testing if discrimination itself might include mechanisms that are circular – self-fulfilling and/or have feedback effects as well as relying on each other or are mutually reinforcing. A theory that tries to entangle the interdependent effects of social stratification mechanisms could (at least partially) expand our understanding of how discrimination (even though its negative effects on society, markets, and individuals are well-documented) managed to stay persistently throughout time.

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