

A political economy of social discrimination

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What is discrimination?

“Discrimination means that two individuals with similar economic characteristics experience unequal (economic, social, or political) outcomes as a result an individual's non-directly relevant factors such as race or sex.”

Evaluation of an individual not based on what it can bring to firm/society, but their group belonging

Discrimination as a social phenomenon

Discrimination requires that “**the relevant groups must be socially salient in that they structure interactions in important social contexts.**” (Altman’s , ” Discrimination” , *The Stanford Encyclopedia of Philosophy*)

Discrimination is a social phenomenon (Allport, 1954)

This opens the possibility for discrimination to be sustained by norms

The case of Cagots in France

"[T]he Cagots [of French and Spanish Pyrenées] were for a millennium treated as pariahs, relegated to disfavoured districts, even forced to use separate doors in churches, where they received the Communion water at the end of a stick. Because contact with the Cagots was contaminating, they were severely punished for drinking from the same water basin as others, for farming, or even walking barefoot on the streets. (...) What distinguished them from others? Not their appearance. (That's why they were forced to identify themselves with badges pinned to their clothing...) No their family names. Not their language. Not their religion."

Kwame Anthony Appiah (2018)

The case of Burakumin in Japan

“Burakumin are physically indistinguishable from other Japanese but have historically been regarded as a socially distinct group. When identified, they are often subject to discrimination and prejudice. ” (Wikipedia)

Same situation for castes in India (Akerlof, 1976)

- ▶ Extreme form of discrimination sustained by norms

This paper

We study the possibility of discrimination sustained by norms

- ▶ Social discrimination

We show that social discrimination can arise despite no ex-ante differences in human capital

This paper (2)

We also study the full economic and political consequences of social discrimination

- ▶ Effect on employment
- ▶ Impact on firm productivity, on economy as a whole
- ▶ Consequences for redistribution

We also analyze the causes of social discrimination

- ▶ Uncover conditions such that a majority of voters demand policies raising the social saliency of certain physical traits (e.g., burqa ban)

Related literatures

Discrimination: Becker (2010); Arrow et al. (1973); Phelps (1972); Goffman (1963)...

Identity as focal point: Akerloff (1976); Bramoullé and Goyal (2016); Eeckhout (2006); Cavounidis and Lang (2014); [Peški and Szentes \(2013\)](#); ...

Identity and economic choices: Akerlof and Kranton (2000); Austen-Smith and Fryer (2005); Eguia (2017); Schnakenberg (2013); ...

Identity and redistribution: Levy (2004); Krasa and Polborn (2014); Xteferis and Matakos (2017, 2019); Shayo (2009); Grossman and Helpman (2018); ...

Theoretical framework

Model

Players:

- ▶ 2 candidates A and B
- ▶ Masses 1 of workers/employers with social traits
 - ▶ Majority trait M
 - ▶ Minority trait m
- ▶ All workers can vote, only $f\%$ of employers are citizens

Two parts

1. Political “market”
2. Labour market

Electoral model

Candidates are office-motivated: $B > 0$ only if in office

Candidate J 's platform p_j contains:

- ▶ Proportional tax on income τ_J
Tax revenue uniformly redistributed to workers (with some deadweight loss)
- ▶ Symbolic policy $d_J \in \{0, 1\}$

Citizens vote sincerely after observing p_A and p_B

- ▶ When indifferent, vote against symbolic policy ($d = 1$)

Platform implemented after election, before labour market

Labour market

Each employer/firm has one position: filled or open

Unemployed worker and employer with open position get a chance to work together:

1. Undirected one-to-one matching
2. Match-specific productivity θ revealed to both workers and employers (uniform $[0, 1]$, iid per match)
3. Both need to agree to work together for position to become filled next period

If position is filled,

- ▶ Worker gets exogenous w , employer gets $\theta - w$
- ▶ Match persists with probability δ

Labour market per-period utility

Employer:

$$U^F = \begin{cases} (1 - \tau)(\theta - w) & \text{if position filled} \\ 0 & \text{if position open} \end{cases}$$

Worker:

$$U^W = \begin{cases} (1 - \tau)w + T(\tau) & \text{if employed} \\ T(\tau) & \text{if unemployed} \end{cases}$$

$$T(\tau) = \left(\tau - \underbrace{\frac{\tau^{1+\lambda}}{1+\lambda}}_{\text{deadweight loss}} \right) \underbrace{R}_{\text{tax base}}$$

Payoffs are discounted with discount factor $\beta \in (0, 1)$

Identity

Employers and workers characterized by their social identity
 $s \in \{M, m, \emptyset\}$

Absent symbolic policy ($d = 0$) identity is not socially salient

- ▶ All workers/employers identity: $s = \emptyset$

With symbolic policy ($d = 1$), identity becomes socially salient

- ▶ Workers/employers differentiated $s \in \{M, m\}$

α^W workers have trait M

α^F employers have trait M

- ▶ Social identity observed before entering working relationship

The transmission of social identity

When salient, social identity is not fixed: Depends on social interactions

In a working relationship between identity- K employer and identity- L worker ($K, L \in \{m, M\}^2$) upon break down

- ▶ Employer acquires worker's identity w.p. $\rho^F \in (0, 1]$
- ▶ Worker acquires employer's identity w.p. $\rho^W \in (0, 1]$

Labour market analysis

Labour market w/o socially salient identity

All actors are identical

- ▶ No discrimination possible

Worker always agrees to enter working relationship

Employer hires worker if and only if $\theta \geq \theta^{ND}$

- ▶ Threshold satisfies $\theta^{ND} > w$

Intuition: Employers trade off

- ▶ Profit today
- ▶ Risk of being stuck with relatively poor match tomorrow

Labour market with socially salient identity

Workers-employers can now condition work decision on social identity

- ▶ Discrimination possible

Focus on fully segregated equilibrium

- ▶ Majority workers/employers only work with majority members

Generally unique type of eq with discrimination

Characteristics of labour discrimination

Majority employers hire majority workers iff $\theta \geq \theta_M^D(\alpha^W, \alpha^F)$

Minority employers hire minority workers iff $\theta \geq \theta_m^D(\alpha^W, \alpha^F)$

More difficult to find adequate workers

\Rightarrow Employers less picky: $\theta_M^D < \theta^{ND}$ and $\theta_m^D < \theta^{ND}$

Is labour discrimination a best response?

1. Majority employer must refuse to hire minority worker with highest productivity ($\theta = 1$)

- ▶ Cost of being tainted ($s = m$) sufficiently large
- ▶ It must be harder to hire minority than majority workers

⇒ Proportion of majority worker sufficiently high:

$$\alpha^W \geq \underline{\alpha}^W(\alpha^F)$$

Is labour discrimination a best response?

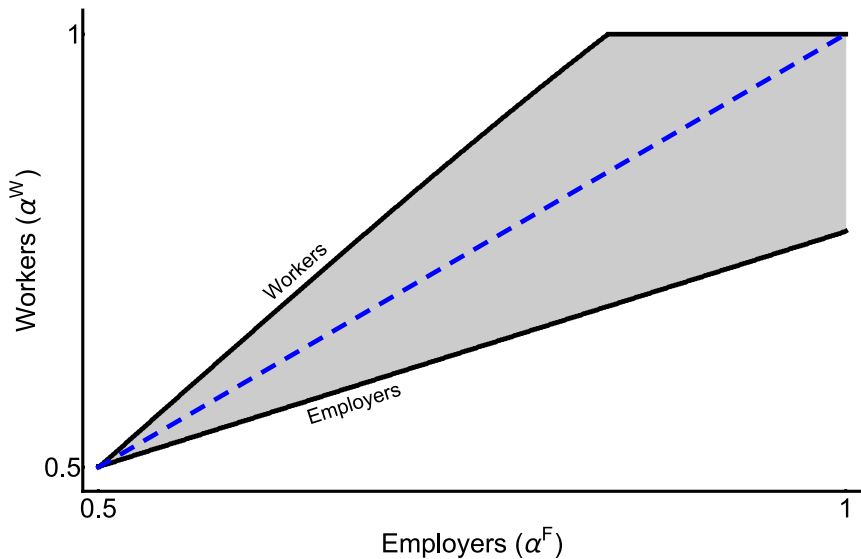
2. Majority worker must refuse to work for minority firm

- ▶ Cost of being tainted ($s = m$) sufficiently large
- ▶ It must be harder to be hired by minority than majority employers

⇒ Proportion of majority worker sufficiently low:

$$\alpha^W \leq \bar{\alpha}^W(\alpha^F)$$

Labour discrimination as a best response



The consequences of labour discrimination

Labour discrimination possible only if hiring/being hired easier for majority

Compared to majority workers, minority workers face

- ▶ Higher unemployment rate
- ▶ Longer unemployment spell

Compared to majority-owned firms, minority-owned firms have lower productivity

- ▶ $\theta_m^D < \theta_M^D$

⇒ Large observable difference despite fully similar ex-ante

Political analysis

The primacy of politics

So far, conditions for labour discrimination as mutual best response

But labour discrimination requires social identity to be salient

⇔ Symbolic policy implemented

Necessary to study political demand for symbolic policies

- ▶ Compare welfare in steady state with and w/o symbolic policy
- ▶ Comparison across equilibria (\neq within one equilibrium)

Possible equilibrium platforms

Multi-dimensional problem, yet candidates propose either

1. Workers' preferred tax rate absent discrimination $\tau = \tau^D$
No symbolic policy $d = 0$
2. **Majority** worker's preferred tax rate **with** discrimination
 $\tau = \tau_M^D$
Symbolic policy $d = 1$

The benefit and costs of symbolic policy for majority workers

Benefit of symbolic policy (and labour discrimination):

- ▶ Increased chances of being employed by majority firm

Cost of symbolic policy:

- ▶ No possibility to work with minority employers
- ▶ Lower tax revenues to be redistributed

⇒ Benefit > Cost only if

- ▶ Minority poorly economically integrated $\alpha^W < \alpha^F$
- ▶ Sufficient deadweight loss of taxation

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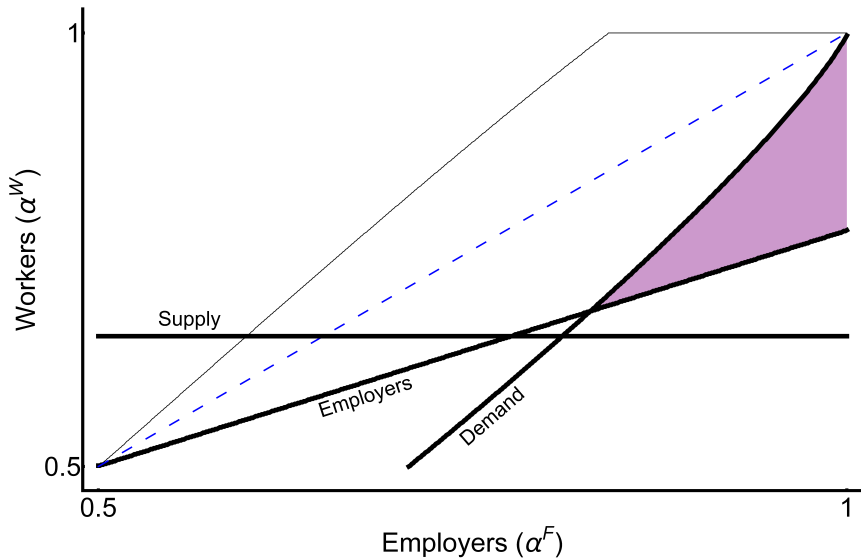
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Equilibrium discrimination



The spillover of symbolic policies

Symbolic policy \rightarrow labour discrimination \rightarrow lower total production
Majority workers more likely to be employed

- ▶ Tax rate decreases: $\tau_M^D < \tau^{ND}$

Despite smaller total revenue available

Both effects combined

- \Rightarrow Lower redistribution with symbolic policy
- \Rightarrow Minority workers doubly hurts by symbolic policy
 - \rightarrow Lower employment **and**
 - \rightarrow Lower safety net when they need it most

What if wages are endogenous?

Suppose wages are determined by Nash bargaining process

Surplus over outside option (unemployment/open position)
divided according to workers' bargaining power

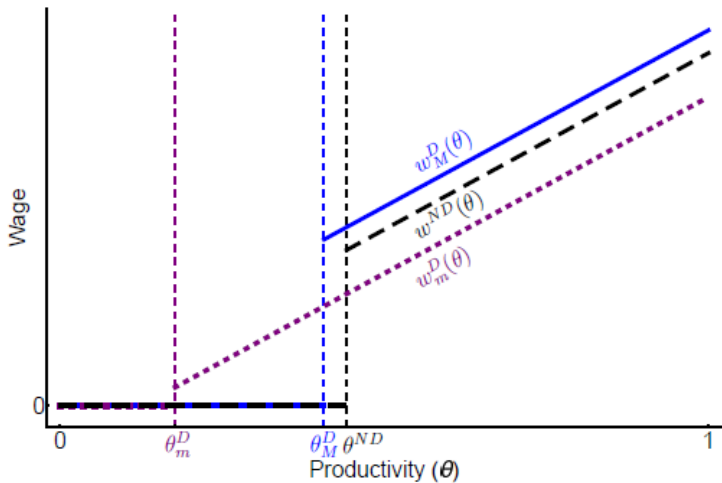
Workers/employers face limited liability constraint:

- ▶ Zero-profit condition for employers
- ▶ Work for free for workers

All results hold +

- ▶ Majority workers have higher wages with than without discrimination
- ▶ Minority workers have lower wages with than without discrimination

What if wages are endogenous?



Summary and discussion

Summary

Social discrimination has serious consequences on

- ▶ Employment patterns of minority workers
- ▶ Productivity: gap between minority-owned and majority-owned firms
- ▶ Total production
- ▶ Total income of minority members: lower labour market income and lower transfers

But it also generates some winners: majority workers

- ▶ There may be a demand for raising social salience of certain traits via symbolic policies

Norms on the labor market

Norm-based discrimination as a complement to taste-/belief-based discrimination

Evidence of norms affecting labor market outcomes:

- ▶ Women in 19th/20th century in Europe and USA (Fawcett, 1892)
- ▶ Black individuals until 1950s (Wright, 1986)
- ▶ Indian agricultural workers (Oh, 2023)
- ▶ Laboratory experiments (Li et al., 2011)

Social discrimination: Possible remedies?

Unlike taste-based and possibly belief-based discrimination, norm-based discrimination cannot be erased by market pressures

⇒ Room for government intervention

Remedy 1: Workplace affirmative action

Remedy 2: Promote minority economic integration

Remedy 3: Correcting misperception about minorities

Remedy 4: Voting rights for new arrivals from minorities

Are these remedies possible when social discrimination benefit many voters?

Social discrimination as redistribution

Norm-based discrimination is a redistribution from minority workers to majority workers at a cost to the economy as a whole

- ▶ 19th century feminist Dall (1860):

“Man has increased the natural difference in his own favor, supposing that there be any such, by laws and customs which cripple woman”

- ▶ Sociologist Goffman (1963):

“The stigmatization of those in certain racial, religious, and ethnic groups has apparently functioned as a means of removing these minorities from various avenues of competition.”

Rethinking culture and economics

Our paper: symbolic policies and economic situation not necessarily separated

- ▶ Economy → symbolic policy → redistribution

Hence, Le Pen can attract blue-collars with

- ▶ Nativism (“Putting French first”) **and**
- ▶ A 10% tax cut

Donald J. Trump can attract blue-collars with

- ▶ Attacks against minorities (“Mexico sends rapists”) **and**
- ▶ Tax cuts