

ECONOMIC COSTS OF DISCRIMINATION AND SEGREGATION IN U S SOCIETY*



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OPSOMMING

Alhoewel hierdie studie nie 'n uiteensetting is van diskriminerende praktyke in die Suid-Afrikaanse arbeidsmark en die sosiale koste daaraan verbonde nie, vorm Becker se teorie van diskriminasie en Thurow se empiriese ontleding daarvan 'n deeglike grondslag, en kan dit dien as 'n uitstekende raamwerk vir soortgelyke ondersoeke in Suid-Afrika. Die doel van hierdie studie is om die ekonomiese koste van die diskriminasie wat swartmense in die arbeidsmark in die Verenigde State teenkom, te ontleed en te definieer. 'n Duidelike onderskeid word getref tussen openlike en bedekte diskriminasie-optrede in die indiensnemingsproses. Van die teoretiese ontleding en van navorsingsresultate op hierdie gebied is dit duidelik dat daar geen eenvoudige, direkte of objektiewe kriteria is vir die meet van die sosiale effekte van diskriminasie nie. 'n Posing word aangewend om 'n samestelling van mannekrag-beleidstellinge uiteen te sit, wat nodig sal wees om diskriminerende praktyke wat deur swart werknemers ondervind word, doeltreffend te bekamp.

INTRODUCTION

In recent years there has been a growing interest among labour economists and researchers to determine the effects and impacts of segregation and economic costs of discrimination against blacks in the United States. This growing interest in discrimination is based on those factors unrelated to productivity, but very closely linked with some of the most important social problems in the United States. The problem of discrimination is important not only because of its major macro consequences on society, but also for its micro effects on the citizen, group and community who may suffer from internal social conflict and, of course, experience loss of production output.

The main problem this paper will address is the economic costs of discriminating against blacks. However, there also exists discrimination against other cultural minorities, women, the elderly, religious and specific socio-economic groups. The basic problem of discrimination, as viewed by the writer, is that it is a subjective matter, dependent upon individual or institutional judgements concerning what ought to be. It follows that there are no simple, direct or objective criteria for measuring the social effects or impacts of discrimination. It is desirable, therefore, that the reader be aware of the distinction between economic and social value costs and realize that the former is not always representative of the latter.

ECONOMIC VS. SOCIAL COSTS

In terms of output, there is no essential link between the economic costs of producing goods and services

and the social costs of output. Whereas economic costs include items such as unit costs, capital expenditures, indirect business taxes, administration allowances and various other monetary valuations, social costs are related to subjective and intangible phenomena, such as the general determination of the physical and social environment, leisure, entertainment and recreation, health, social mobility, availability of educational and cultural opportunities and the extent of alienation in society.

It is clear that there are formidable difficulties confronting one to construct a set of social criteria that will result in a set of social accounts comparable to the economic accounts now in operation. Not only are many social factors inherently subjective in nature, but they are not readily convertible into quantification or index form.(1) However, some attempts have been made and in this paper particular attention will be paid to exploring the work of Becker, Thurow and Marshall.

DISCRIMINATION

Because discrimination takes on many forms and has different meanings to people, it is advisable at the outset to define the term. According to Marshall (2 p. 253), discrimination can be *overt* in the sense that individuals are consciously treated differently because of attributes not associated with productivity. Overt acts of discrimination are often found in employment situations where an applicant is discriminated against because of his/her race, religion, sex, personal characteristics or purely refusal to employ. Examples are the traditional occupations of pilots, engineers, ministry, and politics.

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There is also *institutional* or *covert* discrimination that involves the influence of social patterns of behaviour which have become broadly accepted and result in different treatment of individuals, not because of their race, religion, sex, attributes, etc, but because of specific mechanisms indirectly related to them, such as the use of informal recruitment methods, tests and employment interviews, physical standards, seniority ladders, socio-economic status, lack of professional membership and racial attitudes.(3)

Overt discrimination is clearly more easily identified and dealt with than institutionalized discrimination. In practice, however, these forms are not always clearly distinct, because there is some overlap.

Discrimination may also take many other forms, but this paper will deal only with the economic costs of discrimination as these apply to education, income, occupations, mobility and regional development.

Thurow(4) points out that although we may be primarily concerned with the economic link in the circle of discrimination, we must realize that success on the economic front is limited by what is won in the political field. The improvement of economic opportunities is most important, since economic resources allow control over those goods which money can buy. Economic opportunities, however, do not guarantee political or cultural opportunities, they are only necessary conditions.

There are numerous programmes with the purpose and objective to eliminate economic discrimination, such as educational improvements, open housing, fair employment laws, job training programmes, guaranteed jobs, and social services, but their impact on economic discrimination can only be measured in terms of their success or failure in altering the levels in the real income distributions for whites and blacks. Over time, however, black political power must grow with economic power since they are mutually dependent.

TWO THEORIES OF DISCRIMINATION

The first and classical work on discrimination was the theory put forward by Becker.(5) In his analysis, discrimination is treated as a restrictive practice that limits the free trade between two independent societies, white and black. If free trade existed, the black society would export their abundant labour and the whites would export their excess capital to them until the marginal products of labour and capital were equal in both societies.

When discrimination enters the market, however, white individuals maximize a utility function which has both income and physical distance properties. Whites are willing to pay a premium not to associate with blacks; as a result, they import less black labour and export less of their capital. The net result is a fall in output in both societies. The central proposition in Becker's theory is that:

"If an individual has a 'taste for discrimination', he must act as *if* he were willing to pay something, either directly or in the form of a reduced income When actual discrimination occurs, he (the discriminator) must, in fact, either pay or forfeit income for this privilege" (5, p. 14).

In other words, the discriminator must be prepared to forfeit some of his income if he desires to discriminate. By using his concept of a *discrimination coefficient* (DC) Becker also gives definition to the "taste for discrimination" that, according to him, is parallel for different factors of production, employers and consumers. He states:

"The *money* costs of a transaction do not always completely measure *net* costs, and a DC acts as a bridge between money and net costs. Suppose an *employer* were faced with the money wage rate π of a particular factor; he is assumed to act as if $\pi(1+d_i)$ were the *net* wage rate, with d_i as his DC against this i factor" (5, p. 14).

The DC is a method used by Becker to present a downward shift in the white demand curve of black labour, whereas the vertical shift represents the size of the coefficient.

The second or alternative theory of discrimination is advocated by Thurow (4, pp. 117-138). He maintains that applying Becker's theory of tariffs to a world of perfect competition has serious limitations, since Thurow argues that the impact of discrimination comes from the monopoly powers of the discriminator rather than from his inability to distort perfect competition with trade barriers. Becker's model is too narrow and limited to adequately accommodate two independent societies freely trading with each other over barriers set up by factors of economic discrimination. Thurow maintains that social discrimination only occurs in one society, not in two, the reason being that a dominant group controls much more than its willingness to trade or not to trade with a minority group. Physical, social or economic pressures may force the dominant group to trade with the minority, but then purely as a discriminating monopolist.

Another distinct difference in theory as seen by Thurow is that discrimination is not simply a matter of requiring from whites a premium to associate with blacks. In fact, the discriminator may wish to work with, buy from or hire blacks, but he insists on specifying the relationships under which the two parties will respond and operate. It is probably more accurate to say in Thurow's case, that the white discriminator is maximizing a utility function with social distance rather than physical distance as a parameter.

Since a desire for social distance can often lead to very different sets of actions and inter-relationships, Thurow (4, p. 118) points out that there is indeed a variety of discrimination types that operate within a society. A long list can be compiled, but the majority of them can be placed in the following categories:

1. Employment (unemployment)
2. Wages (blacks earn less)
3. Occupation (access controls to some jobs)
4. Human capital (less education invested in blacks)
5. Capital (blacks' ability to borrow)
6. Monopoly power (blacks' contribution is limited)
7. Price (differences in buying and selling prices to blacks).

By categorizing these seven types of discrimination, Thurow merely attempts to determine whether the gains by whites are possible and to view the causes of the gains or losses. In addition, he focuses on the clashes between the different types of discrimination.

These above discrimination categories identify to the writer the main operating mechanisms, through which labour market and personal discrimination functions in society. Although the effects of each one is not the purpose of this paper, we shall attempt to relate some of their impacts to the broader macro and micro dimensions, and to steps and actions that are taken to eliminate the discrimination associated with them in society.

IMPACT OF DISCRIMINATION

Figure 1 is a schematic presentation of a system showing how the forms and determinants of discrimination operate within the labour market and in society.

In our attempt to further distinguish the impact of discrimination on the labour market and on society we shall first outline some of the major macro societal and economic determinants, followed by the micro societal and economic ones.

1. Macro

The macro *societal* impacts of intense and prolonged discrimination find expression in mass frustrations, conflicts and tensions leading to overt behaviour such as riots, strikes, sit-downs, work slow-downs, street violence, crimes and provoking acts. The ingredients or causes for these behaviours are to be found in the social unrest, personal instability and restricted social mobility of a people.

At the macro *economic* level the gains from discrimination by whites, either individually or collectively, is also less, since the available productive resources are inefficiently allocated. It appears that the main reduction in this potential output is probably caused by discrimination in education and by the underutilization of the black's labour force potential.

Supposing there were a surplus of all types of skills in the labour force, the elimination of discrimination and the reshuffling of the labour force would not result in any real gains in actual production outputs, since it would merely bring about a redistribution of income for those members of the labour force. Aggregate economic policies are assumed to be effective in pro-

viding markets with efficient means to end ineffectiveness, but they are not geared to identifying a distinction between the higher utilization of white potential, and the gains of blacks due to the elimination of discrimination.

Thurow (4, p. 135) outlines a convenient method for estimating the impact of discrimination on potential output. There are four effects that can be isolated:

- Eliminating discrimination would reduce black unemployment and raise the amount of labour used in production
- The improvements in capacity utilization resulting from the increase in black employment would cause a small increase in the productivity levels
- An increase in black education to levels similar to those of the whites would increase the amount of human capital in the labour force with a consequent increase in output
- Equipping the total labour force with an average amount of capital will cause a further increase in output.

It is clear from the above that neither increasing human capital (raising educational levels) or providing physical capital (increasing investments and savings) will be costless. The real economic costs of discrimination and segregation in U S society is founded in this framework. To determine whether there are net gains or losses the above costs must be deducted from the increases in real output. For example, the costs of increasing the educational level of blacks to that of whites in man-years, additional plant and equipment, capital-labour ratios and human capital ratios between black and white will have to be determined.

Although there are many unknowns that could challenge such a dollar estimate, it is apparent that eliminating discrimination at the macro social and economic levels is a highly desired social objective, because even the social investment when evaluated strictly from an economic point of view appears to be a profitable proposition.

2. Micro

The micro *societal* effects of discrimination may be found in individual and family structures breaking up, insubordinate feelings and attitudes, lower attainments of educational levels, cyclical patterns of unemployment and underemployment, poverty and a general limitation on the increase of the quality of a black labour force.

Blumer (Siegel 6, p. 41) identifies four further feelings of blacks as reflected in their images of themselves. He maintains that these feelings are always present in any racial prejudice by a majority (white) group. They are:

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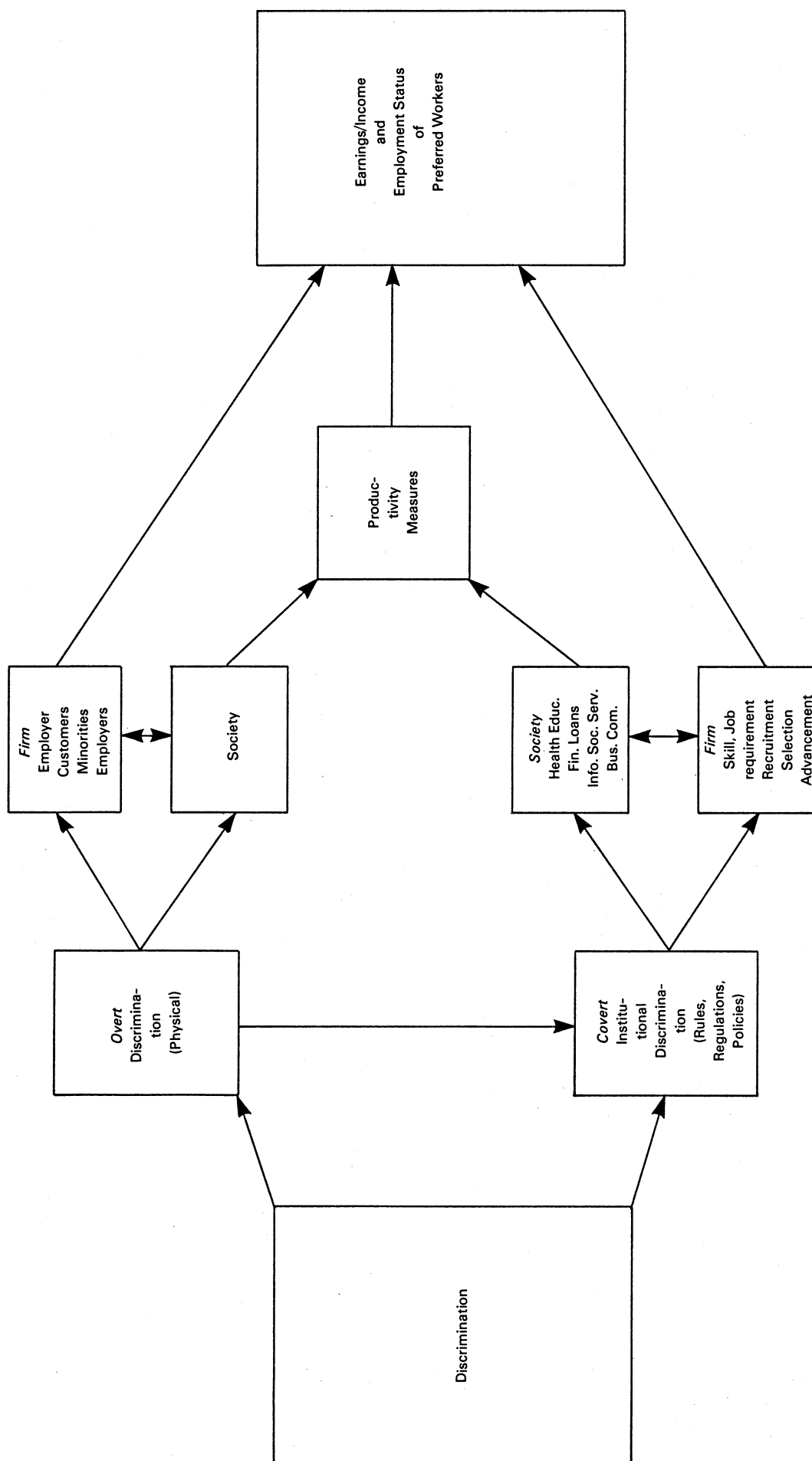


Figure 1: The Determinants of Discrimination within a Labour Market and Society

- A feeling of superiority
- A feeling that the subordinate group is intrinsically alien and different
- A feeling of proprietary claim to certain areas of privilege and advantages, and
- A fear and suspicion that the subordinate group harbours designs on the prerogatives of the dominant group.

From the above, it follows that there exists a very strong sense of group cohesiveness and that any sharing of privileges, power or gains will result in a win-lose situation. The source of racial discrimination thus lies in a felt challenge to the sense of a group's position. Blumer states:

"Race prejudice is a defensive reaction to such challenging of the sense of group position ... It functions, however, short-sightedly, to preserve the integrity and the position of the dominant group."

One area where the sense of group achievement is strongly challenged lies in the relation and interaction between levels of income and education. Siegel (6, pp. 51-52) reveals that:

- Income increases *more rapidly* with increasing education in *some occupations* than in others; and
- White-black *differentials* increase with *increasing education*.

Closely related to these phenomena is the fact that payoff on investment in *education* is conditioned by the relevance of the training to the kind of work performed. It is from the many occupations in which the return upon investment in education is greatest that:

"Negroes find themselves excluded by rules governing the *social context* of the practice of occupation."

Therefore, it is evident that the black who manages to upgrade his educational level is likely to find the occupational door "closed" at the level of employment which he has achieved with his investment in educational attainment. Thus, the black person not only starts with a financial handicap, but in most occupations his handicap is *accentuated* and highlighted with his increase in educational attainment.

Siegel (6, p. 56) concludes with a calculated cost of being a black person and states that:

"... 38,5 percent of the current difference in average earnings of whites and minorities is apparently *independent of the achievement* of non-whites! To put it baldly, about two-fifths of the difference in average earnings of whites and non-whites is what it costs to be black."

Some of the micro *economic* impacts of discrimination are seen in the effects of lack of regional developments or regional stagnation, a decrease in a community's state of welfare, lack of industrial development or progress, and an increasing tendency to discriminate against blacks, which undoubtedly plays a major role in the incidence of Negro poverty.

The above factors have significant effects on the marginal productiveness of labour and on the differences between the incomes and marginal productiveness of whites and blacks.

According to Thurow (4, p. 32):

- Education is a measure of the quality of human capital
- Full-time work is a measure of the effectiveness of government policies in translating potential productivity into actual productivity
- The percentage unemployed is a measure of those outside the productive economy; and
- The percentage of black families represents part of the impact of discrimination.

Educational costs are related to the industrial or regional development structure in the long run, because educational or labour demands depend on the type of industries which are located in the region, but it is also true that educational attainment could determine the type of industries, since industries do not easily locate or relocate in regions with low educational levels.

In the southern states, which have proportionately larger numbers of blacks, the school expenditures for these states have for years been far higher than expenditure on education in many comparable northern states. Educational expenditure per pupil has, however generally remained below the national average, and in fact, it has been less for black education than for whites (7, p. 28).

The effects of micro economic discrimination are also seen to be reflected in market segregation and market discrimination according to Becker (5, pp. 56-58). These two concepts are different and they refer to separate phenomena. For example, market segregation refers to the distribution in employment and ignores the incomes of workers, whereas market discrimination refers to the incomes received by the different groups and ignores their distribution in employment.

Another approach to evaluate the economic costs of employment segregation is to examine the distribution of organizations by their *racial employment* composition. Flanagan (8, pp. 465-466) argues that as long as white workers discriminate, or while there is some dispersion in employer prejudice, it implies that there is complete segregation. In his study Flanagan pointed out that although black earnings were about 73 percent of white earnings, the number of totally segregated black firms were negligible. Likewise, the inter-occupational correlation between the racial income ratio and the percentage of firms with a segregated black workforce in their occupations was 0,52. However, the segregation of blacks was the greatest in those occupations where specialization in black labour is least profitable.

Sjaastad (9, pp. 253-265) calculated the economic costs and returns of workers' *migration* by determin-

ing what their private or money costs versus non-money costs were, and concluded:

"The relation between private and social costs of and returns to, migration at best depends upon (the) market structure, resource mobility in general, and revenue policies of state and local governments."

Lastly, the forces affecting the micro economic costs of regional segregation of black employment are influenced by *environmental* forces such as the relative amount and quality of education available to blacks, race relations in the community, the age and sex composition of the black labour force, alternative income sources available to black families, and housing and transportation costs relative to the location of the black worker's job. Marshall (10, p. 868) also includes the physical and emotional health of blacks relative to whites, whether there is industrial process and development or a decline in employment opportunities and the nature of black and white migration patterns.

In general, it appears that the environmental factors that cause more economic costs to blacks are seated in

- The structure of industry in terms of its customers
- Business conditions
- Skill requirements and occupational structures
- Accessibility to job information; and
- Processes of recruitment and training by employers and unions.

SUGGESTED POLICIES TO END RACIAL DISCRIMINATION AND ECONOMIC INEQUALITY IN THE UNITED STATES

There is limited evidence in the Becker theory to indicate that either the United States government or the blacks themselves can do much to end discrimination. Discrimination or prejudice comes about and exists in any free trading environment as a result of the desire by some whites not to be associated with Negroes. Little can be achieved by changing the attitudes of whites, because it is argued by many that the appropriate attitudes only follow or change as a result of a change in behaviour. "All the anti-discrimination laws merely allow the dispersion of discrimination coefficients to have some effect on the amount of discrimination in society" (4, p. 129).

Therefore, it is conceivable that *structure conditions and controls behaviour*. Eliminating employers or institutional discrimination should thus have the highest priority since these institutions in society have a most effective way to covertly create and enforce discriminatory practices. Government powers and legalized actions should be extended to suppress the self-interests of some white monopoly powers.

Along with the institutional and labour market determinants influencing discrimination the importance of human capital discrimination should not be over-

looked and underestimated. Development of human capital holds the key role in combatting discrimination, because it can be used as an informal method for enforcing many anti-discriminatory practices. It will not necessarily raise black incomes by itself, but since discrimination concerning wages, employment and occupations would first have to be eliminated, continued covert discrimination would make the enforcement of these other types difficult in the presence of government commitment and involvement.

MIX OF POLICIES

1. Poverty

To eliminate poverty, programmes will be required that will

- Increase the human capital and physical capital of blacks
- Improve organizational efficiency
- Correct labour market imperfections, and
- Upgrade the status of unemployed individuals and families.

2. Unbalanced Labour Markets

A "pure" unbalanced labour market cannot alone solve the problems of poverty or discrimination. However, there is evidence that such a situation will more readily lead to substantial reductions in both poverty and discrimination. Specific policies relating to education, training and the elimination of overt and covert discrimination are needed for more longterm solutions. More short-term policies that will have a prompt effect can be implemented to create tighter labour markets. Additional aggregate economic policies can be implemented without requiring a host of administrators and trainers. It is economically feasible and they can become very effective in a short period of time.

3. Human Capital

Thurow (4, p. 93) argues that it is society's responsibility to determine what the relationship should be between education, training and income distributions. If an observed unbalanced relationship exists, say between income and education, society has two policy options, namely:

- It may accept the market imperfection and alter the income distribution by raising educational or training level, or
- It may choose to alter the income distribution by changing the market imperfections.

Obviously, the choice between options will depend on the relative costs and benefits. Although the problems of poverty, low income or unemployment cannot be solved by the mere increase in manpower programmes to alter either the quantity, quality or cost of human capital, some programmes are better than no programmes, since they can significantly reduce the levels of imperfections. If labour mobility of blacks can

be improved, these market imperfections will be less and this will, in turn, reduce the impact of capital-labour ratios and industrial progress on earnings.

Policies equalizing the distribution of earnings in a near perfect labour market would ensure a closer resemblance of income distribution to human capital.

CONCLUSION

It is clear that there should be coordination between all the suggested programmes, because no one programme or economic policy can work miracles by itself. Similarly, no set of programmes can be isolated or can achieve total elimination of a malfunction, since there are such powerful interactions between poverty, discrimination, income and education. Programmes to eliminate poverty for Negroes alone will not work unless they are also geared to eliminate overt racial discrimination. Likewise, programmes that are geared to end racial inequality will not work unless they react to the causes of poverty which affect both black and white alike.

In view of the present state of legal remedies to eliminate discrimination, it is obvious that even with all the foreseeable improvements, the legal procedures enacted by the Justice Department are inadequate tools in the fight for equality for a few reasons. First, the legal system is a slow process. Second, legal actions only strike at overt forms of discrimination by social, political and economic institutions. However, by generating conflict in these institutions, legal approaches can also cause a hardening of racial positions, therefore increasing resistance to change.

Marshall (2, pp. 279-271) summarizes the experience with anti-discrimination programmes and concludes that anti-discrimination measures are necessary but not sufficient to eliminate institutionalized discrimination in employment. To fully determine the economic costs of discrimination and segregation of blacks in the United States is, according to our outline,

a very complicated and difficult process, mainly due to the inter-actional and mutually inter-dependent effects of the determinants of discrimination in all their manifested forms in the labour market.

It is conceivable that for any elimination of overt and institutionalized discrimination effective legislation is required. Lester (3, p. 14) suggests that:

"For any law to be effective, it must be adhered to by the majority ... That law can only work if the majority wants it to, or if the penalties for breaking the law are so severe that it is wiser to observe it than break it."

However, the writer maintains that along with all the legal requirements, whites will be required to change their deep-seated discriminatory attitudes towards other cultural groups.

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