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Employer discrimination and market structure: Does more concentration mean more discrimination?☆

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ABSTRACT

We formalize Gary Becker's dynamic conjecture that competitive forces drive discriminating employers from the market in the long run, using a dynamic model of a monopolistically competitive industry characterized by sunk costs and sequential entry. An advantage of this formalization is that it demonstrates the importance of the structure of production costs, as well as market power, in explaining the long-run survival of discriminatory firms. In addition, we show that, despite decades of empirical research on this connection, there is no consistent theoretical relationship between the degree of market concentration within an industry and the degree of discrimination. However, we do find an indirect link in which market liberalization has a more pronounced effect in reducing discrimination in more concentrated markets.

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1. Introduction

One of the central predictions of Gary Becker's canonical model of taste-based discrimination (Becker, 1957) is that product market competition reduces employer discrimination. As explained by Hellerstein and Neumark (2006) in their survey article, this prediction arises from two separate conjectures. The static conjecture is that some degree of market power is necessary for a firm to be able to afford to discriminate even in the short run. The dynamic conjecture is that, even in markets characterized by a small degree of imperfect competition, employers with a taste for discrimination do not survive in the long run. The intuition behind the dynamic prediction is simply based on the fact that as long as wage differentials exist, non-discriminating employers would outperform discriminating employers because they are willing to hire the cheaper but equally productive workers. Thus, non-discriminating employers would expand while discriminating employers contract until only non-discriminating employers are left in the market. The Becker framework has had enormous influence on the debate about the efficiency of anti-discrimination legislation. As many opponents of anti-discrimination legislation have argued, if the Becker model of discrimination is accurate, then a legal regime to reduce discrimination by interfering in the market can be harmful in the short run and will be unnecessary in the long run as competitive pressures alone will serve to drive discriminators from the market.[1] Thus, as noted by Gersen (2007), Becker's taste-based model of employer discrimination is commonly viewed as the foundation of the efficiency critique of a legislative approach to discrimination.

Given the centrality of the Becker framework to the discussion over the efficiency of anti-discrimination legislation, it is perhaps not surprising that, since the publication of Becker (1957), there have been several decades of empirical research looking for a link between product market competition and discrimination with varying levels of success. A common prediction being tested within this literature is whether the degree of discrimination varies with market structure: specifically, whether discrimination is positively correlated with the degree of product market concentration (i.e., is discrimination more prevalent in "less-competitive" industries featuring a small number of firms and high levels of market concentration?). The typical approach to testing this prediction is a cross-sectional analysis comparing employment discrimination in highly concentrated markets to discrimination in markets with a less concentrated market structure where the degree of product market concentration is measured by either an n-firm concentration ratio or the Herfindahl–Hirschmann Index (HHI). An incomplete list of papers that have adopted this approach includes Shepard (1969), Haessel and Palmer (1973), Oster (1975), Fujii and Trapani (1978), Ashenfelter and Hannan (1986), Jones and Walsh (1991), Black and Strahan (2001), Hellerstein et al. (2002), Black and Brainerd (2004), Heywood and Peoples (2006), Kawaguchi (2007), and Gersen (2007). Empirical results

[1] See in particular the well-known debate between Richard Posner, John Donohue III and Richard Epstein (Donohue, 1986; 1987; Posner, 1987; Epstein, 1992).