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Discrimination as favoritism: The private benefits and social costs of in-group favoritism in an experimental labor market.

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Abstract

We examine both the private benefits and spillover costs of labor market favoritism in a unique laboratory experiment design. Our data show that both employment preference and wage offers favor in-group members. Workers positively reciprocate towards in-group employers by choosing higher effort in a gift-exchange game. Thus, favoritism can be privately rational for employers. However, unemployed subjects are allowed to burn resources (at a cost to themselves), and we document significantly increased resource destruction when unemployment can be attributed to favoritism towards others. This highlights a significant spillover and often ignored cost of favoritism, and it points to one possible micro-foundation of some antisocial behavior.

Keywords: Discrimination, Experimental Economics, Social identity, Conflict

JEL Codes: C90, C92, J15, J16

1. INTRODUCTION

Since the publication of Gary Becker's *The Economics of Discrimination* in 1957, the subject of discrimination has been of particular interest to labor economists. The literature on labor market discrimination is large and has benefitted from the complementary efforts of empirical, econometric, field experimental, and controlled laboratory studies. We aim to contribute to the existing literature by investigating a potential motive for taste-based discrimination in a unique experimental design that can help shed light on both the private incentives and spillover impacts of discriminatory practices. In other words, there may be instances where favoring one group of workers over another privately benefits the firm, yet generates spillover costs to society.

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