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Title:

"Why Competitive Markets Discourage Discrimination"

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In a previous Commentary article, I proposed the idea that the wage gap between men and women was due to benign factors rather than to discrimination against women. The thrust of the article was that there are many wage differentials in our society that we know are fair and just, and that there is good evidence that the difference between men's wages and women's wages are as well. However, it was also conceded that the pay gap *could* be due to discrimination, but that the "charges" are not proven. In the present article I make the further argument that discrimination, whether against women, minorities, the aged, or others, is not only unlikely in competitive markets, but is *actively* combatted by them. This will even be true when there are no anti-discrimination laws in labor markets.

Before we try to prove our thesis, we need to define some terms. Labor market discrimination means treating equally productive people differently in employment opportunities, pay, promotions, and other job related factors. Discrimination *does not* exist when people of *different* productivity are treated differently in those same dimensions. For instance, no one thinks it wrong to pay male CPA's more than male accounting clerks or male doctors more than male nurses or male electrical engineers more than male electricians. Discrimination in the form of sexism, racism, or ageism is not the relevant factor in these examples of pay differentials. Normally we think of discrimination as a form of irrational unjustifiable

The purpose of this hypothetical scenario is to illustrate that discriminatory hiring practices based on irrational prejudices – such as pure racism – are costly to the discriminator. Those contractors who are less racist or non-racist get more building contracts by underbidding their more racist brethren

Mexico. This is an example of “firing” their white workforce to “hire” a Hispanic one. U.S. firms have been relocating their factories and/or outsourcing their manufacturing overseas to gain the profits illustrated in our examples above. If the executives who run these companies are racists in their hearts, they sure seem to be overcoming it when it comes to their workforces!

If racism, sexism, and ageism are not the main cause of wage differentials, what is? As I pointed out at the beginning of this article, wage differentials can often be legitimately explained by differences in productivity. We all accept that a CPA earns more than an accounting clerk due to the higher skill and productivity. Economists have found many factors that impact a pn1r4-2 (y. E)-2 (P)2r