WALTER BLOCK

Discrimination Helps the Under-Privileged

Anthony Wedgwood Benn's agitation for higher pay for youths on Norman Tebbit's government training programmes would *increase* the numbers on the dole. To legislate against discrimination prevents the under-privileged pricing themselves into jobs and homes from which they can then be pushed by their white, stronger or otherwise more attractive competitors.

Policies of direct intervention in the public sector, laws requiring equal pay for equal work and various other anti-discrimination measures have boomeranged. Although designed to help people who have been the object of discrimination, they have had unintended and adverse side-effects.

The intention of minimum wage laws is to raise the wages of workers at the bottom of the ladder. The actual effect of such legislation has been to cut off the bottom few rungs, thus making it far more difficult for less-skilled workers to obtain jobs for high or even middling pay.

The explanation is straightforward. If the law requires a minimum of £3.25 per hour to be paid, the employer will suffer losses if he hires a worker with a productivity of, say, £1.25 per hour: the firm will have to forfeit the £2 difference. Naturally, the employer will be reluctant to hire such an employee. The fate of low productivity workers is clear – unemployment.

Without the minimum wage law, such a worker could be *employed* at £1.00 or £1.25 per hour, and not *unemployed* at the ruling artificially exalted wage of £3.25 – where his earnings are, of course, nil. Worse, he is precluded from learning the skills necessary to enter the more highly paid job. Under this law, the worker must be worth £3.25 per hour or more to be employed at all.

What does this have to do with discrimination against racial and other minorities? Assume: a minimum wage level of £3.25 per hour; two youths – one white, one black, each with productivity of £1.25 per hour, competing for the same job; and a white employer prejudiced against hiring blacks. Under such, perhaps typical, circumstances, the white lad will easily be able to out-compete the black for the job. The two prospective employees are economically indistinguishable and the employer can indulge his taste for discrimination at no cost to himself.

The power to the poor to compete – by under-cutting

In the absence of the minimum wage law, however, the traditional economic weapon of the poor can come into play: their willingness and ability to accept a lower wage. If a white youth insists on £3.25 per hour, but his black competitor is willing to work for only £3.10, £2.50, £1.90 per hour, or even less, the white may not be hired, even by an employer prejudiced against blacks, because it is thus more expensive to indulge his preference for white workers.

American statistics more than bear out the contention that the minimum wage laws create teenage unemployment for both whites and non-whites, but especially for the latter. In 1948, when the effective minimum wage rate was much lower than now, and racial prejudice was more widespread, white teenage unemployment in the US was 10.2%, black only 9.4%, roughly the same. Today, in a much less discriminatory age, but where teenagers are 'protected' by a more stringent minimum wage law, white youth unemployment is 13.9% and black youth unemployment

33.5%, two-and-a-half times as much.

The distinction between discrimination in the private and public sectors intensifies the disadvantage. In the former, market forces continually erode the scope of prejudicial behaviour by measuring its cost. There is no such tendency in government.

Public sector quotas?

Given the difficulties, social costs and unintended adverse consequences of quotas and other prescriptions based on earlier circumstances, a case can be made against intervention in the private sector. But the incentive systems which operate in the private sector to reduce discrimination cannot work in the public sector.

The difficulty with quotas is that they are inequitable. The beneficiaries (in those rare cases where someone benefits) are the *wrong* people: the 18–21 year olds applying for their first jobs who never bore the brunt of employment discrimination from past governments. The real victims are the middle-aged or older workers who would have liked to be policemen, firemen, postmen, civil servants, etc., in the past, but were not considered, even though fully qualified, because of their race, background, etc. But these people, for the most part, are already either settled in 'second-best' jobs, or retired. If anything, lower pay might seem to be a preferable alternative to them.

Quotas are based on the premise that in the absence of discrimination, each minority group would be proportionally represented in every kind of job. But not only is there no evidence for this conclusion; there is every reason to believe the opposite. Minority groups are heterogeneous, with different ages, education, geographical locations, cultures, histories, etc. – why should they all act alike?

Insurance and discrimination

Laws prohibiting discrimination also threaten to play havoc elsewhere. Insurance companies commonly 'discriminate against' the elderly and the sickly: they either refuse to grant life insurance, or only do so at higher premium rates, for example, to a 70-year-old man with a heart condition. Should such discrimination be permitted?

Insurance is an industry which pools and spreads risk. While health, injury or sickness of any one person cannot be predicted, actuarial tables can predict the probability of such occurrences for large groups. Insurance companies can charge premiums to large numbers of people and pay the costs of the unlucky. But if the system is to work well, the insurance company must make fine distinctions between people in the likelihood of catastrophe. It must base the payment of premiums on the degree of individual risk. Its profits depend almost entirely on this ability. Failure to discriminate on degrees of risk and to tailor premiums accordingly will lead to bankruptcy. Low-risk customers will tend to migrate to other insurance firms, encouraged by the lower premiums. The company which does not discriminate will therefore be left with high-risk patrons; it will either have to charge them more, thereby effectively discriminating (specialising in high risk ventures) or face bankruptcy as the high claims swamp the small premiums.

Let us suppose that over-eating leads to heart disease; that houses built in geographical areas A, B and C run more risk of damage by fire, storm or flooding; and that high marks in high-school driver education courses are associated with fewer car accidents. As a result, insurance companies, in their quest for profits, will charge lower premiums to people who alter their actions to conform to these discoveries: they will lose weight; not build in dry forests or near flooding rivers; enroll in traffic safety courses.

People are thus led, as if by 'an invisible hand' which is, in practice, the insurance industry through the price system, to try these different modes of behaviour. Apart from the ability of insurance companies, and everyone else, to practice this sort of discrimination, this is why it would be most unfortunate to prohibit all insurance companies together from discriminating: there would be fewer economic incentives rewarding and encouraging such 'safe' behaviour.

Pension plans and 'sexism'

A case in point is the recent regulation of the Canadian Human Rights Commission condemning discrimination between men and women when formulating pension plans. Now it is a plain actuarial fact, established through years of insurance experience, that women tend to live longer than men. With sexual discrimination prohibited, equal pension premiums would render men more profitable customers to insurance companies, since on average they will collect benefits for fewer years. The prohibition by the Canadian Human Rights Commission will, therefore, tend to result in:

1) the encouragement of male over female labour (men will now be cheaper to employ);
2) the segregation of the labour force by sex (so that no one employer would have to make different contributions on this basis);
3) in the withdrawal of employers, especially small ones, from pension plans altogether; and/or
4) the migration of companies to areas which do not prohibit discrimination in the payment of pensions premiums on the basis of sex.

Needless to say, any of these eventualities would effectively discourage workers from pooling risks on retirement income.

'Ageism'

Several US bank regulatory agencies prohibit discrimination in borrowing. They bar discrimination in approving credit applications because of race, colour, religion, national origin, gender, marital status, age, and receipts of social security benefits. Let us take age as an example, and apply our analysis.

The lender wants the principal, plus interest, to be repaid. And, if not, he would like enough collateral to make good the loan. All else pales into relative insignificance.

One obvious shortcoming with *not* discriminating because of age is that people under 16, 18 or 21, depending on the law, are not even legally obliged to repay their debts. Banks and other lenders can thus be expected to 'discriminate' against such persons, under present legal codes. Even if the laws were rescinded, or if guidelines on age were reinterpreted so as not to apply to people of such tender years, difficulties remain.

An important determinant in lending policy is the 'credit-worthiness' of an applicant: the likelihood that he will repay, on time, at no further cost or inconvenience to the lender. Young people, even if legally liable for their debts, are not widely perceived as sufficiently credit-worthy. Suppose someone aged 22 wants to borrow £4 million. He may have enough collateral so that, if he defaults, the lender would be able to recoup his losses. But this process costs money, time, risk and effort. An older person with a longer track record may be more attractive, even if he has somewhat less collateral. Forcing banks to ignore the age of the borrower would put them at a competitive disadvantage relative to other lending institutions. And if *all* lenders could somehow be prohibited from discriminating by age, recovery costs for bad loans would rise. Banks would thus be forced to offer lower interest payments on savings. This would reduce saving, investment and lending, with adverse repercussions on the remainder of the economy, not least good borrowers!

Rent control leads to arbitrary discrimination

When rents are forcibly held below the point at which demand and supply can balance the amount of housing space tenants *want* to occupy exceeds that which landlords are willing to make available. These extra rental units have to be rationed in some manner. If upward movements in rents are precluded by law, other mechanisms play more part: nepotism, discrimination and favouritism.

The landlord cannot (legally) charge more rents and so he feels that he must pick and choose on some other basis. He can choose people without children, white tenants or beautiful young women.

The least favoured elements of society, the groups who otherwise would fear the brunt of discrimination (tenants with children, ugly women, older persons, homosexuals, blacks, native peoples, minority group members) will have lost the one thing that enables them to compete with more 'attractive' individuals: the ability to accept less pay for their work or to pay for what they want. If prohibited by law from offering more, they will remain at the bottom of the list of tenants.

Governments now enjoy an unmerited reputation for solving the problems of 'human rights' and discrimination. But government policies designed to prevent discrimination in the UK, US and elsewhere have backfired. They have harmed the very minorities they were supposed to protect. They have had unforeseen, adverse consequences on the minority peoples who have been among the worst victims of discrimination.

ROLAND VAUBEL

Fiscal Restraints: Seven Lessons From West Germany

West German attempts to discipline runaway welfare and other state expenditure present telling lessons for Mrs Thatcher, Sir Keith Joseph, Norman Fowler and Michael Heseltine.

The German budget for 1982 provides for a 3 per cent increase of nominal government expenditure (excluding the social security system). Federal government expenditure is to grow at a rate of 3.2 per cent. If nominal GNP increases at a rate of 5.5 per cent, as the Government and most research institutes predict, the ratio of government expenditure to GNP will *fall*. Moreover, with an inflation forecast of 4 per cent, government expenditure is expected to decrease in real terms by 1 per cent.

One: actions, not words

At the same time, the German budget deficit is to be reduced from 3.6 per cent of GNP in 1980 and 4.6 per cent in 1981 to 3.4 per cent in 1982. While in 1981 54 per cent of the deficit was due to the federal government, its share is to drop to 49 per cent in 1982.

These are laudable intentions. But they come very late. The 1981 budget deficit was the largest in the Federal Republic's history – also relative to GNP. Government expenditure (including social security) reached 49 per cent of GNP in 1981 – another record. After adjustment for the effects of the recession on GNP and government expenditure, the ratio is still above 45 per cent.

Moreover, it is far too early to say