

The Power of Costless Discrimination: Group Identity and Unequal Outcomes

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Abstract

We design a setting that mimics the decision to promote a worker from a population consisting of two separate and easily identifiable groups whose productivity is on average identical. We investigate experimentally the effect of group identity on employers' preferences and workers' beliefs about discrimination. The promotion process takes the form of a tournament, in which the workers decide how much effort to exert prior to knowing the employer's decision. The employer, in turn, has an incentive to promote the worker who has invested most. Since the investment costs in effort cannot be recouped, the game is strategically identical to an all-pay auction where only one of the bidders wins the prize (i.e. she is promoted).

In our experiment we depart from previous designs by imposing perfect symmetry between workers, and perfectly veridical information about the quality of their bids. However, we impose group identity on each player using a modified version of the "minimal group paradigm," well known to cause positive in-group and negative out-group discrimination. Unlike previous experiments, employers in our setting are affiliated with one of the workers' groups (Blue or Red).

Our experiment delivers two interesting results. (1) We observe that the bids of out-group workers are significantly lower than those of in-group workers, boosting significantly the earnings of the latter. Interestingly, while there is no difference at the beginning of the auction, in-group/out-group bidding patterns diverge quickly during early rounds and persist until the end of the game. (2) These patterns (and, a fortiori, expectations of discrimination) emerge even though the employers/auctioneers do not display strong preferences for discrimination. Out-group workers seem to interpret every unsuccessful bid as evidence in favour of discrimination, and to over-react by withdrawing their bids to levels that further depress their chance of success.

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