Response Paper 1

Gary Becker’s article, “Nobel lecture: The economic way of looking at behavior” expands the scope of rationalized economic behavior. By “extending traditional theory of individual rational choice” (Becker), economists can find ways to explain phenomena in the world that don’t appear to follow basic economic principles. The most basic of these principles, as described by Adam Smith in his book, “The Wealth of Nations” is that people are motivated to maximize their utility by self-interest. Becker’s research challenges Smith’s claim that individuals are only motivated by self-interest, but by focusing on Becker’s analysis through the lens of Smith’s argument, it is easier to see that Becker’s explanation for seemingly irrational behavior can still be rooted in Smith’s fundamental economic laws.

The most interesting phenomenon on which Becker focuses is discrimination against minorities. Becker claims that employers not only consider the productivity of employees, but also consider the influence of race, gender, and other personal characteristics. The discrimination of all workers and employers affects the market. A major point of Becker’s analysis is that when minorities are a sizeable fraction of total discrimination, it can hurt the majority as well. Smith’s explanation of specialized labor supports this claim. Smith’s example of pin making can illustrate this point. There are numerous steps to pin making, including straightening the pin and making the head for the pin. If a group of minorities make up a sufficient proportion of employees who are the most productive in a specialized job, such as making the pin heads, discriminating against those employees and hiring less productive employees will decrease the total output of the industry, and hurt the majority as well.
Becker mentions that the environment can have an impact on the amount of discrimination present in the market. Smith’s view of different environments and their effect on productivity and growth can be applied to and support this situation. As stated above, specialization of labor can have an effect on discrimination, which in turn affects both the minority and majority group. Smith argues that different environments, specifically agriculture and manufacture have an effect on the productivity and growth of an industry. Because the manufacture industry allows for more specialization of labor, it has the potential for more growth and productivity. If discrimination can greatly affect the specialization of labor in an industry, then Smith would agree that different environments allowing for varying degrees of specialization could augment or decrease the amount of discrimination present in an industry.

Smith’s beliefs can be used to explain Becker’s analysis of consequences of stereotypical reasoning or statistical discrimination. Beliefs of employees, employers, and other influential groups can be self-fulfilling because it could cause minorities to “under-invest”, making them less productive. Smith would support this claim based upon his views expressed in “The Theory of Moral Sentiments”. Smith’s examples of empathy, including the feeling of an itchy arm just because you see someone scratching their own, hint that people can pass on emotions, and possibly beliefs, involuntarily. Discriminatory beliefs of employers can affect the beliefs and actions of others, even if the effect on others is not intended.

Becker’s economic theory of discrimination based on prejudice implies that “actual discrimination by firms or workers is measured by how much profits or wages they forfeit to avoid hiring or working with members of the minority…and discrimination
by consumers is measured by how much more they are willing to pay to avoid products of prejudiced groups”. If Smith is correct in saying that individuals are motivated only by self-interest, it would appear that Becker is correct in stating that firms and workers who forfeit profits and wages are not only relying on self-interest because this appears to hurt them monetarily. Instead, what this really implies is that the self-interest of these firms or employees includes more than just profit maximizing. Not working or hiring members of the minority group somehow increases their utility. In this context, discriminating employers, employees, and consumers are still trying to maximize their utility, and in turn, are motivated by self-interest.

Becker’s analysis concludes that individuals maximize welfare “as they conceive it”. Their utility function can incorporate non-monetary elements such as selfishness, altruism, loyalty, but in the end, their motivation to maximize their utility is to make themselves as best off as possible. Becker’s analysis does not reject Smith’s view of self-interest, but instead reinforces it, giving it a broader view of what else besides profit can be incorporated into self-interest.