The Cost of Racial Bias in Economic Decisions

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When financial gain depends on cooperation, we might expect that people would put aside their differences and focus on the bottom line. But new research suggests that people's racial biases make them more likely to leave money on the table when a windfall is not split evenly between groups.

The findings are published in *Psychological Science*, a journal of the Association for Psychological Science.

"It has been suggested that race bias in economic decisions may not occur in a market where discrimination is costly, but these findings provide the first evidence that this assumption is false," explain psychological scientists Jennifer Kubota and Elizabeth Phelps of New York University. "Our work suggests that after offers are on the table, people perceive the fairness of those offers differently — even when they are objectively identical — based on race."

The research was inspired by the debt ceiling debates that raged on in the summer of 2011.

"Many members of both the House and Senate seemed willing to incur costs that would hurt their own constituents in order to vote along political lines," say Kubota and Phelps. "The debate led us to wonder: Are people willing to punish members of another group when they perceive their behavior as unfair, even when exacting that punishment comes at a personal cost?"

The researchers decided that an important first step in understanding this phenomenon, given race-based financial disparities in the United States, would be to examine interracial economic decisions.

They had 49 participants of different ethnic and racial backgrounds engage in a so-called "ultimatum game," in which players accept or reject proposed splits of money. Participants were paired off and a "proposer" in each pair was given $10 to split between them. If the other player accepted the offer, the money was doled out accordingly; if the other player rejected the offer, both participants were left empty-handed. The researchers arranged it so that participants were always responding to offers from virtual proposers.

Because of existing cultural associations in the United States that link Black American males with aggression, hostility, and untrustworthiness, the researchers hypothesized that the participants might be more likely to perceive a low financial offer as unfair if it came from a Black rather than White proposer.

Overall, participants were more likely to accept White proposers' offers compared to those from Black proposers. And the data indicated that Black proposers had to offer larger amounts in order for players to accept the deal.

The effect is likely due to specific stereotypes or prejudices associated with Black Americans, given that participants showed a similar pattern of acceptance for offers from other-race proposers (who were neither White nor Black) and from White proposers.

The researchers point out that the financial offers being made in their study were relatively small and that people might be less likely to reject offers based on race when larger financial gains are at stake. Nonetheless, they argue that their findings have broad implications, with relevance to any context in which people punish others for what they consider to be violations of fairness:

“These findings may be especially relevant for legal and economic decisions and serve as an potential example of how people punish unfair or negative behavior in real-life,” Kubota and Phelps conclude.