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Can You Have Your Corporate Wokeism and Eat it too?

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Abstract: Corporate wokeism may be sustainable in an imperfectly competitive market when the higher costs driven by the inefficiency in employing labor inputs are offset by the increase in positive-margin sales generated from being “woke.” This is the mechanism by which woke corporations are potentially rewarded rather than punished by the competitive process in the new market economy.

Keywords: employment discrimination, Becker discrimination tax, wokeism, human capital

JEL Classification: J15, J16, J24, J71

1 Introduction

An increasing number of major corporations have recently announced plans to further diversify their workforces by hiring a disproportionate share of women and race-based minorities. For example, in April of 2021, United Airlines announced its goal that at least half of the new pilots in the development program will be women or people of color (Sampson 2021).¹

Criticism from conservative pundits to this announcement was swift and biting. Fox News Host Tucker Carlson observed “So if hiring on the basis of irrelevant criteria will, over time, get people killed—and it will—why are they demanding it? Because they don’t care. They’re ideologues. They’re suffering from an incurable

¹ According to the U.S. Bureau of Labor Statistics, in 2022, pilots and aircraft engineers were nearly 96 percent white, 2.6 percent Black and 1.6 percent Asian. Women comprised just 9.2 percent of the group. Employed persons by detailed occupation, sex, race, and Hispanic or Latino ethnicity: U.S. Bureau of Labor Statistics (bls.gov).

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brain disease called wokeness” (Sampson 2021). Another conservative commentator observed that “They are literally putting the lives of their customers at risk in the name of being woke” (Czachor 2021). Liberal commentators countered that there is no basis to assume that minority hires are not qualified and to do so was racist and sexist.

Given the ambitious minority-hiring objectives announced by United Airlines, it is likely that it was either previously discriminating against minorities with its hiring practices, and its current efforts are an attempt to correct these transgressions, or it is presently discriminating against non-minorities, which is reverse discrimination. Delta Air Lines, Microsoft, Northrop Grumman, Deloitte and FedEx have made comparable pledges regarding future minority hires (Shein 2022).

These hiring decisions can transcend mere virtue signaling to have real economic effects. Should these decisions constitute a good-faith attempt to remedy past discriminatory hiring practices they would be expected to increase efficiency, lower costs and increase economic welfare. Conversely, if these decisions are actually a form of reverse discrimination (favoring less-qualified minorities over more-qualified non-minorities) they would be expected to decrease efficiency, raise costs and decrease economic welfare. The latter would be consistent with corporate wokeism as these companies affirm their willingness to sacrifice efficiency and profits in exchange for social equity.²

Conventional theory holds that a corporation that practices employment discrimination, reverse or otherwise, under-employs skilled labor and over-employs unskilled labor. Its costs would therefore be higher than its rivals that do not discriminate and this would not be sustainable in a perfectly competitive market because the corporation would not be financially viable. This supply side-effect of raising costs is how the market punishes *bad actors*.

In the new market economy with the pervasive use of social media and the virtual real-time transmission of information, there is a demand-side effect that accompanies the traditional supply-side effect of employment discrimination. A corporation that engages in wokeism under conditions of imperfect competition could potentially benefit from the positive consumer sentiment attendant to such

² Friedman (1962) argues that corporations have only one social responsibility and that is to maximize profits and shareholder value while complying with applicable laws and regulations. This has become known as the Friedman Doctrine (Friedman 1970). Merrick (2021) examines whether this doctrine is still relevant in an age where corporations are under increasing pressure to depart from profit-maximization objectives in the pursuit of “social justice.” There is a related literature on social corporate responsibility (SCR). This is a management concept whereby companies integrate social and environmental concerns in their business operations and interactions with stakeholders. The practice of SCR can increase corporate profitability. See Agudelo, Jóhannsdóttir, and Davídsdóttir (2019) and Crowther and Aras (2008).

practices if it increases the demand for its products. Wokeism essentially becomes another avenue through which corporations can differentiate their products.

It is therefore conceivable that a corporation could sustain wokeism (at least in the short-run) in an imperfectly competitive market because the higher costs driven by its inefficiency in employing labor inputs are offset by the increase in positive-margin sales it generates from being “woke.” This is the mechanism by which woke corporations are potentially rewarded rather than punished by the competitive process in the new market economy. This also explains how they can have their corporate wokeism and eat it too.³

2 The Becker Discrimination Tax

Economics Nobel Laureate Gary Becker (1957) theorized more than a half century ago that discrimination is not sustainable in a perfectly competitive market because businesses that engage in discrimination do not utilize their inputs efficiently (e.g. refusing to hire skilled minorities) and therefore incur higher costs than those of their non-discriminating competitors. This difference in costs is essentially a tax levied on businesses that discriminate, the effect of which renders them financially insolvent and ultimately forces them to exit the market in long-run equilibrium.⁴

In line with *Chicago School* doctrine, the market disciplines “bad behavior” without the need for government intervention. While the discrimination tax is an elegant theoretical construct, the government has nonetheless seen fit to pass laws that prohibit discrimination on the basis of race, gender, religion and sexual orientation. These laws would seemingly be superfluous according to the theory advanced by Becker (that does not allow for any demand-side effects of discrimination), but not necessarily in the new market economy because the positive demand-side effects can offset the negative supply-side effects of discrimination (i.e. a market failure).

A cost-minimizing firm configures its input mix (capital, labor and materials) so that the marginal product per dollar is equal for each input. When this equilibrium condition is satisfied, the inputs are equally efficient in producing an additional unit of output. When this equilibrium condition is not satisfied, it is possible to produce output at a lower cost by reconfiguring the input mix. For example, when a firm discriminates in its hiring practices, the marginal product per dollar of minority,

³ Still, there are natural limits to *wokeism* as Disney recently discovered. <https://www.wsj.com/podcasts/opinion-free-expression/the-pushback-to-woke-capitalism/bda2ac69-bd91-48c8-9f67-b224aaa93a04>

⁴ Pager (2016) provides empirical evidence in support of this proposition. Hersch and Bullock (2019, p. 5) contend that “evidence that market pressures serve to eliminate unprofitable employment discrimination is mixed.”

high-skilled labor exceeds that of non-minority, low-skilled labor. This signals the firm that costs can be reduced by employing more of the former and less of the latter.

Standard economic theory posits that a firm cannot be maximizing profits if it is not minimizing costs. This proposition implicitly assumes (holding product quality constant) that the firm's input mix does not affect the demand schedule that it faces for the goods that it sells. In other words, the corporation's demand schedule is independent of the racial/gender composition of its workforce, *ceteris paribus*. As discussed below, this need not be the case.

3 The Discrimination Tax in the New Market Economy

A corporation's demand schedule in an imperfectly competitive market posits an inverse relationship between the price of the good and the quantity demanded of the good so that higher prices result in the corporation selling fewer units of output and conversely, *ceteris paribus*. The *ceteris paribus* assumption figures prominently here because there are a multitude of factors other than price that determine the demand for goods and services (e.g. quality, tastes, reputation, income, prices of complements and substitutes, advertising etc.).

When one of these other factors changes, there is a shift of the demand schedule as opposed to a movement along the demand schedule which is what would occur if there were a change in the price of the product. For example, businesses in imperfectly competitive markets advertise to positively influence consumer sentiment regarding the quality of their products. If this advertising has the desired effect, it shifts the demand schedule outward and the business sells more output at any given price than it did previously.

Social media, including Facebook, Instagram, Twitter and Yelp, provide another avenue through which businesses can benefit from or be harmed by positive and negative consumer sentiment, respectively. Positive reviews on social media can be expected to shift the demand schedule outward, whereas negative reviews can be expected to shift the demand schedule inward (Weisman 2019-2020). Businesses therefore have strong incentives to elicit favorable reviews on social media (Chintagunta, Kansal, and Pachigolla 2020).

Wokeism is another attribute that can affect product demand. This is illustrated in Figure 1. The initial demand schedule for the corporation's product is the green line labeled $D(P, W_0)$, where P is price, W_0 is the initial level of wokeism, $Q(P_0, W_0)$ is the initial level of output at the market price of P_0 and c_0 is the initial marginal cost. There are no fixed costs. The baseline profits for the corporation are equal to its

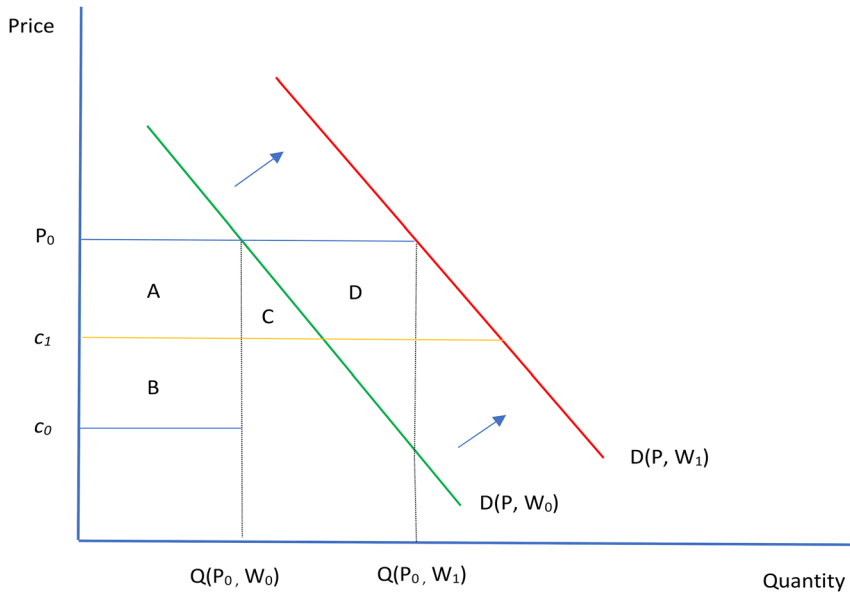


Figure 1: Demand schedules with a positive woke effect.

revenues minus its costs, or $Q(P_0, W_0) \times (P_0 - c_0)$, and are represented by the area $A + B$ in Figure 1.⁵

The corporation subsequently increases its woke hiring practices, which is assumed to generate favorable public sentiment on net.⁶ This gives rise to two separate effects. First, it shifts the demand schedule outward from $D(P, W_0)$ to the red line marked $D(P, W_1)$, where $W_1 > W_0$. The market price is assumed to remain unchanged at P_0 . Second, because output is produced with an inefficient input mix, marginal cost increases from c_0 to c_1 . The new level of profits is equal to $Q(P_0, W_1) \times (P_0 - c_1)$, which corresponds to the area $A + C + D$ in Figure 1.

⁵ In the original Becker discrimination-tax framework, the firm's economic profits are zero in the "no-discrimination" competitive equilibrium and negative if it unilaterally engaged in discrimination. A firm earning negative economic profits would be forced to exit the market in the long run.

⁶ There is a branch of the marketing literature that contends that the composition of a corporation's workforce should reflect that of its customers. A 2020 report by McKinsey & Company finds that "The most diverse companies are now more likely than ever to outperform less diverse peers on profitability." See also McElroy and Leatherberry (2011). In announcing its decision to diversify the ranks of its pilots, United Airlines stated that "Our flight deck should reflect the diverse group of people on board our planes every day" (Czachor 2021).

The corporation's woke hiring practices increase profits (at least in the short-run) despite raising marginal cost if $A + C + D > A + B$, or $C + D > B$. The area $C + D$ represents the increase in profits from the additional output the corporation sells as a result of the outward shift in the demand schedule.⁷ The Becker discrimination tax is the increase in costs the corporation incurs on the initial level of output as a result of the higher marginal cost caused by its woke hiring practices. This is equal to $Q(P_0, W_0) \times (c_1 - c_0)$ and corresponds to area B. The larger the outward shift of the demand schedule and the smaller the cost increase that results from woke hiring practices, the greater the likelihood that wokeism increases corporate profits.⁸

A key observation that follows from this analysis is that woke corporations can lay claim to being social-justice warriors and yet still potentially increase profits despite raising their own costs. In addition, any corporation that discriminates against minorities in this woke-friendly environment would be assessed a two-part tax: a supply-side, Becker discrimination tax that increases its costs and a demand-side tax in the form of an inward shift of its demand schedule triggered by negative consumer sentiment. The result is an unambiguous decrease in profits.

This case is illustrated in Figure 2. The initial demand schedule and marginal cost are $D(P, W_0)$ and c_0 , respectively. The baseline level of profits is therefore $Q(P_0, W_0) \times (P_0 - c_0)$, which corresponds to the area $A + B + C + D$ in Figure 2. Discrimination against minorities causes marginal cost to rise from c_0 to c_1 due to the use of an inefficient input mix and the demand schedule to shift inward from $D(P, W_0)$ to $D(P, W_{-1})$, where $W_{-1} < W_0$. The new level of profits is equal to $Q(P_0, W_{-1}) \times (P_0 - c_1)$, which corresponds to the area A in Figure 2. The change in profits is therefore equal to $A - (A + B + C + D) = -(B + C + D) < 0$.⁹

With an increasing number of corporations publicly touting their wokeism, the line between not favoring minorities and discriminating against minorities can become blurred. This can trigger a band-wagon effect wherein a rational (profit-maximizing) corporation adopts a strategy of wokeism as a hedge against any misperception of minority discrimination. This suggests that real woke firms can only be identified in a separating equilibrium (Fudenberg and Tirole 1991, pp. 327–330).¹⁰

7 Sappington and Weisman (2005) identify conditions under which a vertically-integrated, regulated firm that supplies an essential input to a rival has incentives to increase its own costs and thereby raise its rival's costs and price. The increase in the rival's price increases the demand for its own services.

8 It can be shown that similar tradeoffs arise when wokeism enables a corporation raise its price as a result of the outward shift of its demand schedule.

9 Note that a woke corporation would be assessed a similar two-part tax and realize a decrease in profits if consumer sentiment were to change unexpectedly and turn anti-woke.

10 I am grateful to an anonymous referee for this important insight.

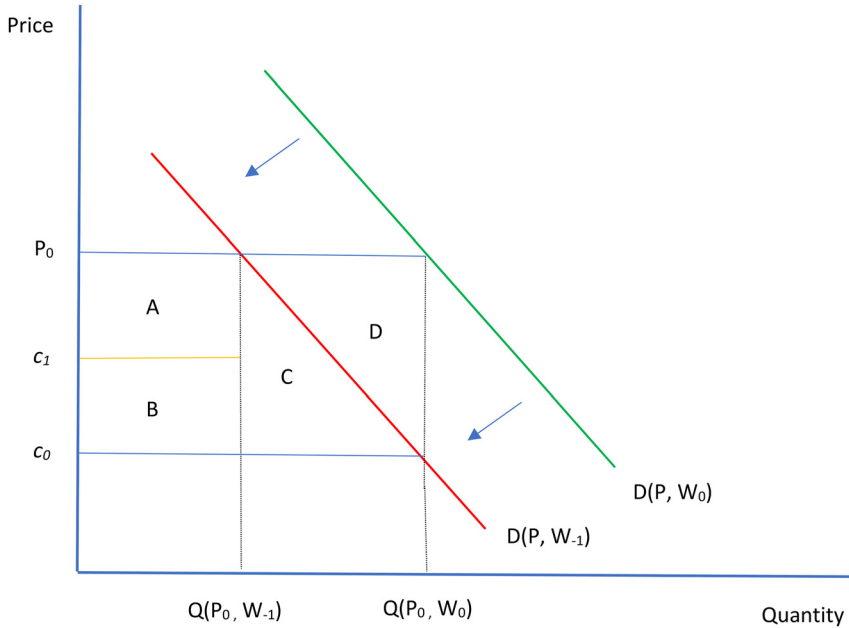


Figure 2: Discrimination against minorities in a woke environment.

The issue then may be less about whether a corporation wants to be woke and more about whether it can afford the perception that it is not.¹¹

4 Policy Implications

To the extent that corporate wokeism is actually an attempt to correct for persistent negative discrimination against minorities it may be expected to result in a more efficient allocation of societal resources and improve economic welfare.¹² This would occur, for example, if a company that previously discriminated on the basis of race and gender in its hiring practice reversed course and made employment decisions based solely on merit. These merit-based policies may nonetheless entail favoring

¹¹ This suggests that a corporation may engage in woke hiring practices (reverse discrimination) not because it necessarily believes in them but because they are expected to increase profitability. This behavior would seemingly be consistent with the Friedman Doctrine. See note 2 *supra*.

¹² Blau and Kahn (2017) survey the wage-gap literature and find evidence that labor-market discrimination persists. See also Lang and Kahn-Lang Spitzer (2020) and Lang and Lehmann (2012).

minorities over equally qualified non-minorities until an “optimal balance” is achieved.

Conversely, when corporate wokeism is actually a form of reverse discrimination (e.g. less-qualified minorities are hired over more-qualified non-minorities), it can be expected to result in a less efficient allocation of societal resources and decrease economic welfare. In this case, the practice of corporate wokeism results in higher costs due to an inefficient input mix employed in the firms’ production processes. Aggregating these individual firm decisions across the economy implies that productivity may be reduced as too little output is produced for any given set of inputs. In other words, the economy is not operating on its production-possibilities frontier. This is potentially concerning because productivity is a key determinant of a country’s standard of living.

Both discrimination and reverse discrimination are socially costly and it remains an empirical issue as to which one is more costly. A bias in favor of hiring minorities endogenously reduces their incentives to invest in human capital because there is a greater likelihood they will be hired even if they are lacking certain skills. A bias against hiring non-minorities means that the financial returns this group should expect from its investment in human capital are lower which leads to under-investment in human capital. This can result in a “bad-equilibrium” in which both minorities and non-minorities under-invest in human capital (Weisman 1994). Loury (1992, p. 21) underscores the nature of this problem.

When discriminated against, minority workers may invest less in skills than majority workers because it is more difficult for them to achieve high-level positions. When favored by affirmative action they may invest less because, given employers’ response to the policy, it has become easier for them to achieve high-level positions. The point is that the incentive to acquire a skill can be lowered either by reducing the likelihood that a skilled worker will succeed or increasing the likelihood that an unskilled worker will succeed.

The long-run consequences of discriminatory hiring practices that favor either minorities or non-minorities are likely to be reflected in a labor force that does not possess the critical skills necessary to meet the needs of a modern, twenty-first century open economy. This can have adverse implications for productivity, the country’s standard of living and international competitiveness.

5 Conclusion

An increasing number of large corporations have recently announced their intentions to further diversify their workforces with commitments to hire a disproportionate share of women and race-based minorities. If these actions constitute an good-faith

effort to correct past discriminatory hiring practices, they would be expected to increase efficiency, lower costs and increase economic welfare.

Conversely, if these hiring practices actually constitute wokeism (reverse discrimination that favors less-qualified minorities over more-qualified non-minorities) then a decrease in efficiency, an increase in costs and a decrease in economic welfare is to be expected. These discriminatory hiring practices can, somewhat surprisingly, increase corporate profits despite raising costs if consumer sentiment is favorable on net toward the practice of corporate wokeism. This would occur when the increase in positive-margin sales offsets the consequent increase in production costs.

Woke hiring practices may be cause for concern because, unlike the original theory posited by Becker in which employment discrimination is self-defeating at the hand of market forces, they can be self-reinforcing and therefore sustainable in the new market economy. The ensuing decrease in productivity can engender a lower standard of living than would be possible if hiring decisions were based solely on merit. But the problems do not necessarily end there. Woke hiring practices (that may constitute an overcorrection for past discrimination against minorities) can discourage both minorities and non-minorities alike from investing in human capital and acquiring critical skills. This is yet another cost of discriminatory hiring practices irrespective of whether it is minorities or non-minorities that are (dis)avored.

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