Removing System 6 Desktop:

When you upgrade to System 7, the Apple Installer does not remove the old System 6 desktop file. Since this file can take up a lot of space, many users would probably be better off deleting it. Select the Remove System 6 Desktop File menu item from the Control menu to delete this file.

The advantage to removing the file is obvious—you'll save precious hard disk space. However, users that frequently switch between System 6 and System 7 will most likely want to keep the System 6 Desktop file on their disk. If they delete the Desktop file and then run System 6, they'll have to wait for the System to rebuild the desktop again. There aren't any harmful effects, but you'll have to wait for the Finder to rebuild the very file that you just deleted.

Since I rarely use System 6, I've removed the System 6 Desktop file on my Mac. If you also rarely use System 6 or never use it at all, then you should probably do the same.