NEA presidential address: identity, markets, and persistent racial inequality

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NEA PRESIDENTIAL ADDRESS: 
IDENTITY, MARKETS, AND PERSISTENT RACIAL INEQUALITY

Patrick L. Mason

Yet Do I Marvel

By Countee Cullen

I doubt not God is good, well-meaning,
  kind,
And did He stoop to quibble could tell why
The little buried mole continues blind,
Why flesh that mirrors
Him must some day die,
Make plain the reason tortured
Tantalus Is bated by the fickle fruit,
  declare
If merely brute caprice dooms Sisyphus
To struggle up a never-ending stair.
Inscrutable His ways are, and immune
To catechism by a mind too strewn
With petty cares to slightly understand
What awful brain compels His awful hand.
Yet do I marvel at this curious thing:
To make a poet black, and bid him sing!

Which leads me to add one Remark: That the Number of purely white People in the World is proportionably very small. All Africa is black or tawny. Asia chiefly tawny. America (exclusive of the new Comers) wholly so. And in Europe, the Spaniards, Italians, French, Russians and Swedes, are generally of what we call a swarthy Complexion; as are the Germans also, the Saxons only excepted, who with the English, make the principal Body of White People on the Face of the Earth. I could wish their Numbers were
increased. And while we are, as I may call it, *Scouring* our Planet, by clearing *America* of Woods, and so making this Side of our Globe reflect a brighter Light to the Eyes of Inhabitants in *Mars* or *Venus*, why should we in the Sight of Superior Beings, darken its People? why increase the Sons of *Africa*, by Planting them in *America*, where we have so fair an Opportunity, by excluding all Blacks and Tawneys, of increasing the lovely White and Red? But perhaps I am partial to the Compexion of my Country, for such Kind of Partiality is natural to Mankind.

*Benjamin Franklin, 1751*

Although racial categories are biologically arbitrary, they are deliberate social constructions. Racial lines are drawn to accomplish socioeconomic divisions, so we should not be surprised at the stubborn persistence of racial inequalities. Despite multiple slave rebellions, a virulent Civil War, several major constitutional amendments, a 90-year sociopolitical war against Jim Crow, and an ongoing movement for racial justice, American society remains wedded to the racial paradigm of the founding slave owners: the reproduction of racial identities (and racial conflict) across generations through persistent intergenerational inequality in the distributions of wealth and power.

Certainly, the Civil Rights and Black Power Movements of 1945–1973 successfully reconstructed the American political, social, and economic landscape. These movements succeeded in destroying Jim Crow in the South and many elements of de facto and de jure racial segregation outside of the South. Combined with the earlier historical processes of migration and urbanization, desegregation succeeded in creating heretofore unknown socioeconomic opportunities for African Americans. Nevertheless, the Civil Rights and Black Power movements and concomitant social changes failed to eliminate race as a major determinant of the life-chances of individuals within American society. Simply put, these movements were unable to dislodge the systemic social advantages associated with whiteness and the systemic reductions in opportunity associated with being black; these movements have had only marginal effect on the American distributions of wealth and power.

Given this legacy of large and persistent racial advantages and privileges associated with whites in American society, why would anyone in this society self-identify as black? To the extent that racial identity is a social construction and not a biological datum, standard economic analysis would suggest that all individuals Americans of African descent should self-identify as white. From the orthodox perspective, only irrational individuals will self-identify as non-white. Certainly, European immigrants of the late 19th and early 20th centuries—Jews, Irish, Italians, and others—fought mightily to be included into
white racial identity. They succeeded. There is also evidence of strong white-
ness acculturation among some Latino immigrants of the late 20th century.

Apparently, however, African Americans are permanently outside of white-
ness and, by extension, rational economic calculation. When individual Amer-
icans were given the option to self-select one or more racial identities on the
2000 decennial federal census, nearly 35 million persons choose black alone
(Grieco and Cassidy, 2001). Only 1.8 million persons of African descent (4.67
percent of all blacks) self-identified as black and at least one additional racial
category. About half of blacks who selected multiple racial group member-
ship selected white as a second, third, or other additional racial category.

After examining the orthodox theory of racial identity and contrasting it
with the stylized facts of black identity, this paper develops a straightforward
argument. Namely, there are strong economic incentives for the transformation
of distinctive phenotypic characteristics and unique cultural attributes into eco-

demic property and competing racial identities. Furthermore, egalitarian inter-
and intraracial distributions of wealth and power must be major elements in any
earnest attempt to purge American society of racism and racial conflict. In
short, the formation of racial identities and the accompanying incentives for
racial conflict are casually related to and constituent elements of the repro-
duction of the large inequities in material resources that are everywhere present
in American society.

Our model has three elements. One, identity is an economic good. Identity
provides individuals both with a means of entering into groups (and therefore
represents a source of personal satisfaction) and a means of attaining status
within groups (and therefore is connected to wealth accumulation). Many
social groups are open to each person: family, neighborhood, social clubs, edu-
cational affiliation, religious institutional membership, professional organiza-
tion, etc. Membership in each of these groups requires accepting the identity of
the group, just as persons are frequently excluded in order to preserve the par-
ticular identity of the group. Race, however, is an encompassing identity that
conditions entry into most other social groups and identities.

Two, because wealth is the most consistent symbol of status attainment in
social groups, the construction of racial identity has an impact on income, inde-
pendently of any effect that it may have on skill accumulation. Some racial
identities will raise a group’s rate of return to skill above the social mean; others
will push the group’s rate of return below the social average, while some other
identities may have a direct effect on personal satisfaction without having an
income effect.

Three, the construction of racial identity norms is an evolutionary process
reflecting the collective interactions of all persons in society. Persons cooper-
ate and compete over a range of socioeconomic activities, for example,
employment, education, housing, credit, mating opportunities, religious, political and other institutional leadership positions, and so forth. Each person utilizes his or her own individual productive abilities in these social interactions and each person competes or cooperates by employing an identity strategy that allows him/her greater or lesser access to some portion of group resources that he or she may draw upon to enhance productive potential. In particular, people engage in social interactions with resources that are provided to (or withheld from) them by their families, other nurturing groups, and those who support a particular identity action. People construct racial identities by adhering to specific identity strategies. Each person selects an identity strategy that increases his or her well-being, given the set of identity strategies selected by all other persons. Strategies that are wealth-increasing are imitated by others whose previous strategies may have been wealth-decreasing. Thereby, a racial norm is established.

ORTHO DOX SOCIAL SCIENCE: ALTERNATIVE PERSPECTIVES OF “THE BLACK DEFICIENCY SCHOOL”

The black deficiency perspective holds that racial inequality in American society is caused by deficiencies among African Americans. There are neo-eugenics and behavioralist versions of this perspective. The neo-eugenics approach (Murray and Herrnstein, 1994) argues that 1) hereditary differences in individual intellectual ability are the source of nearly all socioeconomic inequality, 2) racial boundaries are fixed by nature and (on average) blacks have lower intellectual ability than whites, and, hence, 3) racial inequality persists across generations because blacks are genetically inferior to whites.

Behavioralist scholars often seek to separate themselves from the neo-eugenics arguments of Murray and Herrnstein. They offer instead a behavioralist model of racial identity. Nevertheless, both empirical and theoretical economists of this second group have a continuously negative assessment of black families, black communities, black culture, black intelligence, and black life choices. From this perspective, whiteness carries no particular social or economic advantage—rather, blackness is a behavioral disadvantage since black identity reduces an individual’s life-chances. Whiteness confers no special significance in the market because the market is concerned only with individual productive ability and not group affiliation. Blackness reduces life-chances because a disproportionately large percentage of persons who are identified as black have deficiencies that limit their acquisition of productive abilities. So, the behavioralist argument is that if blacks only behaved like whites racial inequality would disappear and it would do so without exogenous alter-
ations in the interracial distributions of wealth and power. Notably, neither the behavioralist nor the neo-eugenicist proponents of black deficiency are concerned with the manner in which white monopolies of wealth and power contribute to the continuous reproduction of racial inequality and racial conflict.

Consider that according to the most widely cited theory of racial discrimination, racial discrimination may persist only in those areas of society sheltered from the competitive forces of the market (Becker, 1957). Accordingly, Neal and Johnson (1996) argued that contemporary racial income inequality is not caused by racial discrimination in the market; rather, contemporary racial income inequality is completely caused by inferior black skills accumulated prior to labor market entry. In particular, Neal and Johnson believe that it is solely lower quality education among African Americans that is responsible for lower income among African Americans. Murray and Herrnstein (1994) bring closure to the logic of this argument by announcing that inferior black education and lower black life-chances in American society are caused by the lower intelligence quotient of African Americans. However, Neal and Johnson profess that it is inferior families and neighborhoods that poorly equip African Americans for the competitive requirements of the labor market.

An earlier generation of scholars also argued that persistent racial inequality occurs because of “dysfunctional” behavior of low-income blacks (Loury, 1984) and “pathological” black families (Moynihan, 1965). This perspective suggests that educational quality is relatively lower among African Americans than whites because of relatively lower social capital (market functional values) among African Americans (Loury, 1989). For Loury, discrimination persists in (non-market) relations of contact, but not (market) relations of contract. Blacks have lower social capital than whites because racial discrimination in relations of contact means that blacks do not have access to superior white social capital, that is white values and behavior, through marriage, social group membership, etc. Carneiro, Heckman, and Masterov (2003) present one of the more recent claims that unequal access to educational resources is not the source of inferior black education; deficiencies within African American families are the problem.

According to Mead (1992:114), the negative assessment of African American men by orthodox social science scholars is “well earned, and it is difficult to believe that many competent Black workers are being denied opportunity.” Mead’s racial chauvinism is explicit, “[T]he worldview of Blacks make them uniquely prone to attitudes contrary to work, and thus vulnerable to poverty and dependence” (Mead, 1992:148–151, quoted in Peterson, 1998:759).

Building on his behavioralist model of identity (Akerlof and Kranton, 2000), Akerlof (2002) equates black racial identity with the prescriptive behavioral requirements of “oppositional culture,” while white racial identity is the same as the prescriptive requirements of the “dominant culture.” Akerlof writes that
dispossessed races and classes face a Hobbesian choice. One possibility is to choose an identity that adapts to the dominant culture. But such an identity is adopted with the knowledge that full acceptance by members of the dominant culture is unlikely. Such a choice is also likely to be psychologically costly to oneself since it involves being someone "different"; family and friends, who are also outside the dominant culture are likely also to have negative attitudes toward a maverick who has adopted it. Thus, individuals are likely to feel that they can never fully "pass."

A second possibility is to adopt the historically determined alternative identity, which, for many minorities, is an oppositional culture.

Curiously, neither Akerlof nor other black deficiency school scholars explores the contribution of white racial identity formation to the status of blacks as a "dispossessed" group. Moreover, if white identity is merely prescriptive behavior that increases market productivity why is it that blacks who adopt such behavior are not allowed to "pass?"

According to Akerlof, the prescriptions of the dominant culture endorse "self-fulfillment"; hence, the prescriptions of oppositional cultural are self-destructive. So, Akerlof strongly re-asserts the central claim of the behavioralist framework of the black deficiency school, African American social and economic disadvantage is due to "self-destructive" behavior. According to Akerlof, inferior African American education—and by extension, reduced intergenerational mobility, is caused by black identity, which is purely an "oppositional identity" that is opposed to educational achievement because educational achievement is prescriptive behavior associated with white identity.

The prescriptions for oppositional identity are commonly defined in terms of "what the dominant culture is not." Since the prescriptions of the dominant culture endorse "self-fulfillment," those of the oppositional culture are self-destructive. The identity of the oppositional culture may be easier on the ego, but it is also likely to be economically and physically debilitating (Akerlof, 2002:427).

Although Akerlof and Kranton (2002) present evidence from the High School and Beyond national survey that African Americans—especially African American women—have better attitudes toward school than whites, they assert that African Americans only "appear to have better attitudes toward school than whites." Instead, they argue that standards of ideal behavior differ by race and further insinuate that African American educational ideals are lower than white
ideals; hence, from their perspective, survey data that show more positive educational attitudes among African Americans cannot be taken at face value.

Taken seriously, the black deficiency school's behavioralist framework suggests that black-white educational, social, and economic equality can be achieved only if African Americans are willing to abandon "black culture." As such, the deficiency perspective yields a testable hypothesis: 1) "successful" African Americans should be substantially less likely to self-identity with black culture than African Americans of more moderate socioeconomic status.  

**SOME STYLIZED FACTS OF BLACK RACIAL IDENTITY**

It is worth repeating that more than 95 percent of all African Americans self-identify as black alone, notwithstanding the 2000 decennial census option for each respondent to select any racial category or any combination of racial categories consistent with the respondent's racial-cultural preferences. Presumably, respondents selected the racial-cultural identity that yielded the highest level of satisfaction. Despite the black deficiency school's negative assessment of black families and black culture, African Americans have not demonstrated a desire to acculturate into white identity. Quite the opposite, the census and other data show conclusively that African Americans of all economic circumstances have demonstrated an extraordinarily strong revealed preference for black identity. For example, African Americans are the most segregated group in America and the extent of this segregation increases slightly with income (Massey and Denton, 1993; U.S. Census Bureau, 2004). Affluent African Americans living outside the South are more segregated than affluent African American Southerners. Ihlanfeldt and Scafidi (2002) find that "more than one-half of the level of housing segregation can be attributed to blacks' preferences to live among blacks and whites' preferences to live among whites." (They do not dismiss the importance of racial discrimination against African Americans in the housing market or the importance of racial differences in income as an important factor for explaining racial segregation in housing).  

Unlike educational and employment institutions, which are subject to laws forbidding discrimination (regardless of the actual effectiveness of legal sanctions), there are no laws or social sanctions designed to desegregate private social interactions. Marriage and religious worship are particularly segregated, even as they are uniquely important institutions for shaping racial norms. In 1960, five years before the end of Jim Crow, 0.14 percent of all white marriages were to an African American (Table 1). By 1992, just 0.52 percent of all white marriages were to an African American. By comparison, black-white marriages were 1.65 percent of all African American marriages in 1960 and 6.54 percent
### TABLE 1

<table>
<thead>
<tr>
<th></th>
<th>Census</th>
<th>Current Population Survey</th>
<th>Percent Distribution</th>
</tr>
</thead>
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<tr>
<td>All married-couples</td>
<td>40,491</td>
<td>44,598</td>
<td>49,514</td>
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<tr>
<td>RACE</td>
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<td></td>
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<tr>
<td>Same race couples</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>White/White</td>
<td>40,334</td>
<td>44,276</td>
<td>48,516</td>
</tr>
<tr>
<td>Black/Black</td>
<td>3,033</td>
<td>3,344</td>
<td>3,418</td>
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<tr>
<td>Amer. Indian/Amer. Indian¹</td>
<td>63</td>
<td>77</td>
<td>119</td>
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<tr>
<td>Asian &amp; Pacific/API²</td>
<td>148</td>
<td>230</td>
<td>398</td>
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<tr>
<td>Other race/Other</td>
<td>18</td>
<td>46</td>
<td>1,013</td>
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<tr>
<td>Interracial couples³</td>
<td>157</td>
<td>321</td>
<td>997</td>
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<tr>
<td>Black/White</td>
<td>51</td>
<td>65</td>
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<tr>
<td>Black husband/White wife</td>
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<td>41</td>
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<td>White husband/Black wife</td>
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<td>27</td>
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<td>American Indian/White</td>
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<td>American Indian husband/ White wife</td>
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<td>White husband/American Indian wife</td>
<td>17</td>
<td>45</td>
<td>124</td>
</tr>
<tr>
<td></td>
<td>Asian and Pacific Islander/White</td>
<td>API husband/White wife</td>
<td>White husband/API wife</td>
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<tr>
<td></td>
<td>15</td>
<td>23</td>
<td>92</td>
</tr>
</tbody>
</table>

2. The Asian and Pacific Islander category includes persons who identified as Japanese, Chinese, and Filipino on the race item only.
3. Includes the number of Black and White interracial couples shown, the number of White and "Other race" and Black and "Other race" couples excluding those with a Black or White partner not shown separately, and the number of "Other race/specified race" couples shown.
4. "Other race" includes all other persons not included in the "White," "Black," "American Indian, Eskimo, or Aleut," and the "Asian or Pacific Islander" race categories not shown separately. For 1960 through 1980, the "Other race/Other race" category includes cases where both spouses are either American Indian, Eskimo or Aleut, Asian or Pacific Islander, or Other race, but are not of the same race. The "other race" includes Hispanic persons who reported "Other race" in the race item.
NA Not applicable

decennial census, 0.73 percent of all white marriages are with blacks and 8.27
percent of all African American marriages are with whites (Fields and Casper,
2001). These numbers are surprisingly low given the extraordinary level of
interracial contact at schools, colleges, and places of employment.

Well over 90 percent of African Americans are at least nominally Christian. Nearly all black Christians attend predominantly black religious institutions.
Lincoln and Mamiya (1990) write that the seven historically black congrega-
tions (various groups of Baptists, Methodists, and Pentecostals) account for more than 80 percent of black religious affiliation in the United States. . . . Moreover, the remaining 15 to 20 percent of black Christians are scattered among numerous small black sects, the Roman
Catholic Church, and the mainline Protestant denominations. The over-
whelming majority of the latter are in predominantly black congrega-
tions, despite denomination affiliation with white communions (p. xii).

White membership in predominantly black denominations is so rare that one enterprising bishop in Louisiana sought to increase white membership in his church by paying whites to attend—$5 for attending a Sunday morning service and $10 for attending a Thursday evening service (Lodwick, 2003)! Given that many whites in the church’s neighborhood worked in minimum wage jobs, the bishop had astutely chosen a service payment greater than the opportunity cost of time for many whites in the area; yet, he reported that his church is more than 99 percent black.

The attachment of African Americans to a black identity can be noted also in
the rise of identifiably black names since 1965. During the years of the Black
Power Movement many African Americans, most notably those affiliated with
the Nation of Islam, began to change their names from traditional names of
European origin to names that are African, African-sounding but completely
made-up, or European origin but with an unusual spelling. Today, Kenya,
Kenyetta, Ebony, Jamal, Lakisha, Nia, Darnell, Kikora, Nailah, Naima, Laque-
sha, Laquanda, Myesha, etc. are now recognizably black names. Identifiably
black names are increasing in popularity among African Americans of all
income levels despite the fact that employers discriminate against job appli-
cants with such names and despite the fact that white teachers discriminate
against students with identifiably black names (Bertrand and Mullainathan,
2003; Figlio, 2003).

The racial-cultural identity of blacks may indeed be different from the
racial-cultural identity of whites. However, a different racial-cultural identity
does not imply an “oppositional” cultural identity. To say that African Ameri-
cans have a behaviorally “oppositional culture” trivializes the African origins of blacks and the history of white supremacy in America and, in so doing, asserts biased subjective normative priors which falsely assume that all factors that define white culture are desirable, orthogonal to racial conflict, and universal; hence, by construction, the behavioralist framework is ill equipped to consider the possibility that African Americans can have both a distinct racial identity and an identity that is also achievement oriented, success oriented, future oriented, and that embraces strong family values. Additionally, the behavioralist framework is unable to consider the possibility that a black racial-cultural identity provides African Americans with protection against the social injustices associated with the formation of whiteness.

For example, strong group identification for blacks appears to provide some insulation/protection against adverse health effects of the stress associated with racism and discrimination (Williams, Spencer, and Jackson, 1999). It also appears that black identity encourages educational achievement even when there are greatly reduced material incentives to do so. Between 1976 and 1995 the Scholastic Aptitude Test (SAT) black-white math gap declined by more than 21 percent, while the SAT black-white verbal gap declined by 25 percent (Bowen and Bok, 1998). During 1971–1999, the National Assessment of Educational Progress shows that the black-white racial gaps in reading, mathematics, and science declined by 40, 20, and 4 percent, respectively (U.S. Department of Education, 2000). Hence, we notice a decline in interracial test score gap since the mid-1970s, even though we have witnessed stagnation and decline in the movement toward relative black-white earnings equality since the mid-1970s (Bernstein, 1995).

A reasonable person (if not an informed scholar) might be willing to consider that the unique experiences of African Americans have fostered the growth of a racial-cultural identity that is capable of sustaining individual academic and economic success and, simultaneously, is in cognitive dissonance with the persistent social injustices of this society. Consider the words of Martin Luther King, Jr., who argued that “Racism, economic exploitation, and militarism” are the “triple evils” of American capitalism (Washington, 1986:250). In America, “profit motives and property rights are considered more important than people (Washington, 1986:629).” Social justice for the oppressed is a non-issue. Reverend King explained,

A nation that will keep people in slavery for 244 years will “thingify” them, make them things. Therefore they will exploit them, and poor people generally, economically. And a nation that will exploit economically will have to have foreign investments . . . will have to use its military might to protect them (Washington, 1986:251).
Continuing, King stated, “For years I labored with the idea of reforming the existing institutions of the society, a little change here, a little change there. Now I feel quite differently. I think you’ve got to have a reconstruction of the entire society.” Furthermore, “Something is wrong with capitalism as it now stands in the United States. We are not interested in being integrated into this value structure . . . a radical redistribution of power must take place” (Fairclough, 1984:241, emphasis added).

Using more colorful language, Malik Shabazz (Malcolm X) described capitalism as a “bloodsucking” system. Shabazz argued that, “It’s impossible for a white person to believe in capitalism and not believe in racism. You can’t have capitalism without racism (Breitman, 1965:69).” He further stated that this is the worst racist society on this earth. There is no country on earth in which you can live and racism be brought out in you—whether you’re white or black—more so than this country that poses as a democracy. This is a country where the social, economic, political atmosphere creates a sort of psychological atmosphere that makes it almost impossible, if you’re in your right mind, to walk down the street with a white person and not be self-conscious. It almost can’t be done, and it makes you feel this racist tendency that pops up. But it’s the society itself (Breitman, p. 214).

Thus, both the supposed “integrationist” King and the alleged “black separatist” Shabazz agreed that black identity is separate from white identity. But, neither King nor Shabazz saw black identity as behaviorally or otherwise inferior to white identity and neither suggested that acculturation into the dominant identity is something blacks should aspire to. Simultaneously, both encouraged African Americans to have a positive attitude toward hard work and achievement, strong family values, a moral and ethical lifestyle, and continuous struggle to reconstruct America’s political economy.

Surely, much has changed about America and the world since the mid- to late 1960s heyday of King and Shabazz. Nevertheless, African American political economic thought and cultural identity continues to be characterized by a unyielding ambivalence toward American political and economic institutions and great skepticism regarding whites’ willingness to aggressively pursue actions that will make America a racially just society (Kelley, 1999; Boston, 1997). In a national survey of African American ideologies, Dawson (2001) shows that 37 percent of African Americans subscribe to the basic tenets of black nationalism; 34 percent are comfortable with the core ideas of black Marxism; 40 percent of African Americans are disillusioned liberals; 19 per-
cent of African Americans accept feminist ideology; and, only 1 percent of African Americans accept the ideological beliefs of black conservatism.

The stylized facts of black racial identity are not consistent with the empirical predictions and subjective normative priors of the black deficiency school. The behavioralist economic model of racial identity, and with it the edifice of the black deficiency school, confuses African Americans' pessimistic evaluation of the possibility for racial justice within American society with a negative assessment of black identity on economic outcomes. Orthodox economics presents a seriously deficient understanding of the formation of racial identity and the distribution of well-being.

RACIAL IDENTITY AS A SOCIAL NORM

Let us consider an alternative perspective. For simplicity, assume our population is limited to two social categories, say “Europeans” and “Africans.” Assume that Europeans and Africans are easily distinguished from each other, perhaps by skin shade. These skin shade differences are biologically given, easily observed in all cases, and permanent. Assume, also, that the average wealth among Europeans greatly exceeds the average wealth among Africans. In order to understand how skin shade is transformed into a racialized social norm we must consider a second and endogenous racial dimension. Suppose each person enters into social interactions either as an “individualist” or as a “racialist.” Individualists do not participate in the group behavior of his or her social group, but rather attempt to live as if they are race-free, even though their exogenous race is in fact observable and has consequences if sufficiently many other persons are racialists. A racialist chooses to identify with his or her social group and thus to participate in whatever costs and benefits are conferred by group membership. Hence, the population divides into four mutually exclusive categories: European individualists, European racialists, African individualists, and African racialists. Let us refer to Europeans racialists as “whites” and African racialists as “blacks.” Thus, race is two-dimensional. One dimension is biologically and economically irrelevant, exogenous, and captured by skin-shade differences (African v. European). The second dimension is endogenous, socially constructed (individualist v. racialist), and has great implications for the distribution of well-being.

Assume that there are a large number of continuously repeated social interactions between persons. In each social interaction people make identity choices and compare the outcomes of their choices with the identity choices of others in society. If they see that an alternative choice will make them better off, they select that choice in the next social interaction. If they see no alter-
native that will make them better off, they stay with their current identity in the next social interaction. The proportional division of the population between African and European is exogenous and fixed over time. Within each social group, the division between individualists and racialists evolves endogenously. Thus, the two key endogenous variables are (i) the fraction of persons self-identifying as white ($\mu^w_i$) and (ii) the fraction of persons self-identifying as blacks ($\mu^b_i$). Ultimately, what kind of society will observe? Will economic forces establish incentives to create a society characterized by individualists who attach no meaning to skin shade? Will economic incentives lead to the creation of a society bifurcated by rigid norms regarding racial identity, where skin shade is immensely important? Will $\mu^w_i$ and $\mu^b_i$ approach an extreme (zero or one)? Will Africans or Europeans have greater payoff success in the long run as social norms are established?

Suppose we have a matching process that allows within-group social interactions (African-to-African and European-to-European) to occur with a different probability than between-group meeting (African-to-European). A social interaction results in a payoff to each of the two participants in the meeting. The payoffs are interpreted as results of economic production. Each person utilizes his or her own individual productive abilities in these social interactions and each person has greater or lesser access to some portion of group resources that he or she may draw upon to enhance productive potential. In particular, people engage in social interactions with resources that are provided to (or withheld from) them by their families, other nurturing groups, and those who support a particular identity action. The population frequencies $\mu^w_i$ and $\mu^b_i$ evolve in response to average payoffs by category.

Social interactions may be altruistic, antagonistic, or neutral. In altruistic social interactions, the productivity of the whole is greater than the sum of its parts. Both persons bring to the relationship their own resources and skills as well as access to the resources and skills of their families, professional relationships, information networks, and other parties of interest. An egalitarian mutual exchange of resources occurs that encourages specialization, division of labor, and an expansion in total output. Intra-group marriages, club memberships, study groups, and teacher-student interactions are examples of altruistic non-market social interactions. Altruistic market relations would include intra-group mentor and apprenticeship programs, work associations, and all work activities where productivity increases because of high levels of cooperation, trust, and reciprocity.

Antagonistic social interactions are characterized by varying amounts of distrust, non-cooperation, and exploitation. These are authoritarian social relations. At least one person in the social interaction seeks to have full access to the other person’s individual and group-based assets without allowing full
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access to his or her own individual and group-based assets. In an antagonistic social interaction the exchange of resources is such that either one person’s productivity increases while another’s decreases or the productivity of both persons declines. Non-market examples of antagonistic social relations include such activities as interracial dating where at least one party has permanently precluded the possibility of a permanent relationship but has not announced this intention to the other party, purely instrumentalist participation in study groups, negative teacher-student interactions, and limitations on social club membership. Similarly, market examples of antagonistic social interactions would include reneging on verbal promises made to other-group members, blocking the opportunities available to other-group persons, or withholding productive information from other-group members.

Within neutral social interactions no person contributes beyond a contractual obligation. Also, each person enters into social interactions without access to his or her own- or other-group resources; each must produce with only their individual skill and resources. Both non-market and market neutral social interactions are similar to altruistic social interactions, except that the parties have fewer resources to utilize in the relationships. Neutral social interactions do not raise or lower productivity of each person.

Within-Group Social Interactions

If matching was only within groups, Africans with Africans and Europeans with Europeans, separate coordination games arise for both groups if there is a positive net benefit to racialist behavior. If both persons belong to the same group and employ a racialist norm, then their social interaction is altruistic. If both persons are individualistic, then their social interaction is neutral. If one person is a racialist but the other is an individualist, the racialist behaves altruistically but the individualist behaves neutrally; the individualist is a “free-rider” who benefits without cost from the altruism of the racialist.

Within-group social interactions yield a coordination game where a racialist norm is Pareto optimal (if there is a positive net benefit to altruism). This means that for within-group social interactions, both the racialist norm and the individualist norm leave the parties better off than they would be if one person is an individualist and the other is a racialist. However, only the altruistic exchange of resources associated with a racialist norm leads to a net increase in the productivity of both persons; thereby, creating a strong material incentive to engage in racialist behavior with respect to within-group exchanges. Thus, in this extreme case, depending on initial conditions, we might expect Europeans to adapt to either complete whiteness or complete individualism. Similarly,
we might expect Africans to self-identify completely as black or to be completely individualists.

**Between-Group Social Interactions**

As a different extreme case, suppose matching was only between groups, Africans matching only with Europeans, and vice versa. In this case, the model becomes a prisoner’s dilemma. Racialism is a dominate strategy for both Africans and Europeans, even though each group would be better off if its members could somehow agree to adhere to individualism.

If the persons belong to different groups and both employ a racialist norm, then their social interaction is antagonistic. If both persons are individualistic, then their social interaction is neutral. If one person is a racialist but the other is an individualist, the racialist behaves antagonistically but the individualist behaves neutrally; the racialist uses his superior resources to extract uncompensated effort from the individualist. Because of wealth differences, the expected payoff to European racialist identity exceeds the expected payoff to African racialist identity.

The antagonism of between-group social interactions yields a prisoners’ dilemma where an individualist norm is Pareto optimal, yet the individualist norm is strictly dominated by the racialist norm. Productivity is highest for between-group social interactions based on an individualist norm; there is no alternative normative basis of social interaction between persons that could make anyone better off without making at least one person worse off. Between-group social interactions based on a racialist norm make each party worse off, that is, less productive, than they would be if individualism held sway in social relations. Individualist norms are difficult to maintain in between-group social interactions because the benefit (cost) of social dominance associated with racialist (individualist) behavior when the other person is an individualist (racialist) provides a strong material disincentive to act individualistically in social interactions with persons who belong to the other group. As a result, each person’s best interest given the behavior of the other person is to behave racially—leading to a racialist norm that will make everyone worse off than they would be with the individualist norm.

As these extreme cases suggest, there are forces in the model that might push either group toward racialism or toward individualism, depending on matching assumptions, dynamic assumptions, parameter values, and initial conditions. The construction of racial identity is the result of both intra- and intergroup interaction. Persons pursuing a racialist strategy are altruistic toward own-group members but antagonistic toward other-group members. Persons pursuing an individualist strategy are neither altruistic nor antagonistic toward
A social norm forms from the random interaction of persons, with each person staying with or changing to the strategy with above average fitness. Social fitness is measured by the impact of racial identity on wealth accumulation.

**Replicator Dynamics: Formation of Racial Norm**

We propose a simple process of norm formation. If a person earns a high payoff in social interaction, his or her wealth increases. High productivity persons are imitated by less successful persons of their group; for example, a high productivity European individualist is imitated by European racialists who then become European individualists. The fitness of each norm, that is, the income-creating capacity of a social norm, depends on both the fraction of own-group persons who accept a racialist social norm and the fraction of other-group persons who accept a racialist social norm. Mean group fitness is a weighted combination of the growth in income associated with individualist and racialist norms.

As a racialized social norm is being established, a person's decision to accept or reject a racialized identity depends on the extent to which others accept or reject a racialized identity. The construction of identity by all others in society imposes both positive and negative externalities on each person's identity actions. As such, the set of feasible racial identities that a person may assume is conditional on the person's characteristics, e.g., skin color, phenotype, and sex, that may lead others to treat the person in a particular fashion or to impose an external set of behavioral expectations on the person. For example, a very dark complexion Latino with African or Indian phenotype may choose to acculturate into American society with a Protestant, English-only cultural identity, complete with "typical" modes of dress, etc., but current social norms do not allow such an individual to become "white."

There are strong incentives for society to evolve into a racialized equilibrium. Both the transition to this equilibrium and its stationary nature are characterized by highly unequal and persistent racial inequality in economic well-being. Furthermore, movements to and persistence of an individualized society cannot be established without regard to inter-group inequality in economic well-being.

The relative expansion of the individualist and racialist norms throughout society depends on their relative effects on personal well-being. If individualist behavior is expected to yield the highest payoff, each person in the group will have a strong incentive to imitate individualist behavior. Similarly, if racialist behavior yields the highest expected payoff, then each person in the group will have a strong incentive to imitate racialist behavior. Clearly, if all persons in a group have accepted a particular social norm, either individualist
or racialist, there are no incentives for the identity norm of that group to change over time. Pure populations reproduce pure populations; if there are no persons acting in accordance with a particular norm, then that identity will remain dormant during future periods.

**Result 1. Intragroup diversity.** Society will display both individualist and racialist norms if and only if the expected productiveness of a racialist norm = the expected productiveness of an individualist norm.

**Result 2. Intragroup polarization.** In the absence of equality of rates of return, social identity will exhibit decreasing variation. If the racialist norm is spreading throughout society (and therefore the individualist norm is declining), then the variation in identity among the group will move toward the completely racialist norm as individualists gradually disappear from the group. This is the very strongest of racial norms as the social group moves toward a completely homogenous population of racialists. If the racialist norm is declining throughout society (and therefore the individualist norm is spreading), then we will ultimately observe a homogeneous population of individualists.

Changes in the benefits and costs of racialism alter the relative prevalence of racialist and individualist identities within social groups and alter the distribution of wealth between groups. But, the productiveness of a social interaction is also affected by the distribution of wealth.

**Result 3.** In a racialized economy there is substantial segregation of all groups. As racialist behavior intensifies, there is increasing social bifurcation in individual interaction.

*Significance of Phenotype: Understanding Black and White*

To the extent that a racialist social norm is resistant to mutations, a binary racial descriptor will arise so that all persons may readily establish the racial group membership of all other persons. Racial classification permits access to the resources of family, friends, and those with a similar identity. Parents must decide whether they will socialize children to accept or reject the racial classification system, which affects the productivity of social interactions children will receive when they interact with members of their own and other demographic groups.

When a racialist social norm exists, it is in the best interest of parents to raise their offspring to accept the binary descriptor. If the majority of other-group parents raise their children to accept the binary descriptor, then it is in the best interest of all own-group parents to raise their children to accept the binary descriptor. Further, the binary descriptor will be fashioned to limit entry into the wealthiest social group.

Is it possible for a racialized economy to emerge from a society of equally wealthy groups? With equally wealthy social groups, the productivity of alter-
native social interactions is the same for both groups. Furthermore, society is initially fully integrated. Nevertheless, this economy will move toward racial polarization and inequality. This pattern is observed because the productivity effects of alternative social interactions still provide a strong incentive for racialism over individualism. The rising intensity of racial identification then leads to an increase in the extent of segregation. Own-group altruism combined with other-group antagonism permits racialism to be a more fit strategy than individualism \( (w^R > w^I) \). Hence, \( w^R > w^I \) is a necessary and sufficient condition for a racialized economy to emerge when we start with a fully integrated economy with equal initial wealth.

Consider now an exogenous reduction in interracial wealth inequality. The reparations movement has begun to enjoy considerable discussion in the popular press. There are multiple reparations schemata but the common element involves some sort of wealth transfer from Americans of European descent to Americans of African descent. Our analysis suggests that reparations payment will not push the economy toward a non-racialized equilibrium. It is conceivable that if the reparations payment is sufficiently large it will equalize racial differences in the productivities of social interactions. But, equal identity payoffs do not imply the end of racial identity construction and segregation. Indeed, the reparations payment will produce an increase in racialized identities. During the initial phases when wealth is being equalized, the percentage of Africans identifying as black will increase and the percentage of Europeans identifying as white will decrease. After the period of wealth equalization the fraction of blacks will stabilize at a very high percentage (say, 90 percent of Africans), while the fraction of whites begins to rise rapidly among Europeans. Accordingly, reparations must be combined with other state actions to create equal opportunity if we wish to move the economy from a racialized equilibrium to a fully integrated society with an equal distribution of wealth across social groups.

**Arbitraging Racial Identity: One Way Passing and Asymmetric Tomming**

"Passing" is an individualistic attempt to arbitrage racial norms. Let us relax the assumption that skin shade easily distinguishes all Europeans from all Africans. Assume instead that there is a large (nontrivial) fraction of Africans who are physically indistinguishable from Europeans. Similarly, some nontrivial fraction of Europeans is indistinguishable from Africans.

Passing may be said to occur when European-featured Africans become white or when African-featured Europeans become black. Few Europeans pass as black. Anecdotal evidence suggests that when Europeans do pass and are found out they do not pay an economic or social penalty. On the other hand, Africans passing as white are a relatively more common phenomenon. But,
Africans who pass as white go to extreme lengths to make sure that they are never found out; there is a large wealth penalty for being exposed (Graham, 1999).

Our model would explain passing as an individualistic attempt to arbitrage the norms of a racialized economy. If the mean wealth of Europeans exceeds the mean wealth of Africans by a substantial factor, there will be strong incentives for European-featured Africans to identify as white and relatively no incentive for African-featured Europeans to identify as black. In the former case there will be substantial penalties for exposure; namely, re-segregation into black society.

Sollors (1996) reports on a number of studies that have attempted to measure the extent of passing by blacks. Passing was most popular between the 1850s and the 1940s. By one conservative estimate 2,600 blacks passed per year between 1920 and 1940. Alternatively, Sollors cites another study that estimates 30,000 blacks passed per year between 1865 and 1946—representing more than 2,000,000 people. If the latter estimate is correct, those who passed and their descendants numbered 5,000,000–8,000,000 people during the mid-1940s.

"Tomming" may be defined as ideological passing for those who lack the appropriate physical features. Tomming then also represents an attempt to arbitrage racial norms and thereby should enjoy a greater presence among the least wealthy social group. African Toms are not permitted to pass as white; rather, they are permitted at least partially to pass as individuals among whites if they are sufficiently ideologically integrated into whiteness. In this way, Toms are able to maintain black identity but behave in a cloying fashion toward whites. Such behavior satisfies white stereotypes in such a way that Toms are signaling that they are not dangerous to whites.

**DISCUSSION: UNDERSTANDING AFRICAN AMERICAN POLITICAL ECONOMIC IDEOLOGY**

Orthodox economic analysis, that is, the black deficiency school, predicts that declines in the racial gap in education, income, and other aspects of well-being reduce black identity among African Americans. The stylized facts on black racial identity strongly refute this prediction. Accordingly, we have presented and discussed an alternative model where racial identity formation, segregation, and income inequality are endogenous outcomes. The construction of racial identity is the result of both intra- and intergroup interaction. Persons pursuing a racialist strategy are altruistic toward own-group members but antagonistic toward other-group members. Persons pursuing an individualist strategy are neither altruistic nor antagonistic toward other persons. A social norm forms from the random interaction of persons, with each person staying with or changing to the strategy with above average fitness. Social fitness is measured by the
impact of racial identity on wellbeing. Own-group altruism and other-group antagonism may combine to produce strong incentives for racial polarization and segregation and persistent income inequality. Strong and persistent state action is required to dislodge an economy from a racialized equilibrium.

By connecting the formation of racial identity with the distribution of wellbeing, this paper is able to explain the persistence of racial privilege in a market economy. The formation and persistence of a racialized economy simultaneously segregates wealth, that is, one racial group has racial privilege in exercising control over both public and private resources while members of other groups do not have such power, and personal interactions. Hence, there is a relationship of domination and subordination underlying the dynamics we have presented in this paper. So, the intensity of racial identity, as well as the incentives for racial conflict, is very much related to the large inequities in material resources that are everywhere present in American society.

America's increasingly complicated mix of distinctive phenotypic characteristics and unique cultural attributes will pose increasingly difficult challenges for public policy. However, the transformation of these attributes into economic property and competing racial identities is not a law of nature. This analysis suggests that an egalitarian inter- and intraracial distribution of wealth must be a major element in any earnest attempt to purge American society of racism and racial conflict. Achieving such a distributational outcome will become increasingly more difficult the longer policy makers refuse to address the issue directly.

ACKNOWLEDGMENTS

This paper draws on and is largely a non-technical version of a co-authored paper, Darity, Jr., W. A., P. L. Mason, J. Stewart, "The Economics of Identity: The Origin and Persistence of Racial Norms." In some instances, I draw directly on the language of that paper. Earlier versions of this paper were presented 1) as the Distinguished Alumni Lecture, New School University, April 7, 2004, New York, 2) at the conference on "Globalizations and the African World," (Central Pennsylvania Consortium African American Studies Conference, February 27, 2004, Gettysburg University), 3) at the National Economic Association Presidential address (Allied Social Sciences Association, San Diego, CA, January 2004), and 4) at the Color Lines Conference: Segregation & Integration in America's Present & Future (August 31, 2003, Harvard University).

NOTES

1. Each census respondent was 1) free to report whatever racial category he/she wished to be a member of and 2) free to report membership in multiple racial categories. 36.4
million members of the United States’ population reported that they were black or African American as of April 1, 2000.

2. Akerlof’s policy insights on crime, education, and affirmative action are interesting, even as they are unnecessarily Moynihanist. Assuming that greater severity and certainty of punishment reduce the short-term supply of criminal offenses, Akerlof writes that, in the long run, combating crime through deterrence is unlikely to work. Short term gain from reductions in crime because of greater severity and certainty of punishment may be outweighed by long term negative externalities. “Prison itself is a school for counter cultural identity, and thus the breeding ground for future crime.” Crime prevention through drug treatment and rehabilitation programs and public jobs for inner city youth offers superior solutions to reducing crime.

Greater public expenditure for schools in African American neighborhoods with high poverty rates will increase human capital formation. African American students need “extraordinary teacher and close personal attention to guide them through the issues concerning identity in addition to covering the standard curriculum.”

Affirmative action is a good policy because “it is a symbol of welcome for African Americans into the white society that has rejected them for so long.”

3. Ilhanfeldt and Scafidi explain that

Segregation is apparently more of a voluntary phenomenon than is commonly believed. While we find that preferences for self-segregation matter to housing segregation, we have not identified the factors underlying these preferences. Blacks’ preferences to live among blacks may stem from a desire to share culture, prejudice against whites, lower housing prices in black neighborhoods, or blacks’ perceptions of white hostility and discrimination against blacks. Whites’ preferences for self-segregation may also be caused by a variety of factors, including prejudice against blacks, a belief that black neighbors may lower property values, or class prejudice combined with the use of race as a proxy for class.

4. This figure was derived by the author from the University of Michigan’s Panel Study on Income Dynamics.

5. Stewart (1997) provides the initial attempt to formalize an economic analysis of racial identity. Using Becker’s household production framework, Stewart (1997) developed a model whereby the intensity of racial-cultural identity of individual i of group j (RCIj) is a commodity that should be included in the individual’s utility function. Stewart’s formulation is novel in at least two aspects. First, it represents the first paper to model racial identity explicitly as an endogenous variable. Second, his model of identity production incorporates the impact of own- and other-group racial identity production into the decision-making process of individual economic agents; hence, we can identify tractable hypotheses about the external effects of group identity production.

REFERENCES


