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# Peddlers Forever?: Culture, Competition, and Discrimination

By WILLIAM A. DARITY, JR. AND RHONDA M. WILLIAMS\*

Contemporary economic theory has all but completed the burial of the idea that market discrimination explains racial wage differentials or differences in general pecuniary accomplishments across ethnic groups under competitive conditions. We need only await the eulogy.

Interment began with the failure of the model premised on employers' taste for discrimination. The preferences of employers for members of one group over another could not sustain wage differentials under competition if the individuals from each group were equally able. Although the initial argument was made under the assumptions of neoclassical perfect competition, it was beaten back by the Austrian process view of competition (see Israel Kirzner, 1973). A latent reservoir of alert entrepreneurs presumably would seize the profit opportunities generated by the discriminatory wage gap, drive discriminating employers from the market, and erode the wage differentials.

Valiant efforts emerged subsequently to raise from the dead the idea that competition might eliminate market discrimination. These efforts involved the development of market discrimination models under the states of affairs characteristic of neoclassical imperfect competition or so-called "statistical" discrimination. Neither case precluded the possibility of ingenious entrepreneurship nor "the entrepreneurial capacity to smell profits" (Kirzner, p. 229). As a result, in neither case could the existence of wage or earnings differentials be maintained by employer decisions. In the first case, the inventive en-

trepreneur could circumvent or bring down the barrier that was the source of the imperfection. Similarly, in the second case the clever entrepreneur could devise new procedures for overcoming existing informational discrepancies that might exist about the abilities of the members of each of the ascriptively distinct groups (see Darity, 1982). The application of the Austrian process view of competition to the problem of racial and ethnic wage differences stripped market discrimination of its analytic significance.

However, the empirical persistence of such wage differentials in the U.S. economy is well established. The demise of the theory of market discrimination under competitive conditions has led to increasing use of the human capital explanation for differences in economic achievement across ascriptively distinct groups. After many years and scores of statistical studies that revealed that convergence in observable human capital characteristics—especially years of formal education—did not lead to the anticipated abolition of black-white wage gaps (see Williams, 1984), there is now a shift underway that identifies the source of the alleged human capital differences as unobservable cultural differences between ascriptively distinct groups. Cultural variation is accorded primacy in explaining ethnic and racial differences in economic achievement. In light of the death of the market discrimination explanation, the cultural explanation is given added force by the observation that certain ethnic groups (Japanese and Jewish Americans, to name but two) have managed to succeed despite discrimination (see Barry Chiswick, 1983a, b).

The themes of culture and competition thus are the focus of this essay. We first provide substantive and historical critiques of the "new" cultural variant of the human capital theory. Second, we argue that the existence of ongoing market discrimination can be revived by employing an alternative

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conception of competition rather than partaking in the wholesale denial of the importance of market discrimination. Specifically, classical and Marxist competition are proposed as alternatives to the neoclassical and Austrian views of competition. The former can be reconciled with the existence of market discrimination as a persistent source of differences in racial and ethnic group achievements.

### **I. Culture as Human Capital: Logical Foundations?**

Both Thomas Sowell (1981a, b; 1983; 1984) and Chiswick (1983a, b) have been in the vanguard of those proposing cultural explanations of racial and ethnic success or failure in the marketplace. Sowell describes culture as “ultimately ways of accomplishing things” (1983, p. 136) and argues that culturally produced attitudes and work habits often are the crucial determinants of group achievement. Chiswick conjectures that the higher rate of return to education enjoyed by second-generation Jewish immigrants to the United States: “may arise from cultural characteristics that enable Jews to acquire more units of human capital per dollar of investment...or it may be that there are cultural characteristics that enable Jews to be more productive in the labor market with the human capital embodied in them” (1983b, p. 334).

Moreover, Sowell in particular suggests that cultural differences are longstanding. In a telling discussion of the persistence of cultural inheritance, Sowell refers to the Jewish peddlers who trailed the Roman Empire’s armies and their counterparts 2000 years later:

...[T]he reality of group patterns that transcend any given society cannot be denied. Jewish peddlers followed in the wake of the Roman legions and sold goods in the conquered territories. How surprising is it to find Jewish peddlers on the American frontier or on the sidewalks of New York 2000 years later—or in many other places in between? [1984, pp. 28–29]

Thus Sowell invokes the persistence of cultural traits and the continued possession of that culture by the direct descendants of the persons with those traits. But why do these traits persist, and why do they remain contained within a particular group? Sowell dismisses biological determinism in favor of pure cultural determinism with the cavalier remark that “no one needs to believe that Jews are genetically peddlers” (1984, p. 29). At the turn of the century, however, when intellectual conflict was greatest among proponents of culturally and biologically determinist views of human social evolution, there were those among the latter group who claimed the phenomenon of culture was “subordinate to nature” (see Derek Freeman, p. 21). The cultural determinists tended to argue that culture was self-organizing and self-reproducing. In what follows, we consider the logic and implications of cultural determinism.

From the pure cultural determinist perspective, culture is an attribute that can be changed, albeit with difficulty. Among economists, Richard Easterlin (1981) has advanced the view that (i) culture is malleable, and (ii) the whole world will become developed and culturally uniform—from the standpoint of the traits pertinent to economic advancement—as modern education simultaneously transmits those traits and signals their spread. As long as the predisposition toward certain cultural traits is not treated as innate or inherent—as given in nature—it can be transferred between members of various groups.

Furthermore, if some groups possess cultural attributes that enhance their performance in an environment where market exchange is a major aspect of social life, then we would expect incentives to emerge for members of the culturally advantaged group to transfer those attributes to less favorably endowed groups. The “new” cultural variant of the human capital theory presumes a persistence of market-valued cultural differences that is at odds with the conception of competition that undermined the theoretical persistence of market discrimination.

If ethnic differences in economic achievement are long-lasting because cultural dif-

ferences are long-lasting, then logically there must be a failure of the market mechanism to complete the transfer of the appropriate cultural norms from the high achievers to the low achievers. Hence, the variation in ethnic or racial economic accomplishment has to be explained by a failure of competition, which must mean a failure of entrepreneurs to recognize the source of variations and conduct the transfer. But why should the alert and inventive entrepreneurs fail here when they are assumed to have succeeded so admirably in destroying market discrimination? The Austrian competitive process that ostensibly can destroy a host of impediments to the free operation of the market is somehow immobilized when confronted with cultural differentiation. It was precisely because the competitive process was seen as so strongly operative that the cultural argument has gained such sway in some quarters of the profession, in spite of the logical inconsistency. Either Austrian entrepreneurs can undercut both market discrimination and cultural differentiation, or they can do neither.

One would expect cultural differences to persist if the more successful ethnic group can withhold its "trade secrets" from the marketplace. This means the economic theorist must explain how the successful group enforces sanctions against cultural transfers in the presence of opposing incentives the market might offer—that is, how do they prevent cartel cheating on an indefinite basis?

To recapitulate: if one accepts the position that cultural differences are significant determinants of ethnic and racial economic inequality, then one must explain why cultural differences salient for success are persistent. This persistence is impossible to maintain if one believes the market system is imbued with an Austrian process of competition. Sowell (1981b), for one, seems to have in mind exactly such a view of competition.

## II. Culture as Human Capital: Historical Foundation?

After comparing the socioeconomic achievements of various Asian-American ethnic groups (the Chinese, the Japanese, and the Filipinos), Chiswick notes that: "The

findings for the Chinese and Japanese suggest also that it is incorrect to assume that racial minority status in the United States and racial discrimination *per se* result in lower observed levels of earnings, schooling, employment, and rates of return to schooling" (1983a, p. 212). Chiswick correctly calls our attention to the substance of discrimination and leads us to inquire whether all racially identifiable nonwhite groups experienced similar patterns of "discrimination *per se*."

Considering first the case of American Jews, it has by now been well documented that Jewish immigrants from Eastern Europe made major income and occupational gains well before their children attended, en masse, those public institutions of higher education which provided avenues for the upward mobility of subsequent generations (see Selma Berrol, 1976; Sowell, 1981a, pp. 90–91; Stephen Steinberg, 1981, chs. 3, 5). The rapid socioeconomic progress of the immigrants was, in turn, facilitated by the historical juxtaposition of their unique constellation of skills and a growing, dynamic economy very much in need of those talents. Excluded from land ownership in Eastern Europe, urban Jews developed the petit bourgeois skills (including a high degree of literacy) which served them so well once entrenched in the urban centers of turn-of-the-century industrial American capitalism. Moreover, the entrepreneurial beginnings of Jewish peddlers, merchants, and clothiers provided the material base for the educational and occupational mobility of the next generation of college graduates.

West Indian immigrants provide another example of the importance of evaluating immigrant economic development in terms of class background and the opportunity structure of the receiving nation. West Indian incomes and occupational attainments are often cited as evidence that discrimination *per se* cannot explain the economic status of native black Americans, since so many Caribbean blacks have fared so well. In one of his many discussions of the gap between West Indian and native black American incomes, Sowell suggests the discrepancy is one more piece of evidence that "... cultural traits reaching far back in history have continuing

contemporary impact..." (1981c, p. 50). How, then, do we explain the less than sterling achievement of this same culture when functioning elsewhere—say at home in the (poverty stricken) West Indies or in Britain? Sowell acknowledges that this same culture has proven less remunerative in the West Indies (1983, p. 107), but is silent as to the reason.

Cultural explanations fail in a historical context because they consistently exclude considerations of social class. Nancy Foner (1978, pp. 229–31) reports that the Jamaicans who moved to London were of a lower socioeconomic background than their highly educated and skilled counterparts in New York City, the difference a function of respective British and U.S. immigration policies. The central point remains unaltered. West Indians in Britain and those still at home in the Caribbean share the same national culture with West Indians in the United States, but they did not share the same prior class position.

### III. Classical and Marxist Competition: Discrimination Revived

The logical problems with the cultural explanation for racial and ethnic inequality are compounded by its inadequacies in explaining the experiences of specific ethnic and racial groups. But the only reason that economic theorists have plunged into the wasteland of cultural primacy is because of the irreconcilability of market discrimination and competitive conditions. In this final section, we suggest that there are at least two conceptions of competition that can bring market discrimination back from the grave—classical and Marxist.

Classical competition (see Piero Sraffa, 1960) is rooted in the notion that there exists a tendency toward the equalization of rates of profit. Neither barriers, rigidities, nor numbers of producers in a given product market come into play so long as finance is mobile; capital must "earn" the same return in all sectors.

Suppose firms vary in productivity—with high wages in the high productivity sector, low wages in the low productivity sector and with whites in the former sector and blacks

confined to the latter. Wage differentials persist between blacks and whites of equal ability because productivity is determined by the sectoral techniques of production.

Neoclassical competition presumes labor mobility will equalize wages across sectors. If rates of return equalize, the ratio of final product prices is determined by the labor-output ratios in each sector. Austrian competition presumes entrepreneurs will move low-wage workers into the high-wage sector, initially benefiting by paying them the lower wage, but eventually eroding the wage gap. So long as rates of profits tend to equalize across sectors, these adjustments are not concerns for classical competition. Classical competition reconciles market discrimination and competition by definitionally permitting impediments or rigidities that cannot exist or persist under neoclassical or Austrian competition. Classical and neoclassical competition thus share a common inclination to define competition as a specific "state of affairs" and proceed to analyze its properties. In contrast, both Austrians and Marxists conceive of competition as a process, but differ as to the expected outcomes of the process.

Marxian competition subsumes the Classical notion, but introduces an evolutionary view (Karl Marx, 1981; John Weeks, 1981, ch. 6). Competition between capitals postulates the separation of labor from the means of production and is the means whereby the underlying laws of accumulation achieve expression. As a social relation, capital represents the integration of production and exchange in an expanding circuit, and competition between capitals arises in this integration (Weeks, p. 160). Since the market for labor power is the necessary condition for competition between capitals, the existence of capitalism implies competition (see Marx, Part 2). And, as Weeks notes, "Capitalism involves the movement of capital; competition is that movement" (p. 164).

The evolutionary nature of Marxist competition simply means that competition gives rise to monopolies, but monopoly is not the antithesis of competition. Centralization (the redistribution of existing capital) intensifies and advances competition, which is manifested in the flow of capital between branches of industry. Marx's capitalist winners con-



solidate and concentrate; they can exclude the losers and consolidate their positions for long stretches of time. Austrian competition's winning entrepreneur cannot, in contrast, *permanently* maintain barriers to preserve his position (Kirzner, pp. 131, 205). According to the Austrian view, barriers will eventually be torn down by newer contestants.

We extend Marxist competition to labor powers. Workers also can concentrate and consolidate, particularly by ethnicity or race. Via the control of training, evaluation, information, and the definition of jobs, winners in early rounds of labor market competition can insulate themselves from the most recent recruits to the wage labor force. Here lies the basis for Edna Bonacich's (1976) "split labor market," where capitalists face a labor market differentiated in terms of bargaining power and therefore price, for Oliver Cox's (1970) analysis of the racial and ethnic division of the labor force in a class-based society, and for Stanley Lieberman's queuing labor market model wherein "dominance will tend to perpetuate further dominance" (1980, p. 296).

What place remains for culture? Under classical competition with market discrimination, culture need not play any role. Austrian competition conceives of a world with entrepreneurs who heroically can render asunder all barriers. In such a world, the persistence of both market discrimination and premarket cultural differences is untenable. Marxist competition conceives of a world that tends toward monopoly. Specific ethnic and racial groups could gain control and dominance of particular occupational categories. They act to preserve their "winnings" in a fashion that is not "normal" under Austrian competition. Culture is the magnet that provides the basis for concentration of labor powers.

Extension of the Marxist conception of competition to labor powers is a relatively new theoretical endeavor, but nonetheless one with both precedent and explanatory power. Pursuit of this line of inquiry necessitates investigation of the concrete economic and historical conditions confronted by specific ethnic and racial groups. Without such an investigation, cultural analysis becomes the cornerstone for constructing what Steinberg

(p. 77–81) describes as the "New Darwinism," in which culture is passed between generations and guarantees that good things happen to the culturally efficient, and social pathology is the tragic misfortune of the cultural misfit.

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