Rev Black Polit Econ (2015) 42:1–6
DOI 10.1007/s12114-014-9201-2

A Tour de Force in Understanding Intergroup Inequality: An Introduction to Stratification Economics

William A. Darity Jr. · Darrick Hamilton · James B. Stewart

Published online: 28 August 2014

Abstract This special edition of the Review of Black Political Economics provides a contribution to the growing, vital and intellectually rich field of stratification economics. Stratification economics is an emerging field in economics that seeks to expand the boundaries of the analysis of how economists analyze intergroup differences. It examines the competitive, and sometimes collaborative, interplay between members of social groups animated by their collective self-interest to attain or maintain relative group position in a social hierarchy. The collection of articles in this volume span both quantitative and qualitative approaches, geographical distances (Bangladesh, Brazil, the Dominican Republic, Kenya, and the U.S.), types of intergroup disparity (class, race, ethnicity, tribe, gender, and phenotype), and outcomes associated with social stratification (property rights in identity, human capital, financial capital, consumer surplus, health, and labor market outcomes).

Keywords Stratification economics · Racial disparity · Ethnic disparity

Stratification economics is an emerging field in economics that seeks to expand the boundaries of the analysis of how economists analyze intergroup differences. This special edition of the *Review of Black Political Economics* provides a contribution to the growing, vital and intellectually rich field of stratification economics.

W. A. Darity Jr.
202A Sanford Institute Bldg., Campus Box 90245 Durham, NC, USA
e-mail: William.darity@duke.edu

D. Hamilton (✉)
The Milano Graduate School of International Affairs, Management and Urban Policy, The New School, 72 Fifth Ave, New York, NY 10011, USA
e-mail: hamiltod@newschool.edu

J. B. Stewart
Labor Studies and Employment Relations, Penn State University, 8101 Palomino Drive, Bridgeville, PA 15017, USA
e-mail: js8@psu.edu

Stratification economics as a subfield of the wider discipline of economics is designed to improve our understanding intergroup disparity (e.g. racial, ethnic, caste and religious disparity). The field was crystallized in a keynote address given by one of the coauthors of this article before the Academy of Economics and Finance's Annual Meeting in Savannah, Georgia in 2005 – an address subsequently published in the organization's periodical, the *Journal of Economics and Finance* (Darity 2005). Not long afterward, James Stewart (2008b) prepared an entry on the subfield for the most recent edition of the *International Encyclopedia of the Social Sciences* while extending the scope of the subfield in his own research contributions (e.g. Stewart 2008a, 2009).

In 2009, Gregory Price, a contributor to this special issue, submitted a formal request for the creation of a subfield classification code for the category of stratification economics to Steven Husted, who was managing director of EconLit product design and content and chair of the American Economic Association's committee on the Journal of Economic Letters (JEL) Economic Subfield Classifications. The committee responded affirmatively, although without the full degree of enthusiasm with which the proposal was submitted. Rather than the creation of a freestanding JEL classification code, the committee expanded the final JEL category, Z13, to include not only "Economic Sociology, Economic Anthropology" but also " Social and Economic Stratification. In addition, the category was cross-listed with D31, "Personal Income, Wealth and Their Distributions." The committee indicated that as publications expanded in this area the prospect remains open for the establishment of a separate JEL category for stratification economics.

Racial and ethnic disparities long have been treated as a peripheral object in economics, largely relegated to the domain of labor economics – despite the fact that at least one of the major types of group based inequalities – wealth or net worth – bears a much stronger relationship to an individual"s race and ethnicity than to their employment and earnings.[1] Even existing indicators of national well-being, ranging from narrow measures like per capita income to more comprehensive measures like the Human Development Index (while sometimes modified to address gender inequality) do not incorporate intergroup disparity as a dimension of social welfare. In contrast, stratification economics points directly at intergroup inequality without limiting the analysis of sources of such inequalities to the labor market. It extends the analysis of intergroup inequality to wider arenas including wealth, health, psychological wellbeing, political influence and social inclusion.

Stratification economics integrates economics, sociology, and social psychology. It takes the emphasis on process of group identification and identity formation from sociology, including both self- and social classification. It takes the emphasis on self-interested behavior and substantive rationality from economics. It takes the emphasis of social beliefs widely held about the group to whom one belongs as having an impact on affinity towards ones group, individual productivity and performance, particularly via the effects of *cognitive dissonance*, *implicit bias* and *stereotype threat*. Thus, stratification economics conceives of a world where there is continuous interplay at both the macro and micro levels – often competitive and sometimes collaborative – between members of social groups animated by the collective self-interest of the respective

[1] Indeed, at every level of income, black and Latino households have a mere fraction of the wealth of comparable white households and these disparities grow larger at lower levels of earnings (Tippett et al. 2014).

members. Groups compete to attain and maintain *relative* position in a social hierarchy (Blumer 1958).

Another difference between stratification economics and the orthodox perspective is the presumption of *irrationality* of discrimination commonly found in the latter (Hamilton 2000, and Stewart and Coleman 2005). In contrast, stratification economics presumes the *rationality* of discrimination, that discrimination is functional in promoting the privileged group's relative status.

Generally, conventional economics views group based identity as exogenously determined and, since Becker (1957), the practice of discriminatory preferences by one group toward another as simply a matter of arbitrary tastes (many of these distinctions are summarized by William Darity 2005 and Darity et al. 2006).

The over-emphasis on *individual* optimization and the under-emphasis on group formation and collective action leads orthodox economists to accentuate differences in individual attributes like human capital endowment, motivation and tastes as explanations for intergroup differences. Stratification economists look far beyond individual factors to structural-cum-contextual factors that preserve the relative status of dominant groups via intergenerational transfers of resources and exclusionary practices to explain intergroup disparity.

Stratification economics consciously rejects explanations of intergroup inequality on the basis of collective dysfunction on the part of the group burdened by comparatively negative outcomes. Correspondingly, stratification economics rejects explanations for group-linked variations in life outcomes that champion genetic or cultural-behavioral differences across groups.

For a good reason, there is minimal scope for understanding racial or ethnic gaps in wealth, health, educational attainment, family structure, or neighborhood quality on the basis of internal deficiencies on the part of the subordinate community. The good reason is the rich body of careful empirical research that consistently undermines both genetic and cultural-behavioral theories of racial and ethnic inequality (e.g. Goldsmith et al. 2006, 2007; Mason 2007, and Senik and Verdier 2011).[2]

Consistent with human capital explanations for intergroup inequality, economists typically view the underrepresentation of individuals from subaltern groups in high status occupations and professions as a "pipeline problem," an inadequate supply of

[2] Field experiments of employment audits provide, perhaps, the most powerful evidence that employer discrimination is a plausible explanation for racial labor market disparity. Two noted audits are those conducted by economists Marianne Bertrand and Sendhil Mullainathan (2004) in Chicago and sociologist Devah Pager's (2003) audit study in Milwaukee, Wisconsin.

Wisconsin is a state that outlaws employer use of a criminal record for most jobs, yet, among young males of comparable race, experience, and education, Pager found that audit testers with a criminal record received half as many employment callbacks as testers without a record. Nonetheless, race was found to be more stigmatizing than incarceration. White testers with criminal records had a slightly higher callback rate than black testers without criminal records.

The Bertrand and Mullainathan study avoided the potential criticism that "tester" actors may have inadvertently signaled skills to the employers in a manner that led them to prefer the white applicants by using a "correspondence" study design. They used a double-blind strategy that avoids the use of human "testers" by attaching fictitious names, those with black and those with white sounding names, to similarly credentialed paired resumes. They found that resumes with white sounding names received a 50% higher call back rate than comparably skilled resumes with black sounding names. Perhaps even more telling, the "better" quality resumes with black sounding names received fewer callbacks than "lower" quality resumes with white sounding names.

individuals from the relevant group with the appropriate credentials. This view often stems from orthodox theory, which predicts that discrimination cannot persist in the face of market competition (Becker 1957).

But the persistent relevance of discrimination in occupational sorting is evidenced by the fact that, even after taking into account the distribution of educational credentials pertinent to particular job categories, nearly 90% of jobs remain segregated in the United States with blacks grossly underrepresented in the best paid occupations (Bergmann 1971; Gibson et al. 1998; and Hamilton et al. 2011). Moreover, the potential endogeneity of the selection criteria for eligibility for particular jobs – conditions of merit can be constructed to include members of the dominant group and exclude members of the subordinate group (Uhlmann and Cohen 2005) – suggest that even the pipeline side of underrepresentation can be a consequence of systematic design.

Stratification economics proceeds on the assumption that discrimination matters and can endure even in the context of market discrimination. There is negligible empirical evidence that discrimination inevitably falls under pressure from market forces. A review of the available time series evidence across the handful of market-based economies where estimates are available did not identify a pattern of declining discrimination (Darity 2001). A cross section inter-industry study conducted by Jacqueline Agesa and Darrick Hamilton (2004) using US data found that neither greater domestic nor foreign competition is associated with lower discrimination at the sectorial level.

Discrimination functions as a turf maintenance instrument for the dominant or in-group. Therefore, a major task of stratification economics is to identify and understand all of those instruments, establish their full effects in creating and sustaining intergroup inequality, and craft innovative routes to move society in a direction that will reverse and close the gaps.

The collection of articles in this volume provides a wide sample of approaches to stratification economics. The articles span both quantitative and qualitative approaches, geographical distances (Bangladesh, Brazil, the Dominican Republic, Kenya, and the U.S.), types of intergroup disparity (class, race, ethnicity, tribe, gender, and phenotype), and outcomes associated with social stratification (property rights in identity, human capital, financial capital, consumer surplus, health, and labor market outcomes). The first article, "The Culture of Class and its Economic Impact" by Ramya Vijaya, Amy Eshleman, and Jean Halley, defines and elaborates on the "culture of whiteness" and the "capital of whiteness" (i.e. how the culture of whiteness has developed and its facilitation of a capital in whiteness). The article begins with a description of how structures have evolved to provide material rewards based on individual proximity to certain group identities. Next, the paper define labor markets as being characterized where many individuals meet the "qualification standard" for most job openings, and thus employment decisions are often based on some "stand out" criteria. Then, the authors link the so-called "stand out" criteria to the "culture of whiteness" phenomenon, which refutes the notion that inequality is the result of productivity differences due to the inadequate qualifications of the subordinate group. Instead, the authors elaborate on how whiteness is used as the decision criteria for employment.

The next paper, "Bad Credit and Intergroup Differences in Loan Denial Rates" by Sheila Ards, Inhyuck Steve Ha, Jose-Luis Mazas, and Samuel Myers, Jr., addresses critics of the home mortgage lending discrimination literature by including FICO credit scores as a control variable. Even with the inclusion of credit score controls, black borrowers are found to face significantly higher loan denial rates. In addition to lending discrimination, the authors identify another mechanism by which social stratification could contribute to racial differences in loan denials. They argue that racial stereotypes lead to a greater share of creditworthy blacks self-selecting not to apply for loans as a result of a socially generated self-misperception of not being creditworthy. Their proposition is empirically consistent with their finding that a greater share of blacks perceive that they have "bad credit", although their actual FICO scores are at least close to average.

The next set of articles examines intergroup inequality in an international context. In "Stratification Economics and Grassroots Development," Cruz Bueno investigates the intersection of class, gender, ethnic and phenotype hierarchy in determining differential labor market sorting in the context of export work zones in the Dominican Republic. The paper incorporates a multidisciplinary frame in understanding the commodification of group-based identity. Moreover, it includes an ethnographic component that provides a depth and detail with regards to labor market sorting, which in this case, deepens the analysis beyond the findings generated by the traditional quantitative approach most commonly used by economists.

Marcos Rangel, in "Is Parental Love Colorblind? Human Capital Accumulation within Mixed Families," presents theoretical and empirical evidence of how discriminatory social structures generate environments that rationalize differential human capital investment strategies for parents based on the phenotype of their offspring. The paper demonstrates that Brazilian labor markets offer light complexioned workers greater rewards for educational attainment than their darker skinned counterparts. This in-turn incentivizes optimizing parents with children of varying skin complexions to invest a greater share of their limited household budgets in their children with lighter skin shades.

The high degree of labor market stratification and high degree of miscegenation in Brazil presents an excellent context to investigate variation in offspring human capital investment within the family. The paper points out that parents and better-off light complexioned siblings pairs who are interested in equity, may offer darker skinned siblings future non-wage compensatory transfers.

In "Erasing Class (re)Creating Ethnicity: Jobs, Politics, Accumulation and Identity in Kenya," Mwangi wa Gĩthĩnji links political strategy to the interchange between ethnicity (tribal) and labor market rewards. The paper finds that Kenyan labor markets are characterized by ethnic (tribal affiliation) variation generating differential economic rates of return, and by ethnically affiliated politicians using labor market commodification of ethnicity as a political strategy to maintain political power. In the next paper, "Flood, Status, and Disease," Lopamudra Banerjee examines social stratification in Bangladesh and empirically demonstrates how social stratification in seemingly "natural" disasters influences intergroup inequality in the incidence of waterborne disease.

The final two papers in this volume return to the domestic setting. "Consumer's Surplus with a Racial Apology?," written by Juliet Elu and Gregory Price, provides an example of how a seemingly race neutral commodity tax that is not calibrated in accordance with group-based norms, values and preferences can generate intergroup variation in consumer surplus. The special issue concludes with "Skin Shade Stratification and the Psychological Cost of Unemployment: Is there a Gradient for Black Females?" written by Timothy Diette, Arthur Goldsmith, Darrick Hamilton, and William Darity Jr. We present empirical evidence highlighting the intersection of gender, race and phenotype demonstrating that the consequences of labor market stratification generate more adverse mental health consequences for darker complexioned black women.

The breadth of topics covered in this issue of the *Review* add to the growing field of stratification economics that presents theories and empirical evidence of structures and contexts that preserve the relative status of dominant over subaltern groups via discriminatory practices and intergenerational transfers of resources.

Acknowledgments William Darity, Jr. and Darrick Hamilton would like to acknowledge and thank the Ford Foundation for their generous support while conducting this research.

References

Agesa J, Hamilton D. Competition and Wage Discrimination: The Effects of interindustry Concentration and Import Penetration. Soc Sci Q. 2004;85(1):121–35.

Becker GS 1971. The Economics of Discrimination. Chicago; University of Chicago Press; 1957

Bergmann BR. The Effect on White Incomes of Discrimination in Employment. J Polit Econ. 1971;79(2):294–313.

Bertrand M, Mullainathan S. Are Emily and Greg More Employable Than Lakisha and Jamal: A Field Experiment on Labor Market Discrimination. Am Econ Rev. 2004;94(4):991–1013.

Blumer H. Race Prejudice As a Sense of Group Position. Pac Sociol Rev. 1958;1(1):3–7.

Darity Jr W. The Functionality of Market-Based Discrimination. Int J Soc Econ. 2001;28(10/11/12):980–6.

Darity Jr W. Stratification Economics: The Role of Intergroup Inequality. J Econ Financ. 2005;29(2):149–53.

Darity Jr W, Mason PL, Stewart JB. The Economics of Identity: The Origin and Persistence of Racial Identity. J Econ Behav Organ. 2006;60(3):283–306.

Gibson K, Darity Jr W, Samuel Jr M. Revisiting Occupational Crowding in the United States: A Preliminary Study. Fem Econ. 1998;4(3):73–95.

Goldsmith AH, Hamilton D, Jr WD. Shades of Discrimination: Skin Tone and Wages. Am Econ Rev. 2006;96(2):242–5.

Goldsmith A, Hamilton D, Darity Jr W. From Dark to Light: Skin Color and Wages Among African Americans. J Hum Resour. 2007;42(4):701–38.

Hamilton D. Issues Concerning Discrimination and Measurements of Discrimination in U.S. Labor Markets. Afr Am Res Perspect. 2000;6(3):116–20.

Hamilton D, Austin A, Darity W Jr. Occupational Segregation and the Lower Wages of Black Men. Economic Policy Institute Briefing Paper. 2011.

Mason PL. Intergenerational Mobility and Interracial Inequality: The Return to Family Values. Ind Relat. 2007;46(11):51–80.

Pager D. The Mark of a Criminal Record. Am J Sociol. 2003;108(5):937–75.

Senik C, Verdier T. Segregation, Entrepreneurship and Work Values: The Case of France. J Popul Econ. 2011;24(4):1207–34.

Stewart JB. Africana Studies and Economics: In Search of a New Progressive Partnership. J Black Stud. 2008;38(5):495–805.

Stewart JB. Stratification Economics. In the International Encyclopedia of the Social Sciences Farmington Hills: Cengage. 2008.

Stewart JB. Be All That You Can Be?: Racial Identity Production in the Military. Rev Black Polit Econ. 2009;36(1):51–78.

Stewart J, Coleman M. The Black Political Economy Paradigm and the Dynamics of Racial Economic Inequality. In African Americans in the U.S. Economy, Rowman and Littlechild Publishers. 2005.

Tippett RT, Jones-DeWeever A, Rockeymoore M, Hamilton D, Darity W, Jr. Beyond Broke: Why Closing the Racial Wealth Gap is a Priority for National Economic Security. Report prepared by Center for Global Policy Solutions and The Research Network on Ethnic and Racial Inequality at Duke University with funds provided by the Ford Foundation. 2014.

Uhlmann EL, Cohen GL. Constructed Criteria: Redefining Merit to Justify Discrimination. Psychol Sci. 2005;16(6):474–80.