RACE, CULTURE, AND THE MARKET

PATRICK L. MASON
Wayne State University

It is well known that there are large income differentials across racial and ethnic households. For 1989, the median figures are as follows: Whites, $30,406; African Americans, $18,083; Asians or Pacific Islanders, $36,102; and Hispanics, $21,921 (U.S. Bureau of the Census, 1990, pp. 1-24). Household differentials in income remain when the mean income per household member is examined: Whites, $14,720; African Americans, $8,344; Asians or Pacific Islanders, $13,964; and Hispanics, $8,062 (pp. 1-24).

Wealth and poverty status are also divergent across racial and ethnic groups. As of 1989, the family poverty rates for Whites, African Americans, Asian or Pacific Islanders, and Hispanics are 7.8%, 27.8%, 11.9%, and 23.4%, respectively (U.S. Bureau of the Census, 1990, pp. 1-24). The figures for median household net worth are equally diverse. White households have the largest median net worth, $39,135, whereas African American and Hispanic households have comparable figures of $3,397 and $4,913, respectively (U.S. Bureau of the Census, 1986, pp. 4-25).

Are these differentials in income, poverty status, and wealth across racial and ethnic families a reflection of differential income-earning characteristics? Market discrimination? The market functionality of cultural attributes across racial and ethnic groups? Indeed, is the interracial distribution of income-earning characteristics a function of market discrimination or cultural characteristics? The answer to the first part of this question is noncontroversial. There

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are large differences in the average levels of income-earning characteristics across racial and ethnic groups. Hence it is not surprising that relatively more educated groups (e.g., Whites and Japanese Americans) have relatively greater incomes, lower rates of poverty, and greater wealth.

It is undisputed that there are unexplained (but not purely random) interracial wage differentials (Blau & Ferber, 1987; Farley, 1990) after correcting for differences in characteristics such as education, experience, age, geographic location, on-the-job training, and so forth. But the substantive question is whether this unexplained portion of the wage differential is a reflection of racial discrimination or of differentials in the average levels of "dysfunctional values" across racial and ethnic groups.

If the unexplained portion of the wage differential in economic well-being is a reflection of racist practices that cannot be ameliorated by the operation of competitive markets, then a case can be made for permanently aggressive social intervention into heretofore private-market transactions regarding access to income-earning opportunities. On the other hand, if persistent differentials in economic outcomes are a reflection of differentials in the distribution of economically exogenous cultural traits that are rewarded in competitive markets, then public policy should focus on programs that will encourage economically disadvantaged individuals to abandon dysfunctional values.

The outline of this article is as follows. The first two sections evaluate the classical and modified versions of the "cultural Darwinist" explanation of racial inequality. The third section presents empirical and historical analysis that discredits cultural Darwinism. The fourth section outlines an alternative explanation of racial inequality. A summary is provided in the final section of the article.

CLASSICAL MODEL OF CULTURAL DARWINISM

The orthodox theory of supply and demand provides the foundations for a theory of cultural Darwinism when applied to explanations of intergroup differences in labor market outcomes. This
choice theoretic paradigm has four key elements: (a) competitive markets are inconsistent with involuntary unemployment or underemployment; (b) individuals are rewarded from competitive markets in proportion to the value of their contributions to output; (c) outcomes in a perfectly competitive market are a reflection of individual rational choice with respect to maximizing income; and (d) most economic decision making occurs in an environment that is appropriately modeled by neoclassical competition.²

These seemingly innocuous conditions have extraordinary implications. Because the conditions do not permit involuntary unemployment, interpersonal or intergroup differentials in time spent earning income are reflections of differences in personal choice regarding market participation. But personal choice is heavily influenced by cultural attributes. For example, the framework of Murray (1984) and Sowell (1981) suggests that African Americans have higher measured rates of unemployment than do Whites because African Americans have greater cultural preferences for nonmarket activities or because nonmarket activities yield more income than do market activities; that is, transfer payments and the consumption of leisure make market work seem unattractive.

Collectively, these conditions imply that labor market discrimination will not persist in a perfectly competitive capitalist economy (Arrow, 1972; Becker, 1957). Sustained differences in income between individuals or groups are solely a reflection of differences in individual or group productive characteristics. On average, African Americans earn less than Whites because, on average, African Americans have less of, or lower quality of, the individual productive characteristics that receive compensation in competitive markets (Smith & Welch, 1989).

Collectively, these conditions also imply that the distribution of individuals and groups across occupations, firms, and industries is a reflection of individual choice. All other things equal, the logic suggests that there are relatively more Chicanos in agriculture than there are Whites because Chicanos have less of a cultural aversion to working in the fields.

Racial and ethnic differentials in savings and entrepreneurship are also a reflection of differentials in individual preferences and
cultural attributes (Sowell, 1981, pp. 282-283). The logical implication here is that Korean Americans are relatively more numerous as small business persons than are African Americans because, on average, Korean Americans are more willing to save for the future than are African Americans, who tend to be present oriented.

Among the characteristics associated with success is a future orientation—a belief in a pattern of behavior that sacrifices present comforts and enjoyments while preparing for future success. . . . Those groups who [have had] this—the Jews, the Japanese-Americans, and the West Indian Negroes, for example—all came from social backgrounds in which this kind of behavior was common before they set foot on American soil.

A high value on “fun,” “excitement,” and emotionalism has characterized the less successful minorities. (Sowell, 1975, pp. 144-146; emphasis in original)

Clearly, these are powerful conclusions. If true, they imply that the best social policy with respect to racial differentials in income is one of benign neglect: Let market forces distribute economic rewards in accordance with the distribution of income-earning characteristics. After all, income-earning characteristics are a reflection of the market functionality of cultural traits, natural ability, and individual optimizing choices in the acquisition of productive attributes; the market will provide rewards in proportion to the various aspects of human capital. Or, if government is to intervene at all, then government should intervene to correct the dysfunctional value structure of low-income individuals.

EVALUATION OF CLASSICAL CULTURAL DARWINISM

It has long been an article of faith among mainstream economists that competitive markets and the persistence of racial discrimination are irreconcilable phenomena (Becker, 1957). Hence, in the absence of market failure—impediments to the smooth functioning of competitive markets—racial discrimination will persist if and only if markets are uncompetitive. This is the so-called market power hypothesis.
Among orthodox economists, the market power hypothesis is an article of faith. Friedman (1962) writes,

The maintenance of the general rules of private property and of capitalism have been a major source of opportunity for [African Americans] and have permitted them to make greater progress than they otherwise could have made. . . . The preserves of discrimination against groups of particular color or religion is least in those areas where there is the greatest freedom of competition. (p. 109)

Empirical evidence has not been kind to orthodox doctrine. To date, the market power hypothesis has not been affirmed (Alexis & Medoff, 1984; Cain, 1986) and the theory of discrimination that has dominated the economics profession for 30 years is a burnout (D’Amico, 1987; Darity, 1989).

MODIFIED MODEL CULTURAL DARWINISM: SOCIAL CAPITAL AND MARKET FAILURE

The orthodox faithful have been forced to modify their beliefs. Competitive markets and discrimination are not compatible, they repeat (by rote); the unexplained portion of the interracial wage differential is a reflection of differences in the market functionality of unmeasured cultural attributes, not discrimination. Unfortunately, the faithful assert, there are imperfections in the market for cultural attributes, and these imperfections lead to labor market inequality but not discrimination with respect to the provision of economic rewards.

Cultural values represent part of a group’s “social capital.” Cultural values are exchanged through intragroup and intergenerational familial transfers. Many of these transfers take place not in economic markets but in private social arrangements. Although discrimination is illegal in economic markets, discrimination is not illegal in activities such as marriage, religious membership, private social clubs, and a host of others. As a result, the argument goes, the market mechanism will not efficiently allocate profitable cultural traits across individuals via intergroup cultural arbitrage.
Loury (1989) presents the market failure version of the cultural Darwinist argument. Loury develops a "minimalist's argument" to justify preferential treatment in the attainment of interracial equality. He uses his minimalist's argument to conclude that "social justice is not consistent with a blanket prohibition on the use of group categories as a basis for state action" (p. 271).

From this relatively interesting beginning, the logical dynamics of orthodox economics inexorably strand Loury's analysis in the wasteland of cultural Darwinism.

Inequality persists because, when there is some racial segregation among communities—that is, when race operates as a basis of social but not economic discrimination—the process by which status is transferred across generations does not work in the same way for minority and majority families. The inequality of family circumstances generated by historical economic discrimination is exacerbated by differential access to the benefits of those quasi-public resources available only in the affiliational clusters or "communities." . . . [An] intragroup "externality" is exerted, through local public goods provision. (p. 274, emphasis in original)

Externalities are costs or benefits that are bestowed on third parties not directly involved in exchanges between private agents. Externalities are a sign of market failure. Loury's social externality is concerned with the costs or benefits that individuals derive from living in a particular type of community. He argues that relatively more numerous low-income minorities, plagued with dysfunctional values, exert a negative externality on higher income minority families. Conversely, Loury argues that relatively more numerous high-income majority families, possessors of impressive stocks of functional values, exert a positive externality on low-income majority families.

Curiously, perfectly competitive markets that are benevolent, omniscient, omnipotent, and omnipresent in the absence of market failure are reduced to malevolent impotence in the face of externalities associated with the market for social capital.

On this argument, state action that is cognizant of groups is legitimized by the claim that, in its absence, the consequences of historical
wrongs could be with us for the ages. It is necessitated by the fact
that individuals, in the course of their social intercourse, engage in
racial distinctions that have material consequences. (p. 274)

Today's social discrimination in the establishment of commu-
nities, access to "private clubs," access to positions on important
community boards, or access to the better schools perpetuates past
economic inequality. Even an enterprising and intelligent African
American, bejeweled with Lourian chutzpah, would suffer in the
market because of the reduced economic status associated with
membership in a low-income (minority) community. Hence race-
conscious public policy, directed at improved access to education
for the economically disadvantaged and the enforcement of fair
housing laws, is a justifiable palliative in the elimination of social
discrimination and, given the fact that economic discrimination and
competitive markets are not compatible, such policies will improve
interracial economic outcomes.

EVALUATION OF MODIFIED CULTURAL DARWINISM

It strains the boundaries of logic and historical reality to accept
the intellectual chimera that massive discrimination can take place
in social activities that "have material consequences" but that no
economic discrimination will take place in the market.

Consider the following example. There are eight economically
identical workers, four African Americans and four Whites. There
are two economically identical firms. Each firm wishes to hire
three workers. There are no special entry-level skill requirements,
but one job in each firm is on a skills development career path—
providing greater on-the-job training over the job career and hence,
eventually, providing greater annual income.

With eight workers and six jobs, we are going to have 25% unem-
ployment, and this unemployment has nothing to do with "dys-
functional values" or differences in individual productive char-
acteristics or social capital. Unless each worker is unemployed for
25% of the year, earnings differentials will arise for otherwise
identical workers. Second, differential incomes will also occur for
another. Eventually, two of the six employed workers will have higher incomes than the other four employed workers because they obtained favorable entry-level slots on the skills development career path. But, again, the emerging differences in income of employed workers have nothing to do with differences in values, culture, or even the initial productive characteristics of individuals.

Within the context of the example, neither involuntary unemployment nor the establishment of wage differentials is the direct result of interracial differences in the distribution of values or of cultural or individual attitudes toward work and achievement. Within the context of the example, both involuntary unemployment and the wage differentials are structural phenomena; that is, they are reflections of the very nature of a capitalist economic system. Usually, there are fewer jobs than there are workers and there are fewer high-paying jobs than there are workers qualified to hold those jobs.

It is not rhetorical to ask the following questions. If the economy cannot provide a job to each individual willing and able to work, will groups that engage in social discrimination and also control the preponderance of employment decisions engage in employment discrimination? If there exists economically identical entry points into career paths that provide different levels of on-the-job training, is it reasonable to assume that in a racially contested society employment-controlling groups will not engage in occupational and training discrimination? If there is discrimination in hiring and promotions and thus reduced economic well-being for the targeted group, will there be no effect on family formation and stability?

Granted, the example is rather simplistic; despite myths to the contrary, there is no theoretical or statistical evidence to show that a recognizably capitalist economy is capable of providing sustained full employment (Semmler, 1989). Also, there is now abundant theoretical and statistical evidence that suggests that labor market remuneration does not depend solely on individual productive characteristics (Botwinick, in press; Dickens & Katz, 1987; Hodson & England, 1986; Mason, 1991, 1993, 1994, 1995; Williams, 1987). Therefore the qualitative validity of the example remains. The questions that it forces on those concerned with racial inequality
cannot be answered by blind faith in the idolized trivialities of orthodox conceptions of competition.

Culture, values, relative levels of education, and so forth may play a role in the attainment of economic rewards. It is, however, a role subordinate to the structural conditions of a competitive capitalist economy in which the very possibility of group inequality persists because of the continuous reproduction of involuntary unemployment, a hierarchical job structure, and wage differentials disassociated with individual productive characteristics.

When subjected to rigorous analysis, cultural determinism can be stood on its head; "instead of functioning as a substitute for racial discrimination in explaining racial inequality, [culture] becomes . . . an instrument that mobilizes discriminatory action" (Darity, 1989, p. 365). In other words, there is nothing in the operation of competitive markets to prevent social discrimination from becoming economic discrimination. In a race-conscious and labor-rationed economy with unequal rewards within occupations and where prime-aged White males have a monopoly on managerial decisions to hire, train, promote, and reward all workers, "cultural" preferences will work to the disadvantage of African Americans and other socially subordinate groups.

At the level of economic theory, the fundamental flaw in the cultural Darwinist approach is the decoupling of social and economic discrimination. This decoupling is permissible if and only if two conditions are met: (a) competitive markets will tend to produce or move toward full use of available resources and (b) competitive markets will lead to a functional distribution of income whereby factors of production (of a given quality) receive uniform prices equal to the marginal value of output of each factor. Because neither of these conditions is true, it is theoretically invalid to decouple social and economic discrimination.

The reproduction of unemployment implies that firms will be permitted some degree of leverage in rationing jobs on other than market criteria (e.g., race, ethnicity, gender). Moreover, this leverage is increased by the hierarchical organization of work whereby each level of the occupational pyramid can be filled by job applicants from lower levels and from the pool of unemployed workers. The
persistence of noncompensating wage differentials implies that, even if employed, not all workers (of a given quality) in a given occupation will receive identical pay; hence nonmarket hiring criteria are also given a degree of leverage in shaping inter- and intraoccupational employment distributions. Competition and discrimination are mutually reinforcing, not mutually incompatible.

FACTIONS OVER FICTION

Despite these theoretical weaknesses, one may wonder whether the empirical implications of the cultural Darwinist approach are correct. Cultural Darwinists usually point to Caribbean immigrants and Asian Americans as racial minorities that have been able to prosper in the market despite tremendous social discrimination in the present and even greater social and economic discrimination in the past. Allegedly, these “model minorities” have been able to overcome market discrimination because they embody the values of Horatio Alger: hard work, stable families, thriftiness, and a cultural acumen for entrepreneurship. On the other hand, the argument is made that low-income African Americans, Chicanos, and other minorities are drowning in a “culture of poverty.”

Tables 1 and 2, provide comparative information on minority groups. Japanese and Chinese Americans have below national average poverty rates of 5% and 13%, respectively. On the other hand, Japanese and Chinese Americans have above national average rates of affluence of 23% and 16%, respectively, compared to a national average of 12%.

Impressively, the per capita income, mean years of college for men ages 25-54, and percentage employed as professionals and managers for men ages 25-54 all are above the national average. But, do these numbers imply that there is something in the Asian culture that leads to greater income-earning capacity? Also, do these numbers imply that Asian Americans in general, and Japanese and Chinese Americans in particular, do not face economic discrimination? The answer to both questions is no.
TABLE 1
Characteristics of Mutually Exclusive Racial/Ethnic Groups in 1980

<table>
<thead>
<tr>
<th></th>
<th>Poverty (percentage)</th>
<th>Affluent(^a) (percentage)</th>
<th>Per Capita Income(^b)</th>
<th>Mean Years College</th>
<th>Professional/Managers(^c) (percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. total</td>
<td>11</td>
<td>12</td>
<td>11.2</td>
<td>1.7</td>
<td>28</td>
</tr>
<tr>
<td>Hispanic groups</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cuban</td>
<td>12</td>
<td>9</td>
<td>10.6</td>
<td>1.7</td>
<td>25</td>
</tr>
<tr>
<td>Mexican</td>
<td>22</td>
<td>3</td>
<td>6.8</td>
<td>0.7</td>
<td>11</td>
</tr>
<tr>
<td>Puerto Rican</td>
<td>34</td>
<td>2</td>
<td>6.1</td>
<td>0.6</td>
<td>13</td>
</tr>
<tr>
<td>Other Spanish</td>
<td>16</td>
<td>7</td>
<td>8.9</td>
<td>1.5</td>
<td>21</td>
</tr>
<tr>
<td>Asian groups</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Indians</td>
<td>8</td>
<td>12</td>
<td>13.2</td>
<td>5.3</td>
<td>60</td>
</tr>
<tr>
<td>Chinese</td>
<td>13</td>
<td>16</td>
<td>11.9</td>
<td>3.6</td>
<td>42</td>
</tr>
<tr>
<td>Filipino</td>
<td>6</td>
<td>9</td>
<td>10.9</td>
<td>2.8</td>
<td>27</td>
</tr>
<tr>
<td>Japanese</td>
<td>5</td>
<td>23</td>
<td>14.6</td>
<td>2.9</td>
<td>42</td>
</tr>
<tr>
<td>Korean</td>
<td>8</td>
<td>11</td>
<td>10.2</td>
<td>3.4</td>
<td>36</td>
</tr>
<tr>
<td>Vietnamese</td>
<td>34</td>
<td>3</td>
<td>5.8</td>
<td>1.4</td>
<td>17</td>
</tr>
<tr>
<td>Native Americans</td>
<td>25</td>
<td>5</td>
<td>6.9</td>
<td>1.0</td>
<td>19</td>
</tr>
<tr>
<td>African Americans</td>
<td>27</td>
<td>4</td>
<td>7.1</td>
<td>1.0</td>
<td>14</td>
</tr>
<tr>
<td>Other minorities</td>
<td>21</td>
<td>7</td>
<td>8.8</td>
<td>2.2</td>
<td>26</td>
</tr>
</tbody>
</table>

\(^a\) This reports the percentage of individuals in households whose pretax cash incomes equaled at least six times the poverty line.
\(^b\) Shown in thousands of 1987 dollars.
\(^c\) This reports the percentage of employed men holding professional or managerial jobs in April 1980.

The economic statistics for Vietnamese Americans tend to compare unfavorably with the national average and with the averages for Chicanos and African Americans. On the other hand, although the educational level of Filipino Americans and Americans of East Indian descent are greater than the national average—2.8 years and 5.3 years, respectively—these groups tend to be near the national average in most economic outcomes. Finally, Korean Americans tend to have economic statistics that are above average but less impressive than those of their Japanese and Chinese counterparts. Hence it is meaningless and obfuscatory to lump Americans of Asian descent into one large group and label them a model minority.
TABLE 2
Annual Earnings of Mutually
Exclusive Racial/Ethnic Groups in 1980

<table>
<thead>
<tr>
<th></th>
<th>1979 Annual Earnings&lt;sup&gt;a&lt;/sup&gt;</th>
<th>As Percentage of Total</th>
<th>Own Characteristics&lt;sup&gt;b&lt;/sup&gt;</th>
<th>Own Rates of Return&lt;sup&gt;c&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. total</td>
<td>23.4</td>
<td>100</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hispanic groups</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mexican</td>
<td>19.3</td>
<td>83</td>
<td>−11</td>
<td>−6</td>
</tr>
<tr>
<td>Puerto Rican</td>
<td>19.6</td>
<td>84</td>
<td>−8</td>
<td>−3</td>
</tr>
<tr>
<td>Other Spanish</td>
<td>21.3</td>
<td>91</td>
<td>−2</td>
<td>−7</td>
</tr>
<tr>
<td>Asian groups</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chinese</td>
<td>26.8</td>
<td>115</td>
<td>+18</td>
<td>−13</td>
</tr>
<tr>
<td>Japanese</td>
<td>26.4</td>
<td>113</td>
<td>+14</td>
<td>−6</td>
</tr>
<tr>
<td>Native Americans</td>
<td>19.1</td>
<td>82</td>
<td>−12</td>
<td>−12</td>
</tr>
<tr>
<td>African Americans</td>
<td>18.6</td>
<td>80</td>
<td>−12</td>
<td>−8</td>
</tr>
<tr>
<td>Other minorities</td>
<td>20.3</td>
<td>87</td>
<td>−1</td>
<td>−16</td>
</tr>
</tbody>
</table>


a. Shown in thousands of 1987 dollars. Estimates of earnings assume a person worked 2,000 hours. Analysis is restricted to all persons reporting positive earnings in 1979.

b. This reports the percentage difference between the overall average earnings and the hypothetical earnings of a group assuming its own characteristics and the rates of return of the entire sample.

c. This reports the percentage difference between the overall average earnings and the hypothetical earnings of a group assuming its own rates of return and the characteristics of the entire sample.

Second, one should not be misled by average income figures. The rates of return to human capital as proxied by education, marital status, age, geographic location, and so forth imply a substantially lower than national average return for Japanese and Chinese Americans. Statistically, if Japanese and Chinese Americans had distributions and levels of human capital identical to the national average, their levels of income would be 6% and 13% lower, respectively, relative to the national average. The comparable figure for African Americans is −8%. These statistics indicate that to earn the same amount of income as Whites, all people of color must have much greater amounts of education and other productive characteristics.

Table 2 makes it abundantly clear that “non-Whiteness” is an economic negative in American society. The lower rates of return
associated with the productive characteristics of racial minorities imply a racial tax. On the other hand, Farley (1990) shows that for nearly every White ethnic group, there is a subsidy for being White; the rates of return associated with White productive characteristics are 3% to 6% above the national average. These data directly contradict the notion that in a perfectly competitive market there will be no significant variation in rates of return to human capital across racial groups.

In reference in to the United Kingdom, Ferve (1984) reveals that workers of Asian, African, and Caribbean origin tend to be treated quite similarly in the market for labor power. These groups tend to be employed in similar occupations (low pay) and at similar types of establishments (labor intensive, small size, and low growth). If culture is a significant explanatory variable in economic outcomes, then cultural Darwinists must explain why it is significant on one side of the Atlantic and insignificant on the other side of the Atlantic.

But what about African American immigrants from the Caribbean—so-called West Indian Blacks. Have they not been able to obtain earnings at or near the national average? If so, does this not prove that the real culprit in native African American inequality is a preponderance of dysfunctional values rather than economic discrimination?

The general hypothesis has been that foreign-born blacks (specifically those of West Indian ancestry) have achievements which distinguish them from native blacks. According to this argument, foreign-born blacks are economically more successful because of their more stable family life, greater educational attainments, higher achievement motivation, and stronger work ethic. (Farley & Allen, 1989, p. 362)

There exists no evidence to suggest that the economic outcomes obtained by the approximately 1 million African American immigrants from the Caribbean are appreciably different from native-born African Americans (pp. 362-405). There is no evidence to suggest that African American immigrants from the Caribbean have a relatively greater stock of those cultural values that tend to earn favorable returns in the market (Cruse, 1988, pp. 269-342).
Although the geographic distribution of Caribbean immigrants differs from that of native-born African Americans, there is a heavy concentration in New York and Miami, and although Caribbean immigrants tend to be older than native-born African Americans, there are no substantive differences in family structure and household structure. Moreover, although immigrant African American men tend to have greater educational achievement than do native-born African American men, the opposite is true for women. But the education levels of African American male immigrants are less than those of native or foreign White males.

Unemployment rates, family income figures, the earnings of men, and the percentage employed as professionals and managers tend to be quite similar for native- and foreign-born African Americans. And, finally,

The 1980 census data also imply that often-stated claims about the entrepreneurial accomplishments of West Indians are greatly exaggerated. Similar to native (African Americans), African American immigrants have a low rate of self-employment. (Farley & Allen, 1989, p. 405)

Cruse provides the final nail in the coffin of the myth of West Indian Black superiority; namely, if the cultural attributes of Caribbean African Americans are such that these values tend to enable them to perform favorably in capitalist economies, then one would expect above-average economic performance not only in America but in other international enclaves of Caribbean immigration as well. Yet, despite the British heritage of the English-speaking Caribbeans, Cruse reports that no such economic success can be found among Caribbean immigrants in the United Kingdom or Canada, nor can one find repetition of alleged “West Indian superiority” on the European continent.

Further evidence against cultural Darwinism can be found in the work of Rhee and Rhee (1990). In an article specifically designed to test the thesis that culture is a significant explanatory variable in the determination of savings behavior, the authors report results that severely discredit the Darwinist perspective. Examining data from the 1980-1985 Consumer Expenditure Survey, Rhee and Rhee
find that “the savings rate of Asians is not different from that of Whites, whereas [African Americans] save more than Whites within comparable income classes” (p. 3). African Americans, at all income levels, tend to save more or dissave less than do their White counterparts. Moreover, Rhee and Rhee’s analysis of the Canadian Family Expenditure Survey data revealed that there is no evidence for significantly different savings patterns across immigrants, and if there is any savings rate differential, the evidence is that South East Asians [China, Japan, Vietnam, Taiwan, Hong Kong, Korea], whom one might have expected to have higher savings rate, save less than others. (p. 15)

Rhee and Rhee (1990) report that their results on the savings behavior of African Americans relative to that of Whites are consistent with work that dates back to early work on the development of the aggregate consumption function. To the extent that cultural Darwinists are correct in suggesting that thriftiness is a functional value—that is, thriftiness reflects a future orientation and the capacity for deferred gratification, which in turn tends to lead to greater income—the cumulative impact of the studies on the consumption function pose a major puzzle. Presumably, if the relatively lower income of African Americans and the relatively higher income of Asian Americans can be explained in part by relatively greater amounts of dysfunctional and functional values, respectively, and if the savings rate is a valid proxy for functional values, then what is the explanation for the higher rate of savings among African Americans relative to those among Whites and the fact that the White-Asian savings rates are indistinguishable? To date, cultural Darwinists have not attempted to answer this question.

Historical data on business formation and development tend to further discredit the cultural Darwinist approach to explaining racial inequality. If dysfunctional cultural values are a major explanatory factor in African American economic well-being, then surely these dysfunctional values would have had their greatest impact during the years immediately following slavery.

Table 3 casts doubt on the conventional wisdom that slavery destroyed entrepreneurial values among African Americans. During
## TABLE 3
African American Business Formation, Population Growth,
and Business Participation Rates: Civil War to World War I

<table>
<thead>
<tr>
<th>Year</th>
<th>Business Number</th>
<th>Percentage Change</th>
<th>Average Annual Growth</th>
<th>Persons Number</th>
<th>Average Annual Growth</th>
<th>Business Participation Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1860</td>
<td>2,000</td>
<td></td>
<td>4,400,000</td>
<td>0.43</td>
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<tr>
<td>1870</td>
<td>5,400,000</td>
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<td>2.05</td>
<td>6,679,094</td>
<td>9.16</td>
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<td>5,672,324</td>
<td>150</td>
<td>1.64</td>
<td>6,683,214</td>
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<td>1890</td>
<td>7,500,000</td>
<td>70</td>
<td>1.60</td>
<td>8,800,000</td>
<td>47</td>
<td>2.75</td>
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<td>1893</td>
<td>6,868,780</td>
<td>47</td>
<td>4.70</td>
<td>9,089,789</td>
<td>3.86</td>
<td>3.95</td>
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<tr>
<td>1910</td>
<td>9,800,000</td>
<td>60</td>
<td></td>
<td>10,122,720</td>
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</table>

**Source:** Population statistics are taken from U.S. Bureau of the Census, Current Population Reports, Special Studies, Series P-23, No. 80, *The social and economic status of the Black population in the United States: An historical view, 1790-1978*, Table 1. Business ownership numbers and the percentage change numbers are from Table 57 of the same document.

**Note:** Yearly population estimates and average annual growth rates from business and population are estimated by $P_t = P_0 e^{rt}$. Business participation rate is the number of businesses per 1,000 persons.

The first 50 years following the Civil War, the growth of African American businesses exceeded the growth of the African American population in every census period. Ultimately, this era saw the African American business participation rate increase by nearly 10-fold.

On a close analysis of the facts, one cannot use the experience of Asian Americans or African American immigrants to disaffirm the existence of market discrimination. Additionally, one cannot use the experience of these groups to affirm the basic tenet of cultural Darwinism, namely that differences in cultural attributes provide the primary explanation of differences in the economic outcomes of otherwise identical racial groups.

The racially invidious philosophy of cultural Darwinism is a correlate of the culture of poverty thesis, which asserts that low-income groups develop a subculture of poverty that tends to per-
Perpetuate their poverty. The culture of poverty thesis has existed for much of the post-World War II period, yet it has been demonstrably refuted by empirical evidence. The National Research Council's *A Common Destiny: Blacks and American Society* states,

> The available evidence, although scattered, is voluminous. Taken as a whole, the data and analysis we have examined throw serious doubt on the validity of the strong thesis that culture of poverty is a major cause of self-perpetuating poverty. (Jaynes & Williams, 1989, p. 542)

On a broader note, it is methodologically tenuous for social scientists and policymakers to attempt to derive meaningful social theorems regarding the economic circumstances of African Americans and Hispanics from the experience of comparatively small numbers of Chinese and Japanese Americans. The successful absorption of 2 million people is one problem; however, the qualitative and quantitative dimensions of the problem increase exponentially when one considers that there are at least 30 million African Americans and 20 million Hispanics.

**IMMIGRATION**

Moreover, interracial comparisons of economic well-being that neglect the geographic location, class composition, economic consequences, and numerical extent of immigration will yield insights that are distinctively misleading. For example, Chiswick (1988) shows that intragroup generalizations regarding Hispanics are inadvisable: "The disparities in the migration and demographic histories, the level of investment in human capital . . . and the labor market experiences among men of Mexican, Cuban, Puerto Rican, and other Spanish-speaking origins is enormous" (p. 34).

It is not an exaggeration to say that the Asian American population is a post-1965 population. From 1860 to 1940, the total Asian American population (excluding Alaska and Hawaii) increased from 34,933 to 254,130, that is, from 0.11% to 0.19% of the total population of the continental United States (Cheng & Bonacich, 1984, p. 62). Indeed, by 1940, the Asian population in Hawaii,
246,099, was nearly as large as the Asian population in the continental United States. And for both population centers, Japanese Americans were the dominant group, representing nearly one half of the continental Asian population and almost two thirds of the Hawaiian Asian population. During this time period, most of the Asian population resided in the West and typically in California.

By 1988, Asian Americans were 3% of the civilian workforce and have been projected to grow to 4% by the year 2000 (Fullerton, 1989). Immigration has been the key element of Asian American population growth. Wong (1986) indicates that Asian immigration has exploded since immigration reform in 1965 and that the nature, character, and extent of the Asian American immigration experience have been of great diversity. Because immigration is such a large element of Asian American population growth, one must adequately assess the class character and social background of Asian immigrants before attempting to make broad generalizations about the social and economic circumstances of Asian subgroups.

The measurement of economic outcomes for groups with large proportions of immigrants is subject to tremendous sample selection bias. Neither entry into the United States nor the decision to remain a permanent resident after entry is a random event. Some immigrants are poor, tired, huddled masses yearning to breathe freely; some are sojourners (here today, gone tomorrow); some are refugees; and, finally, some arrive with sufficient cash, political connections, education, or other marketable assets to speedily move into the mainstream of economic life.

For example, among Hispanics, the three largest subgroups are from Mexico, Cuba, and Puerto Rico. For the most part, Cuban immigrants have been middle to upper income political refugees fleeing the Cuban revolution; they were treated quite generously by the U.S. government on arrival. Puerto Ricans tend to be sojourners, that is, frequently moving back and forth between the United States and Puerto Rico in response to the economic cycles of the Island’s economy. Mexican immigrants are, to some degree, sojourners, but for the most part represent dispossessed workers seeking economic opportunity; they have limited skills, limited proficiency with English, no cash, and limited political power.
Moreover, the ease of entry from Mexico to the United States is such that there is limited selectivity in terms of the pool of entrants into the United States.

Wong (1986) provides similar details on the various subgroups of Asian Americans whose numbers include immigrants as diverse as Hmong tribesmen to Korean Ph.D.s. Clearly, any economic study of interracial (and within-group) inequality that does not deal with the tremendous divergence in the nature, extent, character, and origin of immigrants is, at best, problematic; at worst, any such study may be a deliberate attempt to perpetuate racist mythology.\(^6\)

**OUTLINE OF AN ALTERNATIVE THEORY OF DISCRIMINATION\(^7\)**

This section of the article outlines a Marxian explanation for the persistence of alternative forms of discrimination in the market for labor power. The discriminatory process is viewed as partially endogenous to economic incentives emanating from the reproduction of capital. This perspective is elevated from an assertion to an economic theory by demonstrating that exclusion is a central element in the reproduction of capital and alternative forms of discrimination.

The analysis begins at the highest level of abstraction—initially suspending differences in types of firms, types of workers, types of work, levels of job control, remuneration, and historical specifics—and then uses the method of successive approximations to consecutively lower the level of abstraction until the model is able to explain more concrete phenomena associated with the discriminatory process in the market for labor power.

The methodological objective is to reveal the economic mechanisms that provide the incentives and possibilities for persistent discrimination in a competitive capitalist economy. The upshot of this approach is that racial and gender discrimination are labor allocation devices; such devices are necessitated by the nature of the growth (accumulation) and competitive processes in a capitalist economy.
The model, in its first approximation, includes four elements. First, at the most abstract level of analysis, the possibility of employment discrimination, the most basic form of exclusion, arises because of the reproduction of the reserve army of unemployed; that is, it is structurally unlikely for the process of economic growth to provide sustained employment for all who are willing and able to work (Shaikh, 1989). This persistent involuntary unemployment creates the possibility that jobs may be allocated on other than productivity-related characteristics of workers. Second, within the firm, the work structure is hierarchical and not all jobs have equal strategic significance with respect to the production and appropriation of profit. The hierarchical structure of work implies that micro labor queues (occupational reserve armies) will arise as workers queue for employment positions on their current level of the occupational pyramid as well as positions that are higher up the occupational hierarchy. Also, for a given level of skill, the terms of employment (wage premiums, working conditions, and job control) improve with the strategic importance of the occupation.

The creation of micro labor queues and differential terms of employment provide a more concrete explanation for the possibility of allocating work on other than productivity-related criteria. Exclusion is now possible as occupational discrimination and as discrimination in access to on-the-job training slots as well as the more basic form of employment discrimination.

Accordingly, one may think of the reproduction of the reserve army of unemployed (involuntary unemployment), the hierarchical structure of jobs, and the differential terms of employment (underemployment) as conditions that create the “space” or “limits” for discrimination to arise and to begin a metamorphosis into increasingly complex (multidimensional) forms. All dimensions of the discriminatory process arise and persist as potential labor allocation mechanisms whereby the possibility for exclusion is a joint product of the reproduction of involuntary unemployment and underemployment.

The third element in the theory of discrimination determines the probable targets and beneficiaries of unequal access to earnings. It may be encapsulated as the principle of exclusion. The principle of
exclusion arises from the historical, political, social, and cultural conditions of specific societies, regions, and time periods. (Moreover, as exclusion is reproduced in the process of production, it also becomes institutionalized in society as a whole.)


Lewis (1985) warns, “The essence of discrimination is its measures to restrict relative numbers in higher paid occupations. Race is not a necessary factor; such measures are found even in homogeneous societies” (p. 45). In agreement with Lewis, Groshen (1988) provides empirical evidence that the principle of exclusion may be an operative force in determining the gender distribution of employment. Indeed, just as Higgs (1989) tends to discount differences in pay at the same occupation-establishment position as an explanation of interracial inequality, Groshen (1988) finds that “wages of males and females in the same occupation and establishment differ by only 1%” (p. 217).

Fourth, wage discrimination is a more concrete possibility for the expression of job exclusion. Wage discrimination here does not mean differential pay for the same occupation within the same establishment. This form of discrimination most certainly exists, but I am referring here to different pay for the same occupation within and between industries.

Wage differentials arise within and between industries—at all occupational levels—because of inter- and intraindustry differences in the competitive structure of capitals (Botwinick, 1993). Therefore, for workers at any given occupational and skill level, remuneration will differ between and within industries in accordance with the limits to wage increases established by the competitive process. High-wage jobs will have the longest queues, whereas
low-wage jobs will have the shortest queues. Wage discrimination occurs because race (and gender) continue to function as job allocation mechanisms for high-wage positions and markers of low-wage laborers for capital.

This analysis then moves from the most abstract understanding of discrimination as a labor allocation device for determining service in the reserve army of unemployed to a more concrete understanding of discrimination as a device for determining access to high-wage jobs. The application of this successive approximations approach facilitates the connection between Marxian theories of growth and competition and the discriminatory process, from its most basic scalar form (employment discrimination) to increasingly complex vector forms (employment, training, occupational, and wage discrimination).

Further levels of concretization would include things such as different pay for the same job within a set of occupation-establishment positions, state policy, union policy, dual economic structures, and detailed institutional analysis, with each level of concretization focusing on the operation of exclusion appropriate to that level of analysis. In the end, the discriminatory process yields a complex $n$-dimensional vector—the components of which will surely move in contradictory and historically contingent directions in response to the path of economic development and exogenous shocks. Statistical affirmation of the theoretical model that has been outlined would provide evidence for the Marxian perspective that capitalism and racism are mutually reinforcing social structures.

**DISCUSSION AND SUMMARY**

Alternative theoretical explanations of the aforementioned statistical residual carry with them contesting social agendas. I have argued the following points. First, cultural Darwinists' explanations are obfuscatory, empirically and historically invalid, and theoretically unsound. Second, wage income—the primary source of income for most individuals in all racial groups—is determined by the productive characteristics of individuals (or groups) and the
competitive characteristics of firms and industries. Hence, third, there are noncompensating wage differentials attached to some income positions; occupations that require equal (or comparable) skills will pay different wages or salaries if competitive characteristics differ across firms and across industries. Fourth, African Americans in particular, but non-Whites in general, tend to face employment discrimination in those occupations, firms, and industries that have the most favorable wage premiums. Summing up, interracial differences in economic outcomes are not primarily a reflection of interracial differences in the market functionality of cultural attributes; rather, such differences are greatly influenced by market discrimination.

Although I did not address the issue in this article, groups targeted for discrimination can and do undertake actions to improve their economic well-being. Moreover, for relative small minority populations, it may be possible to take advantage of strategic economic niches to earn above-average incomes. Yet such “success” does not in any way imply the absence of discrimination; for any given level of income or occupational status, statistical evidence was presented that suggests that non-Whites must have superior qualifications.

At any rate, because discrimination is reproduced over time by the very nature of a capitalist economy, I argue that it is necessary to implement substantial public voice into heretofore private economic transactions. Specifically, those industries and firms that are the most likely to employ discriminatory behavior should be monitored closely via the substantive inclusion of public representatives of minority groups within the governing apparatus of firms. The substantive issues here are not particular policies but a particular approach to understanding and solving racial inequality problems in the economy.

Alternative forms of discrimination persists in this model because involuntary unemployment, underemployment, and inter- and intraindustry noncompensating wage differentials are outcomes of a segmentation process based on differential access to stable employment and the competitive structure of capitals. The principle of exclusion—unequal access to income opportunities—is an en-
dogenous outcome of the model as race, ethnicity, gender, and so forth are used as labor allocation criteria. Hence, not only will capital seize on and reproduce preexisting differences among workers, but the market allocation process itself is conducive to race-, ethnic-, and gender-invidious comparisons in the competition for scarce income procurement opportunities.

NOTES

1. Consider the standard logarithmic regression of earnings \( W \) on a vector of individual characteristics \( X \) and the stochastic residual \( e \), with \( e - N(0, \sigma^2) \) across all observations and the parameter vector \( b \) such that \( \ln W = X' b + e \). If \( \beta \) represents the estimated value of \( b \), then the unexplained portion of the wage differential usually is calculated as \( U = X_w(b_w - b_\emptyset)/(X_w \beta_w - X_\emptyset \beta_\emptyset) \), where \( X_w \) and \( X_\emptyset \) represent the mean values of White and African American productive characteristics, respectively, and \( \beta_w \) and \( \beta_\emptyset \) are the respective rates of return. Hence \( U \) represents the fraction of the racial wage differential that is due to an unexplained difference in rates of return across racial groups.

2. Neoclassical competition is the most generally accepted perspective on the operation of markets among economists. This perspective holds that competition is characterized by four conditions. First, individual economic agents (consumers and firms) have no control over the price of goods or services. Second, all goods or services sold in a particular market are identical. Third, resources (labor power, capital, natural resources) are unimpeded in their movement into and out of industries. Fourth, each agent has complete and perfect knowledge of all relevant economic information.

3. See Darity (1989) for an exceptional critique for this line of reasoning.

4. Rhee and Rhee (1990) provide a brief survey of these studies and, accordingly, their bibliography contains the appropriate references to the major studies in this literature. Some economists, such as Galenson (1972), argue that "the notion that [African Americans] save more than whites" seems "to deny common sense" (p. 215). Indeed, her study concludes that African Americans do not save more; Whites merely dissave more. Galenson is arguing that, at any given income level, among those individuals that tend to spend more than they earn, Whites (especially low-income Whites) tend to be greater spendthrifts than do African Americans. Similarly, at any given income level, among those individuals that tend to spend less than they earn, the amount saved per dollar of income tends to the same across racial groups. Hence, for all families at a given income level, the African American savings rate exceeds the White savings rate. Rhee and Rhee offer a number of (convincing) challenges to Galenson’s results. But acceptance of Galenson’s results does not invalidate the point developed in this article. If African Americans are less future oriented than are Whites, then African Americans spendthrifts should have higher rates of dissaving than do White spendthrifts and African American penny-pinchers should have lower savings rates than do White penny-pinchers. At a minimum, for the cultural Darwinists’ perspective to hold, if African American and White penny-pinchers have similar savings rates and if spendthrifts have similar debt accumulation rates, then there should be proportionately more African
American dissavers at each income level; therefore the average African American savings rate should be lower than the White savings rate at each income level. Finally, "common sense," an ill-defined and untrustworthy analytic concept, should not lead one to expect lower savings rates among African Americans relative to those among Whites. At a given level of income, African American income will be less stable than will White income if there exists discrimination in the various forms of access to income—employment, promotion, training, occupational mobility, and so forth. Therefore, if discrimination exists, then common sense would lead one to expect African Americans to save more for the proverbial rainy day given that they face relatively greater odds against having income or improvements in income in future time periods.

5. Rhee and Rhee (1990) also inadvertently confirm Farley's (1990) analysis of racial differentials in the quality-adjusted returns to human capital. In their sample, measured income has a statistically significant and negative correlation with identification as Asian Americans, African Americans, and Native Americans.

6. Darity (1989) suggests that the class background of immigrants prior to arrival is an important determinant of their economic fortunes in the United States. Specifically, immigrants tend to exhibit lateral (or possibly downward) mobility in their migration from home to host country.

7. The details of the model presented here may be found in Mason (1993, 1995).

8. By the competitive structure of firms, I mean items such as the geographical location of firms using the best generally available technology within each industry, the distribution of capital/labor ratios between and within industries, the nature and extent of worker organization across firms and industries, the intra- and interindustry distribution of fixed capital and number of workers per firm, the relative efficiency of subdominant firms within industries, and the composition of occupations. Although there is insufficient space to develop the theoretical connections here, Botwinick (in press) has used the labor theory of value (Marxian economic analysis) to connect these structural characteristics to the intra- and interindustry distribution of wages. Mason (1995) extends the analysis of differential wages to explain the inter- and intraindustry distribution of employment among racial groups.

9. The operative assumption here is that workers may queue for new positions while currently employed.

REFERENCES


