

Social Exclusion and Ethnic Groups: The Challenge to Economics

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This article discusses the concept of social exclusion with an eye to assessing its utility in the study of ethnic and racial group inequality in the modern nation state. A brief review of the literature and some methodological discussion are offered. The article then examines race-based social exclusion in the United States, showing how race and ethnicity can inhibit the full participation of individuals in a society's economic life. The concept of social capital—the role of nonmarket relations in aiding or impeding investments in human skills—is stressed. The article concludes with a discussion of the legitimacy of race-based remedies for the problem of exclusion.

The concept of social exclusion has gained wide currency in recent years. But is this concept useful in studying racial and ethnic inequality? Social divisions between racial and ethnic groups—along economic, cultural, and political lines—are a central feature of public life throughout the world. The problem spans geographic and political boundaries and reflects universal social dynamics. Accordingly, much can be learned from comparing such tensions across national boundaries. Inequality and conflict between groups entail not just economic but also, and centrally, sociological and political factors.

Morals and ethics play an essential role in this area. Indeed, a cursory review of the recent literature on social exclusion reveals that normative matters are the primary concern of those invoking this concept. But social exclusion is a loaded term. Use of the term can be a political move—a bid to define the debate in a way that favors progressive, “inclusive,” and socially democratic policy. Concerns about the status of minorities, immigrants, women, the unemployed, and indigenous peoples fit nicely into this school of thought. This observation is not intended to signal a lack of sympathy for such political programs. A thorough analysis of the concept of social exclusion simply requires that one attend to its rhetorical as well as its social-scientific dimension.

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A Brief History of the Concept of Social Exclusion

Use of the term social exclusion arose in Europe in the wake of prolonged and large-scale unemployment that provoked criticisms of welfare systems for failing to prevent poverty and for hindering economic development. Silver (1994) stresses that economic restructuring in North American and European countries since the mid-1970s has given rise to such terms as *social exclusion*, *new poverty*, and *the underclass* to describe the consequent negative effects on the more vulnerable populations in these countries. Such phenomena also intensified the debate over the adequacy of universal social protection policies and fueled growing concern about the distributive fairness of employment and income patterns. Used first in France (Yepez-del-Castillo 1994), the concept spread quickly to the United Kingdom and throughout the European Union.

Social exclusion theorists are concerned with the dissolution of social bonds, the incomplete extension of social rights and protections to all groups, and the links between the idea of exclusion and more conventional understandings of inequality. They draw on theories of poverty, inequality, and disadvantage. In this context policies to aid the excluded have focused on subsidizing jobs and wages, providing housing, and responding to urbanization. The value added of these discussions derives from their focus on the multifaceted nature of deprivation and on analysis of the mechanisms and institutions that function to exclude people (deHaan 1998). The concept of social exclusion has encouraged scholars to consider simultaneously the economic, social, and political dimensions of deprivation. As Bhalla and Lapeyre (1997) stress, this concept encompasses the notion of poverty broadly defined, but is more general in that it explicitly emphasizes poverty's relational as well as its distributional aspects.

The focus on more sociological and institutional aspects of poverty among social exclusion scholars is evident in work on Europe. Evans (1998) explores the institutional basis of social exclusion in Europe, emphasizing the different theoretical approaches to social exclusion in France and the United Kingdom. Buck and Harloe (1998) explore the processes underlying social exclusion in London, arguing that it is best seen in terms of functioning of the labor market, access to state redistribution, and access to communal resources of reciprocity and mutual support. Similarly, Sen (1997) discusses the impact of various inequalities on individuals, focusing on the effect of unemployment on social exclusion, family crises, and lower skills, motivation, and political activity. He also discusses how massive unemployment may intensify racial and gender inequality and emphasizes that these costs will not be adequately reflected in market prices.

Although the theory and concept of social exclusion originated in developed countries, they have been applied extensively to developing countries. (The International Institute for Labour Studies has played a key role in introducing the idea of social exclusion into the developing country debate.) Properly done, such diffusion should attend closely to the context-dependent definitions and meanings involved with an idea like social exclusion. It certainly does not mean the same thing in every culture (de Haan 1998).

Rodgers, Gore, and Figueiredo (1995) is a representative collection applying the concept of social exclusion to developing countries. The papers in the volume look at both conceptual and empirical issues, covering such topics as social change in Africa, the exclusion of poor and indigenous peoples in Latin America, and patterns of inequality in India, Mexico, Russia, and elsewhere. The papers in Burki, Aiyer, and Hommes (1998), the proceedings of a 1996 World Bank conference on development in Latin America and the Caribbean, focus on poverty, inequality, and social exclusion in the region. Topics include rural poverty, the conditions of poor children, labor reform and job creation, the uneven coverage of social services, urban violence and the role of social capital, and the impoverishment of indigenous peoples in Ecuador. Thorne (1999) explores the social exclusion of indigenous peoples in Brazil and the impact on their physical and social environments of World Bank-sponsored development projects.

Limits of Social Science to Address Social Exclusion

Many approaches have been offered to mitigate social exclusion. Those that draw on the science of economics, however, have some shortcomings worth noting. Acknowledging these shortcomings is not to dismiss economic science as being irrelevant to the problem. Rather, it is a way of urging some caution and humility among economists as we apply our analytical tools to the profound moral and political problems raised by this phenomenon. Here I suggest some reasons for proceeding cautiously, by reflecting on factors that may limit the successful application of scientific ideas.

Is “Good Science” Good Enough?

That “good science” might prove to be an antidote to group hatred has been a hope of progressive social observers throughout the modern age. The story goes something like this. Antagonism toward a particular “race” may involve supposedly objective claims about the nature of people of that race-about their moral deficiencies or intellectual inferiority, for example. These claims can be subjected to scientific scrutiny and refuted. Confronted with these scientific arguments, rational people might then alter the beliefs on which their racial enmity rests. In this way sound science, a value-neutral enterprise, can produce the ethically desirable result of undermining racial antagonism by replacing prejudice and stereotypes with data and rigorous analysis.

This story is plausible, with ample historical precedent. It is only made more compelling when one recalls how totalitarian political regimes-particularly the Nazis-have used “bad science” to justify their racist political programs. If science falls under the influence of a political agenda and ceases to be an autonomous intellectual activity-if it becomes bad science-then it can abet the spread of racial hatred. Thus proper scientific argument can foster racial tolerance, while the abuse of science can lead to disturbing results.

Yet these outcomes are by no means guaranteed. Whether science is good or bad depends on its conformity with disciplines and methods that practitioners see as meeting their standards of evidence and argument. This essentially technical matter has relatively little moral content. In any event, scientific argument is a specialized discourse within a narrow community of investigators governed by strict norms and disciplines. Indeed, it is an indication that a field has matured as a science when its discourse takes on the quality of what might be called sociolinguistic closure. Thomas Kuhn (1962) stressed just this point in his influential work, *The Structure of Scientific Revolutions*.

On the other hand, hatred, enmity, antagonism, and conflict among racial groups are universal cultural phenomena, observable through the ages and still prevalent today. This is so despite the fact that science has more authority than ever before. In fact, although population geneticists declare that there are no “races” in an objective, biological sense, the social and political construct of race continues to reproduce itself across generations in many societies. Racial identity is a stubborn reality, one that has survived the demise of the 19th century anthropology from which it arose. So, as a cultural and historical matter, it seems safe to say that racial hatred will not be vanquished by the steady march forward of scientific discovery.

What matters most for dispelling racial hatred is not what scientists say to each other, but what the general public understands them to have said. To gain insight into the relationship between scientific argument and persistent racial conflict, one needs to focus on broad cultural appropriations of scientific understanding. Ultimately, the hope that science can dispel racial enmity is grounded in the belief that the authority of science can be conferred on a particular kind of cultural work, that good science can make people more tolerant of human difference, more open-minded, less parochial, less nationalistic, less chauvinistic, less certain about inherited cultural verities. Gauging the potential for scientific argument to have this influence requires attending to the interpretive discourses through which the results of scientific work are diffused into the larger culture. Unlike arguments within scientific communities, this cross-boundary discourse is inherently, inevitably political. As such, whatever the quality of the scientific work informing this interpretive discourse, there can be no certainty that preexisting racist ideology will not contaminate that discourse.

Does this mean that the age-old conundrum of intergroup conflict is, at its base, a problem for the humanities, not the sciences? True, humanistic inquiries are constrained by facts about the world that only structured scientific inquiry can uncover. Quantitative magnitudes cannot simply be set to whatever value one would like. But in the end, when we try to find ways to dispel racial hatred, we are engaged in an enterprise of narration, interpretation, and moral justification.

In this connection it is crucial to note that what we say about “the way society works” is itself a social datum, powerfully influencing the workings of society. For example, “capitalism is superior to socialism” may be true about a world inhabited by the kinds of people produced by late 20th century capitalism, but it need not be a law of nature, true for all times and places. The narrative rationalizations constructed

by and for the inhabitants of our liberal, democratic, capitalist states partly serve to make that statement true. In this respect, today's much-derided Marxists are right to insist that while the consciousness of humans determines their existence, it is also true that the conditions of humans' social existence help determine their consciousness. (Roemer 1981, pp. 53-54, provides a typical formulation of this doctrine.)

When our formal methods in the social sciences seduce us into believing that we are engaged in a value-neutral enterprise—one with a clear separation between subject and object, as in physics or chemistry—I believe we are gravely misled. Formal rigor cannot substitute for taking responsibility for the inescapable normative dimensions of our work.

This methodological point can be illustrated with an example from my own discipline, economics, where the central metaphor is Adam Smith's unseen or invisible hand. The preeminent modern exponent of this idea was Friedrich von Hayek, who introduced the notion of spontaneous order to refer to the social products that emerge from human interaction but not from human design—the order that knows no author. As Hayek (1994, p. 56) put it, “that the division of labor has reached the extent which makes modern civilization possible we owe to the fact that it did not have to be consciously created but that man tumbled on a method by which the division of labor could be extended far beyond the limits within which it could have been planned.” Spontaneous order thus refers to the unconscious collaboration of individuals through the market, leading to the solution to problems of resource allocation that would have to be consciously solved in a planned system.

Hayek's fundamental point, therefore, is that such a consciously planned solution is impossible in practice, and our best course is to rely on “spontaneous order.” This is obviously a deeply political claim. It can be profoundly persuasive as a description of many economic situations. Yet, as the legal scholar Cass Sunstein (1996) has observed, for Hayek the economic argument was less important than the moral one: spontaneous order promotes his ultimate value—freedom. We need not go far to see the significance of these ideas in our daily lives. Are these scientific, philosophical, or religious claims? Are they amenable to refutation on the basis of evidence? When we hear debates about the limits of the welfare state, we can discern this Hayekian metaphor of spontaneous order, invoked by advocates who see this as a “truth” about society established through the scientific study of history. Which is to say that it is not only Marxists who fall prey to what Karl Popper (1957) called the “historicists' fallacy.”

Is Economic Analysis Thorough Enough?

All this supports that point that economic science without serious political reflection is a conceptually impoverished framework in which to debate social policy. In the particulars of governing, the economist's view of the world can be narrow and reductive. Policymaking involves more than simply providing technical solutions to the problems of governance. It also involves taking symbolic actions that express a people's values and beliefs. And it is about doing justice. As any good politician

knows, a policy's cost-benefit effect may pale next to this communicative role. Yet what might be called the expressive content of public action—the message to the political community conveyed by the letter of a law, the behavior of a bureaucracy, or the public utterances of a political leader—has no place in conventional economic models.

For example, criminals are punished not simply to deter crime but also to signal a polity's collective abhorrence of the offending act. Conversely, punishment is sometimes mitigated or forgone—even though that might blunt the deterrent effect—to show mercy or do justice. In no jurisdiction in the world does the political viability of capital punishment turn on whether it, in fact, deters murder. The more compelling argument over the state-sanctioned killing of criminal offenders begins by asking, "What manner of people are we, who destroy human life in public rituals of revenge?" This most decidedly is not a question about incentives.

To take another example, the conservative drift of US. social welfare policy in recent years was driven primarily by the desire of many Americans to state, unequivocally, what they can rightly require of public assistance recipients. Whether we like it or not, for most people such beliefs—about who deserves to be helped and how we should separate public from private responsibilities—have very little to do with analytical judgments. Indeed, even with experienced analysts one often finds the influence running in the opposite direction—from basic value commitments to conclusions about cause and effect.

Conventional economic analysis has little to say about this kind of thing, starting as it does from the assumption that individual preferences among alternative courses of action are given and lie beyond the scope of respectable intellectual discussion. An alternative view, however, takes the principal objective of policy to be altering individuals' views about how to live their lives. That is, the expressive content of public action can also serve a pedagogic function—by showing citizens how to lead better lives, as individuals and together within the political community. This too is a consideration missing from the economist's conceptual toolkit.

But there is more than a conceptual poverty of economic discourse (and much other social science). There is a moral impoverishment as well. This seems an important point to raise in a discussion of social exclusion, which, as I have emphasized, unavoidably entails moral concerns. The accounts of human behavior on which we social scientists rely are clinical and abstract. The human beings in these accounts are soulless creatures—utility-maximizing buyers and sellers, behaviorally conditioned violators of the law, genetically predisposed substance abusers. This brand of social science propounds theories about human action that omit any consideration of what most makes us human—our awareness of our mortality and our fitful, uncertain, often unsuccessful attempts to give our brief lives meaning that transcends our pitifully brief existences. This omission has left social scientists less equipped to prescribe remedies for the most serious problems confronting our societies.

Consider an example. Much has been written by U.S. behavioral scientists in recent decades about how parents discipline their children and about the consequences of such behavior for the sociability of young people. Criminologists have

argued that the regular provision of modest positive and negative reinforcements for good and bad actions lowers the risk of antisocial behavior as a child enters adolescence. Once allowed to develop, these antisocial behaviors are alleged to be difficult to change. So, if the character-shaping tutelage of vigilant parents is missing in early childhood, the young adult who emerges may turn out to be incorrigible.

This is a matter of no small policy significance because, in the most disadvantaged quarters of many societies, millions of children grow to maturity in the absence of conscientiously applied parental discipline. Yet many people in various civic institutions work in the most marginal communities to turn these “incorrigibles” in a different direction. These inspired activists confront young adults who did not receive proper nutrition in infancy, who experienced insufficient verbal stimulation as toddlers, who never learned to internalize the difference between right and wrong, and who have committed the kinds of acts that incorrigible, undisciplined adolescents commit. Yet despite all that, many young people are considerably aided by the activists’ interventions.

What is interesting to me as a social scientist is the antideterministic character of this way of thinking. Most social science theories say, in effect, that material conditions mediated by social institutions cause us to behave in a certain way. Yet surely it is more plausible to hold that material and institutional givens can at best establish only a fairly wide range in which behavior must lie and that specific actions in this range depend on factors of motivation, will, and spirit—that is, on factors having to do with what a person takes to be the source of meaning in life, with what animates that person at the deepest level.

If this is correct, then the crucial implication is that the behavior of freely choosing, socially situated, spiritually endowed human beings will in some essential way be unpredictable, even mysterious. For if human behavior is largely a consequence of what people understand to be meaningful, then the social interaction and mutual stimulation that generate and sustain patterns of belief in human communities become centrally important. But these processes of persuasion, conformity, conversion, myth construction, and the like are open-ended. They are at best only weakly constrained by material conditions.

That is, while what we believe about the transcendent powerfully shapes how we act in a given situation, these beliefs are not a necessary consequence of our situation. We can always agree to believe differently or more fervently—particularly if those with whom we are most closely connected are undergoing a similar transformation. Religious revivals and reformations can sweep through our ranks and change our collective view of the world almost overnight. We can be moved to make enormous sacrifices on behalf of abstract goals. As former Czech President Vaclav Havel (1992, p. 145) has said, “the essential aims of life are present naturally in every person. In everyone there is some longing for humanity’s rightful dignity, for moral integrity, for free expression of being and a sense of transcendence over the world of existences.”

I admit to being deeply moved by this fact about human experience—that we are spiritual creatures, generators of meaning, beings that must not and cannot “live by

bread alone.” One can readily see the power for good-and for ill-of communal organization acting through collectivities that share understandings about the meaning of their lives. This all-too-human search for meaning and significance often results in ethnic or racial solidarity and its complement-intergroup conflict and antagonism. Any social science that does not treat this aspect of the human drama with utmost seriousness will fail to do justice to its subject of study and to the national communities that look to it for advice on a host of social ills.

“Race” and Social Exclusion in the United States

I now wish to carry forward this discussion in the context of a specific example—that having to do with “race” in the United States. I rely on this case because it is most familiar to me, and permits me to speak with some specificity about the mechanism of exclusion and the extent to which factors of race, ethnicity, and identity are an important aspect of the problem. In doing so, however, I want readers not to lose sight of the fact that similar processes are at work in many other social contexts in both developing and industrial nations. I see the value of the discussion that follows, then, as being suggestive of the more general dynamics underlying social exclusion in many societies.

Broadening the Focus beyond “Discrimination”

The economic literature on discrimination tends to focus on the different treatment of individuals-based on race, gender, or ethnicity-in labor, credit, and consumer goods markets. This is obviously a serious matter, and there is ample evidence in the United States and elsewhere that such disparities are real and quantitatively important as a source of intergroup economic inequalities (Modood and others 1997; Wilson 1996). Nevertheless, when considering ethnic group inequality, economists should look beyond what happens in markets.

Of course, economists tend to focus on how markets work or fail. Economic theory suggests that discrimination based on gender or racial identity should be arbitrated away in markets of competitive sellers, employers, and lenders. But such discrimination is readily observed in society, and this anomaly attracts attention. Critics of neoclassical economics seize on it, and defenders of that orthodoxy seek to explain it away. Thus evidence that wage differences between the races or sexes have declined, after controlling for worker productivity, is supposed to vindicate the economist’s belief in market forces.

This way of approaching the problem is too narrow. With wages, for example, the usual focus is on the demand side of the labor market-employers either have a “taste” for discrimination or use race as a proxy for unobserved variables that imply lower productivity for minorities. The primary normative claim in this approach is that such discrimination is morally offensive, a legitimate object of regulatory intervention, and a significant contributor to racial and gender inequality. But implicit in this claim is the notion that if inequality were due to supply-side differences-in the

skills presented to employers by blacks and whites, for example-the resulting disparity would not raise the same moral issues or give a comparable warrant for intervention. There is a comparable view in housing markets-that residential segregation induced by the discriminatory behavior of realtors is a bigger problem than segregation that comes about because of the freely made decisions of market participants.

I propose a shift in emphasis. In the United States market discrimination against blacks still exists, but such discrimination is not as significant an explanation for racial inequality as in decades past. This calls into question the conventional wisdom on equal opportunity policy-that eliminating racial discrimination in markets will eventually resolve racial economic inequality. Much evidence supports the view that the substantial gap in skills between blacks and whites is a key factor accounting for racial inequality in the labor market. Yet this skills gap is itself the result of social exclusion processes that deserve explicit study and policy remediation. The gap reflects social and cultural factors-geographic segregation, deleterious social norms and peer influences, poor education- that have a racial dimension (Cutler and Glaeser 1997; Akerlof 1997). Group inequality such as that between blacks and whites in the United States cannot be fully understood, or remedied, with a focus on market discrimination alone.

There is a long history of justified concern that focusing less on employer discrimination and more on skill differences could foster dangerous stereotypes and undermine arguments for policies to narrow the racial wage gap. In the decade after U.S. antidiscrimination laws were enacted in the 1960s, researchers like Wilson (1978) who began to find evidence of a decline in labor market discrimination were sometimes criticized for giving aid and comfort to political conservatives. But this reaction accepts the implicit normative assumption that racial inequality based on skill disparities is not as important a moral problem, warranting as vigorous a corrective intervention, as inequality based on wage discrimination in the labor market. That assumption is not compelling-and should be challenged.

The Importance of Social Networks

Economic analysis begins with a depersonalized agent who acts more or less independently to make the best of the opportunities at hand. This way of thinking has been fruitful for economics, but it cannot fully capture the ways that racial inequality persists over time. Individuals are embedded in complex networks of affiliations: they are members of nuclear and extended families, they belong to religious and linguistic groupings, they have ethnic and racial identities, they are attached to particular localities. Each individual is socially situated, and one's location within the network of social affiliations substantially affects one's access to various resources.

Opportunity travels along these social networks. Thus a newborn is severely handicapped if its parents are uninterested in (or incapable of) fostering intellectual development in the first years of life. A talented adolescent whose social peer group disdains the activities that must be undertaken for that talent to flourish is at risk of

not achieving his or her full potential. An unemployed person without friends or relatives already at work in a certain industry may never hear about the job opportunities available there. An individual's inherited social situation plays a major role in determining economic success.

In earlier work I have suggested an extension of human capital theory designed to provide a richer context in which to analyze group inequality (Loury 1977, 1981, 1987). This theory builds on observations about the importance of family and community background to individual achievement. A person's investment in productive skills depends on position in the social structure, because imperfect capital markets for education loans necessitate reliance on finance through personal ties, social externalities are mediated by residential location and peer associations, and psychological processes shape a person's outlook on life. As a result familial and communal resources-social and cultural capital-explicitly influence the acquisition of human capital. In this view an important part of racial inequality arises from the way that geographic and social segregation along racial lines makes an individual's opportunities to acquire skills depend on skill attainments by others in the same social group.

The literature offers fairly strong support for this view of the lagging economic position of blacks in the United States. Akerlof (1997) provides a theoretical argument, supported by a wealth of evidence from social anthropology, for the notion that concerns for status and conformity are primary determinants of education attainment, childbearing, and law-breaking behavior. Anderson (1990) provides an ethnographic account of life in inner-city Philadelphia, where peer influences significantly constrain the acquisition of skills by adolescents. Waldinger (1996), in a study of immigrant labor in New York City, concludes that poor blacks suffer less from the racism of employers than from their lack of access to the ethnic networks through which workers are recruited for jobs in construction and service industries. Cutler and Glaeser (1997), comparing U.S. cities with varying concentrations of different races, find blacks to be significantly disadvantaged by residential segregation. The authors estimate that a 13 percent reduction in segregation would eliminate about one-third of the black-white gap in schooling, employment, earnings, and unwed pregnancy rates. Mills and Lubuele (1997, p. 735) argue that a central problem for students of urban poverty is explaining why "low income black residents actually or potentially eligible for jobs that have moved to suburbs [have] not followed such jobs to the suburbs."

All this suggests the inadequacy of seeing discrimination or antidiscrimination efforts only within a market framework. Conventional economic discrimination against minority groups is rarely the primary source of group disparities. Moreover, available methods for fighting such discrimination have little power to reduce the economic gap between groups. Given the information asymmetry between employers and enforcement agents, there are limits to how aggressive antidiscrimination policy can be before significant efficiency costs arise (Coate and Loury 1993a). If the concern is economic inequality between groups, then looking mainly through the lens of wage and price discrimination is unlikely to bring the problem into focus.

In the United States there is another, more fundamental reason to broaden the discussion of group inequality beyond market discrimination. In cities across the country and in rural areas of the Old South the situation of the black underclass and, increasingly, of the black lower working class, is bad and getting worse. This is certainly a race-related problem. But the plight of the underclass should not be seen as another (albeit severe) instance of economic inequality, American-style-conventional market discrimination is only a small part of it.

These black ghetto-dwellers are a people apart, susceptible to stereotyping, ridiculed for their cultural styles, socially isolated, experiencing an internalized sense of helplessness and despair, with limited access to communal networks of mutual assistance (Anderson 1990; Wilson 1996). Their purported criminality, sexual profligacy, and intellectual inadequacy are frequent objects of public derision. They suffer a pariah status (Goffman 1963). This is social exclusion with a vengeance. It does not require extraordinary powers of perception to see how this degradation relates to the history of black-white race relations in the United States.

Here is where the implicit normative model that accompanies the emphasis on market discrimination is most seriously flawed. Given social segregation along racial lines, the effects of past discrimination can persist over time by adversely affecting the skills acquired by the offspring of those discriminated against. Moreover, discrimination in one market can leave its victim less well prepared to compete in another. Ethically, the cumulative impact of an act of discrimination-over time and across markets-should be no less problematic than was the original offense.

The U.S. civil rights struggle, which won for blacks the right to be free of discrimination, failed to secure a national commitment to eradicating the effects of discrimination that had already occurred. When those effects manifest themselves in patterns of behavior among poor blacks that lead to seemingly self-imposed limits on their acquisition of skills, many observers who think only in terms of market discrimination argue that society is not at fault. This is the grain of truth in the insistence of some observers that, while overt racism was the problem in the past, behavioral differences lie at the root of racial inequality in today's United States (Thernstrom and Thernstrom 1997).

But the deeper truth is that, for quite some time, the communal experience of the descendants of African slaves has been shaped by political, social, and economic institutions that by any measure must be seen as oppressive. When we look at "underclass culture" in the U.S. cities of today, we see a product of that oppressive history. In the face of the despair, violence, and self-destructive behavior of these people, it is morally obtuse and scientifically naive to argue, as some conservatives do, that if "those people" would just get their acts together we would not have such a horrific problem. Yet for the same reason it is a mistake to argue, as some liberals do, that the primary causes of continuing racial inequality are ongoing market discrimination.

Significant market failures, having little to do with economic discrimination as conventionally understood, play a powerful role in perpetuating racial inequality. Consider the problem of residential segregation (Massey and Denton 1993). Compelling theo-

retical arguments (Schelling 1978, ch. 4) and recent computer simulations (Wayner 1998) show that even a mild desire among people to live near members of their own race can lead to a strikingly severe degree of segregation. Adding class concerns to these models only strengthens their predictions of geographic clustering. Moreover, residential location is not the only venue in which segregation occurs. Linguists studying speech patterns in urban centers have uncovered strong evidence of race and class separation (Labov 1982). Ethnic group differences in communication styles seem to play an important role in accounting for the adverse labor market outcomes of low-income blacks (Lang 1986; Cornell and Welch 1996; Charles 1997; Wilson 1996).

Even though social segregation and exclusion based on race and ethnicity may be a natural result of nondiscriminatory market interactions, the consequences could still be morally disturbing. And even if those consequences manifest themselves mainly on the supply side of the labor market, a strong case could still be made for doing something about them. That case need not be based solely on equity grounds. Indeed, once it is admitted that preferences and investment in skills of market participants are influenced by social and psychological externalities, the conventional results in welfare economics on the efficiency of market outcomes are no longer generally valid.

As an example of a social externality, consider the dissonance associated with holding values at some distance from one's peers. If groups help sustain norms, with individuals looking to the apparent preferences of their peers to infer appropriate behavior, then there is a possibility of multiple self-sustaining norms (Akerlof 1997). Generalizations about differences among groups in attitudes toward work, family life, criminal participation, and the like may thus be empirically correct but morally irrelevant. Moreover, with multiple self-sustaining norms, acting to shift the norm can lead to Pareto improvements in welfare (Sunstein 1996).

A psychological externality can occur when individuals draw on their own encounters with the market, and on the encounters of others to whom they are socially connected, to reach conclusions about, say, the extent to which effort accounts for market rewards—as opposed to ability or luck. In this scenario the degree to which an individual believes that bad personal outcomes are due to inadequate personal “effort” can depend on the aggregate experience of other members of the group. Self-fulfilling pessimism about the returns to effort for certain activities, like academic pursuits, are possible in a model like this (Steele 1992).

I am not suggesting that these social and psychological externalities are the primary explanation for racial inequality. But they are not implausible accounts of how social segregation might support behavior patterns that lead to skill gaps between racial groups. Furthermore, these scenarios (and others that could be sketched) suggest that policies directed at reducing skill gaps might be just as morally required, and even more effective, than policies directed against such market discrimination as may still exist.

“Exclusion” in the U.S. Inner City

Most social analysis of “race” in U.S. life goes on at a macroscopic level, citing the changing population composition, the loss of jobs in core industries in central cities, and

the incidence among blacks and whites of various indicators of disadvantage. The perspective of these analyses is aggregative and systemic, generalizing from broad patterns. University of Pennsylvania sociologist Elijah Anderson (1990, 1999) takes a different approach, and his work is worthy of close attention. His research method involves careful and extensive observation of the face-to-face interactions of inhabitants of inner-city neighborhoods, with due attention to the larger economic and political context in which these encounters occur. His work provides a participant-observer's account of social life in a U.S. urban community mixed along racial and class lines. This is ethnographic work in the fine tradition of William Whyte's *Street Corner Society* (1943) and Elliot Liebow's *Tally's Comer* (1967). Surpassing these other works, however, Anderson's great achievement is to weave together the data of ethnographic observation with a coherent theory of how people encounter each other in public places.

In *Streetwise* (1990) Anderson builds on the work of the great sociologist Erving Goffman's *The Presentation of Self in Everyday Life* (1959). Anderson presents a theory revolving around the problem of "decoding" that all social actors must solve when meeting others in public (see, for example, the related work in economics of Cornell and Welch 1996). One cannot be entirely certain of the character or intent of "the other"; assessments have to be based on the processing of information gleaned from an examination of the visible behavior of those being encountered. The context of the meeting-time of day, physical setting, whether the individual is alone or in a group, and so on-will affect how these external clues are read. As an encounter unfolds, communication between the parties, ranging from a meeting of eyes (or the avoidance of same) to an exchange of greetings, permits further inferences to be drawn. Race and ethnic identity-often easily and instantly ascertainable characteristics-can be expected to play a large role in this game of inference. Social class-as conveyed by dress, manner, occupation, speech-will also be important. An individual's experience of the social environment will be governed by how those encountered in public negotiate these meetings.

Anderson describes in elegant detail the rules of public etiquette, norms of mutual expectation, conventions of deference, methods of self-protection, strategies of turf-claiming, signals of intention, and deciphering of cues, mistakes, biases, bluffs, threats, and self-fulfilling prophecies implicit in the interactions he observes. He identifies social roles, public routines, and behavioral devices common to the encounters he chronicles. All these routines are key features of how racial groups interact in the modern U.S. city.

More recently, Anderson's (1999) work has focused on face-to-face social interactions in a low-income, racially segregated African-American community. His book, *The Code of the Streets*, presents the results of this investigation. The analysis relies heavily on the concept of "the streets," the social environment where people live and interact. These are poor communities-dilapidated, dirty, noisy, and unsafe. But there is a high degree of sociability: the neighbors know each other, and people are often in the street. Most jobs are menial, with low wages. Drugs are a major source of income. Welfare, aid from the state, is also important. Men, especially in the roles of husbands and fathers, are scarce.

These are tough places. Money is in short supply. The games and scams that people play can lure and ensnare those who are not streetwise. One boy may try to take another's sneakers or his jacket. Another boy may flaunt his gold chain, wearing it openly, daring someone to try to take it as a way of signaling his toughness. There is an air of incivility, especially at night. Some of the older residents are distressed by that, more committed to values of "decency" than are many of the young. But their influence in setting the tone of the community seems to be waning.

There is what one might call, and this is my term, a "moral ecology" of the streets. One of the most important insights from Anderson's work is that ghetto neighborhoods are highly heterogeneous places (for further evidence in this regard, see Newman 1999). There are people of different generations, different family structures, different degrees of economic stability. Clashes of values result from this heterogeneity. "Street" versus "decent" values is how Anderson poses the opposition. There is a complex interaction or tension between these value systems, especially for the young. Young men and women, boys and girls, want to be thought of as "hip," not socially "lame." And yet, being hip may mean taking on "street values."

Adolescent peer groups are crucial in Anderson's account. Children sometimes raise themselves. There are many single parents, and even when parents are married, they are working and away from home much of the time. Children spend a lot of time on the street. They may be more influenced by their peer group than by what goes on in the family, especially in families driven by so-called street values. Nevertheless, there is a culture of decency, connected with close, extended families: families where the work ethic is important, where getting ahead is important, where religious influences remain. Parents are seen struggling for the hearts and minds of their children as the tensions between decent and street values exert influence.

Role models of decency are in short supply. The "old heads" about whom Anderson wrote in *Streetwise*-mature, stable, and influential residents looked up to by the young-are not as important in these communities as they once may have been. The new role models-young drug dealers-are increasingly influential, and the scarcity of work is taken to be central to this transformation. As Anderson (1999, p. 325) writes:

A vicious cycle has thus been formed. The hopelessness many young inner-city black men and women feel, largely as a result of endemic joblessness and alienation, fuels the violence they engage in. This violence then serves to confirm the negative feelings many whites and some middle-class blacks harbor toward the ghetto poor, further legitimizing the oppositional culture and the code of the street for many alienated young blacks. But when jobs disappear and people are left poor, highly concentrated, and hopeless, the way is paved for the underground economy to become a way of life, an unforgiving way of life organized around a code of violence and predatory activity.

Moreover, Anderson finds in his ethnographic investigations that without work, stable family relations are no longer a credible source of a man's self-esteem. Young

men come to emphasize sexual prowess and conquest, in reference to their male peer group, as the source of their sense of worth. They congregate on street corners boasting of their exploits. In this way they build each other up by boasting of what they have managed to gain in their interactions with young women. "Casual sex with as many women as possible, impregnating one or more and getting them to have your baby, brings a boy the ultimate in esteem from his peers and makes him a man. Casual sex, therefore, is fraught with social significance for the boy who has little or no hope of achieving financial stability and, hence, cannot see himself taking care of a family" (Anderson 1999, p. 177). This becomes a "game," a game in which girls are lured by older boys who promise love and marriage. Boys want prestige among their peers, lots of sex, lots of women. Girls want what Anderson calls "the Dream." Girls dream of a husband, of security, of the middle-class life.

Sex often results in pregnancy in this world. Girls may not actively be trying to prevent it. With the dream of a mate, a girl may be indifferent to the possibility of pregnancy, even if it is not likely that pregnancy will lead to marriage. A large part of the girl's identity is provided by the baby and the peer groups among the girls in these communities. Becoming a mother can, Anderson says, be a strong play for authority, maturity, and respect in these communities. "The baby may bring her a certain amount of praise, (in the past) a steady welfare check, and a measure of independence. ...As she becomes older and wiser, she can use her (welfare) income to turn the tables, attracting her original man or other men" (1999, p. 178)

The girl's outlook is crucial to describing what her behavior will be. Important factors include her education, her self-respect, her wisdom, and whether she has had mentoring from "decent" role models within "decent" families, where there may be a husband and wife present or a strong single mother getting support from her extended family. The parents may be able to instill some sense of hope, a positive sense of the future, a healthy self-respect. Siblings who have succeeded may also help to achieve this. Ministers and teachers can play this role by communicating the expectation that girls do something with their lives.

But where such expectations are not communicated, where some sense of hope or possibility about the future is not present, the prospect of having a baby outside of marriage, far from being regarded as a negative, may be seen as a positive. And that can be reinforced not only by the financial benefits that might come from the state, meager as they are, for support for the child, but perhaps more important in the world being described, by the status these girls gain with their peers, by the extent to which they are affirmed in the peer group for having the child.

Positive Discrimination: Group-Based Remedies for Social Exclusion

What should be done about the inequality that arises due to exclusion from opportunities for human development associated with race and ethnicity? Some observers suggest that special assistance should be targeted to individuals in the excluded groups—that, in effect, they should be the beneficiaries of "discrimination" in their favor, to offset the effects of historically practiced discrimination against them. This

policy is controversial. Many critics object that “two wrongs do not make a right”—that while we cannot undo the exclusionary practices of the past, we should not add to this injustice with present-day discrimination, however noble its purpose. I take issue with this position, and in the discussion that follows explain how remedial discrimination can be justified.

Should “Co/or Blindness” Be the Goal?

There are two key distinctions to emphasize in the debate about whether distributive goals intended to reduce group inequality should be pursued through “positive discrimination”: instruments are not ends in themselves, and the public use of group-based instruments does not determine whether citizens embrace group-based identity and consciousness. The color blindness sought by antipreference crusaders deals with the instrumentality in public action (and, admittedly, there may be reasons for these instruments to be color blind in some cases). But equating such a consideration with whether the society is color blind entails a serious conceptual error. Accordingly, I reserve the term *color blind* to refer to eschewing the use of race when implementing a policy and use a different term—*color neutral-to*—to indicate unconcern about race when determining the goals of policy action. For example, if a school admissions or employment selection rule depends only on traits that are identity-independent, it is a color blind policy—for it can be administered in the absence of racial information.

Color neutrality is morally the more fundamental notion, for it assesses a policy in terms of its consequences for the members of racial groups. In the United States the so-called War on Drugs has been color neutral with a vengeance. But has it been just? University of Minnesota criminologist Michael Tonry, in his book *Malign Neglect* (1995), suggests not. In fact, Tonry denounces the blatant color neutrality of U.S. drug policy—a policy adopted without any apparent concern for its racial impact.

His point, expressed by means of an analogy, is something that everybody knows: prostitution takes place “by the docks.” One does not look for prostitutes on the streets of wealthy communities, though certainly many of their patrons live there. One looks by the docks. Likewise, where else but in the bombed-out, abandoned buildings of undersocialized and disconnected communities of despair, where else but among the brutalized and oppressed, where else but among the underclass would one expect illicit drug traffic to take place? Thus, if the government undertakes as a matter of policy to incarcerate everyone found trafficking drugs on the streets, it is a predictable consequence that the results will be racially disparate—massively so. Given that this is knowable, should the government decide not to attend to it, Tonry argues, it will have practiced a form of malign neglect. But in so doing, no color blind norms have been violated. The policy can be administered without racial information.

This example shows that the key moral issue is often about color neutrality, not color blindness. The deepest ethical questions bearing on racial group inequality are

not about whether instruments of public action use racial information, but about whether appropriate concern has been taken for the disparate racial consequences of what may be color blind actions. Yet those who insist on color neutrality (as a corollary of their commitment to color blindness) avoid making the most relevant arguments when the question is framed entirely in terms of whether administrative procedures are color blind. They escape having to explain why society should be indifferent if one-third of young black men in inner cities are in prison. They forgo the need to defend a regime in which the hedonism of a privileged middle class engenders a public response that imposes most of its costs on a vulnerable and weak minority population- balancing the cultural budget on the backs of the poor, so to speak. They avoid the need to justify why historically determined racial stigmas should be reproduced in our enlightened time through race-neutral public action.

Reasons to Care Explicitly about Group Inequality

RACIAL IDENTITIES MATTER. In 1996 the conservative U.S. federal judge Richard Posner, ruling in the case of *Wittmer v. Peters*, upheld the preferential hiring of a black prison guard in an Illinois boot camp for young offenders. He argued that, with an inmate population that was three-quarters black, and given that “aversive training” methods familiar to Marine enlistees were to be used at the boot camp, the state might have a compelling and thus constitutionally justifiable interest in providing for racial diversity in the camp’s officer corps.

Faced with such examples, supporters of color blindness invariably reply that race here simply serves as a proxy for some nonracial trait-like the ability to win the trust of black inmates. But this response is insufficient, for the crux of the matter is not the state’s use of race as a proxy for some desirable characteristic in an employee, but rather the tendency of some citizens to view the world through a racially tinted lens. In the boot camp young inmates are bullied mercilessly by guards who either have their best interests at heart or do not. If black youths refuse to believe that this bullying is for some useful purpose when none of the guards are black, then successful training requires a racially diverse staff. This is true no matter how sophisticated the prison personnel office may be at discovering, without using race, whether an applicant truly cares about his prospective charges.

GROUP IDENTITY CONVEYS INFORMATION. Another reason to care about racial inequality is that race is an important source of information in many situations. Race is an easily observable trait that is correlated with some hard to observe traits about which employers, lenders, police officers, and others are concerned. Evidence from employer interviews indicates that both black and white employers are reluctant to hire young black urban males who exhibit lower-class behavioral styles. Racial identity is also used as information by police in a variety of ways. Some evidence indicates that it shapes their law enforcement decisions. Indeed, the dramatic disparity between races in rates of arrest and incarceration for criminal offenses must be taken

into account when discussing racial differences in the labor market experiences of males, thought the direction of causality is difficult to untangle.

Racial-statistical discrimination can be quite damaging to both the efficiency of market allocations and to equity. This is due to the real possibility that the empirically valid statistical generalizations lying at the heart of such discrimination can become self-fulfilling. There is an information externality present whenever decisionmakers take actions based on group inferences. It is not difficult to provide straightforward economic accounts of how this process might work in a variety of contexts.

Suppose only a few taxi drivers will pick up young black men after a certain hour. Given that behavior by taxi drivers as a class, it is plausible through a process of adverse selection that the “types” of young black men attempting to hail taxis during those hours include a large portion of potential robbers. This makes it rational to avoid them. But if most drivers willingly picked up young black men, it might induce a less threatening set of black males to select taxi transportation after dark, confirming the rationality of the drivers’ more tolerant behavior.

Or, suppose employers believe that blacks are more likely to be low-effort trainees than are whites. They will set a lower threshold for blacks on the number of mistakes needed to trigger dismissal because they will be quicker to infer that black workers have not tried hard enough to learn the job. But knowing that they are more likely to be fired for making a few mistakes, more black employees may elect not to exert high effort during training, thus confirming the employers’ initial beliefs.

Or, if car dealers believe that black buyers have higher reservation prices than do whites, dealers will be tougher when bargaining with blacks than with whites. Given this experience of tough bargaining, a black buyer anticipates less favorable alternative opportunities and higher search costs than does a white buyer, and so may rationally agree to a higher price. This behavior confirms the dealers’ initial presumption that racial identity predicts bargaining power.

Such stories have a ring of truth about them. The key to all these examples is their self-reinforcing nature: they begin with racial beliefs that then bring about their own statistical confirmation. These examples are not unrelated to historical problems of race as they have developed in U.S. society. Race is an easily discernable characteristic that has salience in our culture, making it operate powerfully in many venues because it is common knowledge that people are taking it into account.

SOCIAL NETWORKS (AGAIN) AFFECT OPPORTUNITIES . Yet another reason to care about group inequality is that race influences the social networks open to individuals, and these networks have a major effect on individuals’ opportunities. Two observations are key to this argument. First, all societies exhibit significant social segmentation. People make choices about whom to befriend, whom to marry, where to live, to which schools to send their children, and so on. Factors like race, ethnicity, social class, and religious affiliation influence these choices of association.

Second, the processes through which individuals develop their productive capacities are shaped by custom, convention, and social norms and are not fully respon-

sive to market forces or reflective of people's innate abilities. Networks of social affiliation are usually not the result of calculated economic decisions. Nevertheless, they help determine how resources important to the development of people's productive capacities are made available to individuals.

One can say that adult workers with a given degree of personal efficacy have been "produced" from the "inputs" of education, parenting skills, acculturation, nutrition, and socialization to which they were exposed in their formative years. While some of these inputs can be bought and sold, some of the most crucial "factors of production" are only available as by-products of social affiliation. Parenting services are not sold on the market, but accrue from the social relations between custodial parents and their child. The allocation of parenting services among a prospective generation of adults is thus the indirect consequence of social activities undertaken by members of the preceding generation. An adolescent's peer group is similarly a derivative consequence of social networking.

Though this is an artificial way of thinking about human development, the artifice is useful-because it calls attention to the critical role of social and cultural resources in the production and reproduction of economic inequality. The relevance of such factors, as an empirical matter, is beyond doubt. The importance of networks, contacts, social background, family connections, and informal associations has been amply documented by students of social stratification.

I can put this somewhat less abstractly. There is one view of society in which we are atomistic individuals, pursuing our paths to the best of our abilities given the opportunities available in the marketplace. Some of us work harder, some are luckier, some are more talented than others, so the outcomes are not equal. But this is a false, or at least incomplete, view of how society works. The fact is that we are all embedded in a complex web of associations, networks, and contacts. We live in families, we belong to communities, and we are members of collectivities of one kind or another. We are influenced by these associations from the day we are born. Our development-what and who we are and become-is nourished by these associations.

It is a severe disadvantage to be born to parents who are not interested in your development. It is a great impediment for a talented youngster to be embedded in a social network of peers whose values do not affirm the activities the youngster must undertake to develop that talent. Children do not freely choose their peers. To a significant degree they inherit these associations as a consequence of where they live, what their parents believe, what social group they belong to, and so on.

In U.S. society, given our history, racial identity is an important component of the complex of social characteristics that define the networks in which we live. Opportunity travels along these networks. We learn about what we can do with our talents from the conversation over dinner, from the family friend who says "your kid should do this," from the business owner who offers a summer job. These kinds of opportunity-enhancing associations are not just out there in the marketplace to be purchased by the highest bidder. Nor are they allocated randomly to create some kind of level playing field. They are, rather, the product of a racially conditioned social structure. And when they work to systematically hold back a group of people

from participating in a society's venues of human development, that society has failed to achieve racial justice.

Is Racial Justice a Coherent Idea? Philosophical Considerations

What do I mean by racial justice? Suppose that there are certain norms of social justice-requiring, for example, that the distribution of opportunities to develop talents affords some minimal threshold of possibility for all people and gives rise to economic and social arrangements that avoid unfair and exploitive relationships. If, because of race relations in U.S. society, members of certain groups are disproportionately excluded from the benefits of otherwise socially just institutions, if they do not have the chance to achieve their full human potential, if they are stigmatized and do not enjoy the dignity and social standing presumptively extended to others-if, in other words, welfare rolls are oversubscribed by blacks, if the places of hopelessness and despair in society are occupied predominantly by blacks, if one can put a color on urban despair-then these social arrangements violate the standards of racial justice.

Kids develop from infancy into adulthood in a situated process of interaction with those around them. The situations and the opportunities for interaction are defined to some degree by racial identity. Consider the racial geography of U.S. cities. Where do people live? With whom do they come into contact? Continue through a more psychological consideration of how individual identities are formed. Who are kids' heroes? What do they take to be worthy projects? And so on. People's inclinations, when acting on their own account, should be included in a consideration of whether a regime is racially just. Because when social processes encourage the development of self-destructive behavior among a (racial) group of people, questions of (racial) justice necessarily arise.

This is not to say that individuals have no responsibility for the bad choices they make. Rather, it is to recognize a deep dilemma-one that does not leave any good choices. Confronted with someone who behaves self-destructively or violently toward others, we must hold such a person accountable; the acts are judgable. But when an entire community is overrun with such people, and they reproduce themselves over time within a society and economy and polity, one deals with matters of justice. And when those structures are substantially based on race, one deals with matters of racial justice.

So now we have a harder problem. If we tell a ghetto-dwelling kid "you're a victim of the dynamics of history, which is why you are toting around an automatic weapon," not only do we serve ourselves poorly, we also patronize that kid and deny his humanity. But if we are not cognizant of the history and the ongoing social structures that produce such people, we have blinded ourselves to matters relevant to a consideration of social justice. This is a dilemma; it is hard to know how to act morally in such a circumstance.

Here is a youngster to whom one says, "Why don't you marry the girl you got pregnant? Why don't you work in a fast-food restaurant instead of standing on the

street corner hustling? Why don't you go to community college and learn how to run one of the machines in the hospital?" And his answer is not, "I have done my sums and the course you suggest simply does not pay." Rather, his answer is, "Who, me?" He cannot see himself thus. When the young man answers in this way, have we heard an individual speaking? Or have we heard a call from a corner, a margin, of society-from a social space that can only be understood if seen in racial terms? And if we refuse to heed this call, can we possibly be pursuing social justice? I think not.

Consider two 12-year-olds. One has grown up in an affluent, suburban, two-parent family with wholesome neighbors, attending good schools. The other's circumstances were less felicitous. When it comes time to allocate state-funded opportunities for the intellectual development of these two youngsters, need we pretend that they come with numbers of their foreheads-say, 97 versus 89-such that the kid with the higher number "merits" the greater developmental opportunity?

Under my conception of racial justice, such a pretense would be unacceptable. I am almost moved to say that children do not have merit-though that is only a rough formulation of the relevant moral claim. Children are children-a reflection in large measure of things that lie outside themselves. This is really a shorthand formulation of a more sophisticated argument about the extent to which the application of meritorious criteria early in personal development reifies and locks in structures exogenous to the individuals in question. If such an application of meritocratic principle is defended in the name of individualism, when in fact it is a projection onto individuals of larger social structures, then one has made an ethical error.

My concern for racial justice turns on the fact that inalienable, nonmarketed social and cultural resources, made available to people partly on the basis of their racial identities, are critical in the production and reproduction of economic inequality. In this context it is crucial to realize that, contrary to the libertarian's view, even the values, attitudes, and beliefs held by an individual-of central importance for attaining success in life-are shaped by the cultural milieu in which that person develops. Whom one knows affects what one comes to believe, and in that way influences what one can do with one's God-given talents. Do we as a society have any responsibility for the debilitating, even pathological cultural milieus that exist among the socially marginalized in our midst? This is an important component of today's racial inequality. Are these subcultures of despair mere reflections of the nature of "those people," toward whom the rest of us have no obligations whatsoever? Or are they products of a history in which society as a whole is implicated?

My claim here is that the social pathology observed in some quarters of U.S. society did not come out of thin air but is largely a consequence of historical practices-including, in the case of blacks, the practice of racial oppression. Moreover, the ongoing racial segmentation of U.S. society-most visible in the isolation of urban black poor-is an important inequity that perpetuates the consequences of our troubled racial history. This analysis has an essential ethical implication: because the creation of a skilled workforce is a social process, the meritocratic ideal-that in a free

society individuals should be allowed to rise to the level of their competence—should be tempered with an understanding that no one travels that road alone.

We should not embrace the notion that individuals have “merit” entitling them to be rewarded without some cognizance of the processes through which that “merit” is produced. These are social processes with a racial dimension. It should be evident that, notwithstanding the establishment of laws requiring equal opportunity, historically engendered economic differences between racial groups could persist into the indefinite future—and not, as some have argued, perniciously, because of the genetic inferiority of blacks. Thus the pronounced racial disparities in U.S. cities are at least partly the product of an unjust history, propagated across generations by segmented social structures of our race-conscious society. This is what I mean by the problem of racial injustice.

For this reason I would argue that, as a matter of social ethics and social science, there should be collective public effort to mitigate the economic marginality of blacks who languish in U.S. ghettos. That is, public goals should not be formulated in color neutral terms—even if the instruments adopted for pursuing those goals are themselves color blind. Prevailing social affiliations, including the extent of racial segregation, influence the development of intellectual and personal skills among young people. As a result patterns of inequality—among individuals and between groups—must embody, to some degree, the social and economic disparities that existed in the past. To the extent that past disparities reflect overt racial exclusion, the propriety of the contemporary order is called into question.

This is not an argument for reparations. I am not saying that some individuals are due something because of what was done to their ancestors. Neither is this a group entitlement argument, in which racial collectivities are seen as having rights that take precedence over those of individuals. Indeed, my argument here is entirely consistent with individualism as a core philosophical premise. I am simply acknowledging the fact that in society, people are not atoms. Rather, they are situated in systems of mutual affiliation. And in U.S. society these systems are partly defined by race.

Taking note of these systems and understanding their historical roots leads me to some recognition of race as a legitimate factor when thinking about social justice. When people’s development prospects depend on the circumstances of those with whom they are socially affiliated, and when social affiliation reflects a tendency toward racial segregation, even a minimal commitment to equality of opportunity for individuals can require a willingness to take into account racial identity. In the divided society of the United States, given our tragic past, this implies that public efforts to counter the effects of historical disadvantage among blacks are not only consistent with but indeed are required by widely embraced, individualistic, democratic ideals.

Costs of Racial Preferences

This criticism of color blind absolutism is not meant as an unqualified defense of positive discrimination in all cases. In certain contexts the costs of using racial pref-

erences will outweigh the benefits. One reason for questioning the wisdom of affirmative action in certain contexts is that the widespread use of preferences can logically be expected to erode perceptions of black competence. This point is often misunderstood, so it is worth spelling out. The argument is not a speculation about the feelings of people who may or may not be the beneficiaries of affirmative action. Rather, it turns on the rational, statistical inferences that neutral observers are entitled to make about the unknown qualifications of persons who may have been preferred, or rejected, in a selection process.

The main insight is not difficult to grasp. Let there be two racial groups, A and B, and suppose that A's are advantaged while B's are to be aided through affirmative action. Let some employer use a lower threshold of assessed productivity for the hiring of B's than A's. The preferential hiring policy defines three types of individuals in each of the two racial groups: "marginals," "successes," and "failures." Marginals are those whose hiring status is altered by the policy—either A's not hired who otherwise would have been, or B's hired who otherwise would not have been. Successes are those who would be hired with or without the policy, and failures are those who would be passed over with or without the preferential policy. Let us consider how an outsider who can observe the hiring decision, but not the employer's productivity assessment, would estimate the productivity of those subject to this hiring process.

Note that a lower hiring threshold for B's causes the outside market to reduce its estimate of the productivity of B's who are successes since, on average, less is required to achieve that status. In addition, B's who are failures, seen to have been passed over despite a lower hiring threshold, are thereby revealed as especially unproductive. On the other hand, a hiring process favoring B's must enhance the reputations of A's who are failures, as seen by outsiders, since they may have been artificially held back. And A's who are successes, hired despite being disfavored in selection, have thereby been shown to be especially productive.

We have thus reached the result that, among B's, only marginals gain from the establishment of a preferential hiring program. Moreover, among A's only marginals are harmed by the program. In practical terms, since marginals are typically a minority of all workers, the outside reputations of most B's will be lowered, and that of most A's enhanced, by preferential hiring. The inferential logic that leads to this arresting conclusion is particularly insidious, because it can legitimize otherwise indefensible negative stereotypes about B's.

Another reason to be skeptical about affirmative action is that it can undercut the incentives for B's to develop their competitive abilities. For instance, preferential treatment can lead to the patronization of B workers and students. By patronization I mean the setting of lower standards of expected accomplishment for B's than for A's because of the belief that B's are not as capable of meeting a higher common standard. Coate and Loury (1993b) show how this kind of behavior can be based on a self-fulfilling prophesy. That is, observed performance among B's may be lower precisely because B's are being patronized, a policy that is undertaken because of the need for an employer or admissions officer to meet affirmative action guidelines.

Furthermore, consider a workplace in which a supervisor operating under some affirmative action guidelines must recommend subordinate workers for promotion. Suppose further that the supervisor is keen to promote B's wherever possible, and monitors performance and bases recommendations on these observations. Pressure to promote B's might lead the supervisor to deemphasize deficiencies in the performance of B subordinates, recommending them for promotion when he would not have done so for A's. But such behavior could undermine the ability of B workers to identify and correct their deficiencies. They are denied honest feedback from their supervisor and encouraged to think that one can get ahead without attaining the same degree of proficiency as A's.

Alternatively, consider a population of students applying to professional schools. The schools, due to affirmative action concerns, are eager to admit a certain percentage of B's. They believe that to do so they must accept B applicants with test scores and grades below those of some A's whom they reject. If most schools follow this policy, the message being sent to B students is that the performance needed to gain admission is lower than that which A students know they must attain. If B and A students are, at least to some extent, responsive to these different expectations, they might achieve grades and test scores reflective of the expectation gap. In this way the schools' belief that different admissions standards are necessary becomes a self-fulfilling prophecy.

Developmental Affirmative Action

The common theme in these two examples is that the desire to see greater B representation is pursued by using different criteria to promote or admit B and A candidates. But the use of different criteria reduces the incentives for B's to develop needed skills. This argument does not presume that B's are less capable than A's. It is based on the fact that an individual's need to use his or her abilities is undermined when that individual is patronized by an employer or an admissions committee.

This problem could be avoided if, instead of using different selection criteria, employers and schools sought to achieve their desired level of B participation through a concerted effort to enhance performance, while maintaining common standards of evaluation. Call it "developmental" as opposed to "preferential" affirmative action. Such a targeted effort as performance enhancement among B's is definitely not color blind behavior. It presumes a direct concern about group inequality and involves allocating benefits on the basis of group identity. What distinguishes it from preferential hiring or admissions, though, is that it takes seriously the fact of differential performance and seeks to reverse it directly, rather than trying to hide from that fact by setting different expectations for the performance of B's.

For example, in the U.S. context, given that black students are far scarcer than white and Asian students in math and science, encouraging their entry into these fields without lowering standards—through summer workshops, support for curriculum development at historically black colleges, or the financing of research assistantships for promising graduate students—would be consistent with my dis-

inction between preferential and developmental affirmative action. Also consistent would be the provision of management assistance to new black-owned businesses, which would then be expected to bid competitively for government contracts, or the provisional admission of black students to a state university, conditional on their raising their academic scores to competitive levels after a year or two of study at a local community college. The key is that the racially targeted assistance be short-lived and preparatory to the entry of its recipients into an arena of competition where they would be assessed in the same way as everyone else.

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