▶ THEORIES OF ETHNIC STRATIFICATION

MICHAEL REICH

# *The Economics of Racism*

This paper presents a radical analysis of racism and its historical persistence in America, focusing on the effects of racism on whites. The paper contrasts the conventional approach of neoclassical economic analysis—with its optimistic conclusions concerning the possibility of eliminating racism—with a radical approach—which argues that racism is deeply rooted in the current economic institutions of America, and is likely to survive as long as they do. A statistical model and empirical evidence are presented which support the radical approach and cast doubt on the conventional approach. The specific mechanisms by which racism operates among whites are also discussed briefly.

## The Pervasiveness of Racism

When conventional economists attempt to analyze racism, they usually begin by trying to separate various forms of racial discrimination. For example, they define "pure wage discrimination" as the racial difference in wages paid to equivalent workers, i.e., those with similar years and quality of schooling, skill training, previous employment experience and seniority, age, health, job attitudes, and a host of other factors. They presume that they can analyze the sources of "pure wage discrimination" without simultaneously analyzing the extent to which discrimination also affects the factors they hold constant.

But such a technique distorts reality. The various forms of discrimination are not separable in real life. Employers' hiring and promotion practices, resource allocation in city schools, the structure of transportation systems, residential segregation and housing quality, availability of decent health care, behavior of policemen and judges, foremen's prejudices, images of blacks presented in the media and the schools, price gouging in ghetto stores—these and the other forms of social and economic discrimination interact strongly with each other in determining the occupational status and annual income, and welfare, of black people. The processes are not simply additive, but are mutually reinforcing. Often, a decrease in one narrow form of discrimination is accompanied by an increase in another form. Since all aspects of racism interact, an analysis of racism should incorporate all of its aspects in a unified manner.

No single quantitative index could adequately measure racism in all its social, cultural, psychological, and economic dimensions. But, while racism is far more than a narrow economic phenomenon, it does have very definite economic consequences: blacks have far lower incomes than whites. The ratio of median black to median white incomes thus provides a rough, but useful, quantitative index of the economic consequences of racism for blacks as it reflects the operation of racism in the schools, in residential location, in health care—as well as in the labor market itself. We shall use this index statistically to analyze the causes of racism's persistence in the United States. While this approach overemphasizes the economic aspects of racism, it is nevertheless an improvement over the narrower approach taken by conventional economists.

## Competing Explanations of Racism

How is the historical persistence of racism in the United States to be explained? The most prominent analysis of discrimination among economists was formulated in 1957 by Gary Becker in his book *The Economics of Discrimination.*[1] Racism, according to Becker, is fundamentally a problem of tastes and attitudes. Whites are defined to have a "taste for discrimination" if they are willing to forfeit income in order to be associated with other whites instead of blacks. Since white employers and employees prefer not to associate with blacks, they require a monetary compensation for the psychic cost of such association. In Becker's principal model white employers have a taste for discrimination; marginal productivity analysis is invoked to show that white employers hire fewer black workers than efficiency criteria would dictate—as a result, white employers lose (in monetary terms) while white workers gain from discrimination against blacks.

Becker does not try to explain the source of white tastes for discrimination. For him, these attitudes are determined outside of the economic system. (Racism could presumably be ended simply by changing these attitudes, perhaps by appeal to whites on moral grounds.) According to Becker's analysis, employers would find the ending of racism to be in their economic self-interest, but white workers would not. The persistence of racism is thus implicitly laid at the door of white workers. Becker suggests that long-run market forces will lead to the end of discrimination anyway—less discriminatory employers, with no "psychic costs" to enter in their accounts, will be able to operate at lower costs by hiring equivalent black workers at lower wages, thus driving the more discriminatory employers out of business.[2]

The radical approach to racism argued in this paper is entirely different. Racism is viewed as rooted in the economic system and not in "exogenously determined" attitudes. Historically, the American Empire was founded on the racist extermination of American Indians, was financed in large part by profits from slavery, and was extended by a string of interventions, beginning with the Mexican War of the 1840s, which have been at least partially justified by white supremacist ideology.

Today, transferring the locus of whites' perceptions of the source of many of their problems from capitalism and toward blacks, racism continues to serve the needs of the capitalist system. Although an individual employer might gain by refusing to discriminate and agreeing to hire blacks at above the going black wage rate, it is not true that the capitalist class as a whole would profit if racism were eliminated and labor were more efficiently allocated without regard to skin color. I will show below that the divisiveness of racism weakens workers' strength when bargaining with employers; the economic consequences of racism are not only lower incomes for blacks, but also higher incomes for the capitalist class coupled with lower incomes for white workers. Although capitalists may not have conspired consciously to create racism, and although capitalists may not be its principal perpetuators, nevertheless racism does support the continued well-being of the American capitalist system.

Capitalist society in turn encourages the persistence of racism. Whatever the origins of racism, it is likely to take root firmly in a society which breeds an individualistic and competitive ethos, status fears among marginal groups, and the need for visible scapegoats on which to blame the alienating quality of life in America—such a society is unlikely magnanimously to eliminate racism even though historically racism may not have been created by capitalism.

Racism cannot be eliminated just by moral suasion; nor will it gradually disappear because of market forces. Racism has become institutionalized and will persist under capitalism. Its elimination will require more than a change of attitudes; a change in institutions is necessary.

We have, then, two alternative approaches to the analysis of racism. The first suggests that capitalists lose and white workers gain from racism. The second predicts the opposite—that capitalists gain while workers lose. The first says that racist "tastes for discrimination" are formed independently of the economic system; the second argues that racism is symbiotic with capitalistic economic institutions.

The two approaches reflect the theoretical paradigms of society from which each was developed. Becker follows the paradigm of neoclassical economics in taking "tastes" as exogenously determined and fixed, and then letting the market mechanism determine outcomes. The radical approach follows the Marxian paradigm in arguing that racial attitudes and racist institutions must be seen as part of a larger social system, in placing emphasis on conflict between classes and the use of power to determine the outcomes of such conflicts. The test as to which explanation of racism is superior is, in some ways, an illustrative test of the relative explanatory power of these competing social paradigms.

The very persistence of racism in the United States lends support to the radical approach. So do repeated instances of employers using blacks as strikebreakers, as in the massive steel strike of 1919, and employer-instigated exacerbation of racial antagonisms during that strike and many others.[3] However, the particular virulence of racism among many blue- and white-collar workers and their families seems to refute the radical approach and support Becker.

## The Empirical Evidence

Which of the two models better explains reality? We have already mentioned that the radical approach predicts that capitalists gain and workers lose from racism, while the conventional Beckerian approach predicts precisely the opposite. In the latter approach racism has an equalizing effect on the white income distribution, while in the former racism has an unequalizing effect. The statistical relationship between the extent of racism and the degree of inequality among whites provides a simple, yet clear test of the two approaches. This section describes that test and its results.

First we shall need a measure of racism. The index we use, for reasons already mentioned, is the ratio of black median family income to white median family income (B/W). A low numerical value for this ratio indicates a high degree of racism. We have calculated values of this racism index, using data from the 1960 Census, for each of the largest forty-eight standard metropolitan statistical areas (SMSA's). It turns out there is a great deal of variation from SMSA to SMSA in the B/W index of racism, even within the North; Southern SMSA's generally demonstrated a greater degree of racism. The statistical technique we shall use exploits this variation.

We shall also need measures of inequality among whites. Two convenient measures are (1) $S_1$, the percentage share of all white income which is received by the top 1 percent of white families, and (2) $G_W$, the Gini coefficient of white incomes, a measure that captures inequality within as well as between social classes.[4]

Both of these inequality measures vary considerably among the SMSA's; there is also a substantial amount of variation in these variables within the subsample of Northern SMSA's. Therefore, it is interesting to examine whether the pattern of variation of the inequality and racism variables can be explained by causal hypotheses. This is our first statistical test.

A systematic relationship across SMSA's between racism and white inequality does exist and is highly significant: the correlation coefficient is $-.47$.[5] The negative sign of the correlation coefficient indicates that where racism is greater, income inequality *among whites* is also greater. This result is consistent with the radical model and is inconsistent with the predictions of Becker's model.

This evidence, however, should not be accepted too quickly. The correlations reported may not reflect actual causality, since other independent forces may be simultaneously influencing both variables in the same way. As is the case with many other statistical analyses, the model must be expanded to control for such other factors. We know from previous inter-SMSA income distribution studies that the most important additional factors that should be introduced into our model are (1) the industrial and occupational structure of the SMSA's; (2) the region in which the SMSA's are located; (3) the average income of the SMSA's; and (4) the proportion of the SMSA population that is black. These factors were introduced into the model by the technique of multiple regression analysis. Separate equations were estimated with $G_W$ and $S_1$ as measures of white inequality.

In all the equations the statistical results were strikingly uniform: racism was a significantly unequalizing force on the white income distribution, even when other factors were held constant. A 1 percent increase in the ratio of black to white median incomes (i.e., a 1 percent decrease in racism) was associated with a .2 percent decrease in white inequality, as measured by the Gini coefficient. The corresponding effect on $S_1$ was two-and-a-half times as large, indicating that most of the inequality among whites generated by racism was associated with increased income for the richest 1 percent of white families. Further statistical investigation revealed that increases in racism had an insignificant effect on the share received by the poorest whites, and resulted in a small decrease in the income share of whites in the middle-income brackets.[6]

## The Mechanisms of the Radical Model

Within the radical model, we can specify a number of mechanisms which further explain the statistical finding that racism increases inequality among whites. We shall consider two mechanisms here: (1) total wages of white labor are reduced by racial antagonisms, in part because union growth and labor militancy are inhibited; and (2) the supply of public services, especially in education, available to low- and middle-income whites is reduced as a result of racial antagonisms.

Wages of white labor are lessened by racism because the fear of a cheaper and underemployed black labor supply in the area is invoked by employers when labor presents its wage demands. Racial antagonisms on the shop floor deflect attention from labor grievances related to working conditions, permitting employers to cut costs. Racial divisions among labor prevent the development of united worker organizations both within the workplace and in the labor movement as a whole. As a result, union strength and union militancy will be less, the greater the extent of racism. A historical example of this process is the already mentioned use of racial and ethnic divisions to destroy the solidarity of the 1919 steel strikers. By contrast, during the 1890s, black-white class solidarity greatly aided mine-workers in building militant unions among workers in Alabama, West Virginia, Illinois, and other coalfield areas.[7]

The above argument and examples contradict the common belief that an exclusionary racial policy will strengthen rather than weaken the bargaining power of unions. But racial exclusion increases bargaining power only when entry into an occupation or industry can be effectively limited. Industrial-type unions are much less able to restrict entry than craft unions or organizations such as the American Medical Association. This is not to deny that much of organized labor is egregiously racist.[8] But it is important to distinguish actual discrimination practice from the objective economic self-interest of union members.

The second mechanism we shall consider concerns the allocation of expenditures for public services. The most important of these services is education. Racial antagonisms dilute both the desire and the ability of poor white parents to improve educational opportunities for their children. Antagonism between blacks and poor whites drives wedges between the two groups and reduces their ability to join in a united political movement pressing for improved and more equal education. Moreover, many poor whites recognize that however inferior their own schools, black schools are even worse. This provides some degree of satisfaction and identification with the status quo, reducing the desire of poor whites to press politically for better schools in their neighborhoods. Ghettos tend to be located near poor white neighborhoods more often than near rich white neighborhoods; racism thus reduces the potential tax base of school districts containing poor whites. Also, pressure by teachers' groups to improve all poor schools is reduced by racial antagonisms between predominantly white teaching staffs and black children and parents.[9]

The statistical validity of the above mechanisms can be tested in a causal model. The effect of racism on unionism is tested by estimating an equation in which the percentage of the SMSA labor force which is unionized is the dependent variable, with racism and the structural variables (such as the SMSA industrial structure) as the independent variables. The schooling mechanism is tested by estimating a similar equation in which the dependent variable is inequality in years of schooling completed among white males aged 25 to 29 years old.[10]

Once again, the results of this statistical test strongly confirm the hypotheses of the radical model. The racism variable is statistically significant in all the equations and has the predicted sign: a greater degree of racism results in lower unionization rates and greater amounts of schooling inequality among whites. This empirical evidence again suggests that racism is in the economic interests of capitalists and other rich whites and against the economic interests of poor whites and white workers.

However, a full assessment of the importance of racism for capitalism would probably conclude that the primary significance of racism is not strictly economic. The simple economics of racism does not explain why many workers seem to be so vehemently racist, when racism is not in their economic self-interest. In extra-economic ways, racism helps to legitimize inequality, alienation, and powerlessness—legitimization which is necessary for the stability of the capitalist system as a whole. For example, many whites believe that welfare payments to blacks are a far more important factor in their high taxes than is military spending. Through racism, poor whites come to believe that their poverty is caused by blacks who are willing to take away their jobs, and at lower wages, thus concealing the fact that a substantial amount of income inequality is inevitable in a capitalist society.

Racism also provides some psychological benefits to poor and working-class whites. For example, the opportunity to participate in another's oppression may compensate for one's own misery. The parallel here is to the subjugation of women in the family: after a day of alienating labor, the tired husband can compensate by oppressing his wife. Furthermore, not being at the bottom of the heap is some solace for an unsatisfying life; this argument was successfully used by the Southern oligarchy against poor whites allied with blacks in the inter-racial Populist movement of the late nineteenth century.

In general, blacks as a group provide a convenient and visible scapegoat for problems that actually derive from the institutions of capitalism. As long as building a real alternative to capitalism does not seem feasible to most whites, we can expect that identifiable and vulnerable scapegoats will always prove functional to the status quo. These extra-economic factors thus neatly dovetail with the economic aspects of racism discussed in the main body of this paper in their mutual service to the perpetuation of capitalism.

## Notes

1. University of Chicago Press.

2. Some economists writing on discrimination reject Becker's "tastes" approach, but accept the marginal productivity method of analysis. See, for example, L. Thurow, *Poverty and Discrimination* (Washington, D.C.: Brookings Institution, 1969). The main substantive difference in their conclusions is that for Thurow, the entire white "community" gains from racism; therefore, racism will be a little harder to uproot. See also A. Krueger, "The Economics of Discrimination," *Journal of Political Economy*, October 1963.

3. See, for example, David Brody, *Steelworkers in America: The Nonunion Era* (Cambridge: Harvard University Press, 1960); Herbert Gutman, "The Negro and the United Mineworkers," in J. Jacobson, ed., *The Negro and the American Labor Movement* (Garden City, N.Y.: Anchor, 1968); S. Spero and A. Harris, *The Black Worker* (New York: Atheneum, 1968), *passim*.

4. The Gini coefficient varies between 0 and 1, with 0 indicating perfect equality, and 1 indicating perfect inequality. For a more complete exposition, see H. Miller, *Income Distribution in the United States* (Washington, D.C.: Government Printing Office, 1966). Data for the computation of $G_W$ and $S_1$ for 48 SMSA's were taken from the 1960 Census. A full description of the computational techniques used is available in my dissertation.

5. The correlation coefficient reported in the text is between $G_W$ and B/W. The equivalent correlation be-

tween $S_1$ and B/W is $r = -.55$. A similar calculation by S. Bowles, across states instead of SMSA's, resulted in an $r = -.58$.

6. A more rigorous presentation of these variables and the statistical results is available in my dissertation.

7. See footnote 3.

8. See Herbert Hill, "The Racial Practices of Organized Labor," in J. Jacobson, ed., *The Negro and the American Labor Movement* (Garden City, N.Y.: Anchor paperback, 1968).

9. In a similar fashion, racial antagonisms reduce the political pressure on governmental agencies to provide other public services which would have a pro-poor distributional impact. The two principal items in this category are public health services and welfare payments in the Aid to Families with Dependent Children program.

10. These dependent variables do not perfectly represent the phenomena described, but serve as reasonable proxy variables for these purposes.