Stratification economics: Historical Origins and Theoretical Foundations

*John B. Davis**

Abstract: Stratification economics (SE) explains how market economies are organized around enduring social group inequalities, especially by race and gender but also by ethnicity, religion, sexual orientation, etc. Its historical origins and theoretical foundations include a structural strand in which economies operate around social group hierarchies and a social behavioral strand in which social groups are also economic agents. The structural strand draws on Ricardo and Marx, emphasizing social groups in addition to classes, and Lewis' theory of noncompeting groups in his dual sector development model and analysis of American racial discrimination. The social behavioral strand draws on Du Bois psychological wage, Veblen's theory of emulation, Blumer's theory of prejudice and stereotyping, and social identity theory. SE's structural strand allows us to re-interpret economics' goods taxonomy and the nature of market economies in social group rather than individualist terms. SE's social behavioral strand allows us to investigate individual identity construction and social group identity dynamics. Combining the two sides, an intersectionality-based account of selective stigmatization shows how social group hierarchies and social economic behavior reinforce each other. SE's social values underlie policy strategies distinct from Neoclassical-mainstream economics policies in being framed around social groups rather than asocial individuals.

Keywords: intergroup inequality, social groups, Lewis, Du Bois, Veblen, Blumer, social identity theory, goods taxonomy, selective stigmatization, intersectionality, social values, reparations

JEL codes: D31, D63, I31, J15, J16, Z13

*Marquette University and University of Amsterdam; john.davis@mu.edu

Stratification economics: Historical Origins and Theoretical Foundations

1. Introduction

The goal of this paper is to review and lay out the historical origins and theoretical foundations of Stratification economics (SE) in order to exhibit its connections to long-standing concerns in the history of economics and show how its research program involves a systematic and focused response to those concerns. Despite that the name of the approach is relatively recent in economics (see Darity 2022, ftn. 1; Darity 2005; Darity, Hamilton, and Stewart 2015, 378), and despite that the term stratification has only been widely employed in sociology and social psychology since Talcott Parsons (1937), SE examines an issue fundamental to capitalist market economies since their beginnings: how and why they are structured around social hierarchies that do not break down over time. In SE, these macro-level hierarchies, understood especially in terms of social group inequalities, do not break down because there are micro-level social behavioral mechanisms that reinforce them that are in turn reinforced by those hierarchies. While these structures have been investigated since the beginnings of Classical economics, the social behavioral mechanisms on which are seen to rely are explained using modern social identity as applied to economics to explain contemporary phenomena such as discrimination, prejudice, and wealth inequality.

SE's structural strand antecedents are in the Classical thinking of David Ricardo and Karl Marx, but SE makes important departures from that thinking regarding the relationship between growth and capital accumulation and in focusing especially on social groups rather than only classes. It builds its understanding around W. Arthur Lewis' noncompeting groups theory of dual sector economic development and his extension of that theory to noncompeting racial groups in developed economies.

SE's social behavioral strand rejects Neoclassical-mainstream asocial *Homo economicus* conception of the person and illusory conception of individual freedom that masks how people's social group positions promote freedom for some and limit it for others. It draws on W.E.B. Du Bois' psychological wage concept, Thorstein Veblen's theory of emulation, Herbert Blumer's social psychological analysis of stereotyping, and social identity theory.

Section 2 discusses SE's structural strand. Section 3 discusses its social behavioral strand. Section 4 builds on its structural strand to re-interpret economics' goods taxonomy and the nature of market economies in social group rather than individualist terms. Section 5 draws on its social behavioral strand to examine individual identity construction and social group identity dynamics. Section 6 brings the two strands together in advancing an intersectionality-based account of how selective stigmatization reinforces macro-level social group hierarchies and is reinforced by them. Section 7 discusses the social values underlying SE and the policy strategies it calls for.

2. SE's structural strand

(i) Classical thinking on growth and accumulation and SE's departures from it

First, whereas Ricardo and Marx explained economies in terms of relationships between economic classes, SE's social identity theory focuses on how people belong to multiple, overlapping social groups within economic classes. Second, whereas class relationships and people's class positions were taken as given and basically unchanging in the nineteenth century thinking of Ricardo and Marx (barring social revolution), in twenty-first century SE people's social group positions are seen as socially and historically constructed and potentially changeable.[1]

Ricardo and Marx made distribution central to the explanation of economic growth and argued that class relationships limited growth and capital accumulation. For Ricardo extending the margin of corn cultivation and for Marx the rising organic composition of capital depended on class relationships, created a tendency for the rate of profit to fall, and depressed growth. In effect, existing class relationships limited the long run development of capitalism. However, later evidence regarding the African slave trade and plantation system in the Caribbean and the American South showed the relationship between distribution and growth was more complicated. The Industrial Revolution in Britain and France drew on the profits generated by the slave system (Williams 2021; Darity and Mullen 2020, ch. 3), and rather than a barrier to economic growth slavery may have facilitated it. Slavery in the antebellum American South, it was later also argued in Neoclassical terms might be an 'efficient' economic arrangement (Fogel and Engerman 1974).

Alternatively, it is still argued by others that capitalist development under hierarchical social relationships weakens long-term economic growth (e.g., Wright, 2017). This raises an important question: if so, what allows the associated economic systems to persist? The answer SE gives is that should what gains occur go disproportionately to dominant social groups, then weaker economic growth and economic stagnation need not threaten an economic system's viability.[2]

This answer requires a shift in thinking about the relationship between distribution and growth. Ricardo and Marx made growth their focus and explained how it depended on existing systems of distribution. Yet if we make systems of distribution our focus, what sort of growth occurs depend on what system of distribution exist. This entails closer attention to the nature of relationships between dominant and subordinate social groups, or specifically to the *relative* positions of classes and social groups and their differential access to what growth generates. Should, then, dominant social groups' *relative* economic positions improve or not worsen, economic growth and capital

[1] An important issue not taken up here is how the social group concept and the class concept are similar and differ in their social and conceptual foundations. The former emphasizes the relationship between individual behavior and social group membership and the strong connection between individual and social group identity. The relationship between individual behavior and class membership and the connection between individual and class identity is complicated by people having multiple social group identities, or intersectionality. Both concepts make group/class position an important determinant of individual behavior.

[2] Whether slavery damaged overall American development is a complicated question. The argument that highly unequal social relationships damage overall economic development has been made more recently in connection with postwar Latin American economic development under the impact of foreign capital imports (Bresser-Pereira *et al.*, 2015) and in connection with 'deaths of despair' and American racial inequality (Case and Deaton, 2020).

accumulation may remain viable on whatever basis it exists. Or, should dominant social groups' *relative* economic positions worsen, this may lead to a struggle over control of distribution.[3]

Ricardo and Marx also took class positions as largely given and unchanging – an understandable assumption in their time. However, after the 1865 defeat of the South in the American Civil War (and after the 1793 overthrow of slavery in Haiti, previously the French colony St. Domingue) dominant social groups' relative positions were no longer guaranteed and struggle over the control of distribution followed. The American post-Civil War 'reconstructionist' period was thus all about re-establishing white power over former black slaves in the South, that is, in restoring the antebellum relative social group position of whites (Du Bois, 1992 [1935]; Foner, 1988). The French failed to recover Haiti and restore the power of sugar planters there.[4]

SE makes distribution and struggles over social group power central to explaining how economies function. What this calls for is an economic theory of the way social groups structure economies and maintain their *relative* economic positions. Lewis developed this analysis in his theory of noncompeting groups.

(ii) Lewis' theory of noncompeting groups

Lewis is known for and received an economics Nobel prize for his dual sector model of less developed nations' economic development (Lewis 1954). Less appreciated is that the model was also a stepping stone to his general theory of intergroup inequality and noncompeting economic groups advanced in his later lectures and book on American racial discrimination (Lewis 1985).[5] For Lewis, social group relationships are socially and historically constructed and influence economy-wide macroeconomic performance. His dual sector model of economic development located those social group relationships in less developed nations' legacy of colonialism whereby foreign powers established their dominance in lands they had forcibly seized and maintained through social groups they put in place to control social groups native to those societies. The less appreciated step in Lewis' thinking was to generalize this analysis to nations regarded as developed, implying that their economics structures were created as well, such that social group hierarchies and inequalities were not natural characteristics of capitalist economies but depended on how they were historically constructed and developed.

Noncompeting groups are social groups that interact economically and socially but not on the same basis in having significantly different economic opportunities. The Lewis model or dual sector model argued that such developing economies promote the growth of a nascent, modern capitalist sector by drawing on an elastic supply of 'surplus' labor from a non-capitalist, rural 'subsistence' sector (Lewis, 1954). That rural non-wage-based labor sector became wage labor when it migrated to urban areas and capitalist production. In effect, development occurred when individuals from a non-competing economic sector left it. In much of the development literature that followed

---

[3] The Kaleckian post-Keynesian approach thus shares with SE the assumption that distribution drives overall macroeconomic performance but in contrast to the SE approach emphasizes existing class relationships rather than historically constructed social group relationships.
[4] Similarly, the issue after the end of apartheid in South Africa was whether whites would maintain their power. This has also been a perennial issue in India (Deshpande, 2011).
[5] The lectures were originally delivered in 1982 as the first of the W. E. B. Du Bois Lectures at Harvard University.

Lewis, this process was optimistically expected to continue until all individuals willing to move to urban areas had done so (and labor supply ceased to be completely elastic). Then differences in economic opportunities would ultimately cease to exist, and dual sector economies would be replaced by single, integrated wage labor-based, more rapidly developing capitalist economies. A residual rural subsistence sector could still survive, but essentially the dual sector development period of capitalism's extension to the developing world would be over.

Yet the historical evidence is that less developed nations' capitalist wage-based production failed to absorb all rural migrants who sought that employment and end their dual sector paths of development. This produced two urban labor groups, those with high wages in the premier capitalist sector (varying in size because largely engaged in producing for an often unreliable export market), and individuals in a more tenuous wage-based sector that still relied significantly on subsistence production, albeit in new forms suitable to urban environments. Less developed nations' dual sector development thus continued though on a transformed basis with new dominant and subordinate social groups, demonstrating that inequality persisted under capitalist development and that social group hierarchies were socially and historically constructed.[6]

However, for Lewis the larger implication was that the pattern of development less developed nations followed might also be one that more developed nations followed. It perhaps seemed to many that the latter's experience was different because their internal migration from rural economic sectors had largely occurred by the second half of the twentieth century (and their agricultural production had become largely capitalist). Nonetheless, the experience of more developed economies was that their labor supply was continually augmented by foreign immigration and later by the transformation of the household sector and rise in women's labor force participation. Urban areas in these economies, then, did not acquire the character of integrated single sector labor markets but again rather a two-tier labor market character with more and less privileged opportunities reflected in wage and employment disparities by social groups.[7]

This all raises the question of how social group hierarchies are continually reconstructed in capitalist societies. In the American case, race and gender were historically paramount in determining the dividing line between dominant and subordinate social groups. Lewis (1985) turned to the role of race in generalizing his dual sector model to more developed economies. He attributed the history of racial conflict in the U.S. to how racial discrimination reflected, not market imperfections as in Neoclassical economics,[8] but rather how the American economy was socially structured around a racial social groups with distinct opportunities and challenges. This was manifest in how the social status of blacks and minorities was and is continually diminished in American society, in the significant limitations in blacks and minorities' access to public goods

---

[6] This was contrary to the optimistic Simon Kuznets' (1955) thesis that economic development first involved high, then falling economic inequality. See Boianovsky (2019) for an excellent, detailed account of how Lewis came to develop his dual sector model, its roots in Classical economics, and his efforts to bring Classical economics "up-to-date, in the light of modern knowledge" (Lewis 1954, p. 140).

[7] In Marx's terms, a 'reserve army' of labor was central to capitalist economic development. See Boianovsky (2019, pp. 123-5 and the references therein) for the influence of Marx on Lewis. See Marglin (2019) for the argument that Lewis' dual sector model and 'reserve army' labor concept applies generally.

[8] For example, as in the argument that racism produces a deadweight loss for the American economy (Brimmer, 1993) and the argument that racial discrimination will ultimately go away under the force of competition (Becker, 1957).

such as education, and the existence of a capitalist 'divide and conquer' strategy that operated to ensure abundant supplies of unskilled labor.

Lewis' generalization of his dual sector model of economic development to all of capitalism thus laid the foundations for a general economic theory of noncompeting social groups. Dual sector development was the single model of economic development under capitalism. Crucially, it depended preserving hierarchical relationships between social groups so that their members had significantly different economic opportunities. For example, at a pre-market stage of people's lives education and training opportunities are structured to limit subordinate group members access, and at the market stage market institutions are constructed so as to direct their participation in markets to less rewarding activities (see Chelwa, Hamilton, and Stewart 2022).

SE noncompeting groups theory building on Lewis examines how individuals are incentivized to invest in their social group status thus effectively developing property rights in it. The concept of property rights for an advantaged social group status in the American case takes the form of a *de facto* property right in Whiteness (Harris, 1993). Wealth accumulation across generations of individuals not only works through intergenerational resource transfers within social groups, but also through the maintenance of hierarchical social group property rights (Darity, Hamilton, and Stewart 2015).

The key step in Lewis' thinking involved making social groups economic agents and his rejection of the Neoclassical-mainstream assumption that only independent individuals are economic agents. This ontological difference directs us to the origins of SE's social behavioral strand.

3. SE's social behavioral strand

(i) Du Bois' psychological wage

Du Bois argued that whiteness functions as a "public and psychological wage" especially for poor whites that acts as a "compensation" for being "not black" (Du Bois 1935).[9] He studied at the University of Berlin where he was influenced by Gustav Schmoller and Adolf Wagner's German historical school of economics and its political economy critique of abstract Classical economic concepts (Morris 2015, 19ff). The Classical concept of the wage described an abstract market transaction with no social characteristics that treated wage recipients as abstract, asocial individuals. However, for Du Bois the public and psychological component of the wage made part of what white individuals were paid a non-monetary compensation for their social group characteristic. They could then be paid less than their labor was worth because they received additional compensation for being white.

This made relative social group position important in two connected ways. People "gain greater satisfaction the higher the status of the social group with whom they identify, and they gain greater satisfaction the higher their personal status within the social group with whom they identify" (Darity 2022, 3). Regarding the first dimension, whites generally then benefited from their characteristic of whiteness, as a product of their higher wages. Regarding the second dimension,

[9] See Stewart (2022) for the development of Du Bois' thinking over his long, very active career.

poor whites could feel that though their status was lower than other whites, that status nonetheless benefitted them because it was still higher than most blacks. This would be true even if poor whites wages were to become even lower as long as they were still higher than most blacks. Thus, Du Bois made within-group or intragroup inequality and between-group or intergroup inequality two sides of the same coin.

On the assumption that individual and social identities are not simply given as in a Classical world, Du Bois' psychological wage concepts leads to two different issues that need to be investigated: people's potential mobility across groups – and the degree of permeability of barriers between them (Stewart, 2010) – and their potential mobility within groups – and the behavioral basis for their internal hierarchies (Darity 2020). Veblen focuses on the behavioral basis of the latter, within-group identity-mobility issue.

(ii) Veblen's theory of emulation

Veblen (1899) argues people are generally motivated by a desire to emulate others of higher rank on the social ladder. Individuals of higher social rank in turn flaunt their positions by engaging in conspicuous consumption, which signals what the objects of emulation are for those of lower rank. Similarly to Du Bois' psychological wage, then, lower ranked individuals' material consumption can be lower if the consumption they engage in appears in their view to compensate them with (the appearance of) higher status. As for Du Bois, for Veblen too economic categories cannot be fully understood apart from their social aspects, and people need to be seen as behaving not as abstract, asocial individuals but as socially motivated individuals.

For Veblen, women have a more complicated personal status. Since historically they were barred from employment and owning private property, and generally limited to family raising activities, in within group terms they can generally only emulate others of higher social rank through their association with the status-seeking of the men to whom they are socially attached. This derivative status-seeking behavior depersonalizes them for Veblen, and effectively makes them the private property of men, who he also points out have historically used women as trophies in their own status-seeking (1899, 4).[10]

Thus, like Du Bois, individual identity for Veblen is socially and historically constructed, and thus mobility across and within groups needs to be understood in these terms. Both arguably thought the barriers to the former were greater than to the latter, but whether and to what degree this is true depends on the country and time in question.

(iii) Blumer's theory of prejudice and stereotyping

A different source of thinking and additional ideas in SE's social behavioral strand come from a 1950s social psychological analysis of stereotyping and prejudice. Stereotyping behavior concerns prejudicial attitudes people have toward one another. Whereas they had initially been explained individualistically in terms of people's individual attitudes towards other individuals (Allport 1954, Becker 1957), Blumer explained them socially in terms of group attitudes towards other

[10] For contemporary feminist thinking in the Institutionalist tradition emphasizing how mainstream economic thinking treats the gendered private-public dualism in economic life as normal and natural, see Waller and Wrenn (2021).

groups, shifting thinking (specifically in the case of race) "from a preoccupation with feelings as lodged in individuals to a concern with the relationship between racial groups" (1958, 3). When social groups are in conflict, this then provides a basis for the prejudices people develop about individuals in other groups.

Moreover, when a set of prejudicial beliefs becomes embedded in different economic activities (employment, education, housing, etc.), this acts to institutionalize prejudice as an self-reinforcing social practice. Stereotyping is defined as when individuals from a social group are all assigned certain negative characteristics (behavioral, inherited, dispositional, etc.) irrespective of their individual characteristics. Once they are 'seen' to have these negative group characteristics in the eyes of stereotypers, then whatever they do works to confirm these prejudicial attitudes, thus producing a durable link between a group-based social practice and group social attitudes.

Du Bois explained personal status especially in between-group terms and Veblen explained it especially in within-group terms. Blumer connects the two by emphasizing the role social practices such as stereotyping play in locking in prejudice as an accepted behavior on the part of dominant social groups. Du Bois, Veblen, and Blumer's thinking, then, raises two important questions. Why do individuals attach themselves to social groups in the first place? How are we to explain individual identity when people also have social identities?

(iv) Social identity theory

The answer to the first question came from the famous Robbers Cave experiment (Sherif *et al.*, 1954/1961; Sherif, 1956), and the emergence of realistic conflict theory (Baumeister and Vohs 2007). The Robbers Cave experiment showed that individuals in risky, uncertain, zero-sum type circumstances often organize themselves into competing social groups, act as they perceive their own groups' interests require, and thus cease to behave as independent individuals. Realistic conflict theory describes how in circumstances of intergroup conflict dominant social groups work to control subordinate social groups. Social identity theory developed on this foundation to explain the behavior of individual members of social groups (Tajfel and Turner 1979). When individuals act in the interest of the groups they belong to, their individual identities can be subsumed within their social identities, and rather than act simply on asocial, group-independent motives, they adopt pro-in-group and anti-out-group behavioral orientations.

In answer to the second question, people's individual identities are then partly social, and to what degree and how depends on the extent to which their social group attachments matter to them. When we focus, then, on only single social group attachments and on circumstances where there is significant intergroup conflict – a circumstance that explains many social interactions – individuals' social identities often effectively replace any independent individual identities they may possess. However, when we recognize that people belong to different social groups – the phenomenon of intersectionality, where there exists "a continuous interplay, often competitive, sometimes collaborative or cooperative, between social groups motivated by the collective self-interest of their respective members" (Darity 2022, p. 3) – then their ties to particular social groups are mediated by possible conflicts between them, and in managing these conflicts their individual identities can become more prominent. Behaviorally speaking, while in the single group attachment case, pro-in-group and anti-out-group orientations are sufficient explanations of much individual behavior, in the intersectionality, multiple group case anti-in-group and pro-out group motivations require more complex behavioral analysis. In both cases, individual identity nonetheless has a social character in contrast to the asocial Neoclassical-mainstream view of individual identity (Davis, 2015).

For SE, then, individual identity depends on the state of conflict and relationships between social groups at any one time and in any particular location. In what follows, section 4 first returns to SE's structural strand to distinguish the individualist Neoclassical/mainstream and social group SE views of how economies are organized around markets in their different interpretations of economics' goods taxonomy. Section 5 then examines people's mobility across and within social groups, and the identity construction and dynamics issues raised when we see individual and social identity as historically constructed. Section 6 puts together the structural and social behavioral strands of SE in an intersectionality-based account of how micro-level selective stigmatization, a central characteristic of conflict over race and gender in the U.S., reinforces macro-level social group hierarchies. Section 7 closes on the topic of social values and policy.

4. Re-interpreting economics' goods taxonomy

How economies are structurally organized can be elicited from how we interpret economics' standard goods taxonomy, particularly in regard to the ontological issue of who economic agents are. Neoclassical-mainstream economics employs an individualist interpretation of the taxonomy that assumes independent, asocial individuals are the only economic agents, that they generally compete freely, and that inequality is a matter of differences in individual endowments. SE employs a social group interpretation of the taxonomy in which social groups are also agents, social group hierarchies determine the nature of competition, and individual inequality strongly reflects intergroup inequality.

The goods taxonomy classifies four different types of economic goods that are distinguished according to their respective combinations of two characteristics: whether they are excludable or non-excludable and whether they are rivalrous or non-rivalrous. Excludability refers to whether people's access to goods is limited or not, and rivalrousness refers to whether one person's use of a good limits another's use of it. This characterization generates four basic types of economic and social interaction and four different ways people act as economic agents (Table 1).[11]

[11] Of course there are intermediate cases as well.

Table 1
Standard taxonomy of goods

	Excludable	*Non-Excludable*
Rivalrous	Private goods	Common pool goods
Non-rivalrous	Club goods/local public goods	Public goods

(i) The Neoclassical-mainstream interpretation of the goods taxonomy

The Neoclassical-mainstream interpretation of the goods taxonomy gives a central role to private goods, emphasizes the institution of private property, and explains economic and social interaction primarily in terms of market exchanges between utility maximizing *Homo economicus* individuals. Other types of goods in the taxonomy are then interpreted in terms of their relationships to private goods.

First, consider the relationship between private goods and common pool goods which concerns excludability and non-excludability – the top row in the Table (where in both cases goods are rivalrous). Private goods are excludable (and rivalrous), reflecting the institution of private property (for example, personal possessions and most capital goods), while common pool goods are non-excludable (and rivalrous) reflecting the absence of property rights (for example, shared and unowned lands, waters, and the atmosphere). From the perspective of the former, social and economic interaction in the latter domain essentially involves a Hobbsean 'war of all against all' because private property relationships do not exist. There are two ways for Neoclassical-mainstream economics this 'war' can be addressed.

One way, historically perhaps the more traditional way, is to make non-excludable common pool goods non-rivalrous by replacing them where possible with public goods. The state then manages their use. A second way, a more recent strategy, is to make common pool goods more excludable like private goods by creating systems of governance within common pool domains that effectively create property rights-like relationships for common pool type goods.[12] Both ways build their analysis around the importance of private goods: either in seeing the state as a safety valve response to where private property does not exist, or in extending private property in new forms.

Second, consider the relationship between private goods and 'club' goods which concerns rivalrousness and non-rivalrousness – the first column in the Table (where excludability applies to both). Private goods are rivalrous in that their owners determine who uses them (themselves or others with whom they share them). In the case of what were originally called 'club' goods

[12] This is a pro-market, Austrian economics interpretation of Elinor Ostrom's thinking (1990).

(Buchanan 1965) to explain voluntary organizations (for example, sports clubs and civic groups), and are now often called and associated with local public goods (neighborhood zoning, selective schools admission systems, etc.), goods are made non-rivalrous within membership groups; thus, the label local public goods. Clubs or local public goods social arrangements might seem to make social groups economic agents, but in Neoclassical-mainstream economics they are still always explained in terms of how independent, utility-maximizing individuals behave.

There are two perspectives one can then take on this. One perspective – more an emphasis on their 'club' character – is that clubs or local public goods limit conflict when they create non-rivalrousness via membership rules whose advantage is essentially that they work like *de facto* private property rights in the club. A second perspective – more an emphasis on their local public goods character – is that the social arrangements involved replicate the public character of public goods and produce non-rivalrousness in this way, at least for some people. Both cases again anchor the interpretation of these goods again in terms of their relationship to private goods with the institutional backdrop of private property.

Thus, both in the case of the relationship between private goods and common pool goods and in the case of relationship between private goods and 'club' goods, the strategies that best reflect the Neoclassical-mainstream are the ones that premise private goods and private property, and makes market exchange between utility-maximizing individuals the principal form of economic and social interaction. This makes the principal agents in the economy asocial, *Homo economicus* individuals. Consider, then, SE contrasting interpretation of the goods taxonomy.[13]

(ii) The SE interpretation of the goods taxonomy

Following Lewis' theory of noncompeting groups, SE makes social groups rather than asocial individuals the key agents in the economy. Private property and market exchange are still institutionally central to how economies work, but apply to people differently according to their social group status. This then produces a quite different understanding of the relationships between the different types of goods in the goods taxonomy.

First, regarding the relationship between private goods and common pool goods concerning excludability and non-excludability (the top row in the Table), in a world with high levels of intergroup inequality, individuals in subordinated social groups disproportionately occupy the common pool domain where a Hobbsean 'war of all against all' rules. Then, of the two ways of addressing this domain in Neoclassical-mainstream economics, neither does the state secure the same protections for such individuals it does for individuals in dominant social groups (consider racial differences in the U.S. in public safety and police behavior), nor is the common pool domain susceptible to the creation of the same quality of property rights-like relationships for subordinated social groups (consider also in the U.S. differential access to legal systems). Thus, private property and free market exchange do not transfer their principles to this domain as in the Neoclassical-

[13] When we turn to social policy, central to sustaining the Neoclassical-mainstream view is its laissez faire narrative with elements of "neoliberal paternalism" used to guide "poverty governance" (Soss, Fording, and Schram, 2011). For SE, this 'governance' then has foundations in stereotypical beliefs that the social economic circumstances of members of subordinate social groups are due to their presumed character flaws.

mainstream interpretation, and the private goods domain does not function as a model for the common pool domain.

Second, regarding the relationship between private goods and 'club' goods/local public goods and rivalrousness and non-rivalrousness (the first column in the Table), when intergroup inequality is high, the resources available to subordinated social groups to form clubs are limited, and local public goods tend to favor dominant social groups and exclude others. Regarding clubs, relatively well-off individuals from subordinated social groups may find it in their interest to limit membership from less well-off individuals from these groups (Darity 2020). Regarding local public goods, when communities are segregated by group status, local public goods may rather work as mechanisms of exclusion that reserve neighborhoods to individuals from dominant social groups by zoning rules, housing barriers, school quotas, etc. Thus, the Neoclassical-mainstream interpretation of 'club' goods/local public goods does not succeed in producing non-rivalrousness by either of these routes.

SE thus interprets the goods taxonomy differently because it rejects the Neoclassical-mainstream assumption that the economy needs to be explained in terms of the behavior of independent, utility-maximizing individuals. Lewis' dual sector analysis begins from this assumption, and demonstrates the power of explaining the economy functions when we assume its agents are noncompeting groups. In SE, the strength and degree of 'noncompeting' depends on levels of intergroup inequality, where this reflects the social and institutional foundations in different societies. Then how private property and market exchange underlie economies in different societies depends on how historically they have been managed to the advantage of dominant social groups and disadvantage of subordinate social group.

5. Identity construction and identity dynamics

In Neoclassical-mainstream economics people's individual or personal identities are simply their personal preferences. Since these are always taken as given, and any investigation of what might change or influence them is almost always put aside, individual identities can never change. The exogenous preferences assumption is thus central to the asocial *Homo economicus* conception that makes utility-maximizing behavior an abstract, socially unembedded type of behavioral analysis.[14]

In contrast, in SE's social behavioral analysis people's individual or personal identities reflect how people are regarded socially, and how individuals adjust and respond to this. Thus, their identities can and do change. There are two aspects of this. First, at the individual level, since their identities include their social group characteristics, this gives them social identities as well. Then, the extent to which their social identities define them and how individuals themselves choose to manage this enters into the determination of and possible change in their individual identities. Second, at the social level, how societies affect social groups in terms of status and well-being influences how individuals understand, appraise, and act on their social identities. Thus, people's personal identities are a product of both how they construct them and how societies influence this through how they affect people's social identities.

[14] In Davis (2011) I argue that the Neoclassical-mainstream conception of individual identity is circular and thus empty, because it explains individuality solely in terms of individual characteristics.

Intersectionality, people having multiple social identities, adds a further dimension to this. On the one hand, having multiple social identities increases the social identity space in people's lives. On the other hand, the interaction of their different social identities makes how people act upon any one of them and all of them complex. SE's social behavioral strand investigates this in connection with the idea of identity mobility. Du Bois addressed it in connection with barriers to mobility across social groups and Veblen addressed it in connection with status-seeking and mobility within social groups.

Consider Du Bois' attention to mobility across social group barriers. When we explain barriers between social groups in terms of their permeability (Stewart 2010), people's identity mobility, and how they construct their identities, is influenced by both the nature of those barriers and the consequences for them of crossing or attempting to cross them. For example, when racial discrimination limits employment, education, and housing opportunities for blacks, an economic consequence is that their crossing or attempting to cross them can be said to come with a "racial transactions cost" or a kind of negative production externality (*Ibid*.). A psychological consequence is that they may feel they need to deny their being black in social interaction, feel devalued, and suffer cognitive dissonance (Goldsmith *et al*. 1997), a kind of social/self-alienation.

Consider Veblen's attention to mobility within social groups. Emulating others higher on a social ladder has another side: the desire to avoid being at the bottom of the ladder, or last-place aversion (Kuziemko *et al*. 2014). Dissatisfaction with failing to climb the ladder, then, is less important than dissatisfaction with being at the bottom of it, and people can accordingly take extreme steps personally and towards others to avoid it.[15]

Individual identities, then, are not given but constructed according to the nature of social group structures and what people do in dealing with them. Note that investigation of the two sets of mobility issues above holds constant change in those structures themselves. Yet for SE, since those structures are historically and socially constructed, they can and do change over time. How they change then affects people's individual identity construction in connection with the mobility issues above, while what people do in addressing those issues also affects how social group structures evolve over time – a combination of micro-level behavior and macro-level social structure. One recent approach to investigating this dual determination involves uses a game-theoretic analysis of different possible social group equilibria, distinguished by their alternative social norms, to map out different pathways for how social group relationships and structures can evolve, particularly as concerns social group hierarchies and intergroup inequalities (Darity *et al.* 2006).

Thus, there are two interacting identity dynamics that reflexively act upon and influence each other over time. The SE explanation of identity construction thus investigates this combined change and evolution in individual or personal and social group identities, producing both short run and long run types of time horizons. Policy strategies targeting the short run focus on changing individuals' immediate circumstances; policy strategies targeting the long run focus on changing social group relationships.

[15] This analysis has been replicated and generalized in behavioral economics in connection with the behavioral asymmetry between gains and losses. People are more concerned with the latter (Kahneman and Tversky, 1979).

6. An intersectionality analysis of selective stigmatization

Intersectionality creates a possible problem for the SE argument that social group hierarchies determine how economies work. When people belong to multiple social groups their different social identity relationships can modify how attached they are to any single group, and then rather than simply act on pro-in-group and anti-out group motivations, they can also act on anti-in-group and pro-out group motivations. This would seem to reduce the role social groups play in determining people's behavior, and might suggest that individual identity construction is driven more by other sorts of factors (Davis, 2015).

However, there is considerable evidence that social group hierarchies exist and persist in most societies. Racism, sexism, religious discrimination, and hostility to sexual choice are widespread. One recent piece of evidence showing social group hierarchies continue to exist is that the ill effects on employment and income of the 2007/2008 financial crisis were disproportionately born by people with collections of lower ranked social group identities and suffered less by people with collections of higher ranked social group identities (Arestis, *et al*. 2014; Addo and Darity 2021). Thus, in an intersectional world social group hierarchies appear to operate around rankings of collections of lower and higher social group attachments – a reformulation of the Classical concept of class.

How might we explain this behaviorally? One way that dominant social groups could to sustain more complex social group hierarchies would be if they adopted specific kinds of practices that specifically exploit intersectionality to their advantage. I develop this argument in terms of the idea of selective stigmatization, a discriminatory practice available to those in positions of power in dominant social groups that favors some of people's lower ranked social group identities but disfavors others. Those favored are social group identities that impose less risk to social group hierarchies when discrimination is moderated. Those disfavored, and selectively stigmatized, are social group identities which should they be addressed, pose greater risk to dominant social groups. Dominant social groups favoring the former also allows them to claim and deny they practice social discrimination, masking their disfavoring the latter where they face the greatest risk to social change. I previously discussed recent historical evidence that supports this analysis in connection with race and gender in the U.S. (Davis, 2023).

In the case of race, though black women have lower wages on average than white women, the gap between their wages has been relatively constant. In contrast, the wages of all blacks have worsened relative to all whites, because the gap between black men's wages and white men's has increased. Dominant social groups, then, find it in their interest to reinforce both wage relationships on the grounds that no apparent worsening of the first appears to indicate a commitment to non-discrimination while sustaining the second, behind the scenes, actually sustains inequality. Thus, they are motivated to selectively stigmatize black men but not black women, using the latter to parade the claim that they do not discriminate toward blacks.

In the case of gender, there is evidence that there is little gap between the wages of women who 'overwork' or put in long employment hours and men who also do. However, the wage gap between all women and all men has not decreased for many years. Dominant social groups accordingly find it in their interest to maintain the first relationship and ignore the second, particularly by promoting women who give up family time (in the way many men do). That is, there exists a selective stigmatization against women in general but not 'overworking' women, though it can again appear that employers oppose the gender gap while they help perpetuate it.

Thus, intersectionality not only does not act to reduce social group inequalities; it provides new opportunities for dominant social groups to maintain them by selectively exploiting them via an old, time-tested 'divide and conquer' strategy – a strategy that not only divides different people but divides individual people themselves. Central to this strategy is a masking of reality by a social narrative that draws on the values of those in subordinated social groups, while actual practice runs counter to that narrative and those values. In this way, selective stigmatization reinforces macro-level social group hierarchies and is reinforced by them.[16]

7. SE's social values and the policies they imply

Dominant social groups' exploitation of intersectionality arguably involves a response and adjustment to the decline of industrial economies with their relatively unchanging, more monolithic class and social relationships. The emergence of intersectionality and more complex social group relationships has accompanied the emergence of more complex types of economic production which create a wider range of occupations and employment opportunities. These changes have also changed narratives about social values. In a Classical world of broad social class/group polarities inequality had a simpler form than in the post-Classical world of many types of social groups and many types of inequality.

Selective stigmatization as a general practice has a versatility and capacity to model hierarchical social group relationships across multiple domains, not only in connection with employment, but also in connection with education, housing, health, etc. The dominant groups' social values this sustains are that throughout social life, the difference between those who prosper and those who do not can always be explained in terms of differences in their individual characteristics, particularly the deficiencies of the latter, the interpretation of which relies on social group stereotyping. The old Classical idea that inequality derives from the nature of people rather than society is thus given new meaning.

What, then, constitute contrary social narratives for SE, feminist economics, and all critical economic approaches that deny social inequality is an inevitable and 'natural' feature of the world? When we reject asocial individualism and emphasize that people are social beings, we tie individual well-being to the well-being of social groups. To promote the first requires we promote the second; thus, addressing social group inequality is a necessary means to addressing individual inequality. Of course in Neoclassical-mainstream economics social groups do not exist (and are at best nominal constructions). Rejecting this view entails developing arguments about what individuals are, what social groups are, the central importance of social group inequality, and then

[16] I make this argument regarding how micro-level practices and macro-structures reinforce one another using a simple complexity model in Davis (2023).

laying out specific policy strategies this implies. A key principle involves the concept of reparations.

Reparations are a non-individualist type of policy that aim to promote the well-being of individuals in virtue of and in connection with their membership in groups.[17] As a group-specific type of policies, reparations are different from individual-specific anti-discrimination policies which work on a case-by-case and person-by-person basis. That individualist policy framing may sometimes improve some individuals' situations, but in a world in which selective stigmatization works as a social practice to systematically to reinforce social inequalities for most people, that type of policy ultimately fails to address inequality in a significant way.

The western liberal political tradition, which underlies Neoclassical-mainstream economics, though it has historical social foundations, has become not only individualist but asocial individualist. This represents a mistaken and misleading understanding of what individuals are and what their identities involve. Stratification economics begins from realistic social foundations, and uses this to build an alternative analysis of market economies. In the balance regarding which understanding prevails is whether social policies can be designed to successively improve human welfare.

References

Addo, Fenaba R. and William A. Darity, Jr. (2021) "Disparate Recoveries: Wealth, Race, and the Working Class after the Great Recession," *Annals of the American Academy of Political and Social Science* 695 (1): 173-192.

Allport, Gordon (1954) *The Nature of Prejudice*, Cambridge, MA: Addison-Wesley.

Arestis, Philip, Aurelie Charles, and Giuseppe Fontana (2014) "Identity Economics Meets Financialisation: Gender, Race, and Occupational Stratification in the US Labour Market," *Cambridge Journal of Economics* 38 (6): 1471-1491.

Baumeister, Roy F. and Kathleen D. Vohs (2007) "Realistic Group Conflict Theory," *Encyclopedia of Social Psychology* 2: 725–726.

Becker, Gary (1957) *The Economics of Discrimination*, Chicago: University of Chicago Press.

Blumer, Herbert (1958) "Race Prejudice as a Sense of Group Position," *Pacific Sociological Review* 1 (1): 3-7.

Boianovsky, Mauro (2019) "Arthur Lewis and the Classical Foundations of Development Economics," *Research in the History of Economic Thought and Methodology* 37A: 103-143.

[17] For systematic discussion of the grounds for and concrete strategy for reparations in connection with American racial inequality, see Darity and Mullen (2020). Reparations policy is now also central to policies addressing climate change and the claims of developing nations vis-à-vis developed nations.

Bresser-Pereira, Luiz Carlos, José Luís Oreiro, and Nelson Marconi (2015) *Developmental Macroeconomics: New Developmentalism as a Growth Strategy*, London: Routledge.

Brimmer, Andrew F. (1993) *Economic Cost of Discrimination Against Black Americans*, Washington DC: Brimmer and Company.

Buchanan, James (1965) "An Economic Theory of Clubs," Economica 32 (125): 1-14.

Case, Anne and Angus Deaton (2020) *Deaths of Despair and the Future of Capitalism*, New York: Princeton University Press.

Chelwa, Grieve, Darrick Hamilton, and James B. Stewart (2022) "Stratification Economics: Core Constructs and Policy Implications," *Journal of Economic Literature* 60 (2): 377-399.

Darity, William A. Jr. (2022) "Position and Possessions: SE and Intergroup Inequality," *Journal of Economic Literature* 60 (2): 1-27.

Darity, William A. Jr. (2020) "Understanding the subaltern native middle class," in *History, Methodology and Identity for a 21st Century Social Economics*, eds., W. Dolfsma, D.W. Hands, and R. McMaster, London: Routledge; pp. 89-98.

Darity, William A. Jr. (2005) "Stratification Economics: The Role of Intergroup Inequality," *Journal of Economics and Finance* 29 (2): 144-53.

Darity, William A. Jr., Darrick Hamilton, and James B. Stewart (2015) "A Tour de Force in Understanding Intergroup Inequality: An Introduction to Stratification Economics," *Review of Black Political Economy* 42 (1-2): 1-6.

Darity, William A. Jr., Patrick L. Mason, and James B. Stewart (2006) "The Economics of Identity: The Origin and Persistence of Racial Identity Norms," *Journal of Economic Behavior and Organization* 60 (3): 283-305.

Darity, William A. Jr. and Kirsten Mullen (2020) *From Here to Equality: Reparations for Black Americans in the Twenty-First Century*, Chapel Hill, NC: The University of North Carolina Press.

Davis, John B. (2023) "A general theory of social economic stratification: Stigmatization, exclusion, and capability shortfalls," *Review of Evolutionary Political Economy.*

Davis, John B. (2015) "Stratification economics and identity economics," *Cambridge Journal of Economics* 39: 5: 12-15-1229.

Davis, John B. (2011) *Individuals and Identity in Economics*, New York: Cambridge University Press.

Deshpande, Ashwini (2011) *The Grammar of Caste: Economic Discrimination in Contemporary India*, New Delhi: Oxford University Press.

Du Bois, W.E.B. (1992) *Black Reconstruction in America 1860-1880*, New York: The Free Press; originally published 1935.

Fogel, Robert W. and Stanley L. Engerman (1974) *Time on the Cross: The Economics of American Negro Slavery*, Boston: Little, Brown and Company.

Foner, Eric (1988) *Reconstruction: America's unfinished revolution, 1863-1877,* New York: Harper & Row.

Goldsmith, Arthur H., Darrick Hamilton, and William A. Darity Jr. (1997) "From Dark to Light: Skin Color and Wages among African Americans," *Journal of Human Resources* 42 (4): 701-38.

Harris, Cheryl I. (1993) "Whiteness as Property," *Harvard Law Review*106 (8): 1709-91.

Kahneman, Daniel and Amos Tversky (1979) "Prospect Theory: An Analysis of Decision under Risk," *Econometrica* 47 (2): 263-292.

Kuziemko, Ilyana, Ryan W. Buell, Taly Reich, and Michael I. Norton (2014) "Last-Place Aversion: Evidence and Redistributive Implications," *Quarterly Journal of Economics* 129 (1): 105-49.

Kuznets, Simon (1955) "Economic Growth and income inequality," *American Economic Review* 45: 1-28.

Lewis, W. Arthur (1954) "Economic Development with Unlimited Supplies of Labour," *The Manchester School* 22 (2): 139-191.

Lewis, W. Arthur (1985) *Racial Conflict and Economic Development*, Cambridge, MA: Harvard University Press.

Marglin, Stephen A. (2019) "Generalizing Lewis: Unlimited Supplies of Labor in the Advanced Capitalist World," *Research in the History of Economic Thought and Methodology* 37A: 165-171.

Morris, Aldon D. (2015) *The Scholar Denied: W.E.B. Du Bois and the Birth of Modern Sociology*, Oakland, CA: University of California Press.

Ostrom, Elinor (1990) *Governing the Commons: The Evolution of Institutions for Collective Action*, Cambridge: Cambridge University Press.

Parsons, Talcott (1937) *The Structure of Social Action*, New York: McGraw-Hill.

Sherif, Muzafer (1956) "Experiments in Group Conflict," *Scientific American* 195: 54-58.

Sherif, Muzafer, O. J. Harvey, B. Jack White, William R. Hood, and Carolyn W. Sherif (1954/1961) *Intergroup Conflict and Cooperation: The Robbers Cave Experiment*, Norman: University of Oklahoma Book Exchange.

Soss, Joe, Richard C. Fording, and Sanford F. Schram (2011) *Disciplining the Poor: Neoliberal Paternalism and the Persistence of Race*, Chicago: University of Chicago Press.

Stewart, James B. (2022) "Connecting the Threads: Stratification Economics and the Political Economy of W.W.B. Du Bois," *Review of Political Economy*

Stewart, James B. (2010) "Racial Identity Production Dynamics and Persisting Wealth Differentials: Integrating Neo-Institutionalist Perspectives into Stratification Economics," *Review of Black Political Economy* 37 (3-4): 217-22.

Tajfel, Henri and John Turner (1979) "An Integrative Theory of Intergroup Conflict," in W. Austin and S. Worchel, eds., *The Social Psychology of Intergroup Relations*, Monterey, CA: Brooks-Cole: 33-40.

Veblen, Thorstein (1899) *The Theory of the Leisure Class: An Economic Study of Institutions*, New York: Macmillan.

Waller, William and Mary V. Wrenn (2021) "Feminist Institutionalism and Neoliberalism, Feminist Economics," *Feminist Economics* 27 (3): 51-76.

Williams, Eric (2021) *Capitalism and Slavery*, 3rd ed., Chapel Hill, NC: The University of North Carolina Press.

Wright, Robert E. (2017) *Poverty of slavery: How unfree labor pollutes the economy*, London: Palgrave Macmillan.