

Racism, the economy and ethics: where does it all begin?  
Paolo Ramazzotti

## 1. Introduction

Racism definitely is an ethically dense issue. It is generally considered a negative attitude to the point that even people who make discriminatory claims tend to declare beforehand something like “I am not racist but ...”. Despite this, racism is a persistent phenomenon. It is even more dramatic because it is conceptually difficult to grasp, as we shall see. Its existence raises theoretical issues concerning the conduct of individuals. Is it rational to be racist? Is the immorality of racism relevant for what individuals choose? Its existence also raises issues concerning the overall performance of the economy. Should the latter’s assessment take into account the existence of racist conduct? Should policy consider racism in lexicographic terms or in terms of cost-benefit analysis? While these issues are important and deserve to be investigated, the perspective followed here is different. It focuses on different ways to theorize the racism-economy relation.

Despite dominant views whereby there is only one way to do economics, the existence of a variety of distinct approaches and schools of thought sheds doubt on the existence of a unique scientific truth. It is therefore appropriate to investigate how the racism-economy relation depends on the accepted notion of economy. Even though it may not be all-encompassing, the general definition we begin with is that the economy includes all those activities that relate to the provisioning of goods and services. In so far as they accept this definition, economists differ according to what they assume provisioning activities involve.

It should be clear, as Georgescu-Roegen (1976) pointed out decades ago, that disciplinary boundaries are an expedient to understand a reality that cannot be grasped in its entirety. Tracing disciplinary boundaries involves a decision on what deserves to be investigated. An extreme, if dominant, view is that it is possible to identify a set of relations that characterize the economy and that are independent of all other forms of interaction. In other terms, conventional scholars define the economy in such a way that it is substantially isolated from its surrounding natural and social environment. Some interference may occur – they refer to it as “exogenous shocks” – but it is not crucial for the understanding of how economic activity occurs. The alternative to this closed-systems approach is that there are no once and for all boundaries between strictly economic activities and the environment they are situated in. The reason is that the economy interacts with the social and natural environment in ways that may be orderly but need not remain the same over time. More specifically, the economy is an open system, embedded in a historically contingent society<sup>1</sup>. It reflects its institutions and it contributes to their evolution. The degree of openness, under these circumstances, depends to a great deal on the persistence or change of the institutions involved<sup>2</sup>.

These different approaches to economics reflect modes of thought that ultimately depend on what issues are deemed relevant, that is, worth investigating. The issue is not so much one of providing realistic answers to given questions as one of properly formulating the (ethically) relevant questions. As Gunnar Myrdal (1978: 779) stressed, “Prior to answers there must be questions. There can be no view except from a viewpoint. In the questions raised and the viewpoint chosen, valuations are implied.”

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<sup>1</sup> A more detailed discussion of systemic openness is in Chick (1995, 2017), Chick and Dow (2001, 2005), Dow (1985, 2005) and Lawson (1997, 2006, 2019).

<sup>2</sup> “Institutions are systems of established and embedded social rules that structure social interactions” (Hodgson 2006: 18).

Since this chapter aims to discuss the racism-economy relation in the light of these different perspectives, it must outline what racism is. As mentioned above, and as the following section will argue in greater detail, the concept is fuzzy. Rather than provide a rigorous, if restrictive, definition of racism in an attempt to obtain clear but partial results, the discussion will maintain a loose definition of the term in line with the extensive outlook that an open-systems approach calls for.

The chapter is structured as follows. After the next section, which discusses the problems that defining racism raises, Section 3 will discuss the racism-economy relation from a closed-systems perspective. It will, therefore, draw on major contributions by mainstream scholars. Sections 4 and 5 will discuss the relation from an open-systems perspective, thereby drawing on heterodox approaches. Emphasis in the latter will be on the function that racism may have in a capitalist market economy, characterized as it is by distributional conflicts. Section 5 will focus on the other side of the coin, that is, what is likely to originate racism in such an economy. Section 6 will deal with the consequences and policy implications of the above approaches. Section 7 will discuss the ambivalent nature of racial self-identification as a means to overcome racialization. Section 8 will draw some concluding remarks.

## 2. Fuzzy racism

A major problem about racism is defining it. If we look at the definition of the word that an authoritative dictionary provides, we find two distinct concepts. The first one refers to a view: “a belief that race is a fundamental determinant of human traits and capacities and that racial differences produce an inherent superiority of a particular race”. The second one refers to an action: “the systemic oppression of a racial group to the social, economic, and political advantage of another”. Plausibly, these two concepts go together: People will discriminate others in so far as they believe that the latter are inferior. This need not be the case, however. Discrimination may be embedded in the social structure to the point that people are unaware of it and implicitly assume that differences within the population - such as educational performance, technical skills or standards of living - relate to non-racial, possibly individual, characteristics.

There is more to the issue. In order to decide that a race is superior, one needs to define race. The problem is that there is no scientific definition of the term when applied to humans. Indeed, race is a social construct. It may be defined in terms of a variety of ways. While skin color is the most common, it need not be important. Historically, Germans racialized Poles even though they were hardly distinguishable phenotypically (Clair and Denis 2015). Similarly, Italians recently racialized Romanians (Ramazzotti 2021) although, even in this case, no significant physical difference exists between these two populations. Despite the mocking caricatures of Fascist propaganda, Jewish Italians were physically not distinguishable from other Italians. Fascists and Nazis generally identified them through their surnames or because they lived in former ghettos. Even if we look at racist beliefs from a different perspective – where the issue is not what races are deemed inferior but which ones are deemed superior - problems arise. American Whites did not originally comprise Irish and Italian people but they subsequently did.

If conceptual rigor is an inadequate premise, that is to say, there is no proper way to justify discrimination, one may consider racism as a case of false consciousness. In this case, racism is neither an animus or a taste nor a belief. It is an ideology that supports and justifies racist practices. For instance, since it was convenient to expropriate the inhabitants of colonial territories, it was reasonable to salve one’s conscience by labeling those populations as inferior. Thus, rather than being a premise for oppression, racist views were their consequence.

Conceiving of race as a social construct and assuming that racism is an ideology does, however, move forward towards an understanding of what issues are at stake. It points to its social, as

opposed to individual, origin. This is, indeed, what recent research has focused on. Matthew Clair and Jeffrey S. Denis (2015) argue, for instance, that “[W]hereas earlier scholars defined racism as primarily an individual problem of overt hostility that could be diminished through interracial interaction, later sociologists viewed racism as fundamentally rooted in political, economic, and/or status resource competition; under these conditions, inter-group contact could exacerbate the perceived group threat that, in this view, drives racial prejudice and discrimination. Building on this latter perspective, other scholars have examined the intersections of racism with colonialism, class conflict, and gender.” These intersections may determine a process of cumulative causation (Myrdal 1962) whereby it turns out not to be sure whether certain forms of discrimination originated oppression or the other way round. This issue is particularly important from an open-systems perspective because it involves a greater range of possible interactions. The result is that the notion of racism turns out to be even more difficult to define.

If a proper understanding of racism requires that we consider racist practice, further problems arise. In the absence of a clear definition of race, it is not possible to distinguish it from other forms of oppressed minorities. Thus, discrimination of LGBTQ people may be similar to discrimination of black people and, in some instances, it may overlap. Similarly, both black and white people may suffer a social oppression such as exploitation. Just as in the case of racist views, we face fuzzy boundaries. Choosing to focus on a specific group may appear to be the best way to achieve clear definitions and a proper theory. It is fruitful, however, only to the extent that different group-specific phenomena are not interdependent. For instance, it makes sense to study discrimination of black people alone provided that such discrimination is unrelated to distributive conflict between, on the one hand, black and white workers and, on the other, capitalists. Such an interdependence would make it unclear whether racial oppression is a cause of social distress or its consequence, as when poor white people react in a racist way to their social debasement<sup>3</sup>.

These interdependences shed doubt on views of race that focus on racism as an exclusive byproduct of class and/or colonial relations. Doubtless, these analytical approaches may be insightful<sup>4</sup> but they tend to neglect the possible overlaps mentioned above. It is precisely in this perspective that an alternative approach points to the irreducibility of social conflict to exploitation, thereby focusing on intersectionality<sup>5</sup>. This, however, makes matters more complicated, since oppression operates on the different identities of the actors involved but, at the same time, those identities are defined in relation to that oppression. This apparent circularity, however, need not depend on a lack of logical rigor. Kimberle Crenshaw insightfully claims that “intersectionality [is] a provisional concept linking contemporary politics with postmodern theory” (Crenshaw 1991: 1243, n.9), which involves “questioning the ways in which meaning is socially constructed” (Crenshaw 1991: 1296, n.9).

Summing up, defining race is all but an easy and straightforward task. The issue is relevant, as will be clear at the end of this chapter, because it is intertwined with a strategy to overcome racism.

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<sup>3</sup> “Columbia historian and expert on slavery Barbara J. Fields (...) takes issue with the notion that whiteness is independent of the material conditions in which a person lives and the actual give-and-take of human relationships. Fields sees the concept of white identity as vague and “flabby,” investing “white people with agency (even if only in evil-doing),” yet never really explaining the complicated institutional, social, and economic mechanisms of racism.” (Isenberg 2020).

<sup>4</sup> Thus, according to Cedric Robinson (2000:42) “a critical aspect of the triumph of capitalism in the nineteenth century” is that “the dialectic of proletarianization disciplined the working classes to the importance of distinctions: between ethnics and nationalities; between skilled and unskilled workers; and, as we shall see later in even more dramatic terms, between races.”

<sup>5</sup> Nancy Folbre (2020) consequently “challenges the oppression/exploitation binary within Marxian political economy, proposing a broader definition of exploitation that can take manifold forms, intersecting, overlapping, and interacting within complex hierarchical systems where actors often find themselves in somewhat contradictory positions.”

This requires, however, that we understand how the economy-racism nexus can be framed. To this we now turn<sup>6</sup>.

### 3. The closed-systems perspective

The most simple approach to the relation between racism and the economy is in Becker (1957). Racism is conceived of as an employer's preference, which, all other things given, interferes with that person's objective function (profit maximization). Since this interference provides other businesses with a competitive advantage, the conclusion is that discrimination is self-defeating. Arrow (1971) argues that this need not be true. All other things equal, racial discrimination may lead to different wages for workers of different races, thereby making racism economically viable. Despite these contrasting conclusions, the structure of the model is the same. Racism is viewed as an exogenous occurrence. Its causes lie beyond the concern of economic analysis. It affects the allocation of resources but not the rules underlying allocation.

An alternative approach within the conventional perspective focuses on market failures such as imperfect information (Arrow 1971). Quite independently of preferences, employers may discriminate because of prejudice: they believe that members of that group have lower productivity. The outcome is pay inequality despite identical intrinsic abilities. Two features distinguish this approach from the others: the market is inefficient and discrimination need not involve a racist animus or belief. Truly, imperfect information avoids racist employers from having to face the hard facts of identical intrinsic abilities. Whether they are aware of it or not, it allows them to justify their unethical discriminating behavior by resorting to unwarranted beliefs about relative productivity. Even non-racist employers are likely to discriminate, however, because they choose according to 'statistical' beliefs, which arise because the discriminated group actually suffers a human capital gap due to previous discriminatory practices. Akerlof (1976) further qualifies this view by arguing that imperfect information makes people rely on social conventions, including those about racial differences. Since contrasting these conventions has a cost, because it breaches generally accepted rules of social conduct, there is an incentive to keep to them even when they do not reflect one's values.

A different approach focuses on unequal endowments or on the assignment of different rights. The argument is that a discriminatory legal system – for instance, slavery and Jim Crow laws in the USA – deprives the oppressed of the resources they need to achieve a decent standard of living. The resources may be physical, financial or human capital. Deprivation may be legal – as when people's property rights differ according to their race (Harris 1993; Darity et al., 2006) or equal rights are interpreted differently because of race blindness (Williams 1991; Wildman 2005) – or formally illegal but unopposed by the authorities. Discrimination, therefore, depends on two elements, racist beliefs and the polity.

This approach has nothing to say on the origin of the discriminatory practices, that is, why racist beliefs arise in the first place<sup>7</sup>. Furthermore, while the allocation of resources associated to unequal endowments leads to an unequal distribution of income and wealth, the rules that underlie

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<sup>6</sup> In most of the discussion that follows, the term racism should be intuitive independently of the qualifications suggested above. What is important, for the time being, is to consider that the term may be used in a more or less extensive manner.

<sup>7</sup> Obviously it identifies historical circumstances but these turn out to be exogenous causes, which are not backed up by any theoretical argument. It acknowledges, however, that racialization is likely to reinforce the racial divide (Darity et al., 2006).

allocation never change. More equitable endowments, coupled with a legal system that ensures the same rights for everybody, should do away with the economic consequences of racism<sup>8</sup>.

Despite their peculiarities, these views share a crucial assumption. The rules underlying the economy are those of a neoclassical market. Racism does not change them. It may take advantage of so-called “market failures”. Alternatively, it may determine a change of the legal system, to the advantage of a specific group, but it does not affect the basic nature of a price-centered allocation system<sup>9</sup>. Imperfect information or unequal property rights may reinforce racism but they do not cause it. Racism is exogenous. What determines it in the first place remains something beyond the scope of economics. At the very least, it is understandable only by accessing “the panoply of cultural characteristics used by anthropologists and sociologists to describe a society” (Akerlof 1976: 600).

Doubtless, a racist animus or belief may depend on circumstances that are completely independent of the economy. The true issue, however, is whether this is the general case. An alternative perspective is that racism and economic relations are at least to some extent interdependent to the point that the outcome of this interdependence overshadows the relevance of the other case. This is the topic of the next two sections.

#### 4. The open-systems perspective: racism as a means

The perspective followed here contends that the boundaries of the economy are not defined as well as the previous chapter implies. The economy interacts with its surrounding natural and social environment. This interaction is part of a more general process of historical change. Thus, the economy is not subject to a unique set of unchanging rules. Quite to the contrary, it is most likely to change over time in relation to social and societal dynamics. From this perspective, it is at the very least appropriate to substitute the generic term ‘economy’ with the more historically specific ‘capitalist market economy’.

Given the above framework, the theoretical question - how racism may fit into this dynamics – differs from the one discussed in the previous section. First, racism need not be a merely exogenous disturbance. It may be intrinsic to the dynamics of the economy. Second, granted that they are consistent, the approaches outlined in the previous section are likely to appear as specific to a broader picture. Third, the embeddedness of the economy in a broader historical process suggests that the economy-racism nexus is not given once and for all: “The fact that race is historically constructed compels us to analyze a long-term process of development and to pay close attention to the particularity of time and place.” (Nelson 2001: xxviii).

The analytical framework is inevitably different from the one depicted in the previous section. On strictly economic grounds, it begs for a theory of production and distribution that takes these different premises into account and that allows for different possible outcomes, that is, for the different shares of income that accrue to capitalists and workers. The difference from the above closed-systems approach is crucial. In the specific case of neoclassical theory, the claim is that, for any given output, there is a technically determined distribution, which racism may alter either because of market failures – for instance, the market power of one of the parties involved – or because the legal system assigns a privilege to someone, much like in feudal times. In an open-systems perspective, distribution is not determined by technical circumstances alone. Historically determined institutions concur to the determination of a social system, which, in turn, affects how

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<sup>8</sup> A much discussed proposal in this perspective is reparations (Darity 2009).

<sup>9</sup> In a somewhat schematic way, Akerlof (1976: 599) makes this point by claiming “There is a standard model of economic behavior, the Arrow-Debreu general equilibrium model of perfect competition. [...] to understand why peoples' lives are not as pleasurable as they might be (in the Pareto sense), it is necessary only to know why the real world fails to correspond to the Arrow-Debreu Utopia.”

distribution occurs. Thus, in a capitalist market economy the issue is not only to distribute a given output. It is to make sure that distribution and output are consistent with the social, as well as the material, reproduction of a capitalist society. This is where we need to situate the possible racism-economy nexuses.

Nancy Fraser (2016, 2018, 2019) provides an authoritative attempt to situate racism in a capitalist economy. She distinguishes between exploitation and expropriation. While exploitation is the wage relation based on the formally equal rights of employers and workers, expropriation is based on the dispossession of rights that is associated to slavery and colonialism. According to Fraser, the distinction reflects the original divide between Western workers, on the one hand, and slaves and colonized people on the other. Both exploitation and expropriation are functional to accumulation but the distinction is important because it accounts for the racial divide, which has prevented a common struggle between the two groups for a more favorable distribution.

The problem with this approach is that it establishes a parallel between forms of accumulation and populations but it does not actually explain racism as a belief or an ideology. (Chattel) slavery – as well as colonialism – may be justified by the a priori belief that the slave belongs to an inferior race. Such a belief is not necessary, however. Slavery can be resorted to because it is economically convenient, quite independently of whether it is justified on racial grounds. In an economy centered on making money, it is more than reasonable to adopt slavery even when it clashes with commonly held values such as that all people are equal or even brethren. At the very least, one may follow the pattern of 19<sup>th</sup> Century Britain, where British workers were reduced to dramatic living conditions but charities – often organized by their British exploiters – provided them with “humane” support.

The only possible account for the emergence of a racist ideology under these circumstances is that it provides a moral justification for expropriation. It is a case of false consciousness, that is, it acts as a distorted view of reality that makes sense of what would otherwise lead to cognitive dissonance. It is a rather weak account of racist behavior but, above all, it is extremely restrictive<sup>10</sup>.

The above approach does not allow to understand other features of racism. Consider that, as mentioned above, for quite some time Whites in the USA did not include Irish immigrants, not to speak of Mediterranean Europeans. A reasonable account for this is that these groups, much like African Americans, were in such dismal socio-economic conditions that they were most likely to accept lower wages and worse working conditions, thereby undercutting the economic conditions of the self-defined Whites. It was, therefore, reasonable, for the latter to contrast them. In terms of Fraser’s classification, all of these ethnic groups were being exploited rather than expropriated and, yet, an economic and a “racial” divide prevented them from uniting their forces<sup>11</sup>.

The absence of a theory of racist ideology leads to an inadequate account for the failure of the exploited and expropriated to coalesce and pursue a common struggle. In order to investigate this

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<sup>10</sup> Stuart Hall (2017: 147-8) provides a much more detailed account for the failed convergence of interests between Western workers and the formerly colonized: “The crisis of identity among the post-Enlightenment, post-imperial Western nation-states and their national cultures and national identities is today a global phenomenon of utmost significance. What is precipitating it, and what lies on its cutting edge, is not simply the internationalization of capital, with its modes of production and consumption, nor the weakening of the economic and political sovereignty of modern nation-states, [...], but rather the joker in the pack, the element that really unfixes a certain conception of homogeneous national cultural identity and puts under erasure the whole notion of ‘one people, one ethos, under one political roof,’ is mass migration.” (147-8). His emphasis on national identity crises, however, tends to downplay dynamics that occur within countries.

<sup>11</sup> Robinson (2000: 42) provides a broader account of discrimination among workers: “the dialectic of proletarianization disciplined the working classes to the importance of distinctions: between ethnics and nationalities; between skilled and unskilled workers; and, as we shall see later in even more dramatic terms, between races. The persistence and creation of such oppositions within the working classes were a critical aspect of the triumph of capitalism in the nineteenth century.”

issue, we must extend our inquiry and take account of not only how capitalist accumulation occurs but also how it affects social relations more generally. This is the subject of the next section.

## 5. The open-systems perspective: racism as an outcome

Up to this point, the distinctive feature of racism is that it is functional to the extraction of value through exploitation or expropriation. Racism, however, may also relate to economic activity in an indirect way: as a consequence of economic relations that involve and affect members of the dominant race, independently of the subordinated one. In what follows we shall consider two such instances: “ceremonial racism” and “scapegoat racism”.

Ceremonialism is the behavior that people resort to in order to signal their (desired) social status to others. It may depend on strictly economic circumstances, as when businesspersons show off their wealth in order to signal that they are successful, thus reliable, parties. It may depend on more general circumstances whereby people need to prove to themselves and to others that they are worthy of social esteem<sup>12</sup>.

Ceremonialism is ideally associated to a social ladder. In a capitalist economy, the ladder generally reflects differentiation in terms of income, wealth, consumption (Veblen 1994) or other indicators of social distinction, such as education or lifestyle (Bourdieu 1984)<sup>13</sup>. The higher the ladder is – the greater the differentiation is within society – the more important it is not to situate oneself in the lower rungs. This is especially the case when the dominant culture accounts for personal achievements in terms of individual characteristics, with little or no reference to extra-individual – social, economic, legal or cultural – circumstances. In other terms, the social ladder represents an indicator of ‘fitness’ to – that is, the ability to meet – society’s requirements.

People who are economically and socially worse off, thereby ‘proving’ that they are ‘unfit’, generally belong to specific sections of society such as, for instance, immigrants, single mothers, ethnic minorities. Ceremonialism, therefore, suggests that whoever does not belong to these groups will do their best to distinguish themselves, especially when they are not sufficiently distanced in strictly economic terms, from these minorities. Distinction may occur in terms of an emphasis on a variety of features such as local culture, morality and/or phenotypes. Racism emerges, in this case, as a reflection of the need for people to adapt to society’s requirements<sup>14</sup>.

Contrary to ceremonial racism, which reflects an adaptation to the requirements of a capitalist market society, scapegoat racism reflects a reaction to an economic change that clashes with people’s expectations. It has to do with the missed promises of the ideology that supports a capitalist market economy.

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<sup>12</sup> It is a feature of the economy that affects all sections of society. As Patricia Williams (1991: 23-4) points out, “‘If both rich and poor are giving up life itself and yet both are deeply dissatisfied, even suffering, they will never feel paid enough for their lot in life: what has gone on is not a trade or exchange, but a sacrifice. [...] They have been locked into a socially constructed life-disappointment by the carrot of hope that somewhere, just ahead, there is satisfaction or sufficiency of payment. Such a bargain is nothing more than a trade of self-esteem for money. Money buys self-esteem. If you’re poor, you can’t be happy because you’re the object of revulsion and ridicule; if you’re poor, you can’t be satisfied because that’s equated with laziness; if you’re poor, you can’t accept it as fate because poverty is your fault; and if you’re poor, you have to resent the upper classes because competition – or economic revenge – is the name of the game, the only way out.’”

<sup>13</sup> See Trigg (2001) for a discussion of the relation between Veblen and Bourdieu.

<sup>14</sup> In his description of the reactions of the white neighborhoods to the 1966 open housing marches led by Martin Luther King in Chicago, Nelson (2001) states that “Above all, their sense of who they were and what they had achieved was at stake; for as one local resident acknowledged, they measured their position in society by ‘how far they stand above the Negro’” (291)

The “American Dream”, whereby anybody and everybody was able to achieve prosperity and upward social mobility through individual diligence has been a common delusion throughout the capitalist world. It clashed, especially in recent decades, with low income growth, increased distributional inequality and scarce social mobility. Many of those who believed in this ideology and who did their best to achieve the envisaged goals eventually faced their failure. The individualistic ethos of the “Dream” made the situation even more dramatic in that the failure could not be ascribed to the structural inadequacy of the economy.

A situation such as this one determines a cognitive dissonance. On the one hand, people keep to the ideology of the idealized, meritocratic market economy that they absorbed over time and that the neoliberal turn emphasizes. On the other, they have to deal with their disappointment and frustration. As social psychologists have pointed out, this tends to determine the search for a scapegoat within an in-group/out-group dynamics (Tajfel 1981). Since the failures cannot be traced back to structural features of the economy, the alternative cause must be individuals. Thus, the issue is to identify those who are not “like us” and who prevent “us” from achieving what “we” pursue.

The likely culprits are those who are most different from “us”. These include quite a variety of groups. One of them is those who have economic power. It could be bankers or top businesspeople. In the past, it was Jews, because they were believed to have most of the financial power. Another group is politicians. From the perspective of the dominant individualist ideology, it makes sense to believe that politicians use the power they have to their personal advantage rather than for the community (Buchanan, 1997). Finally, there is the underdogs, those who claim to access the resources that “we” deserve, such as welfare, housing, jobs and proper wages. The underdogs are those who are poorer than “we” are or, in any case, socially marginalized: immigrants, ethnic groups who suffered discrimination in the past and people who live in an unconventional manner (hippies; Roma; LGBTQ+; religious minorities). Scapegoat racism refers to the latter group of “culprits”.

Although scapegoat racism is a phenomenon that emerged in a significant manner during the recent decades, as a consequence of neoliberal policies (Ramazzotti 2020), it is not a new phenomenon. It is at the root of the above mentioned White discrimination of the Irish in the USA. Since they were poorer, they were likely to outcompete White workers by accepting lower wages. Whites internalized capitalist market rules and directed their hostility towards those underdogs. A similar situation was pointed out by Karl Marx with regard to the English and the Irish of his time: “The ordinary English worker hates the Irish worker because he sees in him a competitor who lowers his standard of life. Compared with the Irish worker he feels himself a member of the ruling nation and for this very reason he makes himself into a tool of the aristocrats and capitalists against Ireland and thus strengthens their domination over himself.” (Marx 2010: 168-9; quoted in Camp, Heatherton and Karuka 2019).

The distinction between ceremonial and scapegoat racism is worth emphasizing. Ceremonial racists internalize, and adapt to, the ideology – the American Dream – that underlies the economy. They also accept – if unwittingly – its power structure, thus the inevitability of its outcomes and, consequently, the extant social ladder. They simply try to situate themselves – either in practice or just symbolically – at as high a rung of the social ladder as possible. Scapegoat racists, in turn, internalize the economy’s values but do not adapt to its performance. Contrary to ceremonial racists, they lack an all-encompassing view of the economy and society that is consistent with what they experience. Their in-group/out-group dynamics substitutes – rather than follows – a proper understanding of what they experience. It eventually allows them to make sense – albeit in an unquestioning manner – of their social discomfort. Although both ceremonial and scapegoat racisms are instances of false consciousness, scapegoat racism reflects a situation of economic instability which determines ideological and political instability.



What the two racisms share is the need to identify “others”. Whether it is a matter of mere distinction or the search for a culprit and whether the “others” are a single minority or a bundle of social groups is a secondary issue. The main point is that discrimination and racist ideology emerge out of economic interaction in a way that is related to distribution but not in terms of proper class – capitalists-workers - relations. The relevance of this issue seems to be crucial for the United States, where, according to Bruce Nelson (2001) “among European immigrants the imperative to become ‘white’ was a dynamic element in the historical construction of their identities as workers and as citizens” (293) to the point that “Until recent decades at least, the history of the white working class, in its majority, was one of self-definition in opposition to an often-demonized racial Other and intense resistance to the quest of African Americans for full citizenship.” (xl).

## 6. Social and societal consequences and their ethical implications

So far the issue was to understand how racism may emerge from economic interaction. Let us now examine how it affects well-being. The approaches outlined in the section on the closed-systems perspective point out two major effects. First, in so far as it allows racial discrimination to occur, economic activity is not free of racism but involves forms of interaction that are morally questionable. Second, a successful discrimination determines distributional consequences. The discriminated receive a lower income and, in some cases at least, have less wealth.

A broader, open-systems, perspective suggests that the effects of discrimination do not just involve the distribution of goods and services that consumers can choose in order to increase their utility or standard of living. They involve human rights as depicted by the Universal Declaration of Human Rights. First, the restricted access to goods and services not only prejudices the freedom to choose but it makes “an existence worthy of human dignity” (OHCHR: art. 23) more difficult, if not impossible. The result is a breach in social rights. Second, the need to make up for this differential access to goods and services constrains the possibility to take part in the activities of one’s community, thus to contribute to the collective dimension of one’s life (*ibid.*, arts. 21, 27). This prejudices especially people’s political rights. Third, discrimination as such denies the basic human right to be treated just like anyone else. It, therefore, restricts the broader freedom to choose how to conduct one’s life (*ibid.*, arts. 1, 2).

In order to appreciate the relevance of these consequences, let us consider what their policy implications are. The closed-systems perspective admits of two types of action. The first one consists in acting on the legal system in order to make sure that everyone has the same market-related – property, employment, transaction, etc. – rights. The second one consists in making up for distributional distortions through redistributive policies, such as money transfers or the provision of welfare services.

The viability of these policies depends on at least two value judgments. First, the effects of racism must be contrasted even if such a belief is considered a taste, thus beyond dispute. Second, the choice of an anti-racist policy must prevail over the conventional view that public action is distortive.

Policies related to the open-systems perspective are more extensive. They include a redistribution of income and wealth but the aim is not just to increase a monetized economic welfare. It is also to reduce invidiousness, thus, ceremonialism. To this end, means include the promotion of human rights for all in an attempt to provide people with the means – the capabilities in Sen’s (1985, 2000) terms – that allow them to choose how to conduct their lives.

Here, too, the viability of these policies involves a value judgment. It is no surprise, for instance, that the other side of the coin of invidiousness is incentives and that freedom as outlined by the capabilities approach may have disruptive consequences on extant socio-political establishments. More generally, these policies are not neutral: by changing the structure of rights, they inevitably

benefit someone to the detriment of someone else (Bromley 1989). This is likely to determine social tension.

Given these premises, a further value judgment concerns how to move from a given institutional setup, such as the extant structure of rights, to an alternative setup. From a statesperson's perspective, the issue is political: how gradually to proceed in the enactment of change. From the perspective of the economist, it is how to assess the boundaries of inquiry: up to what point is it reasonable to seek possible change<sup>15</sup>? While a closed-systems perspective contends that the rules of the economy are always the same, this is not the case in an open-systems perspective. In this case, what change is possible remains a pending question on theoretical grounds. The issue is similar to the search for a technological innovation: you will not find one unless you bet on what you do not know. Similarly, you cannot find an institutional solution unless you bet on the potential outcome of a search beyond the accepted boundaries.

The ethical implications of the two approaches are different in that the open-systems one conceives of a much more extensive potential change. To some extent this may suggest that it is ethically more demanding. This is somewhat misleading. The closed-systems approach is apparently less demanding only because its main assumption – systemic closure – inevitably creates an ethical straightjacket. Only change is possible that is compatible with the laws of price-centered resource allocation. The decision to focus on this type of change alone reflects a value judgments with inevitable ethical implications.

There is an aspect, however, where the two approaches are actually different. Policy decisions in the closed-systems approach ultimately reflect the given (racial) preferences of people. In the open-systems approach discrimination is more far reaching. It feeds back on the way people self-identify. It involves the discriminators because they purposefully self-identify that way. It involves the discriminated because, whether they like it or not, a derogative label is forced upon them. It involves all other people because they cannot pretend that those labels do not exist. The outcome is that all economic, social and human relations are biased, to some extent, by the existence of an identity that favors conflictual in-group/out-group dynamics rather than social inclusion. The quality of life of the entire population is, therefore, affected.

A specific aspect of this issue relates to behavior. While the closed-systems approach conceives of policy as a set of actions that affect agents' conduct but not their behavior, the open-systems perspective suggests that policy may affect not only the institutional structure but also the degree to which people are able (free) to choose how to conduct their lives. It also suggests that, as people's freedom increases, so does their awareness of the policy issues at stake and of how they should position themselves in the deliberative process of their community/nation. This is what makes the self-identification issue relevant and problematic. It brings to the fore whatever divergent interests there are. It is noteworthy that divergences do not occur only among different classes, "races" and social groups in general. They occur within social groups as well. The relevance of this issue from a race-centered perspective is the topic of the section that follows.

## 7. Ambivalent "racial" identities

In the first instance, one might argue that self-identification is a straightforward matter whereby (economically-related) racism determines a hetero-directed and biased perception of one's identity,

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<sup>15</sup> This applies to other issues as well. When heterodox economists contend that a given change in income distribution is not viable, they are most often suggesting that institutional change is possible only up to a point. Their decision not to investigate possible alternatives – that is to seek institutional novelty – is the outcome of a, possibly implicit, value judgment.

thus a distortion of the learning process that prevents individuals from choosing how to conduct their lives. This approach is consistent with the liberal tradition, as well as with the mainstream view in economics, whereby individuals are capable to decide what they need and what they want independently of external conditions. The idea of a distortion suggests that something precludes the freedom to choose that these individuals have. The elimination of this distortion will presumably restore original individual identities.

This view is consistent with the assumption that identities affect behavior through an a priori utility function so that the distortion ultimately has to do with this function<sup>16</sup>. This restrictive view neglects that what people appreciate depends on the circumstances that characterize their lives<sup>17</sup>. This is precisely what Sen (2000) stresses with his example of the Indian woman who is unaware of what she might potentially achieve if only she was not subject to the prevailing gender identity of her socio-cultural environment.

People have a multiplicity of identities. A person may self-identify as a parent, a worker, a fan of a sports team or of a singer, a political activist, a citizen of a particular country and so on. Identities may even be mutually inconsistent. Thus, parents may be anti-racist but would dislike the idea that their children marry people of another race. A person may be religiously in favor of peace and love but, at the same time, work in the army. Inconsistent identities may coexist because people neither are substantially rational (Simon 1976) nor do they probably care to be so. These inconsistencies are likely not to cause problems until they come to the fore: when a child actually chooses to marry someone of a different race or when the soldier's country goes to war.

What does occur is that external events often force people to deal with inconsistent identities. Under such circumstances, people must either choose that one identity prevails over the others, so that it becomes the salient one<sup>18</sup>, or reassess their overall identities in what is often referred to as an identity crisis. The true issue is how this may occur.

A teleological view of history would suggest that eventually people will direct their identity choices in a specific direction. If this teleological view were coupled with the notion of progress, one would need only allow history to run its course. If, on the contrary, history suggests that there is no unidirectional progress and that people do not have an original, a priori, identity, the issue turns out to be anything but straightforward.

This potential variety of identity choice need not mean that, in terms of well-being, it does not matter which identity prevails. For instance, it is understandable that young people in socially debased urban areas self-identify with juvenile gangs. This is, however, a case of identity lock-in that is doomed to have disastrous consequences for the young people directly involved as well as for the communities to which they belong. Thus, intuitively, some identities are better than others.

Identities are relevant not only because they indicate how people view themselves but also how others view them. They reflect reality but they also determine a view of reality. Whether it is the choice to be a military or a member of a gang, self-identification indicates what is relevant for the people involved but it also portrays a view of society where armies and gangs matter.

Thus, going back to the issues relevant to this paper, remember that there is no conclusive definition of race. In so far as it is a social construct, it depends on how people establish it. Practically all the above discussion may substitute race with a range of labels: skin color, ethnic origin, migration status, income status, religious faith and gender. This raises an important issue. Granted that some sections of society self-identify as the dominant "race", is it better that people who

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<sup>16</sup> See, for instance, Akerlof and Kranton (2000).

<sup>17</sup> Indeed, one might suggest that it is identities that determine utility functions, not the opposite.

<sup>18</sup> "Salience implies something is at the top of the mind and refers to how important a social category is perceived to be in a certain situation" (Trepte and Loy 2017, 4).

belong to an oppressed minority self-identify as members of that minority or should they self-identify with a broader class of oppressed minorities? For instance, do black people, women and LGBTQ people in the USA share common civil rights goals that would allow them to coalesce and have greater political power or is it better for each one of these to emphasize their specificities so as not to dilute their identities? Is it better for black people in the USA to struggle for their economic and social rights relative to non-blacks or should they coalesce with socially debased people independently of their phenotypic features?

While it is reasonable to struggle for the rights of each specific minority, it is worthwhile to wonder whether it is desirable that those minorities should keep on existing as social constructs, albeit with socially acknowledged rights. Discrimination exists because of an animus, a belief or an ideology that leads to the unwarranted depiction of a minority. Self-identification based on the features of that minority supports and, to some extent, justifies the existence of that depiction. It would be reasonable if the discriminating views were inevitable ahistorical preferences. Quite to the contrary, in so far as the identification of a minority is based on a distorted view of reality that is specific to a social and historical period, it might be better to progressively overcome that construct rather than reinforce it through self-identification<sup>19</sup>.

Apparently there is a sort of a trade-off between the short run – when slogans such as “Black lives matter” are inevitable – and the long run, when the slogan might be “Any life matters”. It is open to debate whether the policies associated above to the open-systems approach will be the curveball that disrupts the trade-off.

## 8. Concluding remarks

It is now possible to draw some concluding remarks on the value judgments this paper leads to, with their inevitably ethical facets. The paper pointed out that racial discrimination may be discussed in terms of a closed-systems view of the economy whereby what matters is how exogenous views affect the allocation and the distribution of resources. Viewed from this perspective, the causes of discrimination lie beyond the scope of economic inquiry. An alternative approach is to investigate discrimination with an open-systems perspective. This involves understanding not only the possible economic effects of racism but also its interdependence with the specificities of the social and societal environment it is embedded in.

The choice between these two approaches to economic inquiry reflects a different ethical value judgment concerning what economic inquiry is for, what boundaries should be depicted to distinguish the economy from its surrounding environment and what the role of the economist is. This role may be primarily to focus on the allocation of resources, even though other – secondary – issues, including racism, may deserve some attention. Alternatively, it may consist in understanding how provisioning is interdependent with the social structure and the societal arrangement of

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<sup>19</sup> Wendy Brown (1995) notes “What if we sought to supplant the language of ‘I am’ – with its defensive closure on identity, its insistence on the fixity of position, its equation of social with moral positioning – with the language of ‘I want this for us’? (This is an ‘I want’ that distinguishes itself from a liberal expression of self-interest by virtue of its figuring of a political or collective good as its desire.) [...] What if ‘wanting to be’ or ‘wanting to have’ were taken up as modes of political speech that could destabilize the formulation of identity as fixed position, as entrenchment by history [...] In short, if framed in a political language, this deconstruction could be that which reopens a desire for futurity where Nietzsche saw it foreclosed by the logics of rancor and resentment.” (75). In a footnote she adds: “Jesse Jackson’s 1988 ‘keep hope alive’ presidential campaign strikes me as having sought to configure the relationship between injury, identity, and desire in something like this way and to have succeeded in forging a ‘rainbow coalition’ because of the idiom of futurity it employed – want, hope, desires, dreams – among those whose postures and demands had previously had a rancorous quality.” (75, n. 42).

society. In this case, racism is neither a curiosum nor an analytical niche but an aspect – sometimes a central one - of that interdependence.

The implications of such a decision are rather important. While a closed-systems perspective views racism as an exogenous interference with the functioning of the economy, the open-systems one depicts racism as intrinsic to the economy. This need not imply that racism is a specifically economic phenomenon. It does imply that, depending on how different economic actors – including policy-makers – interact, both racism and its economic effects may vary.

The two different approaches lead to distinct policy implications. The closed-systems view focuses on how to deal with the effects that racism has on the allocation and distribution of resources. In order to do this it may need to draw on the insights of other disciplines that explain the persistence of racism but this does not change its main concern. The open-systems view, on the other hand, raises two issues. The first one has to do with the ends of policy and of the economy itself: whether there are human rights, for instance, that prevail over any allocative issue. This inevitably involves an ethical value judgment concerning what the priorities are, which generally involves deciding who is to gain and who is to lose from such a change. Just as for the boundary issue, it involves an ethical value judgment about what is relevant for some sections of society and/or for society as a whole.

The second issue is whether it is possible to conceive of an institutional change and an economic structure that reflect such priorities. While, in the closed-systems perspective, price-centered resource allocation is the key feature of the economy and institutions can only complement it or constrain it, in an open-systems one, multiple ends are possible and institutions may affect the relation between specifically economic values and societal values. This may eventually allow for a change in the very rationale of the economy, its priorities and its overall structure.

This raises an epistemic problem that is similar to that of an entrepreneurial innovator. The latter must decide – in extremely discretionary terms – whether it is worthwhile to pursue a learning process – that is, to seek into the unknown - that may eventually lead to the introduction of a profitable innovation. A social scientist must decide whether a social innovation is worth seeking that may achieve a more desirable social structure in terms of the freedom for people to choose how to conduct their lives. While the entrepreneur decides by comparing the possible money gains with the learning costs, the social scientist must compare the benefits of the desired structure with the social costs – including social conflicts - that its achievement implies. These benefits and these costs cannot be reduced to money terms. They involve an assessment of the social consensus – ultimately, the extant degree of freedom – that change requires.

This raises a further issue. It is that individuals, along with the economy, are not subject to given and unchanging rules. They situate themselves in an institutional context that is not given a priori. Depending on how they do this, they direct institutional change in one direction rather than another. Consequently, both policy-makers and individuals who struggle against racism are faced with what appears like a moral dilemma. On the one hand, they must uphold the rights of the discriminated minorities, thereby stressing their specific identities qua minorities. On the other, they must overcome the discriminating labels that identify minorities. While this may appear just as matter of political strategy, it begs the question up to what point race-based identities can be overcome. It points to the fact that, in an open-systems perspective, there cannot be a definitive outcome. It ultimately involves an ethical choice between racial entrenchment and the uncertainty of possibly new identities.

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