

## Introduction

### Rewriting the Rules of Racial Inequality: An Agenda for Structural Inclusion

Two dominant conversations have driven progressive politics in recent years: one centered on the moral, social, and economic injustices that have arisen from decades of unchecked economic inequality, and another centered on structural racism. A number of intersecting forces have brought these issues to the fore: frustration about Americans' worsening economic circumstances, particularly in the wake of the 2008 global financial crisis and the so-called economic recovery that followed; outrage over the deaths of people of color at the hands of police; activist movements such as Black Lives Matter, Fight for 15, Occupy Wall Street, and the Women's March on Washington; and the intellectual work of Thomas Piketty, Joseph Stiglitz, and others focused on the mutually reinforcing relationship between economic and political inequality.

At times, we have seen the people who care about these two issues work in tandem to bring questions long ignored by America's elites into the mainstream political debate. Such movements as the Fight for 15 or FedUp have united racial justice and economic justice activists against trickle-down economic policies that disproportionately disadvantage people of color. But too often, progressive leaders mistakenly assume that ostensibly "colorblind" economic policies are sufficient to address the obstacles to equal opportunity and equitable outcomes for people of color. Indeed, in the wake of the 2016 presidential election, there was a call among some progressives to abandon "identity politics" – that is, the identity politics of nondominant social groups – in favor of an exclusive focus on class and economic inequality.

In this book, we reject that notion, arguing that race and class are inextricably linked. In order to understand racial and economic inequality in America today, we must look below the surface and understand the web of rules and institutions that lead to unequal outcomes. While those unequal

outcomes are very clear to a large proportion of Americans, many still believe they are the result of personal ambition and individual choices, and that the solution for racial inequality is for individuals to take more “personal responsibility.”

As of 2007, two-thirds of the general population, including 71 percent of whites and even 53 percent of black Americans, believed that black Americans who “have not gotten ahead in life are mainly responsible for their own situation.”<sup>1</sup> This belief is incorrect, and a rules-based analysis illuminates how and why: our rules and institutions are rarely colorblind, and even when policy makers intend on race-neutral results, policies are refracted through historical institutions, current rules, and societal norms, resulting in disparate impacts on black Americans.

First, we must understand the scope of the problem. As we will describe throughout this book, the disparities are familiar but overwhelming: at every level of education, black Americans are paid less than their white counterparts. At every level of income, black Americans have fewer assets than their white counterparts. Compared to white Americans, black Americans have higher rates of unemployment, accrue less wealth, and have lower rates of homeownership. But just as critically, even middle-income black Americans have unequal access to the quality-of-life goods – education, health, and safety – that economic success is expected to guarantee.

These disparities also are gendered. Black women, in particular, are situated uniquely at the intersection of race, class, and gender hierarchies, historically and today. They make up a disproportionate share of minimum-wage workers. They face labor market segregation that pushes them into insecure jobs with low pay and few benefits. They bear the weight of community and familial well-being in the vacuum left by mass incarceration. And persistent racial and gender pay gaps prevent them from earning a just and equitable wage.<sup>2</sup>

As noted, many progressives consider economic policy alone to be a sufficient remedy for these issues. But for black Americans, higher incomes or more education do not remove the threat of injustice. Indeed, the continued shooting of unarmed black Americans underscores the limits of economic policy in addressing systemic racism.

A progressive economic agenda that seeks to raise the minimum wage, for example, will benefit black Americans, but it will not change the fact that a dollar of income in black hands buys less safety, less health, less wealth, and less education than a dollar in white hands. Nor will it address the underlying structures of racial exclusion and discrimination that cause

black Americans to be overrepresented among unemployed and low-wage workers and underrepresented in the middle class, let alone “the 1 percent.”

In this book, we will show that *racial rules* undergird our economy and society and are the driving force behind the patently unequal life chances and basic opportunities for people of color and women. We build on and extend the framework described in *Rewriting the Rules*, the 2015 policy report published by Joseph Stiglitz and the Roosevelt Institute. That report challenges traditional economic thinking, arguing that inequality is a choice we make with the rules we create to structure our economy. These rules, the report argues, shape the economy and thus shape a range of opportunities and outcomes. They are the “regulatory and legal frameworks that make up the economy, like those affecting property ownership, corporate formation, labor law, copyright, anti-trust, monetary, tax and expenditure policy, and other economic structures.” And they quite clearly include “an entire set of rules, regulations, expenditure policies, and normative practices that excludes populations from the economy and from economic opportunity.”<sup>3</sup>

Throughout this book, we define and outline a broad collection of these rules, many of which have deep historical roots. The historical arc of our nation’s racially exclusionary and discriminatory policies is long, and remedying today’s injustices will require looking backward and understanding the inextricable link between the policies of our past and present. As epidemiologist Camara Phyllis Jones writes, “the association between socioeconomic status and race in the United States has its origins in discrete historical events but persists because of contemporary structural factors that perpetuate those historical injustices.”<sup>4</sup> As such, we trace the ways in which the wealth-building and income constraints of slavery, Jim Crow, and New Deal policies continue to reverberate in asset-poor black communities. We also examine how other rules of those periods have shaped contemporary outcomes across a range of social and economic realms.

Most of the more contemporary rules that disproportionately impact people of color are less explicitly discriminatory. Yet we argue that policies that purport to be colorblind frequently have both racialized origins and racialized consequences. It is important to acknowledge that even policies that are meant to apply equitably across our society exist in the context of racialized historical rules, ensuring that policy outcomes differ by race.

This is especially apparent in the structure of the criminal justice system, which is deeply racialized in practice despite being race-neutral on its face. Colorblind rules such as cuts to public services and the social safety net shape the socioeconomic opportunities available to communities of color, as demonstrated by the water crisis in Flint, Michigan (ongoing at time of

publication). Other rules are simply norms that codify personal bias, which is often unconscious – for example, occupational segregation that results from the repeated channeling of people of color into lower-wage positions.

## WHAT OTHER EXPLANATIONS MISS

### Neoclassical Economics

Over the last thirty years, proposed solutions to disparate economic outcomes have focused primarily on either individual responsibility or developing human capital – more rigorous education standards, skilling programs, investments in prekindergarten, and so on. However, personal responsibility cannot explain the unequal life chances faced by people of color, nor can it explain the increasingly limited social mobility of poor children and children of color, which results from the widening of the inequality ladder. And, unfortunately, education has not been the silver bullet that was promised: black Americans at every level of education continue to earn less than their white counterparts.<sup>5</sup>

It is no surprise that solutions oriented around individual responsibility or human capital growth have failed given the faulty classical economics from which they derive. The human capital approach is based on economic models that assume compensation is driven solely by productivity – the effort an individual is willing to exert and the skill with which it is exerted. The most influential version of this theory, associated with Gary Becker's *The Economics of Discrimination*, holds that discrimination cannot exist in labor markets that have at least some employers who are not racially biased.<sup>6</sup>

The theory has it that in a perfectly competitive economy, as long as there are some individuals who do not have racial (or gender or ethnic) prejudices, they will hire members of the discriminated-against group because their wages will be lower than those of similarly qualified members of the not-discriminated-against group. Of course, markets are not perfect, and decades of field experiments have proven the quite common-sense observation that discrimination persists in labor markets.<sup>7</sup>

*Neoliberalism* is a key concept that we will refer to frequently throughout this book. At its core, neoliberalism is an economic theory that the best way to advance human well-being is to encourage individual entrepreneurial freedom and create institutions that assert strong private property rights, free markets, and free trade. Under neoliberalism, the role

of the state is to oversee those functions but take a hands-off approach to all other rule making.<sup>8</sup> For example, neoliberalism is fundamentally opposed to government regulation and in favor of privatization (withdrawing the state from the role of providing public services). As the antecedent to this book, *Rewriting the Rules of the American Economy*, argues, “deregulation” is in fact “reregulation,” and “free markets” do in fact have rules; those rules simply benefit the already-powerful corporate and financial sectors at the expense of people. We use rules to ensure that markets perform as they should, especially given forces such as structural racism that affect the way markets function. Throughout this book, we will show how neoliberalism is a belief system and economic theory that was both fueled by and reinforces structural racism and racial rules.

Other terms we will use to refer to this concept (with similar or slightly varying definitions) include *market fundamentalism*, *market freedom*, and *laissez-faire economics*.

Arthur Okun, Lyndon Johnson’s chair of the Council of Economic Advisors, famously argued that there was an inherent trade-off between equality and efficiency insofar as government institutions interfered with the free market. Okun’s argument has been hijacked and simplified to argue against redistribution or legal protection of human rights.

However, two facts must be noted. First, most recent research, from case studies to cross-country analysis, shows no negative relationship between redistribution and economic performance.<sup>9</sup> Therefore, if the chief argument against enacting the kind of policy agenda for which we advocate is a concern about long-term economic growth, we can be confident that the preponderance of evidence suggests there is no validity to that concern.

Second, even if we indulge the premise of Okun’s 1970s argument, Okun himself claimed an exception to his “trade-off” was the case of efforts to reduce discrimination because it is so inefficient to underutilize human capital. As the United States moves toward a majority-minority population, continued barriers to building or utilizing human capital for people of color could increasingly impoverish our national assets.

### Observable Bias

Another set of policies to reduce the racial income gap includes a combination of improving educational outcomes and reducing discrimination in

hiring. While these are more complex and effective prescriptions, they are also grounded in simplistic economic models that fail to account for the full system of racially discriminatory structures. Many economists estimate the cost of job market discrimination to African Americans as the pay differential between similarly educated white and black workers. In this tradition, economists such as James Heckman calculate that much of the disparity in earnings and outcomes experienced by black Americans is due to differences in skills rather than discrimination.<sup>10</sup>

However, we argue that the models and regression results underpinning these approaches mostly capture the effects of individually mediated bias. As such, they fail to account for the degree to which other tested independent variables (education, skill, experience) are themselves dependent variables produced by actions and choices that are embedded in a political economy shaped by racially exclusionary and discriminatory rules. In plain language, the education and skills of a given job candidate are outcomes of life choices made in a world constrained by racialized rules.

### **Progressive Economics: A Focus on Class**

A more progressive economic framework understands the role of rules and institutions in circumscribing the economic outcomes for some and privileging the outcomes for others. This approach tends to begin and end with a focus on class: it asks how best to improve the economy for the least wealthy and powerful, but rarely considers race or gender.

The latest iterations of the inequality debate in the United States derive from this framework and have zeroed in on important drivers of economic inequality: weakened financial regulations, rampant short-termism in corporate decision making and an increase in corporate power, the erosion of labor protections, and the lack of collective power of working families and ordinary people. The policy agenda flowing from this diagnosis attempts to distribute power and income more broadly, whether through tax-and-transfer redistributive approaches or through “predistribution,” that is, increasing wages before redistribution or expanding access to the labor market.<sup>11</sup>

We certainly agree with this general approach. But we also know that even if a rising tide were to lift all boats, and even if it were to benefit communities of color proportionally more than white Americans, this approach still would be insufficient to address systemic racial inequality. For example, a significant increase in the minimum wage might positively benefit a greater percentage of African Americans compared to whites. However, it would

not address the root causes behind the disproportionate representation of black Americans and other nonwhites in low-wage jobs, would not guarantee a minimum number of hours of work, and would not benefit those who are unemployed. More aggressively inclusive economic policies would benefit people of color, but they would not keep a black boy like Trayvon Martin walking down his street with a bag of Skittles from becoming a target of violence.

#### RACIAL RULES: AN ALTERNATIVE FRAMEWORK

We characterize our alternative institutionalist or structural framework as a theory of racial rules. Our framework argues that rules matter and having the power to write the rules matters. We argue that the economy is shaped by choices – choices determined by legal, regulatory, and expenditure policies, among other factors. It is also shaped by institutions that codify societal norms. In this way, the values and interests of the powerful (in terms of class, race, gender, etc.) are baked into the economy and can circumscribe opportunities and outcomes for the less powerful.

When the rules are written to benefit those who already hold privilege and power, as they too often are, the incentives for preserving and reinforcing those rules increase, and more resources are devoted to shaping the rules in favor of the powerful. In this kind of “rent-seeking” economy and society, short-term gains for the privileged (the “rent-seekers”) are accompanied by long-term losses for the majority of individuals and for the economy as a whole.<sup>12</sup> And when the rules divert resources away from black Americans and black communities, as they have for more than two centuries, they result in racial inequality. This is not only a continued violation of human rights and American values but also imposes long-term costs on families of color and, in turn, on all Americans.

Throughout this book, we describe two kinds of rules: formal and informal. Formal rules are the regulatory and legal frameworks that make up the economy and society – including those that affect property ownership, corporate formation, labor and employment laws, copyright, antitrust, monetary, tax and expenditure policy, and other economic structures.<sup>13</sup> These laws, policies, and regulations are enacted and enforced by political decision makers.

Informal rules are not codified but are, instead, normative practices, behaviors, and standard operating procedures that also result in unequal racial outcomes. Informal rules can be structural – for example, the well-documented practice of steering people of color into lower-paying

occupations.<sup>14</sup> They also can become manifest as personal racial bias, as in the case of a shopkeeper who provides poor or no service, or overt hostility, to African American customers.

Especially on matters of race, formal and informal rules interact, and both have very clear effects on economic outcomes and overall well-being. Within this broader framework, this book examines three distinct categories of racial rules:

- **Exclusionary rules** include *racially explicit laws*, such as slavery, Jim Crow, and the redlining of mortgages or other services. These exclusionary rules all actively sought to keep black Americans socially and economically separate from the rest of American society. Exclusionary rules also include *racially implicit laws*, such as the omission of domestic and agricultural workers from 1930s labor provisions, or today's mandatory minimum sentencing laws, which have a disproportionate impact on people of color. Both historically and today, implicit exclusions continue to have outsized impacts on economics, health, and well-being. Also included in this category is *racial bias*, both structural and personal.
- **Inclusionary rules** are laws, regulations, and policies that advance racial inclusion and equity. These rules are often "race-conscious" remedies – such as *Brown v. Board of Education*, the 1964 Civil Rights Act, the 1965 Voting Rights Act, and affirmative action in employment – intended to address racial injustices.
- **Nonrules** are the *absence of rules*, which allows discrimination and racially unequal consequences to persist. We might think of these as regulatory gaps. For instance, in the banking sector, the lack of rules to curb a range of predatory lending behavior in the run-up to the financial crisis of 2008 was a regulatory gap that, combined with interpersonal racial bias and incentives, resulted in racialized consequences (loss of wealth and assets) harmful to communities of color. Nonrules are also domains in which rules to advance racial equity are warranted but do not exist. Finally, nonrules can be what political scientists call "nondecisions"; this is when power is exercised to keep issues off of the agenda, resulting in a lack of rule making in areas where rules are sorely needed.

Throughout this book, we examine the cyclical nature of these racial rules, illustrating how they intersect and reinforce one another, thus codifying preexisting societal norms and shaping future norms. As we discuss in detail in the following chapter, these rules are the products of distinct historical eras.



These racialized rules fuel and perpetuate different forms of racism:

- **Institutional or structural racism**, which “stresses how past mistreatment drives current inequities” and is “codified in our institutions of custom, practice, and law.”<sup>15</sup> As Camara Phillips Jones explains, this results in racially unequal access to goods, resources, opportunities, and power.<sup>16</sup> It also includes informal norms, practices, and behaviors that result in racially inequitable outcomes.
- **Personally mediated or interpersonal racism**, which includes prejudice – “differential assumptions about the abilities, motives, and intentions of others according to their race” – and discrimination – “differential actions toward others according to their race.”<sup>17</sup> As Jones explains, this type of racism can be intentional or unintentional and includes acts of “commission as well as omission.”

#### OUR FRAMEWORK AND ITS PREDECESSORS

Our rules framework attempts to be broad and comprehensive. Our focus is on identifying the rules and structures that perpetuate unequal racial outcomes in an attempt to identify solutions.<sup>18</sup>

We build on an extensive, related literature. Perhaps most closely related is John Powell’s concept of “racialization,” which he defines as “harmful practices, cultural norms, and institutional arrangements” that “create and maintain racialized outcomes.”<sup>19</sup> Powell explains that “because racialization is a historical and cultural set of processes, it does not have one meaning. Instead, it is a set of conditions and norms that are constantly evolving and interacting with the socio-political environment, varying from location to location, as well as throughout different periods in history.” This conflicts with how we traditionally think of race and racism, as a “well defined and a limited set of discrete practices that remain constant over time, in spite of social changes.” We also borrow Powell’s concept of “targeted universalism” to propose a way forward to a more inclusive future. As Powell explains, targeted universalism is:

An approach that supports the needs of the particular while reminding us that we are all part of the same social fabric. Targeted universalism rejects a blanket universal which is likely to be indifferent to the reality that different groups are situated differently relative to the institutions and resources of society. It also rejects the claim of formal equality that would treat all people the same as a way of denying difference.<sup>20</sup>

We also draw on many other scholars who advance historical and sociological explanations of persistent and durable racial inequality.<sup>21</sup> Of particular note is the work of William Darity, Jr., who counters traditional economics' focus on individual behavior with "stratification economics," which highlights the "structural and intentional processes generating hierarchy and, correspondingly, income and wealth inequality between ascriptively distinguished groups."<sup>22</sup> Institutions and rules are thus designed to protect privilege, Darity argues, and the deficit narrative utilized in American politics is itself is a tool to defend and perpetuate material benefits.

Our framework is slightly different, in that it does not attempt to identify the motive behind racial rules. We do not argue that racial inequality is simply a byproduct of efforts to secure material privilege or that material privilege is simply a byproduct of racism. But Darity and others have greatly influenced our thinking, and both Darity and Powell have contributed chapters to this book in order to explain their theories in greater detail.

We also draw on a number of scholars who describe the cross-cutting dimensions of inequality based on class, gender, sexuality, and geography as they play out within black communities.<sup>23</sup> And we owe a debt to those who focus on structural transformations of the economy and the rise of concentrated urban poverty, including most prominently William Julius Wilson. Wilson highlights the importance of class in African American life chances and explores how deindustrialization and the disappearance of well-paying manufacturing jobs, racial residential segregation, and the pushback against fully enforced civil rights laws combined to create racialized urban poverty at the same time as mass incarceration accelerated.<sup>24</sup> Loic Waquant describes the current U.S. criminal justice system as one of our nation's four "peculiar" race-producing institutions, one of "forced confinement" built on years of racial subjugation and exclusion.<sup>25</sup> The other three are chattel slavery, Jim Crow, and the northern "ghetto" that corresponded with the Great Migration that ended in the 1960s.

A number of others have illustrated how our vast racial inequities – along with the specific penal system changes of the last three decades – have only deepened and reinforced the systemic social and economic exclusions experienced by black Americans, their families, and their communities. As Frederick Harris, Valeria Sinclair-Chapman, and Brian McKenzie show, these forces undercut the rise of black political power in the post-civil rights period.<sup>26</sup>

And finally, we draw on the work of those who show how geography and place are significant determinants of racial inequality.<sup>27</sup> To paraphrase sociologist Patrick Sharkey, African Americans are "stuck in place" in