Racial Disparities and Neoclassical Economics: The Poverty of Human Capital Explanations

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The ascendency of capitalism and the market mechanism have elevated the individual and the assumption of individual responsibility to paramount consideration in policy discussions. Our view of racial disparities has moved more toward a philosophy of individual culpability and away from a social responsibility, at least in part, because of the dominance of neoclassical economics and its adherence to assumptions of individual choice and rationality. This article explored the explanatory power of neoclassical economics, in particular the human capital model.

One hundred thirty years after the end of slavery, 40 years after the Supreme Court's landmark decision in *Brown v. Board of Education*, 30 years after the 1964 Civil Rights Act, America is still beset by the issue of race. Recent passage of California's Proposition 209, which effectively eliminated affirmative action; Houston, Texas's, rejection of a similar measure; and the recent resolution of *Piscataway v. Taxman* underscores that race, and race-based policies, continue to have a firm foothold in the political arena.

As the Table 1 illustrates, race is still a determinant of how one lives and dies in the United States. There is ample evidence, from a variety of disciplines, to suggest that individual characteristics are racially influenced. In medical and sociological fields there are clear indications that mortality and morbidity rates are influenced by race. Environmental studies suggest that the distribution and effects of toxic waste are racially biased.

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Table 1. White/Black Disparities, 1994

Race	*Median Income ($)*	*Poverty Rate (%)*	*Unemp. Rate (%)*	*Life Expectancy (years)*	*Infant Mortality*
White	34,028	11.7	5.3	73.3	6.6
Black	21,027	30.6	11.5	64.9	15.8

Source: Statistical Abstract of the United States, 1997.

The economic literature has consistently shown racial differences in wages, income, unemployment and occupations (e.g., Haggerty and Johnson, 1995).

Over time, these racial disparities have received various levels of political and economic attention, spawned numerous explanations, and resulted in a variety of policy recommendations. But it is the explanatory function that is most important because, regardless of the level of attention we accord these issues, how we explain inequality largely influences our level of tolerance for such disparities and the kinds of policies we are willing to impose as corrective measures. As Schiller (1995) pointed out, "explanations of inequality are mirrored in arguments about the causes of poverty" (p. 5). Although these explanations take various forms, they can roughly be grouped into three categories. One explanation argues that poverty, inequality, and racial disparities result from innate individual characteristics. Laziness, lack of motivation, and deficient mental capability are all examples of traits that would result in the inequalities listed above. A second explanation suggests that rather than the individual, it is social, cultural, political, and economic barriers that limit access to the opportunities necessary for advancement. Typically these barriers exist for particular segments of society, racial minorities and women being the two obvious examples. A third explanation focuses on the role of the government in fostering these disparities by ill-constructed policies that reward inappropriate choices and behavior. Certainly welfare reform is indicative of this view.

Which explanation we endorse depends to a large extent on the prevailing methodology that dominates in our economic and political arenas and, hence, our society. Over the last 20 years, our view of racial and class disparities has moved more toward a philosophy of individual culpability and away from a social responsibility, at least in part, because of the dominance of neoclassical economics and its adherence to assumptions of individual choice and rationality. Those assumptions, then, influence the kinds of policies put forth as solutions.

METHODOLOGY

The ascendancy of capitalism has been one of the remarkable events during the 1980s and 1990s. The fall of Communism, the superiority of the market mechanism, and the supremacy of the individual over the collective have all manifested themselves in the public arena. That capitalism, even imperfect or state capitalism, is generally regarded as the most efficient form of economic organization seems unassailable. "There can be no question that the modern market economy. . . does produce consumer goods and services in a competent, even lavish fashion" (Galbraith, 1996, pp. 14–15).

The dominance of the market mechanism as an organizing and allocative mechanism, however, has effects far beyond the production of goods and services. The assumptions we