Adaptive individuals' social embeddedness: Social identity and social stratification

John B Davis, Marquette University/University of Amsterdam

> Actors do not behave or decide as atoms outside a social context …. Their attempts at purposive action are instead embedded in concrete, ongoing systems of social relations.
>
> Granovetter (1985: p. 487)

> The conception of the individual as a very "private" person – unconcerned about the rest of the world – has been seen, in my judgement rightly, as both empirically unrealistic and theoretically misleading.
>
> Sen (1985, p. 9)

I previously discussed how context matters for saying what individuals are in order to define individuals as adaptive beings made up of stocks of capabilities or freedoms who reason counterfactually in an uncertain world (Davis, 2019a). Though this account shows that context matters to what individuals are, and provides an individual conception alternative to *Homo economicus*, it only describes how people are temporally embedded in the world, not how they are socially embedded in it. That individuals are socially embedded in the world nonetheless follows from saying they are made up capabilities, since unlike the private preferences that make up *Homo economicus* capabilities are social phenomena. At the same time, individuals' 'social embeddedness' can also be explained in multiple ways. This paper explains it in social identity terms, and then argues that when we see individuals as having social identities, social stigmatization and social stratification affect how they self-organize themselves as stocks of capabilities or freedoms.

I also previously argued that, as stocks of capabilities or freedoms, how people self-organize themselves depends on how society is organized. Yet in the long history of debate and reflection on the nature of human freedom, emphasis is often placed, not on how society is organized, but rather on psychological limitations of human nature. For example in economics' current heuristics and biases behavioral research program, which has become quite influential in economics, people's failure to choose in the freedom-enhancing rational way that neoclassical economics assumes is simply inherent in what an individual human being is. This thinking diminishes the role social factors play in determining choice, because the individual conception it employs is still that of an atomistic socially *un*embedded being. Thus, an examination of individuals' social embeddedness requires we expand the scope regarding what affects freedom and agency to explicitly explain the role social factors play in determining the scope of choice. Consider how individuals having social identities does this.

An especially important form of social identity is social group identity. Social psychologists have shown, then, that individual behavior in social groups exhibits a pro-in-group/anti-out-group dynamic. In effect, membership in social groups modifies the agency of the person. However, social groups also interact and compete with one another, and this also affects the agency of the person. Not only does being member of a social group affect one's choices, but the status of the social groups one belongs to in society does as well. In this paper, then, I explain the first effect using social psychology's social group identity theory, particularly as associated with intersectionality analysis or that individuals have multiple social group identities, and focus on how *social stigmatization* or identity stereotyping in relational settings influences how individuals organize their social identities. I explain the second, social group competition effect using *stratification theory*, particularly as developed in stratification economics, and explain how an economy that works through hierarchical relationships between social groups additionally influences how individuals organize their social identities. Stigmatization, I will argue, works at the micro level and stratification at the macro level, and together they constitute two sides of a single social process.

A goal of the paper is to show that these combined effects that influence how people develop themselves as stocks of capabilities or freedoms are manifest in shortfalls in the capabilities they could develop were they absent. Broadly speaking, a social identity-stratification economics explanation of adaptive individuals' social embeddedness sets out counterfactual pathways for individuals' capability development that can be the object of an anti-inequality social policy. To discriminate between the two components of this, I distinguish *capability devaluations* and *capability deficits*, associating the former with social stigmatization in relational settings and the latter with social group social stratification. Capability devaluations and deficits both generate capability inequalities in society.

These are the chief normative implications of the adaptive-capability conception of individuals further developed here in terms of people's social embeddedness. I will turn to their normative evaluation and what this tell us about the relationship between economics and ethics in the following in the future. While this paper focuses on explaining people's social embeddedness, it closes with a discussion of the micro level and macro level dimensions of this are linked and reinforce one another using a simple complexity model.

This paper's outline is as follows.

Section 1 on social identity and capability *devaluations* has three parts.

- The first distinguishes people's *categorical* and *relational* social identities, and explains how they interact in social role settings (employment, households, schools, etc.). It then focuses specifically on hierarchical relational social role settings in which some individuals exercise authority over others, and argues that it is in their interest to reinforce their relative social group positions.

- The second part explains how those in positions of authority in hierarchical social role settings are able to use social group stigmatization and social identity stereotyping to influence those they supervise to act in ways contrary to not only what their social roles entail but what their individual capability development would involve. I discuss recent evidence regarding race and gender in the U.S. to explain this as a strategy of 'selective stigmatization' that favors some social identities and disfavors others.

- The third part explains how this stigmatization produces measurable shortfalls in the capabilities people could develop were it absent. I characterize this particular kind of capability shortfall as a capability devaluation, and distinguish two microeconomic substitution effects it involves: a distortion effect and a burden effect.

Section 2 on social stratification and capability *deficits* has two parts.

- The first reviews stratification economics as an emergent subfield in economics that investigates how society is organized into the hierarchically ordered social strata, particularly as exhibited by persistent income and wealth inequalities across social groups. To represent stratification economics as an *economics of exclusion*, I model this hierarchical ordering using economics' standard goods taxonomy as two destinations individuals tend to occupy by social group affiliation – a club goods and a tragedy of the commons type locations.

- The second part then explains how social stratification produces the additional set of capability shortfalls I term capability deficits, the term in this case taken as a comparative measure reflecting differences in social and economic status in socially stratified societies. It then offers an account of how people's capability devaluations and capability deficits are interconnected.

Section 3 has two parts.

- It first outlines how micro level stigmatization and macro level economic social group inequality interact and reinforce one another, and then provides a schematic representation of this to explain it by adapting a simple complexity model employed by Herbert Simon.

- It then closes the paper by linking the atomistic *un*embedded *Homo economicus* individual conception and the mainstream microfoundations view of the economy, arguing that abandoning these doctrines – the basis for welfare-efficiency thinking in economics – requires that we rethink the basis on which normative economics operates.

1 Social identity, stigmatization, and capability devaluations

Though individuals' social embeddedness can be explained in different ways, there are two reasons why I explain it in terms of their social identities. First, when social identities are specifically seen to be social group identities, because competition between social groups involves power relationships, this introduces conflict as a principle into the analysis of people's choices, extending our understanding of individuals as agents beyond what standard economics explains.[1] Second, since having a social identity is a matter of identifying with other people, seeing people as having social identities makes them both social and individual beings at the same time, thus avoiding the extremes of either an asocial individualism or the complete substitution of groups for individuals as economic agents.

a. Two Types of Social identity

People have social identities that are "identifications of the self *as* a certain kind of person" – a role-based identity – and also have social identities involving "identifications of the self *with* a group or category as a whole" – a collective identity (Thoits and Virsup, 1997, p. 106). In each case they make others a part of themselves, and thus socially embed themselves in others. Social psychologists treat these two social identifications as "two levels of [people's] social selves – (i) those that derive from interpersonal relationships and interdependence with specific others and (ii) those that derive from membership in larger, more impersonal collectives or social categories" (Brewer and Gardner, 1996, p. 83; Brewer 2001).[2]

The first type of social identity is termed a *relational social identity* and the second type is termed a *categorical social identity*. Relational social identities exist where people occupy positions in a "relational web" (family, friendship, employment, service, etc.), and identify as people connected to others in that web in specific kinds of way. They involve differentiated relationships with others with whom people are in relatively close contact (e.g., employers and employees, parents and children, students and teachers, care-givers and care-recipients, etc.). Categorical social identities exist where people find themselves "sharing some categorical attribute" with other like people (race, ethnicity, gender, religion, age, disability, language, class, nationality, sexual orientation, etc.), and socially identify with others as all representative of that shared category (Brubaker and Cooper, 2000, pp. 15ff). Indeed, categorical social identities involve shared relationships with many people one typically does not know or ever encounter (e.g., those of the same race or gender). Table 1 summarizes the differences between these two forms of social identity.[3]

---

[1] Akerlof and Kranton (2000) incorporated social group identities into the standard individual framework, but minimized social conflict. For my critical analysis of their approach, see Davis (2007).
[2] The literature on social identity is extensive. Also see Reynolds *et al*. (2003).
[3] I discuss these two forms of social identity in more detail in Davis (2011, 201ff).

Table 1: Two forms of social identity

Type of social identity	*Mode of identification*	*Basis of identification*	*Proximity to others*
Relational	Social roles	Linked differences	Relatively close
Categorical	Social groups	Commonalities	Often distant

Note, then, that in social role settings people have both categorical and relational social identities. For example, 'employer' and 'employee' social roles creates an 'employer-employee' relational social identity for both employers and employees. At the same time, 'employers' constitutes a single categorical social identity and 'employees' constitutes a single categorical social identity. Social role settings, then, create potential conflicts of interest between people's relational and categorical social identities, since a person can be motivated to act as a role requires and as their group interest requires.

Conflicts also exist, of course, between individuals' different categorical social identities and between their different relational social identities. Feminist intersectionality theory investigates conflicts particularly between individuals' different categorical social identities, such as between race and gender (Crenshaw, 1991; Lykke, 2010; Allen, 2016), and Feminist economics has extensively investigated conflicts between individuals' different relational social identities, such as between household and market relationships (Peterson and Lewis, 1999; Barker and Feiner, 2004). However, I focus on conflicts between people's categorical and relational social identities specifically in hierarchical relational role settings, where one set of individuals exercises authority over another, because doing so allows us to directly link stigmatization as a micro level practice and macro level social stratification.

Social roles in relational settings, then, when they are hierarchical, have a dual nature. On the one hand, they involve a division of responsibility and delegation of activities that is primarily functional in character and as such normatively unobjectionable. A person in a supervisory capacity is justified in directing another person's activities if experience and knowledge justify it.

On the other hand, hierarchical social roles also create opportunities for individuals to exercise arbitrary power over others that lacks a functional basis and is normatively objectionable. It is this case that I am concerned with.

In an individualistic economics, the cause of this sort of behavior is simply individuals' self-aggrandizing behavior – an inefficient sort of principle-agent relationship – that says nothing about how society is organized. In contrast, when individuals are seen as socially embedded and society is seen as stratified by social groups, it is in the interest of individuals in positions of authority in higher ranked social groups to act in ways that reinforce their group's relative positions. Social stigmatization, discussed in the next section, is a key means of achieving this.

b. Stigmatization as a means of reinforcing social inequality

Previously I explained social stigmatization as a broad social practice that works through stereotyping, discrimination, social prejudice, harassment, and vilification of individuals by their social group identities, which reinforces and sustains a society's hierarchical organization around race, gender, religion, sexual orientation, and ethnicity (Davis, 2014, 2015). When an individual person is stigmatized, then, they are reduced to an "attribute or characteristic that conveys a social identity" which is shared by many others (Goffman, 1963, p. 505). Thus, stigmatization is also known as stereotype threat or social identity threat (Steele, Spencer, Aronson, 2002). Moreover, while individuals stigmatize individuals, stigmatization is not simply "a set of feelings which members of one racial group have toward the members of another racial group," since this ignores – for example in the case of race – "the collective process by which a racial group comes to define and redefine another racial group" (Blumer, 1958, p. 3; cf. Darity, 2009, pp. 803–5). Consequently, stigmatization needs to be understood in terms of intergroup dynamics and differences in power between social groups, not in an individualistic, subjectivist manner as in the neoclassical 'taste for discrimination' approach (Becker, 1957).

To see how stigmatization as a micro level practice works to secure macro level social group inequalities, the interests of individuals in dominant social groups in positions of authority can be explained as having two connected goals: (i) act so as to reinforce the most important overall social group inequalities, but (ii) allow certain reductions in social group inequality that have little effect on overall social group inequality – the rationale for which is that this weakens making social group inequality a public policy issue.

Consider, then, the evidence regarding social group inequality in connection with race in the U.S. As recently shown in an extensive study of intergenerational income mobility and persistent of income disparities across racial groups for the period 1989-2015 (Chetty *et al.*, 2018), black Americans overall have substantially lower rates of upward mobility and higher rates of downward mobility than white Americans, reinforcing long-standing income disparities by race in the U.S. However, at the same time there is very little difference over this period in income mobility rates between black women and white women.[4] Thus, black women's income mobility is outweighed by black men's lower rates of income mobility, leading to lower rates for black Americans overall.

This tells us that the two goals of individuals in dominant social group in positions of authority in employment settings can be achieved by stigmatizing black men but not black women – a strategy of 'selective stigmatization.' Since an effect of stigmatization in employer-employee settings is lower income and employment for those stigmatized but not for those not stigmatized, a strategy of 'selective stigmatization' in this case tends to (i) reinforce the most important racial social group inequalities by depressing income and employment for black men, since this depresses income and employment for black Americans overall, and (ii) makes it possible to minimize social group inequality as a public policy issue in light of the absence of differences between mobility rates of black women and white women.[5]

Consider, now, the evidence regarding social group inequality in connection with gender in the U.S. Just as there is a persistent black-white income gap so there is also a persistent gender income gap. At the same time, there is significantly less of a gender income gap when women and men of the same education levels and employment experience work equally long hours in their places of employment – a phenomenon called 'overwork' that has become increasingly common in the U.S. since 2000 (Weeden *et al*., 2016).[6] However, since women have the main responsibility for household activities, they are less likely to work long hours.

How, then, does a strategy of 'selective stigmatization' work in this case? If long hours are not stigmatized whether women or men work them (that is, normal or short hours of employment are effectively stigmatized), then (ii) it appears discrimination by gender does not occur, minimizing discrimination in the workplace as a public policy issue. Yet the effect of this is (i) to stigmatize women who, given the traditional division of labor in households, are less likely to work long hours, thus sustaining not only the overall income gap between women and men, but also perpetuating traditional household social roles. Indeed, since women's education levels have risen relative to men's in the U.S., the emergence of 'overwork' acts counter to social forces that would tend to reduce gender inequality.

Selective stigmatization with its two connected goals thus has an ideological nature in that it both sustains discrimination and creates a narrative of rejecting it at the same time. In the case of race, discrimination appears to be absent if black women's income mobility is the same as white women's income mobility. In the case of gender, discrimination appears to be absent if women who overwork do as well as men. Yet for these narratives to succeed we must ignore how selective stigmatization manipulates intersectionality by favoring certain social group identities and disfavoring others. To succeed, black women need to reduce their identities to being women and

---

[4] To be clear, black women still have lower incomes than white women. As Chetty *et al.* emphasize, the absence of differences in mobility rates is conditional on family income or where family income levels the same. That is, income levels and income mobility are separate measures, and thus potentially addressed by different public policies.

[5] Not stigmatizing black women in employment settings does not mean black women are not stigmatized culturally and socially. The interpretation offered here of the Chetty *et al.* results is only meant to explain that black women and white women have the same income mobility.

[6] Historically, the establishment of overtime compensation rates aimed a discouraging long hours, and the 40 hour workweek was taken as a social norm. In effect, if long hours were previously stigmatized, in an 'overwork' economy normal hours are stigmatized.

suppress their identities of being black, and women who overwork need to reduce their identities to being people who work long hours and suppress their identities of being women. The overall effect in each case is that stigmatization promotes social identities that are likely to reinforce social group inequality.

Selective stigmatization can operate in any relational setting when a society is hierarchically organized by social groups and some individuals in positions of authority exercise power over others. Standard economics suppresses analysis of this, since it frames all social relationships as unembedded market transactions, and ignores the role that social groups and people's social group identities play in the economy. It consequently ascribes differences in economic outcomes between individuals by social groups to individual human capital differences, sometimes associating these with popular derogatory views of social groups – a 'science'-level practice of implicit stigmatization that corresponds to stigmatization as a common real-world social practice. As stratification economist William Darity puts it, "claims about the defectiveness of a group with outcast/caste status are an ideological mask that absolves the social system and privileged groups from criticism for their role in perpetuating the condition of the dispossessed" (Darity, 2005, p. 144).

Figure 1 summarizes this micro level account of how stigmatization reinforces social hierarchy.

Figure 1: The 'Microeconomics' of Selective Stigmatization

Categorical social group identities are ranked hierarchically in society

Relational social identities link social roles

It is in the interest of those in positions of authority to reinforce social hierarchy

One goal is to maintain the most important overall social group inequalities

A second goal is to minimize social group inequality as a public policy issue

These goals can be achieved through 'selective stigmatization'

Selective stigmatization favors some social identities and disfavors others *c. Stigmatization and capability devaluations*

Stigmatization, then, tends to reinforce social and economic inequality when societies are hierarchically organized around competing social groups. This has two distorting effects. On the one hand, from an economy-wide perspective, as is the case with any discriminatory activity, it can distort how social roles are performed and thus reduce economic output. On the other hand, from an individual perspective, it adversely affects how people develop their capabilities when it causes them to act differently than they would choose to act and rather as stigmatizers want them to act. I call these latter effects capability *devaluations* because stigmatization de-values capabilities associated with disfavored social identities when it reduces their characteristics to disfavored group characteristics.

We saw in the last section how this devaluation works. The evidence tells us that in the U.S., when black and white women have the same income mobility and black Americans overall have downward income mobility, selective stigmatization favors a black woman being a woman and discourages her from being black. Since she possesses both social identities, a black woman's capability development should depend on how she herself combines and organizes these two social identities, but since being black has been reduced in value, she is likely to develop her capabilities in her employment setting minus her identity of being black (unless she gives up income gains) – a kind of substitution effect.

We also saw that, when women and men both overwork their incomes appear non-discriminatory but that generally women still earn less than men. Selective stigmatization, then, favors a woman being an over-worker and suppresses her being a woman. If absent stigmatization, her capability development depends on how she herself chooses to combine and organize all her social identities, in its presence in employment settings she is likely to develop her capabilities minus her identity as a woman (unless she gives up equal employment opportunities) – again, a kind of substitution effect.

I characterize capability devaluations as capability shortfalls, then, because the stocks of capabilities of people develop are not only biased in how they are developed when some social identities are stigmatized, but also reduced from what they would otherwise be were people to develop them as they choose. While 'bias' is difficult to measure because it involves choices people make regarding what capabilities they would like to develop, in principle 'shortfalls' can be measured since in the context of relational settings criteria for fulfilling social roles according to what they require can be set out in terms of sets of activities roles involve. That is, social roles criteria provide a benchmark by which capability shortfalls can be measured, albeit in some role settings more explicitly than in others. Such criteria are the most detailed and concrete in employment settings, where responsibilities specific to positions people occupy are often relatively well codified. By comparison activities in household and domestic settings are less formally determined, though time-use studies of household production demonstrate that the activities involved there are quite specific as well.

Yet the benchmarking that role activities involves is not only a matter of production requirements in employment or households, and to capture this I argue that the sort of substitution effect that stigmatization involves takes on two forms. A pure distortion effect results when activities appropriate to the social role are replaced with activities inappropriate to it. A burden effect results when the activities required in a role are inappropriately shifted from the stigmatizer to the stigmatized. The pure distortion effect, then, is more technical in character (though not exclusively so) because it is especially tied to efficient methods used in production. The burden effect similarly concerns efficient methods, but importantly also incorporates on social values and normative views regarding responsibility sharing.

In employment settings, the activities social roles require depend strongly on the nature of the production involved. A cost of discrimination perpetuated by stigmatization is more easily benchmarked in this case than in the case of household and family settings, where culturally the division of responsibilities is highly gendered. How social roles might be allocated then depends especially on social values regarding gender. However, given the values in any particular context, a burden effect resulting from stigmatization can then be benchmarked by how social roles are allocated according to prevalent social values. It follows that this benchmarking produces different results under alternative social values. I return to issue of alternative scenarios and the measurement of capability shortfalls (devaluations and deficits) in Section 3 on counterfactual reasoning in social policy design.

What this section outlines, then, is how an alternative 'microeconomics' can be built around the analysis of relational settings with different social roles in an economy organized around social stratification. Standard mainstream economics suppresses this sort of analysis because it reduces social roles to one type: arm's-length market exchange between atomistic individuals that reduces the activities people engage as simply demand and supply behaviors. At the same time, a *Homo economicus* made up of private preferences should be immune to stigmatization, so that the whole subject of how some groups of people are systematically devalued by others has no basis in economic analysis. What the discussion in the last subsection is thus meant to show is that individuals' social embeddedness understood in terms of people's social identities makes possible a better analysis of choice behavior. The following section then moves on to the macro level analysis that corresponds to this.

2 Social stratification, exclusion, and capability deficits

Social identity theory explains individual behavior in terms of social group membership. When people identify with others by social groups, they act as representative agents of social groups, and adopt pro-in-group and anti-out-group types of behavior, such that their intra-group attachments and inter-group antagonisms represent two sides of a single orientation towards others (Tajfel and Turner, 1979; Postmes and Branscombe, 2010). But why do people identify with social groups in the first place? Why not act as independent individuals, as mainstream economics assumes? In the last section I argued that people act as representative agents of social groups because this is their interest. This section uses stratification economics to explain, in macro level terms, what determines those interests.

Stratification economics draws on social psychology's Realistic Conflict Theory (Baumeister and Vohs, 2007; Schofield, 2010), which has origins in the famous Robbers Cave experiment (Sherif *et al.*, 1954/1961). The Robbers Cave experiment and much subsequent research on social group formation and social group affiliation shows that when individuals find themselves in uncertain, zero-sum type circumstances, they are likely to draw on and act on their social group connections rather than act as independent individuals. Subsequent empirical research in social network theory also shows that people's social connections or social ties tend to cluster around relatively well-defined collections of people or social groups (Wasserman and Faust, 1994).

The key question for economics, then, is when do 'uncertain, zero-sum type circumstances' envisioned in the Robbers Cave experiment exist in the economy and society that we occupy? I suggest that there are two main sets of circumstances that fit this description: (i) when over a protracted period of time income and wealth inequality in a society are rising; (ii) when over a protracted period of time people in a society face a significant risk of downward intergenerational income mobility.

Income and wealth inequality tell us what people's relative economic positions are within a society, and thus much regarding how they see themselves economically relative to others. Intergenerational income mobility tells us what people's prospects are for improving their relative positions over time across family generations. Together, they reflect how people understand their current and future economic positions and, when downward intergenerational income mobility is an issue, their sense of long term economic vulnerability.

(i) Regarding income and wealth inequality, then, recent research for the U.S. clearly shows that income inequality has clearly worsened significantly in the half century since the 1970s (Piketty and Saez, 2003). Further, over the same period in the U.S. wealth inequality has increased significantly as well (Saez and Zucman, 2016).[7] (ii) Regarding downward intergenerational income mobility, it has been shown for the U.S. that absolute income mobility, or "the fraction of children earning or consuming more than their parents," has fallen "approximately 90% for children born in 1940 to 50% for children born in the 1980s" (Chetty *et al*., 2017). At the same time, as discussed in the last section, income mobility also varies significantly across social groups, with black Americans in particular being significantly worse off over time (Chetty *et al*., 2018).[8,9]

Given this, how might we model the economy as a whole emphasizing competition between social groups rather than competition between individuals? To answer this question I explain how stratification economics is as an economics of exclusion in which, when we focus on the standard taxonomy of goods, we can see that the economy systematically reinforces and sustains social and economic inequalities between social groups.

a. Stratification economics as an economics of exclusion

---

[7] Income and wealth inequality have also worsened elsewhere in much of the world, though in differing degrees (see Milanovic, 2016).

[8] Intergenerational income mobility varies significantly across countries, but downward mobility nonetheless exists in many countries for large segments of population (xxxx).

[9] On a non-intergenerational basis, there is also evidence that the recent financial crisis had significant downward effects on income by race and gender (Arestis *et al*., 2014; Giedeman, 2018).

Stratification economics, an emergent subfield in economics, investigates the consequences of social stratification as reflected in persistent disparities in income and wealth by social group membership, especially by race, ethnicity, and gender (Darity 2005; Stewart 2008; Darity *et al*., 2017). It draws on and is informed by Realistic Conflict Theory (Darity *et al*., 2017), and explains social stratification in economic terms as occurring when the economy is organized around competing social groups, and people's economic well-being and opportunities differ according to their social group positions.[10]

What primarily distinguishes mainstream economics and stratification economics, then, is their different ontological views about who competition principally involves, where for the former competition exists between individuals and for the latter competition exists between social groups. We can explain this difference in terms of how each interprets economics' standard taxonomy of goods to produce two radically different social visions of the economy (Davis, 2019b). The standard taxonomy attributes two characteristics to goods – whether their consumption is rivalrous and excludable – and then divides the economy into four domains or types of production according to how the goods they produce combine these characteristics (see Table 2).[11]

Table 2: Standard taxonomy of goods

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

Mainstream economics, then, essentially limits itself to two of the four domains or types of production, private goods and public goods, and distinguishes them according to how individuals compete with each another. In the case of private goods, perfect competition tends to prevail because consumption is typically fully individual and the institution of private property effectively

[10] Stratification economics is a non-individualist political economy approach that differs from Classical political economy and Marxian economics for which economic classes are the main social groups, differs from Soviet economies in which bureaucratic groups are dominant, differs from analyses of pre-market economies in which conflict between religious and tribal groups drives social stratification, and differs from the recent analysis of global inequality in today's world economy when seen as a conflict between migrants and citizens (Milanovic, 2016). It shares with them all the idea that social and economic stratification works to reproduce itself and thus persists over time.

[11] Consumption is rivalrous when one person's consumption is incompatible with another's. Consumption is excludable when one person is able to restrict another's access to consumption.

excludes non-owners. Shares of consumption in an economy are then basically determined by the human capital each person individually possesses. In contrast, public goods are provided by government because individuals cannot privately consume them nor establish property relationships that exclude each other from their consumption. Public goods, then, constitute a type of production where the requirements of fully private production break down or 'externalities' cannot be internalized to markets – not a genuinely different type of production but a limitation on individualist competition.[12]

The other two types of goods in the taxonomy, then, get minimal attention from mainstream economists because they fail the individualist consumption standard and private property condition. That is, when one sees competition as being solely between individuals, these other two cases therefore involve irregular or 'defective' forms of individual competition. Thus, club goods are generally investigated as 'local' public goods, are then simply distinguished from conventional public goods primarily by their government jurisdictional features, and are thus for most mainstream economists not seen as having any special characteristics of their own. Common pool resource goods, the 'tragedy of the commons' case, exist where private property rights do not exist or break down, thus involve a circumstance not amendable to standard market analysis, and are accordingly investigated in economics subfields such as development economics and natural resource economics. Many mainstream economists see economic development as a process of privatizing commons and extending private property to them in order that the resources they involve can be explained in standard terms.

The interpretation of the goods taxonomy is quite different, however, when one sees competition as being between social groups, as does stratification economics. Club goods, then, are not a minor sub-category of traditional public goods. Rather, as the name implies, they are an important historical form of production, and the product of a whole range of supra-individual political and social institutions constructed to provide privileged economic arrangements for some groups of people while excluding other groups. The way these institutions work, as in the ordinary sense of the term 'club' as an exclusive organization, is by limiting membership to a certain set of people. Whereas without clubs, consumption of goods is rivalrous, the excludability principle that a club implements translates rivalrous consumption into non-rivalrous consumption for club members only.

Of course, a club, by definition, is a group concept, and one can argue that groups function as collective agents. However, mainstream economics sets this issue aside by limiting investigation of clubs to individuals' cost-benefit choices regarding membership. In contrast, stratification economics sees club-like institutions as active agents that work to maintain social and economic advantages for their members. Think, then, not about clubs as small selective organizations as in the popular meaning of the term, but as an economy-wide set of exclusionary practices and institutions that systematically discriminate against certain groups of people. Discrimination in housing, employment, and education by race, gender, ethnicity, sexual orientation, etc., then, all function as club-like forms of exclusion based on segregating populations of people into different social and economic pathways.

---

[12] The Coase theorem with its emphasis on property rights has thus reinforced for many mainstream economists the idea that ultimately competition between individuals can explain even public goods.

People not in a club-like economic arrangements, consequently, find themselves in common pool type situations whose characteristics are precisely the opposite to that of a club. In clubs, restricted membership and inclusion for some overcomes rivalrousness and non-excludability, but exclusion from them makes rivalrousness and non-excludability pervasive and endemic for the excluded – a war of all against all. As in tragedy of the commons scenarios, people thus constantly face economic vulnerability, uncertain income, and a limited ability to accumulate wealth. Their housing, employment, and education prospects are worse not because of their individual human capital but because they are confined to the worst economic circumstances.[13]

Ironically, given the traditional view of economics as a science of scarcity, a club-like institution, because it limits membership, effectively creates conditions of abundance for its members and thus blocks scarcity economics law of supply and demand – rather an 'economics of abundance' only for some. The privileged enjoy club benefits essentially without limit (as long as membership is adequately restricted – termed the 'congestion' problem), so the scarcity principle is effectively set aside for them. Instead, the scarcity principle only applies to the common pool circumstance that social segregation produces – an 'economics for the masses' and not for the few.

If for mainstream economics, then, the main axis in the goods taxonomy is private/public goods, for stratification economics the main axis is club/common pool goods. Mainstream economics is can only be concerned with the northwest-south east diagonal in the Table, because it only represents the economy as a competition between atomistic, social unembedded individuals. Indeed, it only recognizes the existence of atomistic individuals, and denies groups are economic agents. In contrast, stratification economics is principally concerned with the southwest-northeast diagonal in of Table 2, because its assumption is that competition between social groups drives the economy and determines the scope of competition between individuals. It recognizes both individuals and social groups are economic agents, but sees the former as socially embedded in virtue of their social identities.

The last section above provided a micro level analysis of selective stigmatization, and asserted that it occurs because it serves the social group interest of those who engage in it. This section, then, provides a macro level account of how a hierarchical organization of the economy by social groups produces those interests. I turn now to a macro level effects of economic exclusion in the form of capability deficits to complement the last section's discussion of the effects of stigmatization in the form of capability devaluations.

b. Economic exclusion and capability deficits

Above I characterized capability devaluations as capability shortfalls, because stigmatization reduces (and also biases) the stocks of capabilities that people are able to develop. Socially stratified, hierarchically organized economies also produce capability shortfalls, but the effects in this case are indirect and structural in nature rather than direct and the product of active discrimination. I thus term these structural capability shortfalls capability deficits to distinguish them from capability devaluations, and to emphasize how individuals' capabilities are affected by

[13] We might characterize common pool circumstances as a Hobbesian war of all against all. But Hobbes saw this as a state of nature, and from a stratification perspective these circumstances are the product of socially constructed institutional arrangements.

their social locations. Thus, when one occupies a common pool-type location, one's opportunities for capability development are worse than when one occupies a club-type social location. This difference accordingly implies that measurement of capability deficits proceeds on a different basis than the measurement of capability devaluations.

I argued above, then, that the measurement of capability devaluations depends on the nature of the social role settings (places of employment, households, etc.) in which stigmatization occurs. Those social roles determine sets of activities that people need to perform in those roles, and this benchmarks the capabilities that should but can fail to be exercised in those roles when stigmatization substitutes different sets of activities. Thus, capability devaluations are tied to the nature of productive activity in a given relational setting (though the evolution of that activity over time also has significant social dimensions in addition to its productive dimensions).

In contrast, the measurement of capability deficits involves comparing different social groups' well-being and opportunities, since this benchmarks what capabilities people on average can potentially pursue and develop by the standard of the capabilities that individuals in privileged social groups can pursue and develop. If in club-type social locations people effectively enjoy an economics of abundance in which they are able to freely develop their capabilities as they choose, then the standard according to which capability deficits can be measured is their free development as people freely choose. What actual levels of capability development this entails depends on the state of economic and social development a society has achieved, and also how the benefits of that level of achievement is distributed across society's members – were a society *not* hierarchically organized by social groups. This is a normative matter to which I turn in the future.

In hierarchical societies, capability deficits reflecting social group inequalities can be proxied by social group income and wealth inequalities between social groups. In the case of race, ethnicity, and gender, the evidence for the U.S. is clear. A 2018 U.S. Bureau of Labor Statistics study shows that household income clearly varies significantly by race and ethnicity (Noël, 2018). A 2013 Urban Institute study shows that not only is wealth inequality significant across Hispanic, black, and white households but it is also increasing (McKernan, Ratcliffe, Steuerle, and Zhang, 2013). In the case of gender, a 2016 U.S. Bureau of Labor Statistics study shows that women in general earn less than men, and that this difference has narrowed very little over time for most women (U.S. Bureau of Labor Statistics). A 2017 study shows that women's wealth gap is significant and far greater than the gender income gap (McCulloch, 2017). Thus, we can estimate that capability deficits by race, ethnicity, and gender are similar. Were individuals in these social groups to have income and wealth at the level of white men, their capability development would higher as well.

Together, capability devaluations and capability deficits produce a combined shortfall effect of individuals' capability development. Since the stigmatization and hierarchical organization of society and the economy work to reinforce each other, the two effects they have on capabilities interact with one another, meaning that estimates of the two shortfalls are interconnected. That is, generally in the long run greater degrees of stigmatization strengthen social economic hierarchy, and greater degrees of the latter strengthen the likelihood of the former. At the same time, stigmatization and hierarchical organization of the economy and society should also decrease together, as reductions in either weaken the basis for the other. Thus, social policy addressing discrimination and inequality can target either directly and affect the other indirectly. In the following and last section of this paper, I outline a simple complexity model of how these micro and macro level processes interact.

3 The interaction of stigmatization and social group inequality

Standard mainstream economics explains the relationship between micro and macro level economic and social processes in microfoundational terms. That is, micro level processes determine macro level processes but the latter have no distinct character or effect on the former. In contrast, many non-mainstream theories employ a two-way rather than this one-way analysis in which micro and macro level processes interact. For example, Keynesian economics, citing the fallacy of composition, explains how distinct macro level processes, in a macrofoundational way, also affect micro level ones, so that both the micro levels and macro levels of the economy affect one another, and the economy continually evolves through their interaction.[14] Herbert Simon explained this sort of two-way street interaction in complex systems terms (Simon, 1962), and in this section I adapt his model to show how stigmatization and social stratification interact as a complex system.

a. A simple complexity model of stigmatization and social group inequality

Simon's idea was that a complex system is made up of multiple, relatively independent subsystems whose interaction explains how the overall system they together make up functions. Each of these relatively independent subsystems exhibits an internal activity which affects these subsystems' interaction. The effect of their interaction on the overall system they make up then has feedback effects on both these subsystems' internal activity and how they interact.

If for convenience we describe this in a bottom-up/top-down way, a complex system involves a dynamic relationship in which bottom-up micro level activities within subsystems and their interaction affect the entire macro level system, which then feeds back in a top-down way upon both the activities within subsystems and those subsystems' interaction to produce a continually on-going two-way street micro level-macro level interaction. I set this out in Figure 2.

[14] I provide a Keynesian representation of this two-sided interaction that employs the same Simon complexity formalism advanced in this section in Davis (2017).

Figure 2: Simon's Complex Systems Model

Complex systems are made up of multiple, relatively independent subsystems

Their interaction affects the performance of the entire system that they make up

This changes how each subsystem internally operates

This changes how these subsystems interact

This again affects the overall performance of the entire system

This goes on and on in a continually evolving dynamic of change

In the balance of this section, then, I represent this process in a formal, schematic way in order to make clear how micro and macro levels interact in connection with stigmatization and social group inequality. In [1], then, let *a* represent discrimination or stigmatization by social group identity occurring on the micro level in multiple locations in society, and let *b* represent its effects on social group inequality at the macro level.

$$a \rightarrow b \qquad [1]$$

Mainstream economics and stratification economics share [1] because they do not disagree that discrimination or stigmatization affects social group inequality. However, the mainstream view rejects the idea that discrimination or stigmatization worsens social group inequality, implying that [1] does not change over time. To explain this in terms of micro-macro interaction, the mainstream view is that *a* affects *b* but not the reverse. Were *b* also to affect *a*, there would be a reverse effect from macro level social group inequality to micro level discrimination or stigmatization, and [1] would not be unchanging. Ruling this out, then, the mainstream view is that [1] essentially reproduces itself over time, as in [2].

$$a \rightarrow b \rightarrow (a \rightarrow b) \qquad [2]$$

Thus, the mainstream view reflects standard microfoundations reasoning.

Consequently, given that mainstream economics accepts that discrimination or stigmatization occurs, that is, given *a*, combining [1] and [2] for the overall causal effects ($\Rightarrow$) of micro and macro levels processes produces [3].

$$a \textit{ and } a \rightarrow b \textit{ and } a \rightarrow b \rightarrow (a \rightarrow b) \Rightarrow b \text{ and } (a \rightarrow b) \qquad [3]$$

What [3] tells us is that on the mainstream view the existence of discrimination or stigmatization, *a*, produces both *b*, a given level of social group inequality, and also the unchanging relationship between *a* and *b*, that is, [1]. The microfoundations view, via [2], rules out two-way street, reverse effects from the macro level to the micro level that generate complex outcomes, whereby discrimination or stigmatization might worsen social group inequality.

In contrast, the stratification economics position is that discrimination or stigmatization reinforces and thereby worsens social group inequality, treating discrimination or stigmatization as one factor explaining the evidence cited above showing that income and wealth inequalities have worsened in the U.S. This then means that the causal relationship between *a* and *b* is not unchanging, so to capture this, I replace [2] by [4].

$$a \rightarrow b \rightarrow (a \rightarrow b)' \qquad [4]$$

The causal relationship [4] is like [2], but drops the microfoundations, one-way street view, and supposes instead that discrimination or stigmatization worsens social group inequality through some sort of reverse effect of social group inequality at the macro level on discrimination or stigmatization at the micro level. For example, a strengthening of social group inequality could strengthen the practice of discrimination or stigmatization by strengthening attitudes of those in higher ranked social groups.

Whatever the reverse effect mechanism, for the overall effects ($\Rightarrow$) of micro and macro levels processes produces, [3] now needs to be replaced by [5].

$$a \textit{ and } a \rightarrow b \textit{ and } a \rightarrow b \rightarrow (a \rightarrow b)' \Rightarrow b \text{ and } (a \rightarrow b)' \qquad [5]$$

Here, then, the micro and macro levels interact and affect each other, such that discrimination or stigmatization continually worsens social group inequality and social group inequality continually worsens strengthens discrimination or stigmatization. In complex system terms, their interaction creates a self-reinforcing process that increases both processes over time. By the same reasoning, the implementation of social policy measures implemented at either the micro or macro level could cause this same self-reinforcing process to operate in the opposite direction, thereby reducing both.

b. Micro-macro interaction and individuals' social embeddedness

This paper's entry point was individuals' social embeddedness. While there are different ways in which individuals' social embeddedness can be explained, following the extensive literature in social psychology it was explained in social group identity terms. Note, then, that this interpretation of individuals' social embeddedness underlies the micro level-macro level interaction this section describes. The consequences of individuals having social group identities are not independent of the relationships between social groups in a society, and so seeing individuals as socially embedded beings requires we investigate how the micro and macro levels of an economy interact.

The standard *un*embedded *Homo economicus* individual conception, then, underlies the mainstream theory's one-way street microfoundations conception of the economy. By supposing that individual choice is independent of context (according to the theory's independence axioms), and thus that individuals' social identities – if they are recognized at all – act at most as constraints on maximizing behavior, the sort of macro level effects on behavior described above associated with social group relationships can never come into play. That is, the *un*embedded *Homo economicus* individual conception and the microfoundations view of the economy are connected doctrines that stand or fall together. This paper argued that they fall together because the *un*embedded *Homo economicus* individual conception misrepresents what individuals are.

What else falls when we abandon the standard *un*embedded *Homo economicus* individual conception, then, is the normative economics stance associated with it. The welfare-efficiency basis on which mainstream normative economics operates presupposes the relative autonomy of micro level reasoning and the microfoundations view of the economy. Welfare-efficiency concepts are solely applicable to isolated, *un*embedded individuals. Just, then, as we explain the interaction of the economy's micro and macro levels when we employ a socially embedded individual conception, so we also need to develop a normative economics consistent with this understanding. This paper laid out foundations for doing so in connection with its combined capability devaluations-deficits analysis, two dimensions of capability shortfalls. I turn to this, and a normative economics of capability development in general, in a future discussion.

References

Akerlof, George and Rachel Kranton (2000) "Economics and Identity," *The Quarterly Journal of Economics* 115 (3): 715–753.

Allen, Amy (2016) "Feminist Perspectives on Power," *The Stanford Encyclopedia of Philosophy* (Fall Edition), Edward N. Zalta (ed.), URL = <https://plato.stanford.edu/archives/fall2016/entries/feminist-power/>.

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.

Barker, Drucilla and Susan Feiner (2004). *Liberating Economics: Feminist Perspectives on Families, Work, and Globalization,* Ann Arbor, MI: University of Michigan Press.

Baumeister, Roy and Kathleen 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.

Brewer, Marilyn (2001) "The Many Faces of Social Identity: Implications for Political Psychology," *Political Psychology* 22: 115-125.

Brewer, Marilyn and Wendy Gardner (1996) "Who Is This 'We'? Levels of Collective Identity and Self-Representations," *Journal of Personal and Social Psychology* 71 (1): 83-93.

Brubaker, Rogers and Frederick Cooper (2000) "Beyond 'identity,'" *Theory and Society*, 29: 1-47.

Bureau of Labor Statistics (2016) "Women's earning 83 percent of men's, but vary by occupation, https://www.bls.gov/opub/ted/2016/womens-earnings-83-percent-of-mens-but-vary-by-occupation.htm, January 15 (accessed 19 May 2019).

Chetty, Raj, Nathaniel Hendren, Maggie Jones, and Sonya Porter (2018) "Race and Economic Opportunity in the United States: An Intergenerational Perspective," National Bureau of Economic Research Working Paper No. 24441 (March).

Chetty, Raj, David Grusky, Maximilian Hell, Nathaniel Hendren, Robert Manduca, and Jimmy Narang (2017) "The Fading American Dream: Trends in Absolute Income Mobility since 1940," *Science* 356 (6336): 398-406.

Crenshaw, Kimberle (1991) "Demarginalizing the Intersection of Race and Sex: A Black Feminist Critique of Antidiscrimination Doctrine, Feminist Theory, and Antiracist Politics," in Katharine T. Barlett and Rosanne Kennedy (eds.), *Feminist Legal Theory: Readings in Law and Gender*, Boulder, CO: Westview Press.

Darity, William A., Jr. (2005) "Stratification Economics: The Role of Intergroup Inequality," *Journal of Economics and Finance* 29 (2): 144-153.

Darity, William A., Jr. (2009) Stratification economics: context versus culture and the reparations controversy," *Kansas Law Review* 57: 795–811.

Darity William A. Jr, Darrick Hamilton, Patrick Mason, Gregory Price, Alberto Davila, Marie Mora, and Sue Stockley (2017) "Stratification economics: A General Theory of Intergroup Inequality," in A. Flynn, S. Homberg, D. Warren, and F. Wong (eds.), *The Hidden Rules of Race*, Cambridge: Cambridge University Press: pp. 35–51.

Davis, John (2007) "Akerlof and Kranton on identity in economics: Inverting the analysis," *Cambridge Journal of Economics* 31 (3): 349–362.

Davis, John (2014) "Social Capital and Social Identity: Trust and Conflict," *Social Capital: Social Values, Power, and Social Identity*, A. Christoforou and J. Davis, eds., London: Routledge, 2014: 98-112.

Davis, John (2015) "Stratification economics and identity economics," *Cambridge Journal of Economics* 39 (5): 1215-1229.

Davis, John (2017) "The Continuing Relevance of Keynes's Philosophical Thinking: Reflexivity, Complexity, and Uncertainty," *The Annals of the Fondazione Luigi Einaudi. An Interdisciplinary Journal of Economics, History and Political Science*, LI (1): 55-75.

Davis, John (2019a) "From Context Dependence to Adaptive Reflective Individuals," paper presented at International Network for Economic Method meetings, University of Helsinki, August.

Davis, John (2019b) "Stratification Economics as an Economics of Exclusion," *Journal of Economics, Race, and Policy* 2 (3): 163-172.

Desmond Matthew (2016) *Evicted: poverty and profit in the American City*, New York: Crown.

Giedeman, Daniel (2018) "Introduction to the Special Issue: The Effects of the 2007-2009 Financial Crisis and the Great Recession Across Racial and Ethnics Groups," *Journal of Economics, Race, and Policy* 1 (2-3): 45-46.

Goffman, Erving (1963) *Stigma: Notes on the Management of a Spoiled Identity*, New York, Prentice-Hall.

Granovetter, Mark (1985) "Economic action and social structure: The problem of embeddedness," *The American Journal of Sociology* 91 (3): 481-510.

Lykke, Nina (2010) *Feminist Studies: A Guide to Intersectional Theory, Methodology and Writing*, London: Routledge.

McCulloch, Heather (2017) "Closing the Women's Wealth Gap: What It Is, Why It Matters, and What Can be Done About It," Closing the Women's Wealth Gap Initiative.

McKernan, Signe-Mary, Caroline Ratcliffe, C. Eugene Steuerle, Sisi Zhang (2013) "Less Than Equal: Racial Disparities in Wealth Accumulation," Washington D.C.: Urban Institute.

Milanovic, Branko (2016) *Global Inequality: A New Approach for the Age of Globalization*, Cambridge, MA: Harvard University Press.

Myers, Samuel L., and Won Fy Lee (2018) "Racial Disparities, Homeownership, and Mortgage Lending in the Post-Great Recession Period: The Case of the Minneapolis-St. Paul Metropolitan Area," *Journal of Economics, Race, and Policy* 1 (2-3): 47-59.

Noël, Reginald (2018) "Race, Economics, and Social Status," U.S. Bureau of Labor Statistics, Washington, D.C.; https://www.bls.gov/spotlight/2018/race-economics-and-social-status/pdf/race-economics-and-social-status.pdf (accessed 19 May 2019).

Peterson, Janice and Margaret Lewis (1999). *The Elgar companion to feminist economics*. Cheltenham, UK Northampton, MA: Edward Elgar.

Piketty, Thomas and Saez, Emmanuel (2003) "Income Inequality in the United States, 1913-1998," *The Quarterly Journal of Economics* 118 (1): pp. 1-39.

Postmes, Tom and Nyla Branscombe, eds. (2010) *Rediscovering Social Identity: Key Readings*, New York: Psychology Press.

Reynolds, Katherine, John Turner, S. Alexander Haslam (2003) "Social Identity and Self-Categorization Theories' Contribution to Understanding Identification, Salience and Diversity in Teams and Organizations," in J. Polzer, eds., *Identity Issues in Groups (Research on Managing Groups and Teams, Volume 5)*, Bingley, UK: Emerald Publishing: 279-304.

Saez, Emmanuel and Gabriel Zucman (2014) "Wealth Inequality in the United States since 1913: Evidence from Capitalized Income Tax Data," *Quarterly Journal of Economics* 131 (2): 519-578.

Schofield, Janet Ward (2010) "Realistic Group Conflict Theory," in J. Levine and M. Hogg, eds., *Encyclopedia of Group Processes and Intergroup Relations*, Los Angeles: Sage: 681-3.

Sen, Amartya. 1985. "Goals, Commitment, and Identity." *Journal of Law, Economics, and Organization* 1 (2): 341–55.

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.

Simon, Herbert (1962) "The Architecture of Complexity," *Proceedings of the American Philosophical Society* 106 (6): 467-482.

Steele, Claude, Steven Spencer, and Joshua Aronson (2002) "Contending with Group Image: The Psychology of Stereotype and Social Identity Threat," *Advances in Experimental Psychology* 34: 379-440.

Stewart, James (2008) "Stratification economics," *International Encyclopedia of the Social* Sciences, Farmington Hills: Cengage.

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.

Thoits, Peggy and Lauren Virshup (1997) "Me's and We's: Forms and Functions of Social Identities," in R. Ashmore and L. Jussim, eds., *Self and Identity: Fundamental Issues*, Oxford: Oxford University Press: 106-133.

Wasserman, Stanley and Katherine Faust (1994) *Social Network Analysis: Methods and Applications*, Cambridge: Cambridge University Press.

Weeden, Kim A., Youngjoo Cha, and Mauricio Bucca (2016) "Long Work Hours, Part-Time Work, and Trends in the Gender Gap in Pay, the Motherhood Wage Penalty, and the Fatherhood Wage Premium," *RSF: The Russell Sage Foundation Journal of the Social Sciences* 2 (4): 71-102.