Social Stratification in the United States: Lessons to reconcile the self and others in Economic Theory and Practice

Abstract: Drawing on the identity literature across social sciences, this paper investigates the nature of social stratification by identity groups in the US society as a potential cause and consequence of the Great Recession. The recent experience of the US society reflects the exacerbation of class, race and gender stratification since the 1980s. In effect, the consumerist society has reinforced the historical stratification of social identities with white men in high-paid, high-social status managerial and financial occupations at the top, and black women in low-paid, low-status service occupations at the bottom. Learning from this experience, this paper calls for a deconstruction of the neo-classical individual in economic theory and policy into a representation of the individual at the unique intersection of multiple social identities changing over time and space. As such, each individual is a unique combination of evolving identities in a stratified society where the other can become part of the self. In effect, the particularity of the capitalist society is to have reduced the individual to its top identity which has led to the rejection of human diversity within the self, and to the exacerbation of stratification within the society. Therefore, the paper concludes on the importance for economic actors, at the individual level, to reconcile the self and others to avoid that group behaviour overtakes resource allocation over time.

Keywords: Identity, stratification, economic theory, inequality

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1. Introduction
Within mainstream neo-classical economic thinking, individualization is linked to the ideological underpinnings of free-market theories, which celebrate the actions and fulfilment of a dehumanised individual who does not belong to any geographical, class, gender, race, or age group. As such, human beings are represented as utility functions, preferences, or atomistic units of analysis with bounded rationality. Sociological analyses have, however, widely shown the importance of social identity in shaping not only economic outcomes, but also economic theories and policy-making. Drawing on the literature on stratification and identity and stratification (Darity et al. 2006, Davis 2011, Arestis et al. 2014), this paper investigates the nature of the ‘dominant group’ in the US society, its existence and its persistence over time beyond the Great Recession. Several works across social sciences have already shown that the exacerbation of financial earnings excesses for a dominant group in financial institutions is one of the major causes of the Great recession (Knights and Tullberg 2012, Arestis et al. 2014). The homogeneity and hegemony of this dominant identity group, namely white men, has not been challenged since despite the fact that, by 2030, whites will become a minority group in the US society. Consequently, at the level of financial institutions, the same policy and practices are likely to be sustained beyond the crisis and, at the societal level, feelings of injustice in access to economic opportunities fuel the conflict between identity groups at both ends of the US stratification. After showing that the persistent social stratification has played a prominent role in the process leading to and going beyond the Great Recession, the paper shows the importance for economic actors at the individual level to reconcile the self and others by being aware of the ephemeral nature of group boundaries.

The paper advocates the need to deconstruct the neo-classical individual into a representation of an individual at the intersection of multiple social identities evolving over time. As such, each individual is a unique combination of social identities such as class, race, and gender in a stratified society which enables others to become part of the self on an evolutionary basis. The particularity of the capitalist society is the reduction of humanity to its top identity which leads to the rejection of human diversity within the self, and within the society. Reconciling the self and others means that, learning from the US experience that group behaviour can overtake financial flows over time economic actors need to acknowledge that the self can be overtaken
by group motives in decision-making. The analysis starts by reviewing the experience of
gender and ethnic groups in the wake of the crisis of the summer 2007. Building on from this,
the discussion then proceeds to show how the existence and survival of a dominant group
played a major role in causing and sustaining the global crisis. In effect, historical memory
(Bauman 1982) has set in motion the mechanisms of power relationships specific to the US
society in order to sustain white men in managerial and financial occupations at the top of the
US stratification process. Finally, the last part of the paper offers some insights from the
identity literature on how social inclusion in resource allocation goes through the personal
awareness for all economic actors along the stratification spectrum that group behaviour can
overtake individual motives in resource allocation.

2. Separation between economy and society: rising inequality
Capitalist societies are not egalitarian by nature since the free movement of capital promoted
by general equilibrium theory do not address the fact that at the societal level, capital tends to
accumulate in the hands of historically well-endowed groups which leads to rising inequality
vis-à-vis other groups. In economic theory, this process is justified by the Pareto criterion
which leads Bauman to argue that Western capitalist societies drive on the utopia of equality
where “as long as one could indeed get richer without making those already rich poorer, the
egalitarian spur made the wheels of expanding economy rotate faster, without unduly straining
their capitalist axis” (Bauman 1982: 182). From the time of these writings, Western societies
have indeed experienced rising levels of inequality which have gone hand in hand with the
financialisation process of the market economy. “Financialisation” has been referred to in the
literature as the dominance of ‘shareholder value’ as a mode of governance, or the rising
popularity of market-based over bank-based financial systems, or simply the increasing
economic and political power of the ‘rentier’ class who derive its income from the ownership
of financial property rather than from productive activities (Krippner 2005). Hence, the general
meaning of financialisation is understood here to refer to the growing weight of financial
motives and actors in the operation of modern economies, both at the national and international
level, from the early 1980s until today.

Several studies have tried to capture the salient features of the financialisation process and the
role of rising inequality over the last three decades in terms of its contribution to the Great
Recession (Stockammer, 2008). In effect, rising inequality makes the financial sector more
fragile and vulnerable to systematic failure, with deleterious effects on the entire society. Financialisation is a global phenomenon, and this phenomenon has led to a growing power of financial players which tend to have separated the economy and its powerful few from the society and the majority of its population. Once the momentum of capital accumulation is launched, inequality is exacerbated between those retaining capital in their hands and those not enjoying the fruits of economic growth. In that sense, financialisation meant that there was a mutually reinforcing relationship between capital accumulation and rising income inequalities, serving the interests of a few.

In the US, the rise in inequality led to a decline in savings and an increase in household debt as the relatively poor sought to maintain their (relative) living standards. The co-existence of rising income inequality and (relatively) constant living standards was maintained at the expense of an unsustainable credit boom, which at the end led to the financial and global crisis (Fitoussi and Saraceno 2010, Fitoussi and Stiglitz 2009). In 2007, the crisis hit the US and the global economy and led to a decisive response by policy makers around the world in order to save the banking and financial sectors from illiquidity and insolvency problems. These policy interventions were defended on the grounds that the smooth working of financial sectors is an essential component for the existence and sustainability of modern capitalist societies. As a result of the policy interventions, the government budget positions of many countries in the world deteriorated dramatically, and this in turn led to a contagious spread of austerity measures. According to Crotty (2012), the ‘great austerity war’ should be the burden of the culprits of the crisis, by increasing taxation on the rich and powerful political groups of the US society, rather than being the burden of its victims, the poor and middle-class who suffer the side-effects of spending cuts in healthcare, education and benefits.

Together with fewer job and income opportunities in the wake of the crisis, vulnerable groups are likely to experience a shrinking of their social safety net with the withdrawal of the state. As such the exchange-entitlement mapping of individuals, i.e. the set of alternative potential functionings and commodities that the person can have access to (Charles 2012), are impoverished. Wages are essential for exchange-entitlements. Poverty affects opportunities to develop human capabilities through the opportunities of work or pay, and through the level of inflation, which determines people’s purchasing power. Poverty affects the capabilities of individuals not uniquely as consumers and actual or potential wage-earners, but also within
their households or simply as human beings with a specific metabolism. For instance, Charles (2012) has shown that the rapid pace of economic integration between the US and Mexico, tied to NAFTA and limited to the free trade of merchandises only, undermined the human functionings of the Mexican population as shown by the increase in diabetes-related mortality.

In the US context, let us illustrate the actual socio-economic outcomes of different social groups in the crisis, such as single mothers and ethnic minorities. In effect, deconstructing the neo-classical atomistic individual into multiple identities allows a better understanding of the un-egalitarian impact of the crisis on these groups. Firstly, single mothers who maintain their families in the US have experienced a surge in unemployment since 2009. In effect, the unemployment rate of single mothers was around 7% in April 2009, and rose above 12% in December 2012. In the meantime, the unemployment rate of married men dropped from 7% to less than 5%, respectively (Seguino 2013). Whether this is the sole factor linked to government spending cuts and its associated pressure on childcare is not clear. However, recent evidence on the time allocation of married mothers in the US shows that married women have substituted paid work for unpaid work during the 2007-2009 recession (Berik and Kongar 2013). Fathers’ paid work hours also declined, but their time was reallocated to leisure rather than childcare. Therefore, the pattern of gender inequality in childcare seems to be reinforced in hardship.

Secondly, the pauperisation of ethnic minorities in the crisis comes through the fact that they face fewer job and income opportunities. At a time of slower growth, it would make economic sense for employers to hire the cheaper and more flexible part of the labour force, i.e. women and ethnic minorities. However, Charles and Fontana (2011) show that, at the heart of the financial crisis between 2008 and 2009, white employers in the US favoured white workers at the expense of the young, female, black and Asian workers. The traditional minorities of the part-time labour force, the young, female, blacks and Asians have all experienced lower growth rates in part-time employment than white men and Hispanics. In times of rising uncertainty, it seems that the dominant white group is left with their identity as the only certainty, which in turn triggers a survival strategy of their group by hiring an increasing number of whites on part-time contracts.

Ethnic minorities have also suffered the cumulative impact of being poor family households who became easy targets for ‘predatory’ loans, namely loans with unsustainable terms. Dymski
(2010) points out that predatory lending have surged in the US since the early 1990s. In the consumer stage of late capitalism, human beings are considered consumer goods to be used and discarded, from sport men receiving abnormal wages to child trafficking for human organs. The last thirty years have indeed been characterised by the evolution of financial exclusion of poor and minority households into their financial exploitation. Rugh and Massey (2010) have shown that foreclosures concern essentially Hispanic and black home owners in metropolitan areas, especially in the West and Midwest. They conclude that segregation is both a cause and consequence of the housing crisis.

In sum, the most vulnerable groups during the crisis in the US, namely single women, black and Hispanic groups pay the price of financial liberalisation and deregulation. In the financialisation stage of late capitalism, an individual with several segregated identities at the bottom of the US stratification scale would mean a much higher probability of cumulative deprivation during the crisis and beyond.

3. Separation between the self and others: one dominant ideal

Since the early 1980s, the US economy has witnessed a shift of income away from the labour share of national income towards an increase in the capital share of national income, and more specifically towards the profit share in the financial sector (Palley 2013, Piketty 2014). At the other end of the stratification spectrum, the rising power of finance has led to the rise of a dominant group at the intersection of class, race and gender. A dominant identity in terms of its power to influence financial flows over time depends to a large extent on the historical power structure of the society at large. Historically, the power structure between labour and capital in the US had been according to skin-colour, whereby whites have ownership of the means of production, while the bulk of minorities are part of the labour share of national income. As the society evolves from productive to consumerist modern times, financialisation reflects this evolution and Arestis, et al. (2014) shows that the same racial division is sustained and exacerbated. Also, Arestis, et al. (2013) have highlighted two striking features of the financialisation period that are often ignored by economists and policy-makers alike. First, they uncover a growing wage premium for individuals working in managerial and financial occupations. Secondly, they show that this so-called finance wage premium is not equally distributed among all main demographic groups active in the US labour market. In particular,
it is shown that white men and, to a lesser extent, Hispanic men have taken an increasing share of this wage premium at the expense of black men, white women, and Hispanic women. On the basis of these results, they conclude that financialisation has been neither race nor gender neutral, and that it has favoured the groups of white men in managerial and financial occupations.

Once the crisis hit the US economy in 2007, white identity preferences remain dominant in the labour market (Charles 2011). In times of rising uncertainty, identities that are not matching the “ideal” identity from the perspective of the labor demand are likely to suffer most from lack of job and income opportunities. In the US labor force, whites represent the dominant identity of both employees and employers. In 2008, whites represented 80.66 percent of the full-time labor force and 83.61 percent of the part-time labor force (King et al. 2010). These figures also correspond to the proportion of whites in managerial occupations, since 81.9 percent of US managers are whites, and 62.6 percent are men. A typical manager in the US labor force would therefore be a mature white man, or woman, depending on whether the occupation can be classified as a “male job” or a “female job.” As a result of the financial crisis and related recession, full-time employment has fallen significantly across the US labor force, which was accompanied with an increase in the flexible labor force, that is, men and women working part-time (Şahin, Hobijn, and Song 2010). This trend is confirmed by the positive growth rate in part-time employment across all ethnic groups. From 2008 to 2009, all ethnic groups have suffered from the loss in full-time employment opportunities. However, the fall in full-time employment opportunities has been uneven across ethnic groups. For example, whites have experienced a fall of 5.98 percent in full-time employment while blacks have experienced a fall of 8.64 percent in full-time employment from 2008 to 2009.

The black group always ends up at the bottom of the stratification, whether it is in terms of losing their jobs first at the time of the crisis, or in terms of not receiving a similar premium than the white and Hispanic group in managerial occupations. Regardless of the level of uncertainty in economic environment, the black group is segregated across the occupational spectrum. This is consistent with Rugh and Massey (2010) mentioned in the previous section, but also with Lacy (2012) who looked at the foreclosure rates of the black group by level of income. The findings show that the foreclosure rate of black borrowers is the highest amongst low-income, but remains at the same level, around 10 percent, from low-income borrowers to
high-income borrowers. The foreclosure rate of Hispanic borrowers is around 7 percent in the low-income group and gradually goes up to 15 percent in the high-income group. However, the foreclosure rate of white borrowers is around 6 percent in the low-income group and goes down to 4 percent in the high-income group. The association of class and race, therefore, leads to dissimilar outcomes depending on the specific race considered, with the black group at the bottom of the racial stratification.

Similarly to race and ethnicity, gender is a group identity subject to discrimination in social interactions. In the labour market, employers may indeed have identity preferences regarding which group to promote, which group to hire given that certain occupations are socially perceived to be for certain skin-colour, gender, or even age groups, or which group to fire first in times of rising uncertainty. The particularity of the gender identity however is that it relates to the foundations of modernity if one accepts Weber’s view on the birth of modernity. In effect, Weber’s view of modernity is that it was born out of the separation between the family household, based on the moral standards of caring and sharing, and the business enterprise, based on efficiency and profitability (Weber 1905). Gender stereotypes often associate occupations related to care and personal service to ‘female’ jobs, while occupations related to profitability and efficiency, including managerial and financial occupations, tend to be perceived as ‘male’ jobs. Hence, the global crisis is also a crisis of the moral standards of caring and sharing; sharing the fruits of growth during the financialisation process beyond managerial and financial occupations, and caring for the vulnerable groups of society who are left impoverished during the crisis. The reality of the crisis has shown that the ideal promoted by market exchange has become the prevalent ideal in social interactions.

Market exchange is guided by a price which relies on different perceptions of the desirability of commodities, and this diversity is then somehow homogenised by the price of the commodity (Kregel 2012). This homogenization however depends on the stratification taking place in social interaction with the ideals and group interests it reflects. The idealistic vision of an identity is based on a social perception of perfection attached to this identity, constructed historically, and which can be consciously or unconsciously reproduced over time. Belonging to a group sharing a common ideal engenders a sense of identity for its group members. Goette, et al. (2006) in effect show how group membership creates social ties that lead group members
to enforce a norm of cooperation between them. Being part of a business, country, or international organization creates a sense of identity related to an ideal vision of the business, country, or international organization. For example, professional ethics create a sense of belonging to members of a professional group, which may be through a code of conduct (DeMartino 2011). Members share a common vision of what the ideal professional in that group should be. In a professional context, ethics should in effect guarantee that the professional identity of an individual prevails over all other identities of this individual whenever there is a conflict of interests between the individual’s multiple identities. Another example of group identity following an idealistic view of that identity is culture. At the national level, it can be argued that a country’s motto creates a sense of belonging to a national cultural identity. To some extent the mottos “In God we trust,” “Dieu et mon droit,” “Liberté, Égalité, Fraternité” affect behavioral norms and social interactions in the broadly defined American, British, and French cultures, respectively. In the latter culture, for example, the freedom of choice behind the ideal “Liberté” is often constrained by unequal opportunities of choice between groups of individuals, in which case the ideal “Égalité” is not warranted for all. As a result, whenever Liberty and Equality conflict with one another for a group of individuals, belonging to a “Fraternité,” or to a specific professional body, may be the triggering factor for strike actions, which can arguably become the norm of cultural behaviour.

Institutions create an image of an ideal human being toward which human behaviour should tend to. Using the words of the Capability Approach, promoting the capabilities “one has reason to value” (Sen 1999) is influenced by beliefs and ideals that place a weight on the capabilities people deem worth promoting. For instance, the principles of Buddhism mean that little value is placed on material resources and high value is placed on spiritual enlightenment. Equally, the Ten Commandments set the criteria of the optimal human behavior in Judaism and Christianity. In the context of religious, humanist, or philosophical beliefs, these spiritual identities set the criteria of optimality in human development in terms of the benchmark for human flourishing. Ideals serve the benchmark for human development, but also, as a result of optimality point in the allocation, consumption, and production of resources. In neo-classical economic thinking, departing from the ideal of homo-economicus is perceived to be a matter of imperfection or abnormality, which is sustained by the use of jargon such as “imperfect information,” “externalities,” “disequilibrium,” “market failures,” and so on. Similarly, a
critique of neuroscience is to have created an idealistic view of the human brain by constructing many classes of average behaviour, which means that “if people are identified as individuals only relative to the classes to which they belong, their distinctness as individuals can only be of a typical kind” (Davis 2011: 134). The intention here is not to enter the sensitive debate about the type of ideals worth promoting, but rather to point out that a hierarchy of ideals exists in social and market interactions, and that hierarchy imposes a dominant ideal that emerges over time. Such dominant societal ideal affects the accumulation and distribution of resources in the hands of its dominant group following its associated norms of behaviour. Understanding this process of accumulation however means that one needs to look closer at the importance of group behaviour in individual decision-making.

4. Reconciling the self and others
Reconciling the economy and the society in policy-making calls for a reconciliation of the self and others in economic theory and practice. One of the major problems with the current mainstream approach to economic policy-making is that it is grounded on a theoretical framework, namely neoclassical economic theory, that dehumanize people as atomistic units of analysis without power relationships linked to race, ethnicity, or gender identity groups and which are historically and socially constructed. Human beings are represented by preferences in utility functions or by units of labour in the production function. In policy-making, this mental construction presupposes that the issue of group identity enters utility or production functions as a control variable, i.e. independent variable, rather than being the actual dependent variable determining individual well-being, however defined, resource allocation, or the actual cost in the production function. The relationships of power and conflicting interests between groups taking place in the social sphere, which includes the market place, are ignored from the neoclassical paradigm of production. Hence, Graziani claims that overlooking power relationships makes a coherent theory lies on unrealistic assumptions (Graziani 1965, 2003).

Embracing “identity” in economic theory has been at the heart of “insider-outsider” models of identity (Akerlof and Kranton 2010). The models suggest that individuals are more likely to conform to the norms of behaviour of insiders if they feel themselves as insiders, while outsiders will act differently according to their own sense of identity, outside the group of insiders. Here, the sense of self is influenced by identity-related norms whereby departing from
identity-related behaviour lower identity-related utility. However, the boundaries of group membership sustained by group norms are constantly changing over time and space, through the way people self-identify with them, and through the way policy and social practices sustain the group norms. In terms of the role of time in that respect, the work on stratification economics by Darity et al. (2006) shows how group inequality is the result of individual and collective ‘investments’ in social norms generating wealth and income characteristics associated with different groups. Such norms are then reproduced in the short-run by individual and collective action\(^1\) investing in these wealth and income characteristics through the laws of supply and demand. Hence, over time power is sustained in the hands of a few historically well-endowed groups, which in turn exacerbate inequality at the societal level.

The experience of the US society in the event of the Great Recession is one example of how space and time shape identity and identity inequality but examples in the masculinity (Knights and Tullberg 2012, Connell and Messerschmidt 2005), intersectionality (hooks 1981, Nash 2008), and feminist (Blumberg 1984, Nelson 1992, Meyers 2005) literatures, have stressed the importance of how socially constructed identities influence economic interactions. These different literatures show that the way group identities are perceived in social interaction affects individual agency and the quality of these interactions, and hence the functioning of the self, others, the economy and the society.

As a consequence, a growing body of literature now distinguishes between group and individual behaviour (Bornstein et al., 2004; Charness and Sutter, 2012; Muehlheusser et al., 2015). In experimental laboratory setting, this literature shows that group behaviour tends to be more self-centred and predictable than individual behaviour. Bornstein et al.(2004) for example provide evidence from experiments with strategic games that groups are more rational, in the sense of maximising each group player’s own payoff, that they are less pro-social and make less errors than individuals. Groups behave as such by assuming that other groups will behave identically, thus triggering a self-reinforcing norm of behaviour to fulfil the group’s aspiration of higher payoffs. The laboratory setting of this research however does not allow the understanding of the stratification of groups in place that will allow a dominant ideal to act as

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\(^{1}\) Individual and collective action here recall the early work of Blumer (1958) on racial stereotypes as a sense of group positioning which reproduces group prejudice over time.
the dominant rule of behaviour. Economic relationships are first and foremost between diverse human beings with diverse identities which cannot be reflected in a homogenous representative agent without taking the risk of ignoring the relational component in the essence of the self.

If there is in effect one lesson to be learnt from the US experience of this growing divide between groups is that the face of the representative agent defined by economic theory seems to increasingly diverge from the diversity that the US society is. The impact of such divergence however has a cost; a cost in terms of the loss in social mobility that the ‘American dream’ represents and a human cost (Stiglitz 2015). The reality of the US stratified society is that black and white groups still pray in different churches, live in different neighbourhoods, and have unequal access to health, education and job opportunities, even after a black couple at the head of the White House. The state of inequality is symptomatic of the way discriminative behaviour reproduces itself in insidious and unconscious ways through individual and collective action. Across social sciences, evidence has now gathered that there is an ‘unconscious bias’ in individual action, one that belongs to group membership whereby group bias can overtake choices perceived to be individual-based. The experience of the US society certainly reflects the long-term economic, social and human costs of such unconscious phenomenon. Hence, although the exacerbation of stratification has been a gradual process, it has been an inevitable one that overtook the consciousness of most individual wills in power.

5. Conclusion

The literature on identity raises a fundamental question on how the individual should be understood in economic theory and practice. Assuming that each individual in “its” physical body shape is born with natural endowments, including psychological and physical attributes, these natural endowments at birth are the results of the endowments of previous generationsthat are coded in personal genes. Such evolutionary social process in the construction of the self calls for the consideration of a self composed of others in the sense that other identities are part or may become part of the self on an evolutionary and relational basis. The ideals promoted by the capitalist society have led financial flows to go disproportionally towards of a group at the unique intersection of managerial, financial, white, male identities whose financial accumulation followed a pattern of herd-behaviour. At the micro-level, individuals unconsciously promote group membership until group behaviour overtake individualities in
decision-making. Rejecting others is rejecting the human diversity within the self and, at the societal level, leads to an exacerbation of stratification. However, accepting others as part of the self, in both economic theory and practice, comes through the individual awareness that, with the dimensions of time and space, the self is permeable to the ephemeral boundaries of the multiple groups constituting the self.

Bibliography


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