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A general theory of social economic stratification:

Stigmatization, exclusion, and capability shortfalls*

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Abstract: This paper develops a general theory of socio-economic stratification based on the interconnection between a specific micro-level mechanism and a broad macro-level process. At the micro-level, it examines selective social identity stigmatization; at the macro-level it explains social exclusion using the goods taxonomy club goods concept. The paper argues individuals in disadvantaged social groups, particularly by race and gender, suffer two kinds of capability shortfalls: capability devaluations at the micro level and capability deficits and the macro-level. These capability shortfalls mutually reinforce and sustain an overall hierarchical ordering of social groups. Their interconnection is explained using a complexity theory analysis from Simon. These capability shortfalls imply two types of mutually supporting social reform policies: combatting discrimination in the case of stigmatization and advancing social group reparations in the case of social exclusion. Together, their goal is a non-hierarchical, pluralist democratic societies which promote individuals’ capability development irrespective of social identity.

Keywords: social group identity, stratification, selective stigmatization, capability devaluation, social exclusion, capability deficit, complexity, discrimination, reparations

JEL codes: B41, Z13

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1 Social embeddedness, social identity, and social stratification

In neoclassical economics, saying people are socially embedded means their social relationships affect individual behavior. This can be understood in a weak sense, as when people’s social identities (Akerlof and Kranton, 2000) or social preferences (Fehr and Fischbacher, 2002) are included in their utility functions. It is a weak sense since people are still individual utility maximizers, and social relationships only count for as much in people’s lives as they prefer. Social embeddedness is in effect optional, and people remain essentially independent of their social relationships.

Social embeddedness can also be understood in a strong sense when people are viewed as social beings. As Karl Polanyi (1944) argued, markets are embedded in social relationships rather than the reverse, and social relationships play a fundamental role in determining people’s choices. Individual agency is modified by a person’s social relationships, and people can act on others’ choices even though their choices are nominally their ‘own’ and are expressed as their ‘own’ choices.

Strong social embeddedness has been extensively investigated in social psychology’s social identity theory where individuals act as representative agents of social groups with which they identify and behave in a pro-in-group/anti-out-group manner (Tajfel and Turner, 1979). Essentially, people make choices they believe are in the group’s interest their own choices. People are still individuals, and still make choices independent of their social identities when those identities matter little, but act as representative agents of those groups when they matter more.

This paper uses the strong sense of social embeddedness to show how economies stratified by social groups, as explained in Stratification economics (see, for example, Darity et al., 2006), structurally limit the capability development of individuals in disadvantaged social groups while promoting it for individuals in advantaged social groups. It uses the idea of capability development from Amartya Sen (1999) to characterize the effects of social stratification. Combing these two frameworks, the paper aims to address two questions:

(i) what are the mechanisms and processes by which this occurs?
(ii) how do these mechanisms and processes reinforce hierarchical relationships between social groups in socially stratified economies?

The paper employs social identity stigmatization as a micro-level mechanism and social exclusion as a macro-level process to address the first question. To address the second, it argues their interaction produces two, connected types of shortfalls in people’s capability development compared to what people can achieve in democratic societies that work to reinforce hierarchical relationships between different social groups.

Stratification economics research examines how the cumulative, cross-generational effects of wealth inequality across social groups are related to a number of socioeconomic measures of well-being (Ali, et al., 2021). A fundamental issue it investigates is how social hierarchy is
systematically perpetuated, and why such hierarchies do not break down over time. Like Institutional and Evolutionary economics, but unlike Neoclassical economics, Stratification economics investigates the nature of the structures that cause and maintain these long-term institutionalized inequalities in order to identify strategies aimed at their elimination.

This paper aims to provide a ‘general theory’ of the relationship between social group inequality and well-being by explaining it in terms of a self-reinforcing, two-level micro-level/macro-level dynamic. Such general theorizing has previously been attempted (Darity et al., 2017), but this paper seeks to extend it in three ways. Firstly, by developing the interconnection between a specific micro-level mechanism and a broad macro-level process. Secondly, by explaining the effects of this in terms of two kinds of capability shortfalls. Thirdly, by using a complexity theory analysis to show how a socially stratified society can be self-reproducing. The paper aims to produce a well-being/social policy framework alternative to Mainstream economics’ emphasis on market equilibrium and efficiency whose basis is the unembedded individual.

Section 2 advances a micro-level model of selective stigmatization whereby, of individuals’ different social identities, the ones stigmatized by individuals in positions of power are those that help sustain social stratification and existing social group relationships. I characterize capability shortfalls in this case as capability devaluations because they result from what people in positions of power actively do in regard to those over whom they have power. They are manifest in effects directly acting on individuals, and capture the primary focus of capabilities research on individual well-being.

Section 3 draws on Stratification economics to explain how exclusion by social group identity works as a macro-level process to produce a second type of capability shortfall. I characterize capability shortfalls in this case as capability deficits because they reflect average differences between social groups resulting from the overall hierarchical structure of society. Capabilities research also examines structural barriers to capability development whose effects on individual capability development are indirect. Thus, sections 2 and 3 link and combine these two aspects of human capability development.

Section 4 shows how stigmatization as a micro-level mechanism involving interaction between individuals and social exclusion as a macro-level process involving interaction between social groups together produce combined capability shortfalls of individuals for individuals in disadvantaged social groups. The section describes this interaction using the bottom-up/top-down complexity theory approach of Simon (1962). I then distinguish two corresponding kinds of social policies aimed at combatting social stratification as they apply to stigmatization as a micro-level mechanism and to social exclusion as a macro-level process, arguing that they need to be jointly addressed to produce democratic societies that promote individuals’ capability development irrespective of social identity.

2 Social stigmatization and capability devaluations

Though strong social embeddedness can be explained in different ways, there are two reasons to explain it in terms of social group identities in economics: since competition between social
groups involves power relationships, this introduces power and conflict into our analysis of people’s choices, extending our understanding of individuals as agents beyond what Mainstream economics explains; since having a social identity is a matter of the person identifying with other people, seeing people as having social identities makes them both social and individual beings, avoiding both asocial individualism and the complete substitution of groups for individuals as economic agents.

To explain people’s social identities at the micro-level, first I review social psychology’s distinction between people’s categorical and relational social identities, and show how these two types of social identities can interact in social role settings, such as employment, households, schools, and clinics. I focus on hierarchical social role settings in which some individuals exercise authority over others, and it can be in their social group’s interest to reinforce their social group’s relative position.

Second, I explain how individuals in positions of authority in hierarchical social role settings are motivated to:

(i) selectively stigmatize and disfavor out of all subordinates’ social group identities those social identities that are most important to maintaining a society’s main social group hierarchical relationships; and

(ii) selectively favor out of all subordinates’ particular social group identities those that have the appearance of reducing a society’s hierarchical character.

This dual targeting is contrary to what supervisors’ roles in these social settings functionally require in ordinary efficiency terms, and contrary to what subordinates’ capability development requires. To illustrate, I interpret recent evidence regarding race and gender in the U.S. as a practice of selective stigmatization that disfavors some social identities and favors others, and thereby works to sustain existing race and gender hierarchical relationships.

Third, I explain how this practice produces measurable shortfalls in the capabilities people can develop. I term this particular kind of capability shortfall a capability devaluation, because it results from the actions people undertake to devalue others’ capabilities. I distinguish two micro-level substitution effects this involves: a distortion effect and a burden effect.

a. Two Types of Social identity

In social psychology, people have social identities that are “identifications of the self as a certain kind of person” – role-based identities – and social identities involving “identifications of the self with a group or category as a whole” – collective identities (Thoits and Virsup, 1997, p. 106). In each case, they make others a part of themselves and socially embed others in themselves. 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; also Reynolds et al., 2003).
The first type of social identity is a *relational social identity* and the second a *categorical social identity*. Relational social identities exist where people occupy positions in a “relational web” (such as in family, friendship, employment, and service relationships), and identify as people connected to others in specific ways. They involve differentiated relationships with others with whom they 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). Categorical social identities involve shared relationships with many people one typically does not know or may never encounter (e.g., those of the same race or gender). See Table 1 (also Davis, 2011, pp. 201ff).

**Table 1: Two types of social identity**

<table>
<thead>
<tr>
<th>Type of social identity</th>
<th>Mode of identification</th>
<th>Basis of identification</th>
<th>Proximity to others</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relational</td>
<td>Social roles</td>
<td>Linked differences</td>
<td>Relatively close</td>
</tr>
<tr>
<td>Categorical</td>
<td>Social groups</td>
<td>Commonalities</td>
<td>Often distant</td>
</tr>
</tbody>
</table>

Note 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, but ‘employers’ and ‘employees’ also constitute categorical social identities. Social role settings thus create potential conflicts of interest between people’s relational and categorical social identities when what a role requires and what social group interest requires conflict.

Conflicts also exist between individuals’ different categorical social identities and between their different relational social identities. Feminist intersectionality theory investigates conflicts 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). 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 this allows us to directly link stigmatization as a micro-level practice and macro level social stratification.\(^1\)

Social roles in relational settings, 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. This is the case with which I am concerned.

In individualistic Mainstream economics, the cause of this hierarchy is simply individuals’ self-aggrandizing behavior – an inefficient sort of principle-agent relationship – that says nothing about how society is organized. However, when individuals are seen as strongly socially embedded and society is stratified by social groups, it is in the interest of individuals in positions of authority in higher ranked social groups to act to reinforce their group’s relative positions. Selective social stigmatization targeting specific social group identities of subordinates is an important means of achieving this.

\(b.\) Selective 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, and reinforces and sustains a society’s hierarchical organization around race, gender, religion, sexual orientation, and ethnicity (Davis, 2014, 2015). When a person is stigmatized, they are reduced to an “attribute or characteristic that conveys a social identity” shared by many others (Goffman, 1963, p. 505). 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; see 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).

Consider, then, the evidence regarding social group inequality in connection with race in the U.S. As shown in an extensive study of intergenerational income mobility and persistence of income disparities across racial groups for the period 1989-2015 (Chetty et al., 2018), black Americans have substantially lower rates of upward mobility and higher rates of downward mobility than white Americans, reinforcing long-standing income and wealth disparities by race in the U.S. (see Darity and Mullen, 2020, ch. 2). However, at the same time, there is very little difference over this period in income mobility rates between black women and white women, though to be

\(^1\) I thus set aside here complicated issues regarding how intersectionality operates in hierarchical societies, though it can be argued is that it generally does not moderate social stratification (Davis, 2015).
clear, black women still have lower incomes than white women.\(^2\) 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 primarily stigmatizing black men. Since an effect of stigmatization in employer-employee settings is lower income and employment for them but not for those not stigmatized, this: (i) reinforces 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; (ii) minimizes social group inequality as a public policy issue when emphasis is placed on the absence of significant differences in black women and white women’s mobility.\(^3\)

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. Yet there is significantly less of a gender income gap when women and men of the same education levels 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).\(^4\) However, since women have the main responsibility for household activities, most women are unlikely to work long hours.

How does a strategy of selective stigmatization work here? If long hours are not stigmatized whether women or men work them (implicitly, normal hours of employment are 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 household division of labor, are less likely to work long hours, thus sustaining the overall income gap between women and men, and 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 is thus ideological in nature in that it sustains discrimination and social stratification and creates a narrative denying it at the same time. In the case of race, discrimination appears to be absent if black and white women have the same 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

\(^2\)As Chetty et al. emphasize, the absence of differences in mobility rates is conditional on family income or where family income levels are the same. Thus, income levels and income mobility are separate measures, and potentially addressed by different public policies.

\(^3\) Not stigmatizing black women in employment settings does not mean black women are not stigmatized culturally and socially. Nor does it not mean black women are not stigmatized in employment settings at all. The argument is that racial stigmatization primarily targets black men. The interpretation offered here of the Chetty et al. results is only meant to address that black women and white women have essentially the same income mobility, not the same income levels.

\(^4\) 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.
stigmatization manipulates people’s intersectionality by favoring certain social group identities and disfavoring others. To succeed, black women need to reduce their identities to being women and 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 to reinforce social group inequalities.

Selective stigmatization, then, can operate in any relational setting in societies hierarchically organized by social groups where individuals in positions of authority exercise power over others. Standard economics suppresses analysis of this, since it ignores strong social embeddedness and social circumstances when people’s agency is modified by others. With its highly individualist, weak social embeddedness principle, it ends up attributing 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 dovetails with real-world social stigmatization practice. As pioneering Stratification economist William Darity puts it, “claims about the defectiveness of a group with outcast/caste status [become] 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: A ‘microeconomics’ of selective stigmatization**

| Categorical social group identities are ranked hierarchically in society |
| Relational social identities link social roles |
| It is the interest of those in positions of authority to reinforce social hierarchy |
| Selective stigmatization in relational settings: |
| (i) strengthens the most important social group inequalities |
| (ii) may reduce less important social group inequalities |
Selective stigmatization and capability devaluations

Selective stigmatization reinforces social and economic inequality in societies hierarchically organized around competing social groups by manipulating intersectionality. It has two specific distorting effects. From an economy-wide growth perspective, as with any discriminatory activity, selective stigmatization limits how well functional roles can be performed reducing economic output. From an individual perspective, it adversely affects how people develop their capabilities causing them to act differently than they would choose and rather as stigmatizers prefer. I call these effects capability devaluations, because stigmatization involves someone actively de-valuing someone else’s capabilities by disfavoring certain social identities they possess and by reducing some of their individual characteristics to disfavored group characteristics.

This devaluation exploits intersectionality. In the case of the U.S., the evidence tells us that 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. She possesses both social identities, so her capability development should depend on how she combines and organizes both, but since being black has been reduced in value, she is pressured to develop her capabilities minus her identity of being black – a forced social identity substitution effect.

In the case of gender we saw when women and men both overwork their incomes appear non-discriminatory but that overall 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 combines and organizes her social identities, when it is present in employment settings she is likely to develop her capabilities minus her identity as a woman – again, a forced social identity substitution effect.

In strong social embeddedness terms, in both cases the stigmatized individual loses agency to the stigmatizer. I characterize these capability devaluations as measurable capability shortfalls in which the stocks of capabilities people develop are reduced from what they would develop were they to develop their capabilities as they choose. How can such capability shortfalls be measured? I suggest they can be benchmarked by the measurable capabilities people would have according to what their social roles would require were stigmatization absent.

In relational social settings, then, criteria for fulfilling social roles according to what those roles require are set out in terms of specific sets of activities they involve. That is, social roles can be described functionally in terms of agreed upon sets of activities, and those activities then require that people have specific capabilities for performing them. For example, operating various types of equipment requires one understand technical manuals and user protocols, and this entails having various capabilities for understanding and using those materials. In effect, the capability set is determined by task activity requirements. Thus, though capabilities are often understood in fairly general terms as associated with the development literature idea of basic capabilities needed to escape poverty, the concept of capability can be employed in relational settings where productive activity occurs, as reflected in how it is used in business organization models (e.g., Greski, 2009).
Activities required and capabilities paired with them, then, are often well-specified in employment settings, since there they are closely connected to wage-setting. In non-employment household and community settings, extensive time-use studies of household production and community cooperative activities demonstrate that the activities and capabilities involved there are quite specific as well.

Benchmarking capability shortfalls by activity-capability standards, then, allows us to explain how the capability substitution effect that stigmatization involves takes on two forms. A pure distortion effect results when the activities and capabilities appropriate to a social role are replaced by activities and capabilities inappropriate to it. A burden effect results when the activities and capabilities required in a role are inappropriately shifted from the stigmatizer to the stigmatized. The pure distortion effect is arguably more technical in character because it is especially tied to efficient methods and technologies used in productive activity, yet social values regarding how people work together are still important. The burden effect, however, especially incorporates social values and normative views in a significant way in regard to responsibility sharing, which in turn involves social justice issues.

An important line of research in Stratification economics examines combinations of distortion and burden effects in connection with how people adapt their identities and consumption choices under stigmatization using a concept of negative identity production externalities (see Okonkwo, 1973; Stewart, 1995). In terms of the framework here, these effects redirect people’s capability development away from what it would otherwise be.

Generally then, in employment settings, the activities that social roles require depend on the nature of the production involved. A cost of discrimination perpetuated by stigmatization is more easily determined in this case than in the case of household and family settings, where the division of responsibilities is highly gendered and social values play an important role. However, a burden effect resulting from stigmatization can still be benchmarked by how social roles are allocated according to prevalent social values. It follows that this benchmarking would produce different results under alternative social values and accompanying institutional arrangements.

This section, then, explains one way a social identity-based micro-level analysis built upon strong social embeddedness can explain people’s interaction in relational settings when an economy exhibits significant social group stratification. The next section moves to a macro level analysis to discuss how Stratification economics explains social group stratification in the economy as a whole.

3 Stratification economics: social exclusion and capability deficits

Stratification economics, an emergent subfield in economics, draws on social psychology and other fields to analyze and reconstruct inter-group inequalities, typically organized around hierarchical orderings of social groups, particularly by race, ethnicity, gender, and class (see Darity et al., 2015). I first identify what Stratification economics adds to Realistic Conflict
Theory to explain the economy, and then argue that socially stratified economies function as systems of social of exclusion in which an economics of abundance operates for socially privileged social groups and the economics of scarcity for those in social disadvantage social groups. Finally, I argue that social stratification produces a set of capability shortfalls termed capability deficits distinct in nature from the capability devaluation shortfalls that stigmatization produces.

a. Stratification economics and Realistic Conflict Theory

In social identity theory, when people identify with others by social groups and act as representative agents of social groups, they adopt pro-in-group/anti-out-group types of behavior (Tajfel and Turner, 1979; Postmes and Branscombe, 2010). Their intra-group attachments and inter-group antagonisms then function as two sides of a one orientation towards other people, elevating inter-group conflict as a driving force in contemporary societies. But why do people identify with social groups in the first place? Why not act as independent individuals, as mainstream economics assumes?

To answer these questions, Realistic Conflict Theory (Baumeister and Vohs, 2007; Schofield, 2010) identifies conditions under which people form and join social groups. Those conditions were first systematically investigated and explained in the famous Robbers Cave experiment (Sherif et al., 1954/1961; Sherif, 1956) that showed that when individuals find themselves in risky, uncertain, zero-sum type circumstances, they often organize themselves into competing social groups, act as they perceive their own groups require, and cease to act as independent individuals.

The Robbers Cave experiment, and much subsequent social psychology research on social group formation and affiliation (Platow and Hunter, 2012; Haslam, 2018), has shown that social group members often share some set of characteristics, such as race, ethnicity or gender, but that groups can also form from sets of heterogeneous individuals who see themselves as sharing a common purpose, such as we observe in many social movements. Thus, what is key to group formation are the conditions under which it occurs, specifically, when individuals perceive they face risky, uncertain, zero-sum type circumstances. Later social network theory has built on this conclusion to show that people’s social ties, whatever their basis, tend to cluster around relatively well-defined or distinguishable social groups (Wasserman and Faust, 1994). Membership in groups thus acts as a behavioral anchor individuals regularly fall back upon when they find themselves in risky zero-sum worlds.

Stratification economics draws on this framework to argue not only that social relationships within different domains of society commonly reflect inter-group conflict, but also that the combined, overall effect of inter-group conflict across these different domains produces superior economic opportunities and outcomes for dominant social groups and inferior ones for dominated groups (Darity 2005; Stewart 2008; Darity et al., 2017; Davis, 2019). The argument for this conclusion is as follows. Inter-group conflict within different domains of society favors more powerful social groups. Dominant social group advantages within one domain, for example, in employment, can produce cumulative advantages for those groups in other domains, for example, in education, housing, and health. Conversely, disadvantages individuals in inter-
group conflict less powerful social groups have, for example in wealth accumulation, produce cumulative disadvantages for those individuals in education, housing, and health. (Ali et al., 2021).

Thus, whereas in mainstream macroeconomics the income generation process is driven by competition between individuals, in Stratification economics it is driven by competition between social groups. Stratification economics is like classical political economy and contemporary heterodox theories of growth and distribution (Dutt, 2017), though its social basis is social groups rather than functional income classes such as labor and capital. Inequalities in income and wealth exist by class but class in contemporary capitalism reflects social group identity.

Thus, if in Realistic Conflict Theory people organize themselves into social groups in the risky, uncertain, zero-sum type circumstances identified in the Robbers Cave experiment, what specific form do these circumstances take in contemporary capitalist economies according to Stratification economics? I argue that since the 1970s and 1980s two characteristics of those economies are especially important:

(i) income and wealth inequality are rising;

(ii) relatively large numbers of people face either a downward intergenerational income mobility or little income mobility at all.

Both are characteristic of U.S. capitalism since 1970s and 1980s. First, there is clear evidence that overall income inequality in the U.S. has worsened significantly since the 1970s (Piketty and Saez, 2003), and that over the same period overall wealth inequality has increased significantly in the U.S. as well (Saez and Zucman, 2016). In the case of race, the evidence for the U.S. is also clear (Darity et al., 2018; Darity and Mullen, 2020). 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). Further, Black-White and Female-Male income inequality have both risen as a result of the Great Recession (Arestis et al., 2014; Szymborska, 2021).

Second, regarding intergenerational income mobility, it has been shown for the U.S. that ‘absolute’ income mobility, defined as “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 noted above, income mobility for black Americans is consistently worse than for white Americans (Chetty et al., 2018; Darity and Mullen, 2020, ch. 2).
If sectoral and overall social stratification interact and reinforce each other in contemporary capitalist economies, I argue that socially stratified economies operate as systems of social exclusion and that Stratification economics is an economics of exclusion (Davis, 2019).

b. Stratification economics as an economics of exclusion

A socially stratified economy creates different kinds of economic destinations for different people that give them different qualities of employment, education, housing, and health care. The broad mechanism by which this occurs is segregation, which operates in employment, housing, education, purchase of goods, access to government programs, credit, the legal system, etc. to reduce access for excluded groups to a wide range economic activities and opportunities while promoting access for privileged groups. An economy that works through segregation is based on systematic exclusion.

Suppose, then, we say in socially stratified economies there are just two types of economic destinations and two corresponding qualities of goods people consume in those two destinations. Using economics’ standard taxonomy of goods, in one case the goods associated with higher levels of well-being can be called ‘club goods’ while in the other case the goods are associated with lower levels of well-being levels can be called ‘common pool goods’ (Davis, 2019). The standard goods taxonomy, recall, attributes two types of characteristics to goods – whether their consumption is rivalrous and excludable – and then divides the economy into four domains or types of consumption according to the four different ways these characteristics can be combined. The two cases that describe a socially stratified economy that discriminates against some people and privileges others respectively refer to the southwest and northeast domains in the standard diagram (see Table 2).

<table>
<thead>
<tr>
<th>Goods characteristics</th>
<th>Excludable</th>
<th>Non-Excludable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rivalrous</td>
<td>Private goods</td>
<td>Common pool goods</td>
</tr>
<tr>
<td>Non-rivalrous</td>
<td>Club goods</td>
<td>Public goods</td>
</tr>
</tbody>
</table>

In mainstream economics, the club goods concept is often used to describe local public goods or public goods provided by political jurisdictions below the state level (Buchanan, 1965). However, it is also used to describe all sorts of private social clubs and other exclusive economic arrangements that employ some system of governance to socially segregate access to the goods.
In the Table, this makes those goods excludable like private goods, but unlike private goods it normally makes their consumption non-rivalrous in that their use by those with access to them does not limit their use other by others with access to them. This effectively creates an economy of abundance for those included in the club. Compared to non-club goods domains, prices and costs are lower than in non-exclusive settings, creating relatively higher incomes and wealth for their members.

The common pool (Ostrom, 1990) goods concept is associated with the ‘tragedy of the commons’ idea (Hardin, 1968). When no system of social or political governance limits access to production and consumption of goods in some social space – the idea of an unregulated ‘commons’ – their production and consumption is rivalrous and non-excludable. People in this worst of all possible circumstances are unrestricted in their use of resources available, and this often exhausts or destroys those resources, damaging the basis on which they secure their livelihoods – a sort of socially constructed Hobbesian war of all against all. Unrestricted access effectively creates the most extreme economy of scarcity. Compared to the other domains, prices and costs are higher, leading to relatively lower incomes and wealth than in the other domains.

A socially stratified economy, then, when represented as primarily having these two different kinds of economic destinations, operates by sorting people across the club goods and common pool goods domains according to their social group identities. This determines social group income and wealth inequalities and socioeconomic differences in quality of employment, education, housing, and health care. The social system driving these outcomes is one of inter-group competition where some social groups are dominant and employ such mechanisms as stigmatization to maintain their dominance.

For Stratification economics, the economy operates on the southwest-northeast diagonal of the goods/economy taxonomy as a self-sustaining system of social inclusion and exclusion where competition is between hierarchically-ordered social groups. For Mainstream economics, the economy operates on the southeast-northwest diagonal where competition is between individuals according to purportedly exogenous differences in human capital.

Property also is narrowly explained in terms of individuals’ legal property rights, and individuals’ social groups’ club membership rights, a type of social group property right with bespoke legal grounds, is subsumed under people’s individualistic private organization membership rights. Ideologically, Mainstream economics represents itself as an economics of scarcity, but this characterization primarily applies to the common pool resources domain. In an economy with high income and wealth inequality, for those occupying the economy’s club domain scarcity is not the issue – rather it is how advantage is shared out among the privileged.

**b. Economic exclusion and capability deficits**

Socially stratified, hierarchically organized economies produce another type of capability shortfall – a social structural type – resulting from the different destinations people occupy rather than direct effects of stigmatization and discrimination. I term these structural capability shortfalls capability deficits. In terms of the two-destination analysis above, 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.\(^5\)

I argued above that measurement of capability devaluations depends on the nature of the social role settings in which stigmatization occurs. Social roles determine sets of activities that people need to perform, and this benchmarks the capabilities that can fail to be exercised in those roles when stigmatization substitutes different sets of activities. That is, capability devaluations are tied to the nature of productive activity in a given relational setting. In contrast, the measurement of capability deficits compares different social groups’ capability development opportunities. In a two-destination world, what capabilities people on average can pursue is determined by the capabilities that individuals in privileged social groups pursue, given what an economy’s resources permits when abundance is shared.

In the capabilities literature, capabilities are proxied by functionings, which as observable activities can be measured in a relatively straightforward matter (Sen, 2009, pp. 235ff). But how do we calculate the value of lost functionings to determine the functionings people could have achieved were exclusion absent? Of the different methods possible, the most straightforward is simply to measure them by comparing existing levels of wealth inequality between disadvantaged and privileged social groups – a method used recently to estimate reparations needed to redress the effects of slavery and Jim Crow practices in the U.S. (Darity and Mullen, 2020, ch. 13). The rationale for this approach is that wealth inequality is a consequence of a social system built around social stratification, and thus effectively captures people’s accumulated losses. Its measurement is also reasonably straightforward, and thus could produce a fairly clear determination of a society’s capability/functioning deficits due to social stratification at any point in time.

### 4 The interconnection of stigmatization and social exclusion

I argue stigmatization and social exclusion are interconnected in that they reinforce and sustain one another, but can also break down together in a democratic, non-hierarchical society. From the macro-level system perspective, when social exclusion is high and economic and social differences between social groups are significant, stigmatization is likely to be widespread, expected, and is a standard practice. Conversely, when social exclusion is low, stigmatization is likely to be less common, unexpected, and generally seen to be unacceptable. Why?

When across many societies economic and social differences between social groups are significant and long-lasting, they come to be seen as inevitable and rooted in the nature of human society. Rationalizations and ideological justifications for their existence then become part of mainstream social science and even more importantly are institutionalized in legal systems (Stewart, 2010; Harris, 1993), so that differences between groups of people in economic outcomes are seen as ‘natural’ (Darity, 2005).\(^6\) Thus, from the point of view of stigmatizers,

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5 This capability development, then, exhibits the same negative identity production features noted above in footnote 4.

6 These ‘natural’ differences are then associated with human capital differences whose source is exogenous and ignored.
stigmatization and discrimination are not an objectionable manipulation of people’s social identities, but rather the result of a rational evaluation of their lesser abilities carried out by those who have superior abilities. In this way, social stratification justifies stigmatization as a standard, justifiable practice (though not by this name) and entitles stigmatizers to devalue others and their capabilities.

However, when economic and social differences between social groups are recognized as large and unacceptable in some societies but not in others, naturalistic and individualistic explanations of these differences break down, and more complex multi-causal social science and popular explanations of people’s differences are called for. People still differ in their natural abilities but the effects of those differences on their well-being and economic outcomes are also seen to be influenced by how society creates opportunities for people. Social policy itself then becomes a causal factor involved in determining people’s social positions, social stratification comes to be seen less as an inevitable kind of social order and more one pathway some societies pursue. In these circumstances, person-to-person stigmatization comes to be seen as an objectionable, non-rational social practice. Stigmatizers lose their ‘entitlement’ to discriminate based on social identity, and that practice is seen as one of many such unacceptable practices in socially stratified societies.

Thus, stigmatization (and other similar practices) and social exclusion either interact in a self-fulfilling or self-defeating way depending on a society’s direction and the social beliefs it engenders. Below, I represent this dynamical process using the same simple complexity model developed by Herbert Simon (1962). My view is that Simon’s representation of complex processes provides a general model for explaining social economic systems.7

a. Stigmatization and social exclusion as a dynamic complex system

Simon’s view is that a complex system is made up of multiple, relatively independent subsystems whose interaction determines how the overall system they together make up functions, which in turn influences how those subsystems function. Each of a system’s relatively independent subsystems exhibits an internal activity which affects these subsystems’ interaction with each other. The effects of these subsystems’ interaction on the overall system then feed back upon both these subsystems’ internal activities and how they interact.

If we describe this system in two levels in a combined bottom-up/top-down way, a complex system involves a dynamic relationship where bottom-up micro-level activities within interacting subsystems affect the entire macro level system, and this then feeds back in a top-down way upon both the activities within subsystems and those subsystems’ interaction, together producing a continually on-going two-way micro-level/macro-level interaction. That is, the system’s dynamics derive from the interaction of its two levels.

This dynamic, then, is represented below in Figure 2.

7 Indeed, the core idea of how micro- and macro-levels of an economic system are interconnected, central to Keynesian economics fallacy of composition principle and the Keynesian critique of mainstream macroeconomics’ microfoundations thinking, can be given this same complexity interpretation.
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 they make up.

This feeds back on 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.

I represent this process in terms of how micro- and macro-levels interact to connect stigmatization (one subsystem) and overall social group inequality. For the bottom-up part of this process, let $a$ represent stigmatization by social group identity occurring in many settings on the micro-level, and let $b$ represent their effects on social group inequality at the macro-level.

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

Mainstream economics and Stratification economics share [1] because they do not disagree that stigmatization is related to social group inequality. However, the mainstream rejects the idea that stigmatization (or discrimination as it is described) over time worsens and affects the general state of social group inequality, implying that [1] does not change over time. That is, the mainstream view is that dynamically speaking [1] reproduces itself over time in a stable manner, as in [2].

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

The mainstream view reflects standard macroeconomics microfoundations reasoning whereby what occurs on the micro-level of the economy is self-contained and the representation of the economy as a whole simply sums what occurs at the micro-level. Thus for the mainstream,
given $a$, or that discrimination or stigmatization occurs, and given that it does not influence the state of social inequality [2], combining [1] and [2] for the overall causal effects ($\Rightarrow$) produces [3].

$$a \text{ and } a \rightarrow b \text{ and } a \rightarrow b \rightarrow (a \rightarrow b) \Rightarrow b \text{ and } (a \rightarrow b)$$

What [3] tells us is that on the mainstream view the existence of discrimination/stigmatization and the state of social group inequality – because it is an unchanging relation – involves a kind of ‘natural’ relationship. What people do on the micro-level has no influence on the macro-level character of society. It achieves this via its microfoundations view in [2], and thereby makes the stigmatization-social inequality relationships self-reinforcing static relationship in which changes in either have no effects on the other.

In contrast, Stratification economics argues that stigmatization not only affects social group inequality, but when it worsens, this worsens the state of social group inequality. The relationship between $a$ and $b$ in [1] is not unchanging over time, and so the relationship between stigmatization and social group inequality is not unchanging over time. To capture this, replace [2] by [4].

$$a \rightarrow b \rightarrow (a \rightarrow b)$$

The relationship in [4] drops the microfoundations, one-way causal view in [2], and allows that there can also be top-down effects of worsened social group inequality on the practice of stigmatization. For example, in terms of social beliefs, a strengthening of social group inequality can strengthen the practice of stigmatization by strengthening attitudes of those in higher ranked social groups regarding the supposedly ‘natural’ character of social hierarchy.

Whatever the mechanism(s) for these top-down effects, for the overall effects ($\Rightarrow$) of micro- and macro-levels taken together, [3] now needs to be replaced by [5].

$$a \text{ and } a \rightarrow b \text{ and } a \rightarrow b \rightarrow (a \rightarrow b) \Rightarrow b \text{ and } (a \rightarrow b)$$

Here, $b$ is the state of social inequality at any one time and $(a \rightarrow b)^\prime$ is the changeable relationship between stigmatization and social inequality over time. The micro- and macro-levels interact and affect each other, as in Simon’s model, via their bottom-up/top-down interaction, such that discrimination or stigmatization continually worsens social group
inequality and social group inequality continually strengthens discrimination or stigmatization. Thus, their interaction creates a self-reinforcing dynamic that increases both over time.

However, by the same reasoning, the implementation of social policy measures could cause this overall process to operate in the opposite direction, and become a self-defeating one, thereby reducing both stigmatization and social stratification. Substituting \((a \rightarrow b)''\) based on adoption of social policy measures combatting stigmatization and remedying social group inequality for \((a \rightarrow b)'\) in [5] then gives:

\[
a \text{ and } a \rightarrow b \text{ and } a \rightarrow b \rightarrow (a \rightarrow b)'' \Rightarrow b \text{ and } (a \rightarrow b)'' \quad [6]
\]

Complex dynamical systems, then, are historical not ‘natural’ and what society does determines the character of the relationships that govern them. In particular, social policies at both micro- and macro-levels can reconstruct relationships between social practices and the overall state of social group inequality to alter how they are interconnected. In the analysis here, those policies need to combat both bottom-up effects – prohibiting discrimination – and top-down effects – reversing social group inequalities, for example through reparations programs.\(^8\) The former targets relationships between individuals; the latter targets relationships between social groups.

**Conclusion: Individuals’ social embeddedness and their capability development**

This paper’s entry point was individuals’ strong social embeddedness. This concept makes it possible to introduce social groups into economics in a way that allows us to see how social stratification drives the economic process. This in turn produces a different causal basis for explaining the dynamics of capitalist economies, and creates an alternative agenda for economic policy seen specifically as social policy. The mainstream weak social embeddedness concept bars this analysis, and locks in the idea that social stratification is insignificant and not a policy concern.

That social policy was framed in capability terms, specifically capability shortfalls. Capability devaluations and capability deficits call for social policies operating on different levels, but since stigmatization and social exclusion interact so those different types of policies also interact. Preventing stigmatization and discrimination in micro-level relational settings is thus a means of reducing social stratification at the micro-level of an economy, and reducing social exclusion is a means of reducing it at the macro-level.

This paper does not discuss the important role legal, institutional, and political systems play and have historically played to structure this interaction. Much research has been done on this subject by researchers in Stratification economics and Feminist economics that demonstrates the

\(^8\) See Darity and Mullen (2020) for a full analysis of the basis for and effects of race reparations programs in the U.S. case.
concrete ways in which socially hierarchical societies maintain and reinforce this interaction.

The analysis here takes its generality from its conceptual starting point: the need to abandon the standard unembedded Homo economicus utility function individual conception upon which mainstream economics is built. That conception acts as the lynch pin of Mainstream economics, underlies its single level view of the economic process, and helps secure the self-reinforcing dynamic of social stratification. The paper makes the alternative starting point for a general theory of social economic stratification a conception of individuals as strongly socially embedded that provides a more realistic account of people’s agency and economic behavior, opens economics to a complexity two-level understanding of the economy, and redirects social policy to the goal of replacing socially stratified societies with democratic ones.

References


