# THE HARD QUESTIONS

## Comparative disadvantage

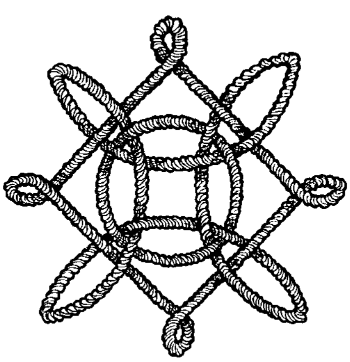
The September issue of a prominent academic journal features the kind of article you'd expect from a touchy-feely sociologist. Entitled "Social Distance and Social Decisions," the article demonstrates why social status and peer pressure—not an individual's God-given talents—can be the primary factors determining whether that individual prospers.

But the author of this piece is not a sociologist—he is George Akerlof, a well-known economist who teaches at the University of California at Berkeley. And the journal in question is not some squishy deconstructionist rag—it is *Econometrica,* the premier journal in economic theory. Increasingly, articles like this are popping up throughout the economics establishment. Economists appear finally to be learning what everyone else has suspected for some time: achievement doesn't entirely depend on ability and effort, no matter what the hyper-pure disciples of Adam Smith might say.

This is a historic turnaround. For the most part, economics tries to explain social outcomes by focusing on the effort and skills of individuals—not social grouping. This kind of thinking can be useful when studying how changes in technology and consumer incomes affect prices in the marketplace. But, when it comes to explaining the root causes of economic inequality in modern societies, this individualistic approach is frightfully flawed. Individuals, after all, exist within complex social networks. People are members of nuclear and extended families; they belong to religious and ethnic groups; they are part of communities rooted in geographic localities. Because opportunity is conveyed along the synapses of these social networks, inherited social position is a major determinant of an individual's ultimate economic success.

A vivid example of this reality comes from Roger Waldinger, a sociologist from UCLA. In a new book called *Still the Promised City?,* Waldinger observes that, while the exodus of whites from New York over the last quarter-century has opened up jobs in a number of industries, it is immigrants—not native blacks—who have been able to take the most advantage of these opportunities. The reason: hiring in these industries depends heavily on word-of-mouth information and personal references from current employees. Ethnic New Yorkers, Waldinger says, have created networks that help members of their own groups while proving "inhospitable to outsiders" (who are often black).

Economists, of course, were always aware of such social influences on market outcomes; but, unlike sociologists, they usually de-emphasized them. Now this appears to be changing. Several excellent research articles on inequality—each recognizing the central importance of social affiliations—have appeared in top economics journals in recent months. For example, the latest issue of *The Quarterly Journal of Economics*—which Harvard's economics department has edited for over a century—includes a path-breaking statistical analysis by two economists, David Cutler and Edward Glaeser, who ask the very unorthodox question, "Are Ghettos Good or Bad?" They answer it by comparing rates of schooling, employment, earnings, and unwed pregnancy among blacks living in cities that exhibit varying degrees of segregation. Their conclusion: "blacks are significantly worse off in segregated communities than they are in nonsegregated communities." They estimate that a 13 percent reduction in segregation would eliminate about one-third of the black-white gap in most of the outcomes they studied.



Another instance of this trend in fresh economic thinking comes from Edwin Mills and Luan Lubuele, writing in the June 1997 edition of the *Journal of Economic Literature,* an official publication of the American Economics Association. In a review of research over the last three decades on the social and economic problems of inner cities, Mills and Lubuele conclude that we still do not know why "low income black residents actually or potentially eligible for jobs that have moved to suburbs [have] not followed such jobs to the suburbs." They, too, conclude that classical economic theory, with its emphasis on the individual, cannot account for this lack of migration—especially in light of the huge movement of poor blacks from the South to the industrial North after World War II.

Together, these articles and several others constitute a trend of more than just academic interest. To the extent that we believe society is just an amalgam of individuals, where unequal outcomes reflect nothing but the unequal talents and efforts of individual persons, we will be inclined to tolerate economic inequality, reasoning that the more productive deserve their greater reward. But once we acknowledge the social origins of individual disparities, it becomes difficult to think of society's winners as morally entitled to their greater prosperity. We begin to entertain the idea that people don't necessarily merit the good fortune of a propitious location in the social network.

Nowhere is this point more important than in the current debate over affirmative action, particularly as it applies to the educational opportunities of young students. In Boston, for instance, parents recently filed suit against the Boston public schools because the prestigious Boston Latin School selected half of its incoming class on the basis of exam performance, and half using a formula designed to achieve some racial diversity. Many people understandably believe enrollment should be based on "merit" alone. But it seems odd to talk about children no more than 14 years old as the bearers of merit, defined in turn by scores on a test. Of course, a school dedicated to the most academically talented students must ration its spaces, and the use of a test is a reasonable instrument to guide the selection. But that does not mean we should ignore altogether what we know about the social structures of opportunity that operate all around us.

It is to be expected that upper-middle-class children who have attended exclusive private academies through the primary grades will test near the top of the scale among applicants to a selective public high school. But are they entitled on that basis to be chosen over outstanding students from less well-off communities who have not done quite as well? What would be wrong with an admissions policy which makes a place for a few students from each of the elementary schools in the city, provided they scored above some minimum threshold?

Those who would interpret the Constitution as barring such a modest use of preferences in the selection of a public exam school class are deeply mistaken. We can, if we so choose, allocate some public resources so as to mitigate the inequalities that are produced, and reinforced, through the processes of social affiliation. And for the first time in many years, we can even turn to economists to explain why we should.

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