

Chapter 7 – The Underclass: Culture and Race

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I. The Culture of Poverty

When describing the true origins of poverty, some recent debated has focused on whether an underclass exists that is poor and socially isolated, so that the group does not respond to mainstream prosperity, incentives or values. This chapter explores issues about the existence and explanations for an underclass.

Many Americans believe there is abundant economic opportunity, hence the persistence of poverty relies on “flawed character” arguments such as welfare mothers preferring to have kids over jobs, etc.

Norms versus Traits

A key issue in determining “flawed character” is that we do not directly observe preferences (such as a person's work ethic), or as the book calls it, “culture.” Instead we observe behaviors, such as lack of work.

The key problem is that observed behaviors, such as lack of work or lack of savings, is almost surely a combination of different preferences and different budget constraints. Schiller gives the following example:

A welfare recipient may be observed to reject a “reasonable” job offer.

- One conclusion relates to preferences – e.g., the welfare recipient is lazy.
- Another relates to the budget constraint – e.g., childcare and transportation responsibilities relative to the wages from the job, or the lack of advancement at certain jobs.
- Finally, welfare benefits could be reduced as well.

As Schiller points out, “It must be shown that the norms and aspirations – not just behavior – of the poor are different and that these differences impede the escape from poverty.” It should be clear that if preferences are unobserved, then it will be difficult to make conclusions like this.

On the other hand, it should be noted that simply because something is difficult to prove (or disprove) – such as differences in preferences or differences in innate intelligence – doesn't mean that we should necessarily discount it.

The policy implications are vastly different, however, if poverty results from

differences in preferences versus differences in the budget constraint.

- Examples – cigarette smoking, seat belt usage, retirement savings

Anthropological studies

Schiller cites a 37-year-old study by Oscar Lewis, who examines Mexico and Puerto Rico, that argues that there are a number of behavioral traits that explain poverty, such as the use of banks, museums, etc.

Others focus on the alleged self-indulgence of the poor. It is observed that middle class people feel the need and desire to save, where the poor do not have such motivation. This also shows, up, perhaps, in investment toward children.

A question of opportunities

The key question, again, is whether the observed behavior relates to preferences or budget constraints. Schiller lays out several conditions that must be met for different preferences to drive the behavior:

1. The satisfaction being deferred must be equally important to the poor and non-poor.
 - For example, the time horizons must be equal (e.g., think of retirement savings)
 - Benefits from “good” behavior
2. There must exist equal opportunity to defer satisfaction
 - For example, equal access to universities or to retirement planning
3. The poor and non-poor must equally suffer from deferment
 - For example, going to school is equally as expensive, or saving for retirement
 - Costs of “good” behavior
4. The probability of obtaining gratification at the end of the deferment period must be equal for both groups

Essentially, the *entire budget constraint* must be identical in order to attribute differences in actions to preferences.

Obviously, by definition, the poor and non-poor face different budget constraints because income is different.

The requirement to take a good action in a typical cost-benefit analysis are less stringent, however. A typical cost-benefit analysis assumes that one takes an action, such as investing in education, if the net present value of an action is positive. That is, in economics we worry about the *net benefits*, e.g., the benefits minus the costs. There is not an assumption that each of the individual components has to be the same across the poor and non-poor.

Consider the schooling example that Schiller offers, but consider higher education. It is likely that the costs are lower for the poor because of financial aid, but that the benefits are lower too.

In terms of savings behavior, return to the consumption today-consumption tomorrow budget constraint that we have gone over. Are there ways of backing out preferences versus opportunities?

II. Wilson's Underclass Theory

William Julius Wilson has emphasized *external* causes that lead to an underclass - this would generally relate to restricted opportunities rather than flawed character.

As the U.S. economy has changed over time, good jobs have moved away from the inner city (where many poor, primarily black families live). This is the "spatial mismatch" hypothesis – jobs are not where the poor are.

The relatively advantaged families have left the inner city in favor of the suburbs, increasing social isolation.

Testing the theory

Size - since the metric of who is really the "underclass" is open to debate, the size of the "underclass" varies tremendously. More stringent definitions focus on long-term poor who exhibit deviant behavior, more liberal definitions focus on anyone living in neighborhoods with some fraction of households who are poor.

Tests - There are both direct and indirect tests of the existence of underclass.

Direct tests rely on direct questions about aspirations versus expectations

- For example, Table 7.1 shows that many (70%) of welfare mothers had white-collar aspirations for their oldest child, while a smaller fraction had expectations that their child would achieve this.
- When poor and nonpoor families of the same ethnic background were asked about aspirations, no significant differences were found.

What are the problems with kind of direct questioning?

- It is still difficult to separate out preferences, because the stated responses are costless to give. Who would really want to admit that they are lazy or unmotivated?
- Are there more objective questions that you could think of? E.g., whether the person plays the lottery, or expectations about their child being a professional athlete.
- In environmental analysis, there are similar problems with "contingent valuation" studies.

Indirect tests examine different groups, and see if they change their behavior when

environmental circumstances change. If their behavior changes, this is suggestive that opportunities, rather than preferences, are different.

- Return to the savings budget constraint – should behavior change if preferences are different? The answer is yes – differences in preference do not imply complete irresponsiveness.

- Schiller cites that the poor have demonstrated a marked ability to move out of poverty when economic opportunities have improved. On the other hand, we have seen that the time-series trends for poverty do not change that dramatically when the economy improves. He also argues that this is particularly true for more disadvantaged groups, like African-Americans.

Assessment: Even those who advocate the poverty culture do not argue that 100% of behavior (or lack of it) is due to preferences, or that it applies to all poor.

III. The Racial Inferiority Theory

As Schiller mentions, the culture of poverty hypothesis often has distinct racial overtones. There are clear differences in income and poverty rates across races, but it is unclear whether this is because of “flawed character” (e.g. culture of poverty) versus “restricted opportunities.”

The President’s National Advisory Commission on Civil Disorders found that whites favored the racial explanation by 3-to-1. Less than 1-of-6 whites thought discrimination was a serious problem.

If one wants to make arguments about the poverty culture, which largely is segregated by race, the discussion oftentimes leads to the relationship between race and intelligence. Obviously such a discussion is extremely charged, has undertones of racism, and oftentimes fruitless.

The debate was recharged in 1994 when Richard Herrnstein and Charles Murray, in *The Bell Curve*, argue that there are differences in innate intelligence across race, represented by a test score known as the AFQT score.

Innate intelligence is unobserved – what we observe is a combination of innate ability and actual investment. The same could be made for physical abilities.

Some twin studies, where the genetic component is identical, have shown that even twins separated at birth tend to end up in similar socioeconomic circumstances.

IQ Scores

The “normal” score for an average person on an IQ test is 100. Many studies have shown that blacks tend to score worse, on average, on IQ tests than whites, often by substantial amount – 15 to 20 points.

IQ tests, and the AFQT tests used in “The Bell Curve,” represent a combination of

genetic intelligence and environmental experience. There is no easy way to measure the genetic component.

IQ scores get much closer between children of different races once socioeconomic status is controlled for.

IQ scores have risen for 50 years – which suggests it measures more than genetic endowment, unless we believe that genetics are improving.

Even if IQ scores do not measure innate ability, they do measure (to some extent) cognitive ability – that is abilities that are likely to affect one's ability to succeed in the marketplace.

Many colleges are discussion changing entrance requirements to reduce the importance of the SAT or ACT – arguing not only that the variation represents cultural differences, but that the scores are uncorrelated with college success or success in the market place. That is, some college administrators argue that test scores like these do not even measure cognitive ability.

Some students, often the ones doing poorly in a class, will argue that test scores do not measure their true understanding of the material.

Schiller mentions on page 137-8, “The controlled IQ difference between blacks and whites, however, is only 5-10 points. To suggest that this relatively small difference could account for an existing income disparity of over \$17,000 a year would be extremely tenuous. One would then be arguing that a 5 to 10 percent difference in intelligence could account for a 40 percent disparity in income.”

This is a point in the chapter where Schiller is not being very forthcoming about statistical analysis. The word “controlled” means that the IQ scores are adjusted for other factors like family structure, geography, external opportunities, etc. Obviously these environmental factors affect IQ scores, but there still appears to be a racial difference.

Rather than using a “controlled” difference in incomes (e.g., controlling for the same factors that affect IQ score), Schiller uses the *raw* difference in incomes. It is not surprising that the role of intelligence would then be implausibly high. It is clear that factors like family structure and geography also affect incomes, and the income differences would converge, too, if these factors were controlled for.

There are other problems, however, with racial explanations. Schiller notes that median family incomes for blacks (relative to whites) vary geographically, and then argues that it is implausible to expect geographic differences if the differences in income were purely driven by genetics.

The definition of “race” is also open to question. There are anywhere between 3 and 30

definitions of race, and separating race from ethnicity, nationality, and religion is sometimes difficult.

IV. Summary

The culture of poverty is hard to prove or disprove, but remains a topic of discussion. Both direct tests of aspirations and indirect tests that relate to IQ scores are extremely problematic.