Introduction

At the beginning of Barack Obama's second term, the image of a black man against the backdrop of grand marble and the stately appointments of the Oval Office seems quite routine and unremarkable. Photographs and footage show a man very much at home in the White House. Even at the beginning of his first term, Obama moved easily and comfortably through the halls of power, in contrast to other relative newcomers to insider Washington, like Jimmy Carter for instance.

Contemplating Obama's reelection, we might all too easily forget that not too far from the White House, just east of the Anacostia River in fact, sits the Capitol's historic ghetto. Abandoned houses sit sentry on either side of the street. Barbed wire surrounds the neighborhood's few parking lots. Buildings are boarded up, and few streets show any signs of economic activity. Libraries, public schools, and health clinics are nowhere to be seen. Anacostia residents are almost all African American. It wasn't always that way. White flight and urban decay changed the face of the area.

As the 2012 election results are reviewed, many commentators have begun to ask again whether Obama's presidency has heralded an important turning point in the country's conversation about race. Commentators on both the right and left insist that we are all "postracial" now, meaning that race no longer marks a salient social division in the country's psyche. "Racial polarization used to be a dominating force in our politics—but we're now a different, and better, country," declared liberal economist Paul Krugman.[1] "When it comes to race," wrote conservative scholar John McWhorter in 2009, "Obama's first year has shown us again and again that race does not matter in America the way it used to. We've come more than a mere long way—we're almost there."[2]

To be sure, racial polarization doesn't dominate presidential elections the way that it once used to. And scholars will debate for some time to come what exactly Obama's presidency signals about voter attitudes on race. But is McWhorter right? Are we almost there?

The short answer is no, not by a long shot, at least, not if the numbers are any indication. Indeed, on almost every measure of well-being, the numbers tell a grim story. Racial disparities persist, long after the end of Jim Crow and legal segregation, and the gap between white and nonwhite shows no sign of disappearing.

Consider wealth, for instance. The wealth gap between white and black families has actually quadrupled—that's right, increased by fourfold—over the course of the last generation. Research shows that the gap in wealth between black and white families increased from $20,000 to $75,000 between 1984 and 2007. The black middle class turns out to be not all that middle-class when wealth serves as the relevant measure. Indeed, black families defined as high-income still have far less wealth than white families defined as middle-income. A whopping $56,000 in wealth separates a high-income black family (earning more than $50,000 in income in 1984) from a middle-class white family (earning $30,000 in the same year).[3] Just to be clear, the middle-income white family owns more wealth than the high-income black family. The potential for confusion is illuminating.

At the bottom of the spectrum, poverty falls disproportionately hard on people of color, much as it has over the last few decades. Poverty rates themselves have risen and fallen over the last sixty years. But the gap between races has remained huge, with Latino and black rates of poverty registering between two and half and four times the rates for whites.[4] Likewise, homeownership rates have demonstrated dramatic racial differences, with 26- and 30-point differences in rates of ownership between whites on the one hand and blacks and Latinos on the other, respectively.[5]

Not surprisingly, the one-two punch of the real-estate market and the economic recession has hit people of color at the bottom particularly hard. Latinos were the most affected by the crash, and wealth gaps have doubled in the aftermath. Latino wealth fell 66 percent between 2005 and 2009, compared to just 16 percent for whites.[6] White to black wealth ratios went from eleven to one to nineteen to one, and Latino ratios almost doubled, from seven to one to fifteen to one. Currently, wealth gaps are the highest they have been during the last thirty years.[7]

How much money are we talking about with regard to those wealth gaps? As of 2009, blacks had a median net worth (excluding homes) of $2,200, the lowest recorded for the last thirty years, where whites' median wealth registered at $97,900, 44.5 times the median wealth for blacks.[8] Over the last three decades, blacks have consistently held a small fraction—roughly 20 percent—of white wealth.[9] Researchers' estimates may vary somewhat, but all agree that wealth gaps are dramatic and quite persistent.

What about education? Conventional wisdom teaches that education is the great equalizer across race and class difference. But race and class differences themselves blunt the force of the great equalizer. Schools have largely resegregated along racial and class lines. Poor and working-class black and Latino students attend schools that are grossly underfunded, relative to white schools. When research takes into account men who have been incarcerated, the statistics show that young Latino and black men drop out at roughly twice the rate that young white men do (20.2 percent and 23.4 percent, respectively, versus 10.9 percent). The longer view is more optimistic for some groups—dropout rates have fallen over time for white and Latino young men. But rates for black young men have remained unchanged over the last few decades.[10]

Most dramatic and depressing are the racial gaps in incarceration and infant mortality. Those gaps have exploded over the last two decades. The most famous statistic is shocking. As of 2006, one in nine black men between the ages of twenty and thirty-four are now in the custody of the state or federal government.[11] Over the age of eighteen, the incarceration rate is one in fifteen and one in thirty-six for black and Latino men respectively, compared to only one in 106 for white men of the same age.[12] Of course, these rates reflect that more people overall are being incarcerated—general rates increased fivefold after the year 1975.[13] But by and large, owing in large part to the war on drugs, race and incarceration have become intertwined. People in the US carceral system are dramatically and disproportionately black and brown men.[14]

Surely the most heartbreaking gap of all is the persistent difference in infant mortality. The rate for black mothers is 2.4 times the rate for white women, and like other gaps, the disparity in infant mortality has not changed for decades.[15] These gaps showed up as early as one hundred years ago, when researchers first started collecting data. No one studying the issue predicts that these gaps will diminish, let alone disappear.

Far from being postracial, then, race continues to matter. When we focus less on presidential politics and more on material differences in well-being, we are not "almost there." We are not even close.

This book is about why racial inequality persists. It offers a new explanation for why we continue to see significant racial differences—in labor, housing, education, and wealth, in health care, political power and now incarceration—decade after decade. In particular, this book argues that racial inequality reproduces itself automatically from generation to generation, in the everyday choices that people make about their lives. Choices like whether to refer a friend (or the friend of a friend) for a job or whether to give one's child help with college tuition turn out to play a central role in reproducing racial gaps. Even if all people everywhere in the US were to stop intentionally discriminating tomorrow, those racial gaps would still persist, because those gaps are produced by the everyday decisions that structure our social, political, and economic interactions. Put another way, racial inequality may now have become "locked in."

Light on this subject comes from a most unexpected place—innovative work by a group of scholars on a phenomenon called "lock-in." Economists like Brian Arthur have developed the "lock-in model" to explain why an early lead for one technology can sometimes persist for extended periods even when the technology faces competition from a superior alternative.[16] The lock-in model focuses on the way that competitive advantage can begin to automatically reproduce itself over time until the advantage eventually becomes insurmountable or, in a phrase, locked in.

A story about Microsoft will help to illustrate the key features of the lock-in model. In the mid-1990s, the US government charged that Microsoft had acted illegally to gain an unfair monopoly in the operating systems market, in violation of US antitrust law.[17] According to the allegations, Microsoft engaged in a range of very bad (and illegal) behavior that pushed computer manufacturers to buy Microsoft's operating system, Windows. For example, the complaint noted that manufacturer contracts with Microsoft were unusually long-term contracts, which limited the manufacturer's ability to switch to a competitor. In addition, Microsoft charged manufacturers a licensing fee per computer produced, whether or not the computer had Windows loaded. If manufacturers wanted to load another operating system onto the computer, they had to pay twice—once to Microsoft, and once to the developer of the alternate operating system.

As the judge in the litigation noted, Microsoft's bad behavior went on to trigger a "positive feedback loop" in the operating systems market.[18] This feedback loop connected software authors and consumers. Consumers wanted to buy an operating system with the widest range of software available. In turn, software authors wanted to write software for the operating system with the most customers. Because of this loop, every increase in consumers triggered a future increase in software authors. Of course, every increase in software authors produced an increase in consumers and the company's small early advantage snowballed.[19]

Ultimately, the company's market advantage became locked in. Other competitors could not possibly overcome the software company's advantage.[20] Notably, Microsoft's monopoly advantage lasted long after the company stopped engaging in anticompetitive behavior.

This book will argue that white economic advantage has become institutionally locked in, in much the same way as Microsoft's monopoly advantage did. At the turn of the century and well into the twentieth century, whites worked to drive out their nonwhite economic competitors to gain an unfair advantage early in the game. Much like a predatory monopolist, whites formed racial cartels during slavery and Jim Crow to gain monopoly access to key markets. Homeowners' associations worked together with real estate boards to keep blacks out of housing markets. School boards worked together with local growers to keep Mexicans out of public schools. Working-class farmers worked together with elite planters to disfranchise blacks and eliminate their political power. These racial cartels used many of the same kind of anticompetitive strategies—economic boycotts and violence, for example—to unfairly drive their competitors out of the market.

This unfair advantage, acquired early in our nation's history, has now become self-reinforcing and cumulative. A number of institutional feedback loops parlay earlier advantage into continuing advantage. For example, a white person's decision to refer a friend for a job can work to reproduce the anticompetitive advantage that whites had earlier gained during Jim Crow and slavery. This is because social networks work to transmit earlier advantage and disadvantage to subsequent generations. Blacks and Latinos earn lower wages than whites in large part because the people in their social networks who will refer them for jobs are people who earn lower wages. Because the existing underemployed people in a network add new people who are more likely to be underemployed, the network is self-reproducing.

Likewise, gaps in wealth persist partly because of decisions about whether to give the next generation help in paying college tuition. Black and Latino families can't afford to send their kids to college or give them a down payment on a house. Each generation serves as the foundation for the next generation and so racial disadvantage reproduces itself, in the absence of significant class mobility. As we will see, research has traced the genesis of this self-reinforcing cycle to slavery and Jim Crow.

In the same way that disadvantage has become self-reinforcing, so too advantage has now become locked in. Whites have been able to build their wealth on the shoulders of earlier generations, who gained early wealth by driving blacks and Latinos and some Asian groups out of key markets. White families who owned slaves and unfairly profited from labor union exclusion of black workers have been able to pass down the benefit of that unfair wealth and wage advantage to their children. White families have used that wealth to pay for the next generation's college expenses or the down payment on the purchase of a house—both activities which in turn have earned the next generation even more wealth.

Thus, past inequality has paved the way in each new generation for continuing inequality. Advantage has become self-reinforcing, and so has disadvantage. As the Billie Holliday song puts it, "Them that's got shall get, and them that's not shall lose." This self-reinforcing system of distribution of resources and opportunities has been operating for hundreds of years, built on the foundations of slavery and Jim Crow. White advantage may now be impossible to overcome, absent some kind of significant government intervention to level the playing field.

The lock-in story deviates from many of the standard explanations about why racial inequality persists. As Chapter 1 describes, conventional theory explains persistent discrimination in three basic ways. Some scholars argue that people of color have embraced maladaptive cultures that keep them poor and jobless. Others have pointed to structural reasons—the migration of unskilled jobs overseas, the mismatch between work and residential location—to explain disparities in jobs, wealth and housing. Still others have pointed to persistent racism by whites—persistent preferences and beliefs in stereotypes, sometimes unconscious and hard to get at, other times statistical and borne out by the facts.

But the lock-in story of racial disparity highlights a number of things about racial inequality that conventional explanations obscure. First, the lock-in model highlights the profits that whites earned from racial exclusion during Jim Crow. Economics scholars have always assumed that racism would die out because discriminating was too costly. On the contrary, the lock-in model demonstrates that racism can pay off, and did so handsomely during Jim Crow. Chapters 2 and 3 describe the profit-maximizing behavior of Jim Crow "racial cartels"—homeowners' associations, labor unions, political parties, school districts, and other groups that worked to generate monopoly profits by excluding competitors. By coordinating to keep the neighborhood pure, white homeowners' associations were able to keep for themselves the best houses, in the best neighborhoods, with the wealthiest neighbors. By excluding black and brown children from public schools, whites monopolized the best public education for themselves. By dividing the labor market into two racially identifiable segments, white unions earned the highest wages, in the most prestigious jobs. In the South, whites had a monopoly lock on political power for decades. As these chapters illustrate, during the era of Jim Crow, discrimination paid off quite well.

Second, the lock-in model helps us to understand the dynamics that now connect the historical discrimination of Jim Crow to modern racial gaps. Chapters 4 through 9 describe the key mechanism—the institutional feedback loops—that automatically translated whites' early advantage into white continuing advantage. Chapter 4 illustrates the institutional relationships that connect the wealth that whites acquired during Jim Crow and slavery to modern wealth differences, as early wealth begets later wealth. Chapters 5, 6, and 7 explore similar dynamic loops in workplaces and neighborhoods, where structural advantages in whom you know and where you live have become automatically self-reinforcing over time.

Public financing plays a significant role in some of these feedback loops. As Chapter 8 describes, white neighborhoods are wealthier because they create concentrated pockets of people with wealth, which generates more public school funding than in neighborhoods of color. And of course, good public school funding produces in turn students who are more likely to acquire wealth and earn a high income, and move into wealthy white neighborhoods. Early unfair success breeds later unfair success.

Saying that racial inequality persists is not to say that racial arrangements have not changed. Of course those arrangements have evolved over time. But as we'll see, even when arrangements have evolved, they've done so in a way that further disadvantages communities of color. Chapter 8 explores, for example, the way in which black members of the middle class have over the last several decades moved into the suburbs, and the wealthiest of the poor have moved out of the ghetto. But the flight of these groups from major metropolitan cities has left behind a hyperghetto at the city's center with more poverty and joblessness than before. Mass incarceration and dramatic cuts in social assistance programs have speeded up this trend, and are important measures of well-being in their own right.

Chapter 9 argues that the lock-in model of racial inequality usefully reframes our understanding of persistent racial gaps. Where conventional models focus on intentional discrimination, the lock-in model focuses on self-reinforcing structural processes like social networks and family wealth distribution. The lock-in model emphasizes both the unfairness of early anticompetitive conduct and the need for significant government "antitrust" intervention to dismantle white monopoly on advantage.

Won't things improve over time? Not likely. We may be stuck with racial inequality indefinitely, absent some significant government intervention. As Chapter 10 shows, the cost of switching to a system that reduces racial disparity—in technical parlance, the "switching costs"—may be too high for people to pay voluntarily. For example, the cost in urban assistance dollars to bring whites back to a hyperghetto like the urban core of Detroit may be prohibitive. In addition, were such a move to be successful, it would inevitably cause the neighborhood to tip toward gentrification and displace low-income residents of color. Owing to the arrow of time, policy makers might not be able to undo residential segregation. We may have come too far down the road to switch to a system that reduces significant racial gaps. If we can't figure out how to restructure the way that our institutions distribute advantage and disadvantage, inequality likely is here to stay.

What can we do to dismantle locked in racial inequality? Given the nature of feedback loops, three avenues are open to us, as Chapter 10 explores in more detail. First, we can try to dismantle the feedback loops themselves. We can decouple funding for local schools from the wealth of the surrounding community, as many states have done. We can push employers to hire through formal mechanisms rather than by word of mouth. But in many cases, these feedback loops are so deeply embedded in the capitalist structural arrangements that characterize American life that dismantling them seems quite unlikely.

Alternatively, we can modify feedback loops to be more inclusive. For example, we could allow word-of-mouth hiring if employers solicit social networks that connect people of color to each other. Or we could permit employers to use informal social networks to hire only if they already had some critical mass of employees of color in place. Finally, we could push to generate parallel feedback loops for people of color. For example, policy makers could adopt a children's trust fund that targeted children from poor families of color to receive funds at birth, to be retrieved for housing or educational expenses.

At the end of the day, however, the lock-in story is far more of a description of how we got ourselves to where we are than a set of easy policy prescriptions designed to diminish those gaps. As is true for most models, however, the model helps to generate productive brainstorming about appropriate policy interventions by illuminating the core dynamics that explain persistent racial inequality.

Before we proceed, it is worth emphasizing that the lock-in model describes a process that is now technically race-neutral. Everyday choices that have little overt connection to race structure much of our racial landscape. Families pass down wealth to their children on the basis of family connection. Friends recommend each other for jobs because that's what friends do for people in their networks. Workplaces hire by word of mouth because it is cheaper and faster than advertising through more expensive channels. One might argue that the lock-in model is based on class or at the very least structural differences that inhere in a democratic, capitalist system.

But issues of class are, in the US, issues of race. This is true particularly when it comes to the poorest of the poor. Owing to our country's history, these processes have become inextricably linked to race. Owing to discrimination, those families who can afford to pass down wealth for college educations and housing down payments tend to be disproportionately white. The same goes for networks that are able to refer high-paying jobs in lucrative occupations. Set against the backdrop of Jim Crow and slavery, institutional feedback loops reproduce racial disparity even as they reinforce the ordinary structural differences that we take for granted. And in the absence of government intervention, race will continue to matter in many of the same ways it has mattered during the country's history, long after electing a president who is black—or Latino or Asian for that matter—becomes a regular event.