



Social Capital Versus Human Capital

An excerpt from Glenn Loury's essay "[Why Does Racial Inequality Persist? Culture, Causation, and Responsibility](#)" (Manhattan Institute, May 2019)

A quarter-century before the publication of *The Anatomy of Racial Inequality*, I coined the term "social capital" to help account for persistent racial inequality in the U.S. The concept behind social capital illuminates the difference between informal social relations and formal economic transactions—between reward and development bias—as mechanisms perpetuating the subordinate position of African Americans.

As an economist, I sought to differentiate social capital with the more familiar term in my own field: "human capital." Human-capital theory attempts to account for variation in people's earnings capacities by analogy with well-developed theories of investment. These theories begin with the assumption of competitive markets and rational choice by forward-looking individuals, and then analyze investment decisions in light of individuals' time preferences, their anticipated rates of return, and the available alternatives for uses of their time. Human-capital theory imports into the study of human inequality an intellectual framework that had been well developed in economics to explain the investment decisions of firms—a framework that focuses on the analysis of formal economic transactions.

I argued that associating business with human investments is merely an analogy, not an identity—particularly if one seeks to explain persistent racial disparities. Human capital, as an economic concept, overlooks two important facts having to do with informal social relations.

First, all human development is socially situated and mediated. Human development takes place between people, by way of human interactions, within social institutions—the family, the community, the school, the peer group. Many resources essential to human development, such as the attention that parents give to their children, are not alienable. These resources, for the most part, are not commodities and are not up for sale. Instead, structured connections between individuals create the context within which developmental resources come to be allocated to individual persons. Opportunity travels along the synapses of these social networks.

The resulting allocation of developmental resources need not be responsive to prices or be economically efficient. The development of human beings is not the same as corporate investment, and it is not a good metaphor, or a good analogy, to reason as though this were so.

Human development begins before birth. The decisions a mother makes—about how closely to attend to her health and nutrition during pregnancy, for instance—will alter the neurological development of her fetus. This, and a myriad of other decisions and actions, all come together to shape the experience of the infant, who will mature one day to become a human being, and about whom it will be said that he or she has this or that much productivity, as reflected in his or her wages or academic test scores.

This productivity, the behavioral and cognitive capacities bearing on a person's social and economic functioning, are not merely the result of a mechanical infusion of material resources. Rather, these are by-products of social processes mediated by networks of human affiliation, and these processes are fundamentally important for understanding persistent racial disparities.

Second, what we call "race" is mainly a social, and only indirectly a biological, phenomenon. The persistence across generations of racial differentiation between large groups of people, in an open society where individuals live in proximity to one another, provides irrefutable indirect evidence of a profound separation between the racially defined networks of social affiliation within that society. There would be no races in the steady state of any dynamic social system unless, on a daily basis and with regard to their most intimate affairs, people paid assiduous attention to the boundaries separating themselves from racially distinct others. Over time, race would cease to exist unless people chose to act in a manner so as biologically to reproduce the variety of phenotypic expression that constitutes the substance of racial distinction.

If the goal is to understand durable racial inequality in a society, one needs to attend in detail to the processes that cause race to persist as a fact of life, because such processes will be related to the allocation of human developmental resources in that society.

Race, as a feature of a society, rests upon the *cultural* conceptions about identity held by the people—in America, principally blacks and whites alike—in that society. These are the beliefs that people hold about who they are and about the legitimacy of conducting intimate relations (and not only sexual relations) with racially distinct others. Beliefs of this kind affect the access that people enjoy to those informal resources that individuals require to develop their human potential. Social capital is a critical prerequisite for creating what economists refer to as human capital.

Any conceptual framework for the study of persistent racial inequality is incomplete if it fails to consider the interactions between those social processes ensuring the reproduction of racial difference, on one hand, and those processes facilitating human development, on the other hand. If we consider these interactions, it becomes easier to see the many intimate connections between the antiblack "racial bias" that liberals emphasize and the "behavioral pathology" of (some) blacks that (some) conservatives are so keen to focus on.



Discussion Questions

- What are your personal sources of “social capital” that you draw from in everyday life? What are sources that you notice in others?
- “[A]ll human development is socially situated and mediated.” What does this mean? What social structures “mediate” your development and that of your peers? Are those structures similar or different from those that shaped your parents?
- Loury writes: “Human development begins before birth.” How does this observation relate to the concept of social capital? What kinds of choices, whether deliberate or accidental, determine the social capital you receive when you’re born into the world? What role does individual choice play as you grow up, given how much your circumstances are determined before your birth?
- What does Loury mean when he argues that “race” is primarily a social, rather than a biological, phenomenon? Where do we get our ideas about race? When and how do the “boundaries” between different groups of people get established?