

# Human Capital in the Inner City

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## Abstract

Over forty years have passed since the Civil Rights Act, and yet there remains a large racial divide in the education and labor market outcomes of young men in the United States. 37% of black males in the National Longitudinal Survey of Youth 1997 (NLSY97) do not earn a high school diploma or better by age 21, in comparison with only 20% of white males. With regard to labor market outcomes, black males are much less likely to work than white males, and overall they work far fewer hours. The percentage of black males in the NLSY97 who are neither in school nor in the labor force tends to be at least double the percentage of white males after age 15.

The experiences of young black and white males also differ with respect to exposure to violence and interaction with the criminal justice system. Not only are black males are much more likely than their white counterparts to have been suspended from school or to have been incarcerated, but black males in the NLSY97 are much more likely to have seen someone shot at than white males, tend to hear more gunshots in their neighborhoods, and are less likely to report feeling safe at school. In addition, the homicide death rate of black males between 15-34 is approximately 8 times that of white males.

A large literature in economics aims to understand the reasons for these disparities. Most of this literature focuses on education and labor market outcomes without considering non-market behavior. Key findings from this literature are that early skill differences are able to explain a large share of subsequent educational attainment and earnings gaps, and that school quality has important implications for education and labor market outcomes. A smaller and mainly theoretical literature in economics abstracts away from related labor market incentives and uses ideas from sociology to help formulate models of how non-market factors influence choices. Some of this work has been inspired by Elijah Anderson's ethnographic research on the influence of the "code of the street," namely an implicit code of conduct that has emerged in many poor African American neighborhoods due to the absence of institutions providing personal security. Another set of papers has been influenced by the ethnography of Signithia Fordham and John Ogbu to develop peer-influence models where utility from choices depends directly on peer group behavior. In these models working hard in school may be considered "acting white," and thus African American children may be ostracized from their peer group for educational attainment. A key feature of these models is the possibility of equilibria characterized by adverse outcomes, such as low educational attainment or high levels of violent behavior.

Despite their plausibility, it has proven difficult to assess the empirical relevance of these newer theories, in part because they relate to nonpecuniary rewards and behaviors that are not usually directly observed. In

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particular, it has proven difficult to understand how non-pecuniary rewards vary geographically or socially, as well as their relationship with more standard pecuniary factors. For example, the empirical evidence is unclear regarding the existence of “acting white,” let alone the magnitude of its effects. In addition, empirical results from the recent Moving To Opportunity (MTO) housing mobility experiment, such as negative effects of mobility on young males and no effects on achievement tests, only seem to raise further questions about many neighborhood effects as first postulated by William Julius Wilson.<sup>1</sup> These difficulties point to the importance of considering pecuniary and nonpecuniary factors together when modeling individuals’ joint decision-making about education, work, and violent behavior.

This paper develops and estimates a dynamic discrete choice model of young black males’ decisions regarding schooling, labor market participation, and street behavior that incorporates both pecuniary and nonpecuniary rewards. In specifying the model, I draw on Elijah Anderson’s ethnographic evidence that many young black males face incentives to engage in violent behavior. According to Anderson’s ethnography, weak institutions and labor market conditions have left a void in setting and maintaining the social order within poor African American neighborhoods, allowing a “street” element to fill this void with its own code of conduct. The most salient feature of this code of conduct is its empowerment of individuals to use violence to further their own interests. Anderson has observed that those who become very invested in this code of conduct tend to become alienated from mainstream institutions, such as the formal labor market.<sup>2</sup>

To empirically operationalize Anderson’s concept of the “code of the street” and its influences on the choices of young black males, I introduce into my model a distinct type of human capital defined as street capital. In the model agents accumulate standard forms of human capital (ie, schooling and work experience) just as they do in canonical models, and also accumulate street capital by engaging in street behavior. Dropping out of school or choosing neither to attend school nor to work are interpreted as indications of alienation from mainstream institutions, so the model is specified with street capital changing the non-pecuniary rewards from these choices.

The model is estimated using unique longitudinal data from the National Longitudinal Survey of Youth 1997 (NLSY97) that include variables measuring street behavior. Measures of violent and non-violent street behaviors are created using self-reported data in the NLSY97 on whether respondents have attacked someone, carried a gun, belonged to a gang, been suspended from school, sold drugs, stolen anything, committed a property crime, or been arrested. A Simulated Maximum Likelihood (SML) algorithm is used to estimate the model on the sample of black males in the NLSY97.

Preliminary results indicate the effects of the code of the street are empirically large. One counterfactual performed reduces street capital coefficients to half of their estimated values. Under this scenario, which may be interpreted as moving children into neighborhoods in which they face less pressure from the code of the street, an additional 20% of black males would graduate from high school and an additional 20% would either enroll in school or work. These findings indicate that interpersonal violence is an important neighborhood effect, which could help to reconcile some of the puzzling treatment effects of the MTO experiment with Wilson’s theory of neighborhood effects. Other counterfactuals determine the magnitude of effects of wage subsidies and conditional cash transfers, finding few effects beyond the directly targeted behaviors. A final counterfactual allows agents to abandon the stocks of street capital they have accumulated by age 16, and finds important changes in outcomes. This final counterfactual helps inform the ratio of children for whom preferences may be changed even after becoming invested in the code of the street at an early age.

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<sup>1</sup>The Moving To Opportunity (MTO) experiment randomly allocated housing vouchers to families living in poor neighborhoods in five US cities.

<sup>2</sup>Here alienated means at best uninterested in, and at worst directly opposed to.