**LATIN AMERICA’S RACIAL HIERARCHY: A MICROECONOMIC EXPLANATION**

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**ABSTRACT**

Acute economic inequality has been a permanent trait of Latin American societies. This inequality has been along racial lines in Brazil, Colombia, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru and Venezuela. In these nations the poor, the majorities, are blacks, Indians, and dark-skinned Mestizos and/or Mulattos. The oligarchies are exclusively white and between the oligarchies and the poor majorities there are small middle and upper middle classes. In these classes there is a very visible correlation between economic position and European appearance [2], and [3].

According to the governments and many citizens of these nations, racist attitudes have no influence on such hierarchy [1]. For the governments and citizens of these countries, the acute inequality of their societies is result of the long-term sluggish and inequitable growth generated by low capital stock per capita, inefficient tax systems, public education, corruption, excessive regulation and lack of infrastructure.

The agents who take the actions that cause racial appearance to affect income are employers who hold at least one of these attitudes, and who consider such attitudes in their hiring and promotion decisions. Utility theory supplies the economic rational for this kind of decision-making. Based upon this theory the following utility function is proposed:

U = Sα Rβ  W-1

where U is the utility the employer derives from the interaction with an employee; S and R are respectively, units of skills and European racial appearance, and W is the salary for the job. The minimum value of S and R is assumed to be one. The values of α and β are determined by the importance that skills and racial appearance have for each employer. In every hiring and promotion decision employers will try to maximize U. Thus, in a situation where an employer has two candidates who have identical skills and who are willing to work for the same salary, that is where S and W are the same for both applicants, the job will be given to the applicant of European appearance because his/her R is higher.

**Works Cited**

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