THE INDIA FORUM
A JOURNAL-MAGAZINE ON CONTEMPORARY ISSUES

December 11, 2024

Blindness of US Economists to Inequalities in the Land of the Free and (Un)equal

By: Avanti Mukherjee

With its focus on growth and efficiency, mainstream Economics in the US has by and large ignored inequality. As a result, it has not tackled the big question: Is American capitalism today compatible with liberal democracy? Can Economics in the era of Donald Trump turn its gaze on this issue?

Princeton University Nobel Laureate economist Angus Deaton is a consummate storyteller. Weaving his own lived experiences with an excellent review of relevant debates among economists, Deaton's prose is as entertaining to read as it is to listen. In the audible version of the book, he is the friendly, uncle guiding the reader around the economist's toolkit, approaching dry topics such as the price index and poverty line calculations with equally dry humour.

The central themes of the book are American economists' explanations of inequality, the views on inequality among the American public and its politicians, the ethics surrounding issues of inequality, and what ought out to be done (or not) about it. Such questions, more broadly, are germane in a world increasingly polarized between competing visions of justice, freedom, and rights. Deaton's vantage point of an immigrant to the United States might make it more relatable to people who do not live in that country. My own reading of it stems from my positionality as an Indian economist, outside the Ivy League, but also an immigrant to the US.

The book starts with chapters on policies relevant for inequality in America (the minimum wage, heath care, poverty, and prices). The last quarter is an assessment of economics and economists with respect to inequality, markets and crises. At its core, Deaton's discussion of how inequality works in the US (Chapters 5 and 6) ties it altogether. These chapters are relevant to anyone who wants to understand the dynamics of economic and political power in the hands of a minority. Overall, Deaton's insights into the ideologies, beliefs and rationale of the American public, politicians and economists land deeply as we make sense of the 2024 US presidential election, and what this might mean for ordinary people everywhere.

Relational and material inequality in the US

Deaton offers a distinction between material inequality --- based on money -- and relational inequality based on inequality of opportunities by race, ethnicity, gender, sexual-orientation, college-educated or not (a proxy for class in the US) etc. He unequivocally states that one can debate limits to monetary inequality (e.g. should we have billionaires?), but there is no justification for relational inequalities that strip human beings of dignity and respect.

Deaton outlines how racism, immigration systems and meritocracy create systems of privilege that bring tyranny. Laws aside, it is striking when Deaton, himself an older, white, Ivy League male academic, speaks to the unpleasantness of being a non-citizen. That his green card was purposely defaced by "a boorish immigrant officer", leading to "bureaucratic hell for more than a year", says much about how those lower in the putative racial hierarchy might be treated. Deaton's experience turned pleasant once he became a naturalized citizen. However, Donald Trump's rhetoric of undocumented immigrants as "illegal", "criminals pouring over the Southern border" and promises of mass deportations align with liberal and conservative Americans supporting the crackdown on illegal immigration while expanding legal, easier pathways. Many are swayed by the moral panic over rising crimes and violence, which is worrying as it legitimizes not just Donald Trump's rhetoric but also the pre-existing immigration system that is already a behemoth making immigrant lives "bureaucratic hell", criminalizing them, and putting their children at risk.

> …[A]s the US state becomes more a police state, initially targeting non-citizens, and non-white people, it also recedes from its welfare functions, with the police dragnet sweeping up the homeless, the unemployed, the mentally ill…

Deaton also connects racial inequality to material inequality. Black Americans are less likely to be in non-managerial or professional positions, have a much higher share of those with low material standards of living than their population shares, and more likely to be criminalized and jailed compared to other racial groups. Yet, it is not just that racial inequality reflects material inequality. "Racism, not income equality is the pollution that harms everyone's health" (p. 119). The legacy of racial segregation and systemic racism translate

into poor public provision of health, education and welfare in areas with large black populations, which hurts everyone in those areas.

Curiously, Deaton does not relate various relational inequalities with each other. These inequalities are structurally inter-related, including in the ways they shape how Americans view others. Nor does he speak about gender inequality especially in the division of unpaid household work, which shapes labour market penalties for women (Folbre 2017, Carmichael, Darki et al 2022); an issue that will likely get more charged with increased attacks on the reproductive justice and autonomy of women living in America. On the whole, as the state becomes more a police state, initially targeting non-citizens, and non-white people, it also recedes from its welfare functions, with the police dragnet sweeping up the homeless, the unemployed, the mentally ill, vulnerable sections of the working class, black and white, alike.

Deaton does discuss meritocrats becoming the new class of people with unearned privileges, such as with legacy admissions to colleges (for children whose parents are alumni), or even the college cheating scandal where parents paid bribes of tens and hundreds of thousands of dollars to desirable colleges. I have found it striking that in public discourse the unearned privileges of upper class white families are typically ignored while affirmative policies for black students get scapegoated for reducing opportunities for non-black minorities. Such racialized, meritocratic ideas on who is deserving or worthy for class mobility, leave alone to live in the country, are reflected in the meritocratic ideologies shaping mainstream economic theories on inequality.

American economists on material inequality

Deaton takes a hard look at economists' enthusiasm for markets and globalization, while also offering examples of economists against this orthodoxy, and the analysis and potential solutions they offer to specific problems related to inequality. Most chapters offer nuanced arguments on how markets exacerbate inequalities, and cautionary notes about the state's capacity to serve those in power as it attempts to serve the public.

Contrasting the Cambridge (in England) view 50 years ago, which was concerned about the relationship between justice and material inequality, with the University of Chicago view that it is unhelpful, even undesirable, to think about inequality, Deaton delves into the latter view to illustrate American economics orthodoxy. The Chicago view is of course exemplified in Milton Friedman's views: unfettered markets are the harbingers of freedom and equality as they appropriately reward those who work hard over those more concerned with immediate enjoyment.

Beyond Cambridge and Chicago, economist George Stigler had argued in 1959 that "the professional study of economics makes one politically conservative". Deaton speaks to his disbelief on reading Stigler's comment as a student at Cambridge, where the political spectrum was left-oriented enough that Fabian socialists were considered the right. Unlike Deaton, I would not have mistaken this for a typo given that the introductory textbooks to economics used today rest on conservative premises about human nature and society. Deaton does reference Mankiw, the author of the most widely used introductory Economics textbook (in America), as "a vocal defender of inequality and the social value of the high salaries 'earned' on Wall Street and paid to CEOs (or that CEOs paid themselves)".

> Deaton acknowledges the necessity of socially beneficial innovations, but the problem is when there is no end to rewarding the innovators; when they "stop innovating and turn from benefactors into robber barons" using their wealth to acquire young competitors before they become a threat.

Deaton explains how material inequality comes about, how it can be tamed and how, unlike some professional economists, many Americans are concerned about inequality. The richest people in America made their fortunes on pioneering new and better way of doing things, but then blocked the ability of other potential innovators by lobbying the state to enact rules to benefit themselves. Deaton acknowledges the necessity of socially beneficial innovations, but the problem is when there is no end to rewarding the innovators; when they "stop innovating and turn from benefactors into robber barons" using their wealth to acquire young competitors before they become a threat. Facebook spent more than $20 billion on lobbying in 2021; Amazon and Google were not far behind.

Besides limiting competition by manipulating legislation, wealthy minorities also block the public provision of goods and entitlements (education, pensions, etc.) to avoid paying taxes that would fund these services. Deaton gives an array of examples from pharma companies, banks, the American Medical Association, credit card companies and more that protect the profits of firms at the expense of consumers and also non-consumers. For instance, credit card companies are legally permitted in the US to prevent retailers from giving discounts to people who use cash, which vitiates against the working class which has to pay for air tickets and other benefits that card-holding people derive.

"If monopoly and monopsony have become more common as industries have become more concentrated, [then] prices are higher, and wages are lower than they ought to be, and money is being transferred from workers and consumers to managers and to the owners of capital." More, when firms or association of firms lobby their states for special favors, they are "effectively stealing from everyone else" (Deaton 2023, 105-107)

One can almost hear the American economics orthodoxy accusing Deaton of being a Marxist for making such arguments. Yet, Deaton clearly states that capitalism need not be abolished, but "stopping the predation is key". In every chapter, he is clearly aligned with reformist, progressive policies such as raising the minimum wage and making health care more affordable. These issues along with poverty, pricing, and pensions, while articulated in the context of the US, might interest social scientists and curious laypersons around the world. Deaton throws light on economics as a contested discipline between an orthodoxy, which obscures (or even defends) the transfers from capital to labour, and its dissenters who teach us how the economist toolkit can be deployed, even expanded in the service of public interest.

American views on inequality

Deaton migrated to the US in the 1980s when "the American Dream" was still alive i.e. anyone could get ahead if they tried hard enough. Such meritocratic ideas still endure but are not as widely believed. Surveys by Pew Research Center in 2024 (after *Economics in America* was published) show that nearly half of all Americans think the American dream is no longer possible or was never possible. A clear majority perceive inequality to be an issue of concern (75%), but do not perceive reduction of inequality as a top priority.

According to Deaton, many are disaffected by perceived unfairness rather than inequality per se, to the extent that some think violence might be warranted (e.g. the insurrection of January 6, 2021). He makes the parallel between American people who view the economy and politics as rigged against them to the founders who fought against taxation without representation. Americans today, Deaton claims, feel as if they have been held back without any control over a government that is rigged against them.

> Deaton throws light on economics as a contested discipline between an orthodoxy, which obscures (or even defends) the transfers from capital to labour, and its dissenters who teach us how the economist toolkit can be deployed, even expanded in the service of public interest.

Surveys about inequality demonstrate partisanship and class cleavages in how Americans view inequality. Similar shares of respondents agree that individual and structural factors, respectively, are more prominent: "life choices" (42%), "some work harder than others" (34%) versus inequality of opportunities (40%), insufficiently regulated corporations (37%), and racial and ethnic discrimination (32%). Democrats and lower-income people (regardless of party affiliation) are much more likely to cite structural factors than individual factors, than non-lower-income Republicans. Low-income Americans are more likely to have experienced and/or understand, at least at an intuitive level, that unfettered markets serve to exacerbate inequality. A conclusion that Deaton himself alludes to throughout his book.

Nevertheless, Deaton loses his otherwise careful nuance when discussing the American working class, which comes across as a monolith won over by right-wing populism and economic nationalism (Chapter 3). According to him, an educated elite, including academics, especially economists, might be alienating the working class who are driven to embrace MAGA (Make America Great Again) politics, and should be paying more attention to poverty at home rather than abroad. Finally, he uses broad brushstrokes to argue that there have been positive effects of globalization for millions in India and Bangladesh (a view he has become more sceptical of recently) at the expense of American workers, and advocates for a greater degree of responsibility towards citizens than the global poor. Deaton's narrative that an educated elite has forsaken the working class is eerily similar to J.D. Vance in *Hillbilly Elegy*, written well before Vance became Trump's vice-president elect. Deaton's narrative comes from his obvious sympathy for the working class (not opportunism as in the case of Vance) that is clearly influenced by his working class origins. Yet, Deaton's discussion of globalization elides corporate extraction from the Global South as well as American complicity in wars and destruction of lives abroad. This America-centric framing, most likely unintentional, nevertheless aligns with both conservative and liberal versions of America(ns) First; visions that are not shared by some segments of the working class.

Economics in America rightly argues that getting to know the population that pays taxes, labours and serves in the military for "us" (the educated elite) is critically important. Yet, understanding working class anxieties and resentments as racialized resentment is key. It

is possible, necessary even, to have sympathy for deteriorated conditions for workers, while also investigating the ways in which class resentments can turn ugly with racist, sexist, or anti-immigrant ideas, or alternatively, coalesce into solidarity across national borders (as evidenced by widespread union calls for a permanent ceasefire in Gaza).

Can (American) economists be more attentive to multiple crises?

Deaton is clear that economists need to take seriously the concatenating crises that plague ordinary people due to "free markets". The last quarter of the book provides a verdict on what economists did (or did not do) and what they should be doing instead. The discussion is anchored around the 2008 financial crisis, and what Anne Case and Angus Deaton refer to as "deaths of despair" (suicides, drug overdoses, alcohol overuse, and the increased morbidity and mortality of the less educated alone)

Deaton argues that economists are responsible for a "reckless enthusiasm for free markets", which enabled the financial crisis, and even the rich pharmaceutical companies' exploitation of those without college degrees by actively promoting addiction. What is distressing, as he puts it, is economists deflecting the blame away from the pharmaceutical companies and their enablers in Congress, towards the victims for their personal failings and Medicaid programs that subsidize prescription drugs. "Economics does not have to be like this".

Many economists do examine inequality, justice and ethical systems but, as Deaton points out, the central problem of modern *mainstream* economics is its narrow range and subject matter, its focus on growth and efficiency at the expense of equity and its limitations in addressing the big question: "whether American capitalism and to a lesser extent capitalism in other rich countries continue to be compatible with liberal democracy". In fact, mainstream economists have no solutions to offer.

Deaton suggests economists need to think about *pre-distribution* -- better rules and policies, and institutions (such as unions) that can determine the distribution of income in the market itself. He argues for diverse methods (such as how sociologists think) and bringing back the philosophical territory that used to be central to Economics.

I am left with the question: is this feasible?

The author of *Economics in America* is cautiously optimistic. He is openly appreciative about the growing diversity among economics practitioners in top-ranking universities, but this is international diversity rather than racial diversity. He is frank about the rank sexism in economics but is silent about the dismally low numbers of Black Americans getting economics degrees or among economics faculty. While he emphasizes the need for economics and economists to diversify, what he shares about economists at work only deepens one's concerns about the ability of the discipline and its institutions to broaden its perspective.

> …As Deaton points out, the central problem of modern 'mainstream' economics is … its limitations in addressing the big question: "whether American capitalism and to a lesser extent capitalism in other rich countries continue to be compatible with liberal democracy".

Chapter 8 reveals all the ways in which an elite minority within the discipline perpetuates its influence over Economics, erecting all kinds of obstacles to heterodox thinking. Of the top four journals in the world, four are located in the US, two of which are "house journals" of the Harvard and Chicago economics departments. These "house journals" are not subject to any professional association's oversight (astonishing even to a humble insider in the US academy). Editors' accountability is limited to immediate colleagues (if at all) and they face few barriers pursuing their personal agendas. It is near impossible for mainstream economists outside of America and also those within who are not in the fields deemed "rigorous" or "central", such as macroeconomics or econometrics, to be published in these journals. Economics as it is ideated and practised in the US is relevant to the rest of the world, yet an elite minority drives this.

Historical snippets of the main professional economic association in the US (the American Economic Association (AEA)) outlined by Deaton show economists advocating for progressive changes such as the federal income tax and enfranchisement of (white) women, with many also having endorsed "eugenics through selective breeding, immigration control and compulsory sterilization of the feeble-minded or criminals". The AEA has made serious efforts to dissociate itself from the view of its founders. Yet, one has to wonder whether economists in America can come to a full reckoning with their practice when the nation was founded on white supremacy, class inequality and meritocratic myths? More, how can economics change when it still remains predominantly white and male, and only a negligible portion of research from the top-ranking journals cover issues of racial inequality?

Deaton points to powerful movements to expand the content of textbooks (some led by students) as a step in the right direction. More, that research designed to illuminate, even if in the future, is important "to develop alternatives to existing policies, to keep them alive

and available until the politically impossible becomes the politically inevitable" (Friedman as cited by Deaton). As Deaton rightly states, this is a lesson worth learning,

Similar principles guide various solidarity economy and popular economic literacy efforts in the US; many of which are affiliated with the heterodox (i.e. non-orthodox) economics departments. Heterodox economists in American universities, who are mostly on the margins of the discipline, already employ the mixed methods that Deaton appears to advocate. Many also remain committed to philosophical questions as a matter of practicality given the attacks on higher education. Such academic advocacy and popular literacy efforts are critically important in the era of fake news and insufficient understanding of how the economy works. More economists need to join these efforts and explain, for instance, how the tariff hikes proposed by Trump will likely hurt all American consumers, including those who voted for him in the hope that he would manage the economy better.

Overall, Deaton's book is a clarion call to economists and academics. It will validate economists invested in critiquing their discipline from the inside to move it forward in better ways, as much as it might infuriate and challenge those economists who are content with the status-quo.

Avanti Mukherjee is an Associate Professor of Economics at the State University of New York, Cortland.

References:

Advani, Arun., Ash, Elliott., Boltachka, Anton., Cai, David., and Rasul, Imran, "Race-related Research in Economics: Volume, Content, and Publication Incentives". Center for Law & Economics Working Paper Series, July 2024. https://www.research-collection.ethz.ch/handle/20.500.11850/694303

Allen, Theodore. *The Invention of the White Race - Volume 1 Racial Oppression and Social Control.* Verso Books, 1994.

Allen, Theodore. *The Invention of the White Race - Volume 2 The Origin of Racial Oppression in Anglo-America.* Verso Books, 1994.

Carmichael, Fiona, Christian Darko, Shireen Kanji, and Nicholas Vasilakos. "The Contribution of Girls' Longer Hours in Unpaid Work to Gender Gaps in Early Adult Employment: Evidence from Ethiopia, India, Peru and Vietnam." *Feminist Economics* 29 (1). (2022): 1-37. https://doi.org/10.1080/13545701.2022.2084559

Dunbar-Ortiz, Roxanne. *An Indigenous People's History of the United States.* Beacon Press, 2014.

Deaton, Angus (2024). "Rethinking Economics", *Finance and Development*, March 2024

Folbre, Nancy. "The Care Penalty and Gender Inequality." In *The Oxford Handbook of Women in the Economy*, edited by Susan. L. Averett, Laura M. Argys, and Saul D. Hoffman, Oxford University Press, 2017. https://doi.org/10.1093/oxfordhb/9780190628963.002.0003

Gilmore, Ruth W. *Abolition Geography: Essays towards Liberation.* Verso Books, 2022.