

# Covert Racism in Economics

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## Introduction to Racism in Economics

Mainstream economics—as taught to well over a million students a year in the U.S. alone—is replete with implications that feed into structural racism.<sup>1</sup> That should not be misinterpreted so as to imply that economists are racist. Rather, the market fundamentalism they promulgate have the unintended consequence of providing ample justification for maintaining the status quo which privileges the well-to-do but finds most minorities at the lower end of the social-economic hierarchy (Small and Pager, 2020; Kvangraven and Kesar, 2020; Watson, 2017). Obviously, those being disadvantaged varies across the globe but in the U.S.—the focus of this essay—this group includes a disproportionate number of minorities.<sup>2</sup> Blacks are 1.8 times and Hispanics are 1.5 times as likely to be poor than their share of the population. Consequently, there is a racial bias in poverty. To be sure, the racial face of poverty in other countries differs and that implies that my argument is context dependent. That is not to deny the destructive nature of white poverty as well (Case and Deaton, 2020).

Mainstream economic theory today is basically an apotheosis of *theoretical* markets without, however, revealing the “Achilles heels” of their *real* counterparts. These discrepancies include concepts that are trivialized in conventional textbooks especially by U.S. authors: basic needs, bounded rationality, conspicuous consumption, culture, discrimination, endogeneity of utility functions, ethics, externalities, hyperbolic discounting, ideology, imperfect and asymmetric information, imperfect foresight, incomplete contracts, intuition, Knightian uncertainty, manipulation of consumers, missing markets, monopolies, oligopolies, opportunistic behavior, Pavlovian conditioning, power disparities, relative incomes, social interaction, social norms, transaction costs, unconscious mind and more—that hinder real markets from functioning with the ease they do on blackboards. These issues are treated mostly as epiphenomena in the dominant neoclassical theories and particularly at the undergraduate level.

Market fundamentalism does not have to be overtly racist in order to be structurally racist: “contemporary sociology considers racism as individual- and group-level processes and structures that are implicated in the reproduction of racial inequality in diffuse and often subtle ways” (Clair and Denis, 2015, p. 857). This is the essence of colorblind, covert, implicit, institutional, laissez-faire, structural, or systemic racism (Bertrand, Chugh, and Mullainathan,

2005; Bobo et al., 1997; Bonilla-Silva, 2006; Feagin, 2006; Kendi, 2019; Koechlin, 2019; Kvangraven and Kesar, 2020).<sup>3</sup> That makes neoliberal economic theory covertly racist as the unintended consequence of the seemingly neutral assumptions upon which it is based. The unwarranted assumptions underlying the theory contribute to keeping disadvantaged groups disadvantaged. (Greenhouse, 2020; Small and Pager, 2020). This is racism without racists (Myers and Ha, p. 54). This has immense implications insofar as economic theories have a powerful impact beyond the ivory tower insofar as they seep into the media and dominate popular discourse on Mainstreet as well as in the halls of Congress.

The outline of this essay is as follows: in the next section we document briefly the disadvantaged economic position of African Americans in the U.S., although this is common knowledge. Then we discuss the cavalier treatment of discrimination in mainstream textbooks and follow by pointing to 15 ways in which neoclassical economic theory supports the status quo that in turn disadvantages minorities in real existing markets. These Achilles heels are either overlooked or trivialized in mainstream classrooms. Their burden has a higher incidence on those born into poverty and that includes a disproportionate number of ethnic minorities. We conclude that insofar as the shortcomings of economic theory fall more heavily on minorities, economics reveals its hidden racist tendencies. Furthermore, we suggest that there is a need to expunge these Achilles heels from economic theory and practice on the road to creating a post-racist society in which there is actual equality among all subsets of the population.

### The real status of the descendants of slaves in the U.S. economy

While mainstream economists proclaim that “the U.S. economy is in good shape”, how well the descendants of slaves living in that economy fare 157 years after emancipation is not within their field of vision (Feldstein 2016b). They ignore that the plight of minorities is dismal by practically all indicators (Little, 2020). For instance, African American households’ real median income in 2018 was \$25,000 less than that of whites, and the gap had increased by \$4,400 in the course of the 21<sup>st</sup> century.<sup>4</sup> African Americans were the only ethnic group whose real median household income in 2018 was still below that obtained in the year 2000, pointing to a nearly two-decade period of stagnation as a lingering heritage of the evils of discrimination (Darity and Mason 1998; Fontenot et al. 2018, pp. 2, 5).<sup>5</sup> No wonder that one-fifth of the 101 million African Americans and Hispanics in the U.S. in 2017, were classified as being poor and

were more than 2.3 times as likely to be poor than whites (Fontenot et al. 2018, p. 12).<sup>6</sup> Fully one-half of the poor families are those of color, although they make up only 28% of all families (U.S. Census, 2018). The distribution of wealth shows much greater disparity (Darity et al., 2018; Williams, 2017).

Moreover, their imprisonment rate, unemployment rate, life expectancy, schooling, wealth, financial security, upward mobility, and every single other indicator of well-being is inferior to that of whites and usually by substantial margins (Chetty et al., 2019, Financial Health Network, 2019).<sup>7</sup> Life expectancy among black men in the U.S. at 72.2 years is 4.4 years behind that of whites and closer to levels obtained in developing nations (WHO 2016; CDC 2017). Overlooking the realities of the African American, Hispanic, and native American experiences in today's economy is nothing less than "intellectual malfeasance" (Krugman, 2014; Madrick 2014).

Despite the Civil-Rights movement, discrimination persists: the white–black wage gap among men in the same occupation after accounting for the usual determinants of wages such as education is about 16% while the gap among women is smaller and statistically less significant<sup>8</sup> (Rodgers and Holmes 2004). Others find that the gap is widening. In 1979 black men earned 20% and black women earned 5% less than their white counterparts, but by 2016 the gap increased to 30% and 18% respectively (Daly, Hobijn, and Pedtke 2017). Admittedly, differences in educational attainment are also due to discrimination and poverty (Waters and Eschbach, 1995; Hamilton and Darity, 2017). Hence, in reality, all of the wage gap is due to discrimination of one sort or another, past or present. Not at all surprisingly, discrimination also affects intergenerational mobility (Chetty et al., 2018).<sup>9</sup>

The official unemployment rate among African Americans of 6% in March 2020 is an undercount because hidden unemployment is not reported in the official statistics (St. Louis Fed, UNRATE; EPI, 2020). The true unemployment rate was closer to 11.0%.<sup>10</sup> However, things were worse among those without a high school degree, 24.0% of whom were actually unemployed even before the pandemic, which reflects much better than the official figures the real pain in a dual labor market (EPI, 2020). In January 2016 when Marty Feldstein proclaimed that the U.S. economy was "essentially at full employment" black high school graduates (without college) had a real unemployment rate of 21.9% (Feldstein, 2016a, 2016b; EPI, 2020).

## Alice-in-Wonderland Discrimination in Economic Theory

Ever since Gary Becker's 1955 dissertation, the economic theories of discrimination fail woefully to appreciate the deep ethical nature of the problem and skirt its devastating impact on minorities. Becker's coldblooded reference to discrimination as a "non-pecuniary element" in transactions or as a "disutility caused by contact with some individuals" are typical of the pretense at objectivity of this literature (Becker, 1971, p. 13). His framing of the issue nonchalantly as a "taste for discrimination" makes it appear legitimate: essentially equating it with our taste for a consumption good (Charles and Guryan, 2018). The "taste for discrimination" thereby became a component of the benign theory of free choice and part of the democratic liberal tradition of market exchange between equals.<sup>11</sup> The theory also supposes that firms that discriminate will pay higher wages to whites which will lower their profits. Moreover, the blacks will be hired by non-discriminating firms which can, therefore, provide the product or service at a lower price. The higher profits of non-discriminating firms will attract other non-discriminating firms. Hence, the discriminating firm will be at a further disadvantage so that the internal logic of Becker's analysis suggests that the discriminating firm will be outcompeted, and discrimination will be mitigated (Lang and Spitzer, 2020). This theory should have been discarded decades ago as it has been obviously falsified by an overwhelming amount of evidence, including experimental data (Arrow, 1998; Lang and Lehmann, 2012; Neumark, 2018).

Statistics was invoked to complement Becker's theory (Moro, 2018). In this theory discrimination became a rational response to the "scarcity of information about the... characteristics of workers.... If the cost of gaining information about the individual applicants is excessive, skin color or sex is taken as a proxy for relevant data not sampled. The a priori belief in the probable preferability of a white or a male over a black or female candidate... might stem from the employer's previous statistical experience..." (Phelps, 1972, 659).<sup>12</sup> Kenneth Arrow also proposed this analysis simultaneously and independently (although he did not refer to its statistical nature) (Arrow, 1971).<sup>13</sup>

This line of overtly racist reasoning has been critiqued extensively (Darity, 1995; Darity, and Mason, 1998; Mason, Myers and Darity, 2005; Shulman and Darity, 1989). Nonetheless, these theories have not only survived but still dominate, in the main, the discussion of discrimination in most popular textbooks without caveats and not only at the introductory or

intermediate levels but also in labor economics (Borjas, 2005, Chapter 10).<sup>14</sup> Graduate lecture notes also focus on the mathematical elegance of these models based without caveats (Autor 2003).<sup>15</sup> None discusses the pernicious nature and injustice of discrimination and the social ills (such as widespread imprisonment) that stem from it. None emphasizes its illegal character, the urgency of ending it, or that laissez-faire market processes failed to end it.

Instead, even many liberal economists frame the issue in such a way that “the market is exonerated” (Koechlin, 2019, p. 563). For instance, Samuelson and Nordhaus reiterate Becker’s argument that discrimination is self-correcting, because “Nondiscriminating firms could enter the market, undercut the costs and prices of the discriminating firms by hiring mainly brown-eyed workers, and drive the discriminating firms out of business.”<sup>16</sup> Thus, even if some employers are biased against a group of workers, their bias should not be sufficient to reduce that group’s income”<sup>17</sup> (Samuelson and Nordhaus, 2009, p. 261).

Subsequently, Samuelson and Nordhaus discuss the concept of statistical discrimination by asserting that “One of the most interesting variants of discrimination occurs because of the interplay between incomplete information and perverse incentives.” Yet, there is nothing at all interesting about statistical discrimination, and it is illegal to boot. However, they do at least add that “Statistical discrimination is particularly pernicious when it involves race, gender, or ethnic groups” (Samuelson and Nordhaus, 2009, p. 262). That is good to know, but what other kinds of discrimination are there? Age discrimination? Is that less pernicious?

Similarly, Mankiw concludes that “at least some of the difference between the wages of whites and the wages of blacks can be traced to differences in educational attainment... In the end, the study of wage differences among groups does not establish any clear conclusion about the prevalence of discrimination in U.S. labor markets. Most economists believe that some of the observed wage differentials are attributable to discrimination, but there is no consensus about how much” (Mankiw, 2018, p. 392, 393). Yet, of the circa 21% differences in wages about half is due to education (11%) and half to outright discrimination (10%) (Altonji and Blank, 1999, Table 5). Of course, the difference in educational attainment is also due to (pre-market) discrimination. Mankiw continues with Becker’s argument that, “the profit motive is a strong force acting to eliminate discriminatory wage differentials, but there are limits to its corrective abilities. Two important limiting factors are customer preferences and government policies” (Mankiw, 2018, p. 395). Note that in this framing of the issue, the government is part

of the problem that limits the market's ability to shed itself of discrimination. This perspective is repeated in other contexts as well: "employers who discriminate pay an economic penalty" (Hubbard et al., 2013, p. 388).<sup>18</sup> That, in the main, is the tenor of most of the canon on discrimination.

Another overlooked factor in the above assertions is the use of violence in suppressing upward mobility of minorities. It does not need to be practiced on a daily basis to be effective. One lynching can stifle ambitions for generations. For instance, the destruction of "Black Wall Street" in Tulsa in 1921 sent a signal that still resonates. The unmistakable message, that it is useless for blacks to attempt to accumulate wealth, does not fit well into the above narratives.

In contrast, some progressive economists do strike a different tone (Bruegel, 2018; Schneider, 2019, p. 519).<sup>19</sup> They point out that discrimination "was based on racist beliefs that certain groups were innately inferior" and that it has been against the law since 1964. They also refer to a case study of FedEx which was fined \$3 million for violating that law (Goodwin et al., 2015, pp. 238-240). Nonetheless the dominance of orthodox theory means that "a student is likely to leave ECON 101... with a sense that 'economic science' has 'shown' that discrimination is not that big a deal..." (Koechlin, 2019, p. 563).

### **The Achilles' Heels of Real-Existing Markets**

We refer to the ways in which actual free markets deviate from theoretical ones as their Achilles heel and argue that the inadequate assumptions upon which that discrepancy is based disadvantages minorities disproportionately and therefore are covertly racist. Institutional, structural, or systemic racism of economics, we argue, is based on the incongruity between theory and reality.

#### **1. Mainstream Economics Assumes that Power Does Not Matter**

Power is the ability to influence the action or thought of others. The invisible hand could lead to efficient outcomes only to the extent that power is atomistic. However, its concentration works in the opposite direction and infringes on the ability of those without wealth or income to participate in market processes on equal terms. Insofar as wealth and income translates directly into economic as well as political power, the disregard of its distribution leaves a gaping hiatus between real markets and imaginary ones (Komlos 2017). After all, the economy is embedded in a political system and is actually inseparable from it (Polanyi, 1944). Adam Smith knew that

“wealth... is power” since it provides irresistible incentives for politicians to act on behalf of those with money (Smith, 1776, Book I, chapter V).<sup>20</sup> The wealth gap is much greater than the income gap inasmuch as wealth represents past accumulations that took place during years of overt racial discrimination. This is how past injustices are carried forward to the present.

Hence, by being indifferent to the distribution of wealth and income, mainstream theory overlooks an important and integral part of the feedback mechanism between the economic system and the political power structure. In turn, the concentration of power shapes institutions, influences legislation, sways cultural norms, and reinforces a dominant ideology that is designed to maintain the social hierarchy, i.e., the wealthy wealthy and the poor poor.

The system thus designed skews economic advantages in favor of the wealthy which further increases their privileges, making it more difficult for the poor to navigate the economic system throughout their life course. Insofar as minorities are a disproportionate share of the poor and near-poor, the imbalance of power implies that their needs are not adequately represented in the political arena. Under such circumstances the market’s playing field will be tilted in favor of the moneyed elite, depriving those without financial wealth the opportunity to move up the socio-economic ladder. That is how the minimum wage, for instance, is not indexed to inflation, but the tax brackets are. Hence, disregarding the crucial role of the distribution of wealth and power overlooks an important reason why real free markets deprive minorities of *de facto* equal opportunity and how economic theory feeds into institutional racism with intergenerational effects.

## **2. Mainstream Economics Assumes that Information is Free**

Markets characterized by imperfect (or asymmetric) information are known to be inefficient (Stiglitz and Greenwald, 1986). Since this is practically always the case, this should be the default model, but is not.<sup>21</sup> Instead, the unwarranted assumption is generally made that information is free, ubiquitous, and readily understood. That assumption enables Samuelson and Nordhaus, for instance, to claim that “markets have remarkable efficiency properties” (Samuelson and Nordhaus 2009, p. 164). Yet, the acquisition of credible information poses a formidable obstacle to making a satisfactory decision, especially for minorities, inasmuch as obtaining reliable information is a much larger share of their total budget than for those with ample resources (Akerlof 1970, 2002; Stiglitz 2009). Consequently, disregarding the cost of acquiring information makes it appear as though the poor are better off than they actually are,

because they have to spend part of their income on something that is assumed to be free. (Their budget constraint is closer to the origin than it appears from their disposable income.)

An additional issue is that poor people often also lack the social networks that could facilitate the smooth access to information and that implies that acquiring information is extra challenging for them and often even impossible (Chiteji and Hamilton 2002). Therefore, they have a daunting task of navigating an economy that is full of uncertainty and full of traps set for them by powerful interests. Avoiding the problems associated with those traps is a crucial element in successfully mastering the art of living in a complex path-dependent world full of Knightian uncertainty. Therefore, minorities are at a distinct disadvantage in free markets in the Information Age, inasmuch as access to reliable data is more important than ever for making satisfactory decisions. Trivializing this issue feeds into the systemic racism of neoclassical economics.

### **3. Mainstream Economics Assumes that We Enter the Market as Adults**

As far as economists are concerned, people enter the economy as adults with tastes fully formed, since they disregard the formative years of human development. This is hardly a benign oversight, because people, in fact, enter the market economy at birth and, consequently, markets have a long time to influence the formation of their taste and character. This is crucial, inasmuch as by beginning the analysis with adults, economists can ignore the immense influence market processes have on the development of their utility function. That, in turn, enables them to assume that tastes are exogenous, although it is common knowledge that the utility function is endogenous to the economic system. Thus, a seemingly harmless assumption actually gives corporations a free hand at supporting a popular culture suitable to their interests, which disregards unprofitable aspects of culture including frugality, safety, circumspection, education, morality, and being farsighted. Thus, during the growing years we become fixated on material aspects of life and the population's psychological and moral development is stymied.

This has an especially harsh impact on poor children, because they are more likely to be living in single-mother households (with a median income of \$26,000), and less likely to be supervised for much of the day, exposing them longer to advertisements that hype the wonders of consumption and influence their desires. This Pavlovian conditioning is particularly obnoxious for poor children because quality child-care is generally out of reach for poor families and they watch more TV and “television often promotes lifestyles not conducive to prosperity”

(Movieguide, no date; Bivens et al., 2016). Thus, they are particularly vulnerable to junk food advertisements, for instance, increasing the prevalence of childhood obesity among poor families (Broady and Meeks 2015; Hutson, 2008; Komlos and Breitfelder, 2008; Zhang et al, 2015). The prevalence of obesity among black and Hispanic children and youth is 22% and 26% respectively while among their white counterparts it is 14%; this is a symptom of the damaging impact of poverty on minorities (Hales, et al. 2017, p. 4).

In short, exposure to advertisements during the first two decades of life is crucial for the development of children's life course (Ribner, Fitzpatrick, and Blair, 2017). By the time they reach adulthood, their character and their subconscious is impacted substantially by the corporate world; even their aspirations and inner thoughts are swayed to such an extent that they may no longer be able to discern their own self-interest. In short, neglecting the influence of markets on children is a major deficiency of mainstream economics, is particularly detrimental to minorities, and supports the systemic racism of mainstream theory.

#### **4. Mainstream Economics Assumes that Agents Are Rational**

Economic theory begins by making illusory assumptions about people's rationality, thereby disregarding the overwhelming body of experimental psychological evidence to the contrary, as well as the inconvenient truth that no less than four Nobel Prizes were awarded for disproving the validity of that very assumption (Kahneman 2003). Already a century ago, Herbert Simon argued convincingly that rationality has its limits: people are unable to maximize a utility function in the real world, insofar as it is beyond the mind's capacity to do so (Conlisk, 1996). By now it has been proven beyond the shadow of a doubt that utility maximization is well out of the reach of mortal beings; so, bounded rationality should be the default model (Simon 1955, 1982; Thaler 2016a, 2016b).

Because of the challenges associated with acquiring information, because of inferior schooling opportunities, and because of experiencing suboptimal development in their formative years, far too often poses additional burdens on the poor (Streufert, 2000). Moreover, their circumstances make it more difficult for them to acquire soft skills such as self-control, ability to delay gratification, work ethic, punctuality, positive attitude—that are important attributes for success in the highly competitive labor market of the 21<sup>st</sup> century. Hence, the poor are more exposed to the myriad problems associated with bounded rationality that puts them at a considerable disadvantage in the marketplace. Having access to less information and to fewer

educational opportunities implies that minorities are more challenged to make good decisions and are also more vulnerable to predatory business practices (Akerlof and Shiller, 2015). Thus, minorities are much more vulnerable to being manipulated and exploited by those in power: by the advertisement giants on Madison Avenue, finance on Wall Street, the Washington political elite, those who dominate the culture industry in Hollywood, as well as the tech titans of Silicon Valley.

However, the rationality assumption enables those in charge of economic policy to argue that all is well with market outcomes, i.e., that there is nothing wrong with the lifestyle choices minorities are making for themselves since they are rational and optimizing their utility function. So, there is no need for government to intervene on their behalf; it would just deprive them of agency over their own lives. They are already doing as well as possible since they are in charge of their own destiny. Consumer protection would not only be superfluous but also interfere with their autonomy.

Hence, these seemingly innocuous assumptions have profound deleterious impact on minorities. It is essential in keeping them subordinate and preventing them from taking advantage of opportunities afforded to those higher on the social hierarchy. By ignoring these formidable challenges facing minorities in the real-existing economy, economic theory supports the fiction that minorities are in control of their own destiny and therefore deserve their place in society. In this way, the rationality assumption provides succor for the maintenance of the status quo socio-economic order thereby feeding into structural racism.

## **5. Mainstream Economics Disregards Bad Actors**

Another crucial factor disregarded in mainstream economics is that the freedom afforded by laissez-fair ideology has a downside as well as an upside, because free markets afford opportunities not only to moral law-abiding citizens but also open up a myriad of possibilities for unscrupulous people to take advantage of their counterparties in an immoral, unprincipled, cunning, crafty, or deceptive manner. They might exploit the language of ambiguous or inadequate laws or their absence, thereby enabling them to finagle and profit in ways that was not foreseen by lawmakers. Opportunists exploit the vulnerabilities of the weak by taking advantage of incomplete contracts, inadequate information, imperfect knowledge, or gullibility of consumers and also have an incentive to frame information in an ambiguous or blatantly deceiving manner so as to entrap customers with fine print.

Because of less schooling and being unable to afford searching for information, the poor are more exposed to the vagaries of predatory advertisements and business practices of opportunists (Akerlof and Shiller 2015). Lack of money also means that they have limited recourse to the legal system when deceived. Therefore, traversing today's economic system poses a formidable challenge for minorities, because its complexity opens opportunities for unscrupulous firms to entrap consumers in ways that are difficult to avoid. Most of the important products purchased in a modern economy are complicated and difficult to comprehend fully. For example, cell phone contracts and credit card rules often contain hidden elements, and nearly impossible to understand in most cases by untrained individuals. Hence, free markets allow unprincipled firms to entice and exploit poor people. In fact, firms hire the brightest psychologists and legal experts in order to structure complex contracts and advertisements in such a way as to appeal to customers without revealing their full impact on their pocketbook. Yet, this issue, the downside of free markets, is absent from conventional economics and that enables policymakers to argue that markets do not need oversight, that greedy people do not have to be constrained from taking advantage of minorities. That too, disadvantages minorities and amplifies institutional racism of the system.

## **6. Mainstream Economics Assumes that Society Does Not Exist**

Conforming to the notion of methodological individualism, the philosophy of mainstream economics, Margaret Thatcher famously quipped that “there's no such thing as society” (Keay, 1987). Economic theory assumes that the economy is made up of individuals who hardly interact with one another. In other words, super-individualistic economic theory neglects the discipline of sociology even though our behavior is highly structured by cultural expectations, institutions, and social norms (Myers, 2010; Polanyi, 1944). Ignoring social interactions and the cultural norms that facilitate and constrain it, do make a substantive difference, because society and the sub-culture into which we are born has a value system that influences our aspirations, constrains our choices, and channels our actions throughout our development and subsequent life course (Steufert, 2000). Moreover, society contributes greatly to defining the terms under which we can become full-fledged esteemed members of the society as discussed by social psychologists. In other words, methodological individualism hides “the role of discriminatory institutions and other political and social structures that... perpetuate...discrimination” (Kvangraven and Kesar, 2020).

However, the social realities in disadvantaged neighborhoods characterized by mediocre schools, high crime rate, unstable families, limited social services, and meager employment opportunities are not conducive to healthy development, putting poor children and adults at a distinct disadvantage. Conforming to the prevailing attitudes, mores, peer pressure, and accepted behavior prevalent in such a social environment makes it much more difficult to escape poverty (Akerlof and Kranton, 2010). Children learn from their society how they should act, what they should consider important in their lives, and what will gain them social acceptance. Far too frequently the role models and reference groups available to underprivileged children from whom they learn the art of living, are not those that would launch them out of poverty and propel them into the middle class (Merton and Kitt, 1950). Idolizing professional athletes, movie stars, or local influencers is not exactly the type of socialization process that prepares one for economic mobility into the middle class.

In brief, it is through the social environment that the burdens associated with the culture of poverty is propagated across generations. Most importantly, by ignoring these crucial issues in their canon, mainstream economists provide a convenient way for the privileged groups to feel superior and justified in their moral resentment toward those who are less successful and disparage the “subordinated racial groups” as irresponsible free riders and undeserving of society’s compassion, lacking the work ethic, and thereby “justify existing racial inequalities” (Clair and Denis, 2015, p. 859). This kind of stereotyping has been described as “laissez-faire racism” (Bobo et al., 1997).

By disregarding the crucial role of socialization in economic interactions, mainstream economists also overlook that many of society’s most pressing challenges cannot be solved by individuals acting by themselves but instead require collective action.<sup>22</sup> Methodological individualism will not enable poor people to pay for good public schools to eliminate a humongous amount waste in human resources. Yet, economists are silent on this important source of inefficiency, thereby promulgating a covert form of racism (Kvangraven and Kesar, 2020).

## **7. Mainstream Economics Disregards Basic Needs**

The concept of “basic needs” does not exist in mainstream economics (Mankiw, 2018). It considers demand merely in terms of “wants” but does not distinguish between them and needs for food, shelter, clothing, clean water, and health care (Darity and Hamilton, 2018). Yet, these

should take precedence over other kinds of discretionary wants, insofar as they are necessary for the survival of the human organism. Markets are not efficient at alleviating hunger and other forms of deprivation. Without government safety-net programs that provide food stamps, Social Security, Medicare, Medicaid, and unemployment benefits, the poor would be squeezed to the breaking point and malnutrition would be rampant (Arrow 1963; Broady and Meeks 2015; Davis, 1994; Deaton 2008). This is particularly true for female-headed households (Simms 1985).

The mainstream is convinced that the invisible hand will provide for all our needs as “this invisible hand works its magic” (Mankiw, 2018, p. 9). However, as Joseph Stiglitz has pointed out repeatedly, “the reason that the hand may be invisible is that it is simply not there” (Stiglitz, 2002). This is crucial for the poor underclass. Therefore, economics should incorporate the concept of basic needs into its canon and prioritize its provision through universal health care, basic income, or a job guarantee, given where the society is headed with robotization, globalization, artificial intelligence, and technological unemployment. Consequently, it would be entirely opportune for the Federal Reserve to reformulate its mandate in such a way that it would strive to attain full employment for minorities as well (Baker, Rawlins and Stein, 2017; Long, 2020). It is no longer tolerable to have Martin Feldstein declare in January 2016 that the U.S. was “essentially at full employment” at a time when no less than 17% of African Americans and 14% of Hispanics did not have a full-time job (Feldstein 2016a).<sup>23</sup> Such attitudes hinder us from thinking creatively about institutional innovation to open opportunities for minorities in a dynamic, ever changing, and challenging environment (Unger, 2015). By expunging the concept of basic needs, mainstream economists tolerate the deprivation of millions that puts minorities at a disadvantage.

## **8. Morals are Banned in Mainstream Economics**

Mainstream economics aspires to be a rigorous science, so there is no room in it for moralizing any more than there is in physics (Mankiw, 2018, p. 20). This attitude is implicit in the way discrimination is discussed in the textbooks. It is also conspicuous in its absence from Mankiw’s “Ten Principles of Economics” and in the index (Mankiw, 2018, p. 15). Yet, it is inconsistent that economic theory extolls the virtues of efficiency and of economic growth that are hardly value neutral. According to the canon, free markets are efficient and provide economic growth, hence are above morality, so questioning their laissez-faire premise would be a waste of

ethical scruples. However, this is also a value judgment implying that efficiency or growth is more valuable than, say, sustainability, or fairness, minimizing poverty, or racial equality (Bowles, 2016). Markets cannot provide moral oversight, because they were not designed to do so: “markets are not morally neutral instruments for defining the common good” (Sandel, 2013; 2018a; 2019). That must come from outside of the economic system (Rawls, 1971; Sen, 2009).

The values we should espouse are not that free markets are natural and created by divine power and therefore above human scrutiny, but that compassion, fairness, and *de facto* equality of opportunity are as important as efficiency, if not more so (Hamilton, 2017). Therefore, the discipline should eschew the part of its canon that tolerates prejudice and trivializes discrimination as a “taste”. Instead, it should advocate for an economic system that is not prejudiced and which empowers everyone, including minorities, to live their daily lives with dignity, less uncertainty, less manipulation, less exploitation of their weaknesses, and less fear that their lives will be upended by opportunists or by the next economic crisis. “A satisfactory way of life in the 21<sup>st</sup> century should be one in which opportunity is distributed equitably, people should not have to struggle to meet their basic needs, can avoid the rat race of social Darwinism, and can realize their human potential without being exploited.

*De jure* equal opportunity is necessary but insufficient for a just economy without *de facto* equal opportunity (Darity and Hamilton, 2010, 2012; Rawls, 1971). A babies’ development should not depend by their initial endowments. Such random allocation at the start of life can hardly be the basis of a good society according to John Rawls, who argued that a society can be considered just if and only if one would choose to live in it without knowing what one’s position in it would be if she/he entered it at random (Rawls, 1971). Thus, a society which allocates opportunities on the basis of skin color ought not be considered just and is contrary to human values of fairness (Tabibnia and Lieberman 2007; Yong, 2020). However, the market system is not designed to provide a fair outcome. Instead, it is a collection of procedural principles which are neutral about the distribution of income; however, people are not at all neutral about market outcomes and frequently find many such outcomes morally unpalatable. Hence, our goal ought to be to create an economic system in which children have *de facto* equal opportunities, and until that is achieved, those who are born into disadvantage can be compensated by society for their initial bad fortune. Relegating morality to markets contributes to systemic racism of economic theory.

## **9. Mainstream Economics Relies Excessively on the Perfectly Competitive Model**

The focus on the perfectly competitive model in much of mainstream economics is hardly a benign simplification, insofar as those are the models that have the largest impact on public discourse, although price-taking firms are a rarity in today's real-existing economy (Lazonick, 2016). Instead, today's economy is dominated by gigantic multinational oligopolies and monopolies wielding enormous market and political power that they use to their advantage (Lazonick et al., 2017).

Power does not exist in perfect competition. However, oligopolies, monopolies, and monopsonists do have power to influence wages, prices, and legislation and these hurt most the weakest members of the society. They do so by targeting minorities with influencers and advertising campaigns, by discriminating in business loans, auto insurance rates, mortgages, and credit cards, by vehemently opposing unions, by lobbying against increasing the minimum wage, and by supporting a culture of instant gratification and a spendthrift lifestyle. The oligopolistic and monopolistic prices faced by consumers in such markets hurt poor people most because the excess burden of these policies is a larger share of their income.

In addition, the superprofits earned by megacorporations are also used in propagating an ideology that supports a technocratic meritocracy that justifies the distribution of income by arguing that people deserve what they earn. "This emphasis has a corrosive effect on the way we interpret our success or the lack of it. The notion that the system rewards talent and hard work encourages the winners to consider their success their own doing, a measure of their virtue and to look down upon those less fortunate than themselves. Now those who lose out may complain that the system is rigged that the winners have cheated and manipulated their way to the top..." but that will not be much of a consolation (Sandel, 2018b, @19 minutes). By trivializing the role of megacorporations and focusing on perfect competition, mainstream economics provides an additional justification for the social status of minorities is thereby an enabler of covert racism.<sup>24</sup>

## **10. Exploitation is Neglected in Mainstream Economics**

Since everything is known in blackboard economics and the counterparties are all equally smart, educated, and rational, the concept of deception or exploitation does not surface in mainstream economics. However, to the extent that power, opportunistic behavior, and asymmetric information are ubiquitous in real existing markets, megacorporations can and do take advantage of people with less information and less educational opportunities, that is to say,

poor people who happen to be predominantly minorities. If a firm takes advantage of a counterparty's weaknesses through deception or overreach, it is actually exploiting him/her and is acting in a predatory manner (Editorial Board, 2018). Advertisements "phishing for fools" are similarly predatory (Akerlof and Shiller 2015; Sberlati 2007). In the absence of countervailing power, firms with better information and more education have an advantage in the marketplace and can use it to their benefit to the detriment of poor people. "Today, we understand that the market is rife with imperfections—including imperfections of information and competition—that provide ample opportunity for discrimination and exploitation" (Stiglitz 2018). The economically weak are more susceptible to being preyed upon by predatory loans, by little-understood variable-rate mortgages, by check-cashing sharks, late-fee penalties, and notorious payday loans. Minorities have fewer defenses against such schemes and traps. Exploitation also occurs when workers are compelled into a contract by force of circumstances. The threat of hunger can push a worker to accept a dangerous assignment during the covid-19 recession, for instance, that appears coercive and becomes exploitative. That is one of the reasons why blacks perish at twice the rate of whites during the pandemic (Greenhouse, 2020).<sup>25</sup>

#### **11. According to Mainstream Economics Consumer Protection is Superfluous**

If information is free and ubiquitous, opportunistic behavior, coercion, and exploitation are nonexistent, everyone is rational and instantaneously maximizing an exogenously determined utility function, there are no children, and the distribution of income is immaterial, then what would be the purpose of consumer protection or of safety standards? Consequently, if there is no difficult-to-ascertain quality dimension so people cannot be manipulated, if there is no fine print that could deceive people, and if people are not being coerced, government oversight would serve no purpose. All it would do is to interfere with the autonomous consumer's freedom of choice, the holy grail.

However, insofar as those assumptions are invalid in real-existing markets, consumer protection is appropriate. So, those seemingly benign assumptions and the lack of consumer protection that follows from them, are against the interest of those groups who do not have easy access to information or good schools and who therefore can be preyed upon by unscrupulous firms. Thus, minorities are callously harmed by the lack of consumer protection, because they are the most exposed to opportunistic behavior. The lack of consumer protection is an important element in the perpetuation of the poverty trap. By disregarding this Achilles Heel of real-

existing markets mainstream economics provides intellectual support for the status quo and to systemic racism.

## **12. Mainstream Economics Assumes that Space Can Be Disregarded**

There are no neighborhoods in mainstream economics; yet, poverty is not evenly distributed across the landscape. Rather, it is spatially concentrated. This is important for minorities, because of the history of racial discrimination and because of the propensity of poor people to live in the vicinity of others with a similar wealth status. This, in turn, implies that African Americans and Hispanics tend to live in ethnically segregated neighborhoods which, because of the lack of an effective tax base are generally sub-optimal places from a developmental point of view (Akbar et al., 2019).

Thus, too many poor children live in slums—concentrated areas of poverty with inferior housing, limited infrastructure, high crime rate, mediocre schools, endemic unemployment—that do not provide them with an adequate start in life, particularly in education, socialization, and role models that would be so important for their future development. Every American city has such neighborhoods (McArdle, Osypuk, and Acevedo-Garcia, 2007). For instance, in Cleveland’s zip code 44115 neighborhood, one of the poorest in the U.S., with a median household income of \$13,600, 85% of the children in school are black (Wallace, 2019).<sup>26</sup> Because in the U.S. primary and secondary schools are financed mainly at the local level, the high spatial concentration of poverty means, in turn, that poor children do not have access to decent schools.

Hence, growing up in such slums has long-term adverse impact on everything that pertains to success in life (Chetty and Hendren, 2018). The adult is the product of the habits and behaviors acquired in childhood. So, for poor children this is a formidable hurdle to overcome, because substandard educational systems mean that minorities are exposed to and absorb the concomitant attitudes which they, in turn, tend to reproduce. It is also an obstacle to accumulating soft skills, emotional intelligence, as well as attaining further education needed in the modern knowledge economy. Subsequently, they enter the labor force at a major disadvantage and mediocre schooling provides the majority an opportunity to rationalize their inferior standing in the labor market. In this way, markets magnify initial disadvantages, thereby erecting a daunting barrier around those born into poverty that keeps them poor. This is the essence of the poverty trap.

Hence, living in slums with inferior schools is a significant factor in perpetuating poverty. No wonder that those trapped by such circumstances do not find a way out of their predicament, blame the system, and far too often turn to acts of desperation out of sheer frustration that often brings them into confrontation with the legal system. Consequently, “though African Americans and Hispanics make up approximately 32% of the US population, they comprised 56% of all incarcerated people” (NAACP 2019). The disregard of this spatial element of the real-existing economy makes the mainstream canon support the status quo and institutional racism.

### **13. Time is Not of the Essence in Mainstream Economics**

Although disregarded for the most part, time is an essential element in practically all economic activities; moreover, the most important decisions are sequential which require foresight, moderation, planning, and judgment another issue ignored by the mainstream (Linder, 1970). Insofar as time moves only in one direction, most processes are irreversible. This is crucial, especially for poor children, because inadequate schooling opportunities locks them into an inefficient developmental path that has profound consequences throughout their life course and is generally irreversible. Path dependence is important, since it implies that those who were born in slums are constrained on a path of development that will keep them in an inefficient equilibrium of poverty indefinitely.

Moreover, learning to plan sequentially is another important part of growing up and be successful in today’s complex economy. The strategic planning, perseverance, and self-control needed to reach these goals must be nurtured and practiced over an extended period. Such life-course decisions require planning and judgement and are much more complex than a typical one-period optimization problem discussed in economics courses. The poor are trapped partly because they are deprived of the opportunity to learn these skills early in life, particularly those who grow up in dysfunctional neighborhoods. Moreover, perseverance requires the reasonable likelihood of success. The frustrations of prior generations weigh heavily on the willingness of youngsters to strive for the kind of success that eluded their parents. They will look for role-models elsewhere. In turn, that generally blocks permanently their path out of poverty. This is yet another reason why economists commit a major mistake by starting their analysis with adults. One must begin the economic analysis with children inasmuch as the fact that their

developmental experience is affected by market processes is a crucial aspect of their adult experiences in the labor market.

#### **14. Government is Superfluous in Neoliberal Ideology**

According to the dominant ideology propagated by Milton Friedman and his followers, in perfectly competitive markets labor, capital, managers, and CEOs receive their just rewards: their opportunity cost or the value of their contribution to the firm. Because there are no profits to wrangle over, all problems are solved conveniently and swiftly by the market. This leaves hardly any role for a government as everything is working smoothly since there is no conflict. The takeaway impression that millions of students retain years after their coursework ended is that competition solves efficiently all the important economic problems.

As far as neoliberal economists are concerned, the government needs only to enforce contracts, define property rights, correct externalities, and protect us from outside foes. The government need not worry about discrimination, global warming, food security, or social stability. The government need not support unions or a minimum wage, because they only create unemployment. On academic blackboards, taxes lead to dead-weight losses and disturb the efficiency achieved by optimizing rational agents. In this intellectual framework markets can do all the heavy lifting.

In contrast, for minorities the government support is indispensable. The introduction of the minimum wage, for instance, lifted millions out of poverty and its expansion in 1966 reduced “racial economic disparities” (Derenoncourt and Montialoux, 2018). The government sponsored Civil Rights Acts of the 1960s, Medicare, Medicaid, minimum wage, and unemployment insurance helped to lift millions of minorities out of poverty<sup>27</sup> (Darity, 2010; Darity and Hamilton, 2018; Paul et al., 2018; Tcherneva, 2018; Whalen, 2019). Hence, as far as minorities are concerned, markets and governments are complementary. They need both. After all, it was not until the federal government intervened, that Rosa Parks could sit in the front of the bus and colored people could be served coffee at Woolworth’s soda counter in Greensboro, NC. Many had to sacrifice their lives before the rights of a desegregated markets were obtained.

To be sure, the role of government is seen in a different light in Continental Europe. After all, the European welfare state commenced long ago with arch-conservative Otto von Bismarck’s policies which introduced incipient forms of social insurance in the 1880s, far ahead of Anglo-Saxon countries. Moreover, the German historical school of economists including Schmoller,

Weber, and Schumpeter used inductive reasoning and whose ideas were much closer to real-world phenomena than what Coase dubbed “blackboard economics” that came to dominate the Anglo-American economics (Coase, 1988, p. 19). The German tradition survived in the public economics of ordoliberalism, in the Freiburg school and their manifestation in the social market economy of post-war Germany, Austria, and also the Scandinavian countries which worked miraculously in rebuilding their respective economies from the ravages of war. These theories, found in the works of Walter Eucken, Franz Böhm, Wilhelm Röpke, and Alexander Rüstow, attributed to the state more legitimate power to coordinate economic activity to overcome the limitations of laissez-faire markets especially insofar as they impacted social justice and social security and to provide countervailing power to oligopolies and monopolies.<sup>28</sup>

The German concept *Staatswirtschaft* was transferred to the U.S. by a German-American economist who emphasized that the equitable distribution of income was actually one of the three major responsibilities of government (Musgrave, 1957). However, Milton Friedman and Friedrich Hayek’s neoliberal ideology gained the upper hand by the late 1970s and was translated into economic policy by Margaret Thatcher and Ronald Reagan. The continental countries did not have an equivalent of these two politicians. Hence, context does matter to the role of government in the economy.

## **15. Relative Incomes Are Not Considered in Mainstream Economics**

The desire to consume beyond the basic needs is influenced considerably by social norms, habit, custom, as well as status seeking (Duesenberry, 1949; Easterlin, 2004; Frank, 1985; Veblen, 1899). That interdependence in the utility function implies that “What matters (for an individual’s sense of well-being) is not just an individual’s absolute income, but his income relative to that of others”<sup>29</sup> (Stiglitz, 2012, p. 131). This puts poor people at a double psychological pressure: not only do they have to struggle to meet basic needs, but they have to cope with falling further behind the social norms of the society which are obviously influenced by the rich and famous. Being excluded from the legal labor market, a substantial number of those who are unable to cope with the stress take a gamble on illegal activity in order to make a living and end up in trouble with the law.

That is one of the reasons there were 6.7 million people (2.7% of the adult population) “supervised” in the U.S. in 2015; this included those on parole, probation, and 2.2 million people incarcerated (Bureau of Justice Statistics, no date). This is the highest rate in the developed

world (Hartney, 2006). With 5% of the world's population, the U.S. has 23% of its prisoners and 2/3 of them are minorities (Carson, 2015, p. 15). Of all black males ages 30 to 39, 6% were in prison (Carson, 2015, p. 1). The toleration of such levels of imprisonment by mainstream economists feeds into structural racism.

## Conclusion

To avoid being misunderstood, I should reiterate that I am not accusing any economists of being racists. However, there are numerous hidden elements in the neo-liberal economic theories they propagate that disadvantages those who are poor and do not possess attributes valued by the labor market. These underprivileged groups obviously vary by country but in the U.S. they are minorities including Hispanics, indigenous populations, and descendants of slaves (Bobo et al., 1997). This is the case insofar as deductive theories is at the core of conventional economics based on unrealistic assumptions. This canon provides succor for the continuation of an economic system that burdens underprivileged groups the most, and essentially “exonerates ‘the market system’ for their predicament (Koechlin, 2019, p. 562). Moreover, by remaining neutral about the distribution of benefits, economists support the established power structure and privilege that limits the opportunities and capabilities of those born at the bottom of the socio-economic hierarchy (Sen, 1980). This is a nuanced conceptualization of racism that focuses on the outcomes generated by the economic system as well as on “how it operates, and how it relates to racial inequality”. This “laissez-faire racism” appears appropriate for our turbulent times (Clair and Denis, 2015, p. 862).

We should remind ourselves that there is a veritable avalanche of studies underway critical of the mainstream ideology which promotes a Kuhnian paradigm shift (Bowles and Carlin, 2020).<sup>30</sup> Many also point to the eroding effects of an excessive level of inequality and the concomitant “hollowing out of the middle class” (Case and Deaton, 2020; Komlos, 2018; Pew Research Center, 2016; Piketty, 2014; Stiglitz, 2011, 2012). Raj Chetty, Emmanuel Saez, Thomas Piketty, Gabriel Zucman are contributing significantly to our understanding of magnification mechanisms in the economy that create inequality. Despite this body of literature, there is an iron curtain protecting the power centers of the neoliberal ideology that maintains its dominance in all the most popular textbooks, in all of the top journals important for promotion, as well as admittance into those departments that shape the future of the discipline (DeLong, 2011; Heckman and Moktan, 2020; Hoover and Svorenčik, 2020; Mirowski, 2013). Moreover,

despite a substantial body of research on racism in the *economy*, racism in *economics* is at its inception<sup>31</sup> (Bertrand, Chugh, and Mullainathan, 2005; Koechlin, 2019; Kvangraven and Kesar, 2020). That is the hiatus this essay aims to fill.

To be sure, the above 15 Achille's heels are all context dependent (Dalen, 2019). The circumstances in Europe differ markedly on account of its unique traditions, with some roots in Kantian and Hegelian philosophy, which resisted to some extent the dominance of an extreme form of neoliberal ideology whose intellectual roots are closer to those of Locke, Smith, Bentham, and Mill. Of course, the U.S. is special not only for the above reasons but also because slavery as an institution survived until the Civil War, but its legacy was propagated in written and unwritten laws for another century with the suppression of voting rights and with institutions which failed to enhance the capabilities of the descendants of slavery.

So, racism is deeply engrained in the fabric of U.S. society since it never had a counterpart to Germany's *Vergangenheitsbewältigung*, a concerted communal effort to root out the evils of the past. To be sure, laws were changed eventually, but that is not the same as admitting guilt and ideologically and psychologically overcoming historical transgressions.

To be sure, many recognize that “economics has a diversity problem” (Bayer, Hoover and Washington, 2020, p. 217), but they fail to acknowledge that a discipline that trivializes discrimination and dubs prejudice a “taste” will be naturally shunned by minority students. It should also be obvious that market mechanisms were incapable of reducing, let alone eradicating the evils of discrimination. Therefore, a canon that adulates unfettered markets will likely appear objectionable to the descendants of slavery. Thus, to continue to teach the Beckerian model of discrimination, conceived in the twilight of Jim Crow era, that trivializes the injustices associated with discrimination is worse than anachronistic. In the era of the BLM movement, it is in bad taste and should be seen as itself providing scholarly support for systemic racism.

Hence, economics is not going to be able to purge covert racism—and bias against the disadvantaged—from the canon until these fifteen Achilles heels are addressed appropriately in all textbooks and classrooms from the very beginning of the educational experience. There has to be a widespread understanding that *laissez-faire* economics has a status-quo bias which magnifies the privileges of those who are already privileged, i.e., that the economy's playing field is not level which limits the opportunities of the disadvantaged. That implies that the

consequences of racism of the distant past is propagated from generation to generation, putting obstacles in the way of disadvantaged groups and preventing their socio-economic mobility (Small and Pager, 2020, p. 64). After all, the rules of the system were made by those in power and they are most likely to devise ways to maintain that power and thereby perpetuate racial inequities perhaps as an inadvertent consequence. In addition, markets mechanisms are unfair insofar as they magnify initial advantages, thereby reinforcing the institutional structure of power and benefits.

It is clear by now that we should not delegate morality to markets since they were not conceived so as to lead to racial equity. We should not let “market mechanisms be the primary instruments of achieving the public good” (Sandel, 2018b, @11:23 minutes). Instead, we should reformulate economic theory in such a way that it conforms to democratic values and distribute the fruits of the economy equitably by ensuring de facto equal opportunity for all. And that means that in a post-racist society all economic outcomes would be comparable along racial lines including incomes, wealth, education, health, or unemployment.<sup>32</sup> If economic theory would advocate such a post-racist society, I think that more minority students would become interested in studying economics .

In sum, the argument of this paper is that mainstream economic theory, extolling the virtues of free markets, possesses hidden aspects that disadvantages African Americans, Hispanics, indigenous Americans, or anyone else who was born into deprivation or with attributes not valued by free markets and thereby becomes a pillar of structural, systemic, and institutional racism. The market system is not created in heaven. It is not natural. Rather, it is a human invention, with inherent imperfections typical of mortal creations that can be and should be ameliorated by human intervention.

It is time for economists to adopt their theories to the real world with plenty of social and political inequities and in which there are children to be protected and gender and racial discrimination that can be debilitating. In other words, neglecting the above 15 Achilles’ heels of mainstream economic theory is no longer a tenable intellectual framework. Righteousness will not flow like a mighty stream<sup>33</sup> as long as our minds are trapped in the Arrow-Debreu world of general equilibrium which might well be eloquent on academic blackboards but is harmful at the street level and especially so for groups that are disadvantaged from birth by the real-existing

economy.<sup>34</sup> It is time to put racial equity on the economists' agenda and create a post-racist economics.

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## Endnotes

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<sup>1</sup> However, there are notable exceptions (Friedman, 2018; Goodwin et al., 2015; Hill and Myatt, 2010; Schneider 2019).

<sup>2</sup> POV=04. Primary Families by Age of Householder. <https://www.census.gov/data/tables/time-series/demo/income-poverty/cps-pov/pov-04.html> accessed August 7, 2020.

<sup>3</sup> The Aspen Institute defines structural racism as "a system in which public policies, institutional policies... and other norms work... to perpetuate racial group inequity. It identifies... [aspects] that have allowed... disadvantages associated with 'color' to endure.... Structural racism...has been a feature of the social, economic, and political systems in which we all exist" (Institute Staff, 2020). See also Wikipedia Contributors, "Institutional Racism". Institutional racism also dovetails with the concept of white privilege (Rothenberg, 2002).

<sup>4</sup> U.S. Census Bureau, Table H-5. [www.census.gov/data/tables/time-series/demo/income-poverty/historical-income-households.html](http://www.census.gov/data/tables/time-series/demo/income-poverty/historical-income-households.html) accessed August 7, 2020.

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<sup>5</sup> “...institutional discrimination is a vehicle through which past discrimination... has contemporary consequences” (Small and Pager, 2020, p. 64).

<sup>6</sup> 38% of blacks with some college education were unable to meet their current bills compared to 18% of whites (Board of Governors 2018, p. 22).

<sup>7</sup> To be sure, there are some exceptions: blacks are less likely to commit mass murder, suicide, or overdose with opioids than whites.

<sup>8</sup> The real median weekly earnings of full-time black wage and salary workers were at 81-83 percent of that of whites during the two decades of the 21<sup>st</sup> century (FRED, series LES1252881600Q and LEU0252884600Q).

<sup>9</sup> Fully half of blacks say that being black has hurt their ability to get ahead for various reasons including discrimination or having less access to high-paying jobs or to good schools (Horowitz, Brown and Cox, 2019, pp. 5, 10). “...minor forms of everyday discrimination people may experience... can matter cumulatively, not just episodically (Small and Pager, 2020, p. 64).

<sup>10</sup> The true unemployment rate among Hispanics was 10.1%.

<sup>11</sup> It is also misleading, because it assumes that those who discriminate are making conscious decisions to do so based on a cost-benefit analysis, whereas the discrimination often occurs at the unconscious level (Bertrand, Chugh, and Mullainathan, 2005).

<sup>12</sup> To be sure, the author does add that “Discrimination is no less damaging to its victims for being statistical.”

<sup>13</sup> “Skin color is a cheap source of information and therefore may be used by an employer in discriminating against what he believes to be inferior workers.” At least Arrow did express “the greatest moral outrage” and “moral indignation” at his “dispassionate” analysis (Arrow, 1971, p. 27).

<sup>14</sup> “Statistical Discrimination” brings up 21,000 hits on google scholar and “taste for discrimination” brings up 3,500 hits.

<sup>15</sup> Kevin Murphy’s laudation of Becker’s work has a similar tone: “Becker’s analysis would extend the reach of economics, and completely reshape the field—and social-science research in general.” And the discrimination also hurts those who discriminate: “the discriminating employer incurs greater expense to obtain the same productivity” (Murphy, 2015).

<sup>16</sup> In addition, they support Becker’s theory by framing the question of discrimination in terms of “blue-eyed” versus “brown-eyed workers”, which, of course, sounds ridiculous, and belittles its deeply corrosive nature, thereby avoiding the emotionally charged issue of real-world racial discrimination especially as it pertains to the descendants of American slaves and all the social injustices that stem from that (Samuelson and Nordhaus, 2009, p. 261).

<sup>17</sup> Becker’s theory has many hidden assumptions including that productivity is easily ascertainable prior to hiring someone. However, if that is not the case, then the mechanism he invokes may not work because the non-discriminating manager could assume that people willing to work for less because they are less productive. Furthermore, it also assumes that there exist non-discriminating firms which have enough capital to enter the market and that there are sufficient number of people who can withstand the social pressure of going against the cultural

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norm of discrimination. So, there are many reasons for refuting the theory rather than reproducing it.

<sup>18</sup> “Do not underestimate the power of markets to offer at least a degree of freedom to oppressed groups. In many countries, cohesive minority groups like Jews and emigrant Chinese have managed to carve out a space for themselves through their economic activities, despite legal and social discrimination against them” (Taylor, Greenlaw, and Shapiro, 2018 p. 341).

<sup>19</sup> Even liberal economists confirm the conventional reasoning that markets are good and government is bad: “market forces tend to work against discrimination.... Discrimination has sometimes been institutionalized in government policy. This institutionalization of discrimination has made it easier to maintain it against market pressure.... Companies that engage in workplace discrimination but whose competitors do not are likely to have lower profits as a result of their actions” (Krugman, Wells, Olney, 2007, pp. 229-230). Never mind that this institutionalization ended in 1964 in the U.S. so why hasn’t the market worked its magic in the intervening half century?

<sup>20</sup> The Nobel Prize-winning economist Kenneth Arrow also observed, “economic power can be translated into political power by channels too obvious for mention. In a capitalist society, economic power is very unequally distributed...” (Arrow, 1978, p. 479).

<sup>21</sup> According to Nobel-Prize winner Robert Shiller, “the so called efficient market hypothesis... is one of the most remarkable errors in the history of economic thought” (The New School 2009). Yet, that markets are efficient continues to be taught in mainstream classrooms. Such inconsistency could not persist in any other discipline.

<sup>22</sup> The word “culture” does not even appear in Mankiw’s *Principles* (Mankiw, 2018)

<sup>23</sup> Economic Policy Institute, “Underemployment by Race.”

[www.epi.org/data/#?subject=underemp&r=\\*](http://www.epi.org/data/#?subject=underemp&r=*);

<sup>24</sup> Thus, Nobelist George Stigler could write about the “Negro in America”, that they are “inferior workers and “[the] problem is that on average he lacks a desire to improve himself, and lacks a willingness to discipline himself to this end” (Stigler, 1965).

<sup>25</sup> And Hispanics were three times as likely to be infected. “They make up a disproportionate share of the low-paid “essential workers” who were expected to staff grocery stores and warehouses, clean buildings, and deliver mail while the pandemic raged around them. Earning hourly wages without paid sick leave, they couldn’t afford to miss shifts even when symptomatic. They faced risky commutes on crowded public transportation while more privileged people teleworked from the safety of isolation” (Yong, 2020).

<sup>26</sup> The average minority share in the 15 poorest zip code areas in the U.S. is 77% with a median household income of \$15,000 and an *official* unemployment rate of 18% in May 2020 (ZipData Maps, <https://www.zipdatamaps.com/44115>).

<sup>27</sup> The “Federal Jobs Guarantee Development Act of 2018,” was introduced in the Senate of the 115<sup>th</sup> Congress by Senator Cory Booker in April 2018.

<sup>28</sup> It bears similarity to the concept of “Capitalism with a Human Face” (Komlos, 2019).

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<sup>29</sup> Stiglitz continues: “Individuals’ concerns with their consumption relative to that of others—the problem of ‘keeping up with the Joneses’—helps explain why so many Americans live beyond their means—and why so many work so hard and so long” (Stiglitz, 2012, p. 131).

<sup>30</sup> This includes the New Weather Institute, [www.newweather.org/wp-content/uploads/2017/12/33-Theses-for-an-Economics-Reformation.pdf](http://www.newweather.org/wp-content/uploads/2017/12/33-Theses-for-an-Economics-Reformation.pdf); The Institute for New Economic Thinking, and The International Confederation of Associations for Pluralism in Economics.

<sup>31</sup> To be sure, the research on racism in the economy has not been in the top ten journals in which a negligible 0.2% of the articles has been devoted to the topic (Čihák, Mlavchila, and Sahay, 2020).

<sup>32</sup> The Aspen Institute defines a racially equitable society as one in which “the distribution of society’s benefits and burdens would not be skewed by race.... Racial equity would be a reality in which a person is no more or less likely to experience society’s benefits or burdens just because of the color of their skin” (Institute Staff, 2020). This follows the Rawlsian conception of justice.

<sup>33</sup> Paraphrasing Martin Luther King Jr.’s oft-cited quote from his letter from the Birmingham Jail.

<sup>34</sup> Arrow knew this full well (Arrow 1978).