Abstract: The mainstream economic theory is replete with implications that feed into structural racism inasmuch as they have the unintended consequence of severely disadvantaging people at the lower end of the socio-economic spectrum which includes a disproportionate number of Hispanics, Indigenous people, and those whose ancestors were slaves. Economic theory thereby provide justification for preserving the status quo in the economy and thereby becomes covertly racist. insofar as the assumptions upon which it rests handicaps minorities. For example, the canon assumes that information is free, whereas it is not, and costly information implies that its acquisition by poor people requires a greater share of their income, making it more difficult for them to make well-informed decisions. Because of inferior schooling opportunities, the poor are more exposed to the myriad of problems associated with bounded rationality and have difficulties avoiding the traps set for them in small print. That tastes are assumed to be exogenous is hardly a benign oversight, because people enter the market as children; so, unfettered markets have a long time to impact their character. This has a harsh effect, especially on poor children because they are particularly vulnerable to influence through advertisements. Opportunistic behavior means that people with better information can take advantage of others in an immoral, unprincipled, cunning, crafty, or deceptive manner. Because of less information at their disposal and because of inferior schooling, minorities are more exposed to the vagaries of unscrupulous and powerful megacorporations that often leads to exploitation. Conventional economic theory, in the main, ignores these crucial issues and instead theorizes about an Alice-in-Wonderland economy inhabited by supermen and superwomen who know everything about everything, are perfectly rational, develop their tastes autonomously, can maximize their welfare, have perfect foresight, and avoid falling prey to opportunists all around them. Hence, mainstream economists provide succor for the maintenance of the status quo which tilts the lever of opportunities away from minorities and supports systemic racism as a consequence.

JEL: A00, B50, D60, J15, Z13

Keywords: racism, minorities, African Americans, Hispanics, poor, information imperfections, bounded rationality, opportunistic behavior, power, exploitation
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.¹ That should not be misinterpreted so as to imply that collectively the economic profession is itself consciously racist. Not at all. Rather, the implication is that the principles they promulgate have the unintended consequence of providing ample justification for the status quo which finds minorities at the lower end of the social hierarchy (Small and Pager, 2020; Kvangraven and Kesar, 2020; Watson, 2017). Hence, economic theory supports a political and economic system that continues to disadvantage those at the lower end of the income distribution and that includes a disproportionate number of minorities, since fully one-half of the poor families are those of color, even though they make up only 28% of all families (U.S. Census, 2018).² These theories have a strong impact beyond academia insofar as they seep into the media and dominate popular discourse on Mainstreet as well as in the halls of Congress. That makes mainstream economic theory covertly racist, even if not intentionally, but as the unintended consequence of the seemingly neutral assumptions upon which it is based (Koechlin, 2019).

A body of knowledge 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). That this is precisely the case with conventional undergraduate economics and beyond, is the focus of this essay. The unwarranted assumptions underlying the theory do contribute to keeping disadvantaged groups disadvantaged. Intention is not a prerequisite for mainstream economics to be considered covertly racist.

Mainstream economic theory is basically an apotheosis of theoretical markets without, however, revealing the “Achilles heels” of their real counterparts. The Achilles heels refer to intrinsic shortcomings of real-existing markets. These include basic needs, bounded rationality, conspicuous consumption, cultural issues, discrimination, endogeneity of utility functions, ethics, externalities, hyperbolic discounting, ideology, imperfect information, imperfect foresight, manipulation of consumers, monopolies, oligopolies, opportunistic behavior, power disparities, relative incomes, social interaction, social norms, transaction costs, uncertainty, and more—that prevent them from functioning the way they do on the blackboard. These issues are either mostly disregarded in the classrooms or are treated as benign epiphenomena in the dominant theories of
imaginary markets and particularly at the undergraduate level. However, the discrepancy between theory and reality is significant, insofar as they highlight the ways in which the economic system impairs poor people and prevents real markets from enabling them to flourish as they seem to do on academic blackboards. 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; Kvangraven and Kesar, 2020). In short, the economic system, supported by economic theory, can indeed be racist although the individuals responsible for the theory are not at all racist and are not prejudiced (Small and Pager, 2020).

The above failings of real-existing markets are mostly omitted from a majority of conventional economic courses so that most students once they rise to positions of authority in the society remember mainly that “markets have remarkable efficiency properties” (Samuelson and Nordhaus 2009, p. 164), or that “this invisible hand works its magic” (Mankiw, 2018, p. 9), although many economists received the Nobel Prize decades ago for stressing the importance of the consequences of market failures. Even Paul Krugman, who has a much wider perspective as New York Times columnist, exudes the wonders of imaginary markets—even if tempered somewhat with an adverb—in his co-authored textbook: “markets usually lead to efficiency” (Krugman and Wells 2013, p. 16). In sum, almost all popular mainstream textbooks and professors teaching from them, hype a free-market utopia whose relevance does not extend much beyond the edges of the blackboard.

Hence, most students fail to understand the limitations of real market economies in the hyper-globalized world of the twenty-first century and how it skews its benefits toward the privileged, thereby putting minorities at a substantial disadvantage. Instead, mainstream economists propagate a caricature of the economy at a level of abstraction that creates an essentially fantasy world, thereby perpetuating an apotheosis of unregulated markets which seem perfect on the blackboard but not at street level for those born into disadvantaged circumstances. These theories fail to consider that unfettered markets bestow advantages on those who are already wealthy and powerful, thus fostering a dual economy that poses formidable obstacles for minorities to escape from the poverty trap. Hence, teachers of mainstream economics perpetuate a stereotype that unregulated markets are efficient, thereby leading to a blissful life; so, they
continue to sing the praises of the immense achievements of the free-market system, keeping any demurrals muted.

This implies that tens of millions of students leave their studies without having seriously reflected on the nuances and caveats of the theories discussed and how that affects various demographic groups (Samuelson, 2019). This is especially pernicious for poor people because those models leave the misimpression that their inability to succeed is primarily their own fault and supports the dominant ideology that they actually deserve to be at the bottom of the social hierarchy. The textbooks fail to mention that the economic system is structured in such a way as to keep people in their place: the poor at the bottom and the rich at the top, with limited mobility between them.

While mainstream economists proclaim that “the U.S. economy is in good shape”, how well the people living in that economy fare is not their major concern (Feldstein 2016b). They ignore the elephant in the room, namely, that the plight of Hispanics, descendants of American slaves, and other disadvantaged groups are 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, an increase of $4,400 in the course of the 21st century. 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 slavery and of subsequent discrimination (Darity and Mason 1998; Fontenot et al. 2018, pp. 2, 5). No wonder that one-fifth of the 101 million African Americans and Hispanics in the U.S. in 2017, were classifieds as being poor and were more than 2.3 times as likely to be poor than whites (Fontenot et al. 2018, p. 12). The distribution of wealth shows even greater disparity (Darity et al., 2018; Williams, 2017).

Most textbooks do not even discuss the substantial obstacles faced by minorities. They fail to mention not only the poverty and income data cited above but also the fact that their imprisonment rate, unemployment rate, life expectancy, schooling, wealth, financial security and every single other indicator of well-being is inferior to that of whites and usually by substantial margins (Financial Health Network, 2019). For instance, 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” (Madrick 2015).

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 (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).

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 and that keeps a downward pressure on wages (St. Louis Fed, UNRATE; EPI, 2020). The true unemployment rate was closer to 11.0%. 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 of Harvard University and advisor to presidents 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).

In other words, the theories of blackboard economists like Marty Feldstein disregard the plight of disadvantaged groups of this country insofar as they justify the outcomes obtained within the economic system and provide intellectual support for maintaining the status quo, i.e., to keep poor people in their place at the bottom of the social hierarchy. Keynes expressed a similar sentiment this way: “Our criticism of the accepted classical theory of economics has consisted not so much in finding logical flaws in its analysis as in pointing out that its tacit assumptions are seldom or never satisfied, with the result that it cannot solve the economic problems of the actual world” (Keynes Chapter 24).

Consequently, it is time, to bend over backwards to expunge the covert racism in economic theory. In order to achieve that we must recognize that mainstream economics is
intellectually flawed, is seriously biased against minorities, and therefore not conducive to their social improvement (Samuelson, 2019). This essay is an overview of the ways in which conventional economic theory supports the current socio-economic status quo, devised in such a way as to skew the benefits of the economic system to those who are already benefiting out of proportion to their contribution to social welfare. This essay is not meant to be a comprehensive critique of mainstream economics. Instead, it focuses on fourteen of its Achilles heels whose burden have a higher incidence on those born into poverty and that includes a disproportionate number of ethnic minorities. Insofar as the shortcomings of the theory fall more heavily on minorities, economics reveals its hidden racist tendencies

**Alice-in-Wonderland Discrimination in Economics**

Ever since Gary Becker’s 1955 dissertation on the subject, 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” thereby became a component of the benign theory of free choice and part of the democratic liberal tradition of market exchange between equals.

The theory also supposes that firms that discriminate will pay a 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 not persist.

Statistics was invoked to complement Becker’s theory (Moro, 2018). In this version of the canon, statistical discrimination becomes 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).
Kenneth Arrow also proposed this analysis simultaneously and independently (although he did not refer to its statistical nature) (Arrow, 1971).\textsuperscript{11}

This line of covertly racist reasoning has been critiqued extensively in the literature (Darity, 1995; Darity, and Mason, 1998; Mason, Myers and Darity, 2005; Shulman and Darity, 1989). Nonetheless, the above-mentioned approaches have not only survived but still dominate, in the main, the discussion of the topic in most popular textbooks without caveats and not only at the introductory or intermediate levels but also in specialized textbooks such as in labor economics (Borjas, 2005, Chapter 10).\textsuperscript{12} None discusses the pernicious nature and injustice of discrimination and the social ills (such as 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 issues 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.”\textsuperscript{13} Thus, even if some employers are biased against a group of workers, their bias should not be sufficient to reduce that group’s income”\textsuperscript{14} (Samuelson and Nordhaus, 2009, p. 261). 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). The black earnings have been stuck at 81-83 percent of that of whites during the two decades of the 21st century.\textsuperscript{15} 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).\textsuperscript{16}

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). The reason this is misleading is that it is not difficult to estimate that 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). Graduate lecture notes also focus on the mathematical elegance of these models based on these theories without caveats and without reference to the injustices prevailing in the labor market (Autor 2003). That, in the main, is the tenor of most of the canon on discrimination.

In contrast, some progressive economists do strike a different tone and do not refer to discrimination as a “taste” (Bruegel, 2018; Schneider, 2019, p. 519). Instead, they point out that it “was based on racist beliefs that certain groups were innately inferior” and that discrimination has been against the law since 1964. They also refer to a case study of FedEx that was fined $3 million for violating the 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).

**The Achilles’ Heels of Real-Existing Markets**

We refer to the ways in which actual free markets deviate from theoretical free markets as their Achilles heel and argue that the inadequate assumptions upon which that discrepancy is based disadvantages minorities disproportionally and therefore are covertly racist. Institutional racism is founded on the incongruity between theory and reality within the canon.
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 to partake in market processes on equal terms. Insofar as wealth 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 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).\(^{20}\) Hence, by being indifferent to the distribution of wealth, mainstream theory overlooks an important and integral part of the feedback mechanism between the economic system and the political power structure. 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. 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.

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.\(^{21}\) Instead, the unwarranted assumption is generally made that information is free and is therefore ubiquitous. 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 and this is especially the case for
minors, 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 they often also lack the social networks that could facilitate the smooth access to information and that implies that acquiring information is even more difficult for them than for the wealthy (Chiteji and Hamilton 2002). That suggests that they have a formidable 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 and uncertainty is a crucial element in successfully mastering the art of living in a complex path-dependent world. Therefore, minorities are at a distinct disadvantage in free markets in the Information Age when access to reliable information is more important than ever, thereby challenging their ability to make satisfactory decisions. Assuming that this problem does not exists feeds into the systemic racism of mainstream economics.

3. Mainstream Economics Assumes that We Enter the World 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 couple of decades 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 our utility function. That, in turn, enables them to assume that tastes are exogenous although the utility function is, in reality, 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 trivializes unprofitable aspects of culture including frugality, safety, education, and morality. 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 a harsh impact on everyone but especially on poor children, because they are more likely to be living in a single-mother household (with a median income of $26,000), and less likely to be supervised for much of the day, exposing them longer to Pavlovian conditioning.
This is particularly the case since quality child-care is generally out of reach for poor families (Bivens et al., 2016). That is how a popular culture came into being in which people mimic the mannerisms, values, worldview, consumption habits, and lifestyles of celebrities that are projected across monitors. This is how the obesity epidemic spread, and this is how we became mired in debt, with a culture that accentuates instant gratification. This is an enormous problem, because mega-corporations have an immense influence on children and youth and foster a culture in which they become loyal consumers. Watching five hours of TV or internet a day would affect anyone’s thinking pattern. Businesses invest generously in order to sway children’s wants and that plays a big role in perpetuating the mindset which values consumption over investment in education.

Consequently, poor children are particularly vulnerable to junk food advertisements, for instance, and so become overweight, or computer game advertisements at the detriment of doing homework (Broady and Meeks 2015). Thus, 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. By the time children and youth reach adulthood, their character and their subconscious had been impacted substantially by the corporate world; even their aspirations and inner thoughts had been 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 pretty 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 mortals; 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). They also watch much more television than average and “television often promotes lifestyles not conducive to prosperity” (Movieguide, no date). 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 21st century. Hence, the poor are more exposed to the myriad of problems associated with bounded rationality that puts them at a considerable disadvantage in the marketplace. Being able to afford less information and enjoying fewer educational opportunities implies that minorities are more challenged to make good decisions and are also more vulnerable to predatory business practices and advertisements fishing for less informed people (Akerlof and Shiller, 2015). Thus, minorities people are much more vulnerable to being manipulated and exploited by those in power: by Madison Avenue, Wall Street, the political elite, Hollywood, as well as 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 obviously optimizing their utility function. So, there is no need for government to intervene on their behalf. 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 up 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 destinies and therefore deserve their place in society. Thus, economics provides succor for the maintenance of the status quo socio-economic order.
5. **Mainstream Economics Assumes that There are No 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 up opportunities for unscrupulous firms to entrap consumers in ways that are difficult to avoid. Most of the important products we purchase in a modern economy are complicated and difficult to fully comprehend. 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 policy-makers 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”. 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 people 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 for poor children 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 often the role models and reference groups available to underprivileged children from whom they learn the art of living, are too frequently 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.

In short, 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 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 importance of socialization in economic interactions, mainstream economists also overlook that many of society’s most pressing challenges cannot be solved by individuals acting in isolation but instead require collective action. Methodological individualism will not enable poor people to pay for good public schools in order to increase the common good. Consequently, a humongous amount of human resources is wasted by the inferior school systems and not exclusively in inner city neighborhoods. The outcome in such cases is not only suboptimal and inefficient but immoral as well. Yet, economists are silent on this important inefficiency thereby promulgating a covert form of racism (Kvangraven and Kesar, 2020).

7. Mainstream Economics Assumes that People Have No Basic Needs

Mainstream economics 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 are very different from other kinds of wants, insofar as they are necessary for the survival of the human organism and therefore should take precedence over other kinds of discretionary wants. 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). 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). In other words, full employment should mean that minorities are also fully employed. For example, 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). Such attitudes hinder us from thinking creatively about institutional innovation to open up 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 mathematics. 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 people’s weaknesses, and less fear that their lives will be upended by opportunists or by the next economic crisis. “A satisfactory way of life should be one in which opportunity is distributed equitably, people do not need to struggle to meet their basic needs, can avoid the rat race of fierce competition just to be able to stand still, and can realize their human potential without being exploited.

*De jure* equal opportunity is insufficient for a just economy without *de facto* equal opportunity (Darity and Hamilton, 2012; Rawls, 1971). Wealth is a privilege, because it provides opportunities that are unavailable to all. Babies born into poor families have less chance of living a fulfilled life than those born into wealthy ones (Hamilton and Darity, 2010). Their future development will be on divergent paths determined by their initial endowments. Such random
allocation at the start of life cannot possibly be the basis of a just 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). After all, the market system is a collection of procedural principles which are neutral about the distribution of income, but 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 primary 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 is not made up of tiny. Instead, today’s economy is dominated by multinational oligopolies and monopolies wielding enormous market and political power that they use without qualm to manipulate consumers.

In stark contrast to the theoretical perfectly competitive firms, contemporary megacorporations are most successful at manipulating the weakest members of the society by targeting them with influencers and advertising campaigns, by discriminating for business loans, by redlining (in 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 the most and that implies that burden falls most heavily on the budget of minorities leaving less money for them to pay for medicine, insurance, and health care in general, that has feedback effects on their finances and productivity. The megacorporations also invest heavily in propagating an ideology that supports a technocratic meritocracy that justifies the distribution of income by arguing that people deserve what they earn in the market. “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 influence of megacorporations and focusing on price-taking firms mainstream economics is an enabler of covert racism by providing an additional justification for their current social status.

10. **Mainstream Economics Assumes that Exploitation Does Not Exist**

Since everything is known in blackboard economics and the counter-parties are all equally smart 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’ weaknesses through deception or overreach, it is actually exploiting the other person and is acting in a predatory manner (Editorial Board, 2018). Advertisements “phishing for fools” are similarly predatory (Akerlof and Shiller 2015; Sberlati 2007). Without countervailing power, people 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 takes on the appearance of coercion and therefore of exploitation. That is one of the reasons why blacks perish at twice the rate of whites during the pandemic.²³

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 taken advantage of, if there is no fine print that could deceive people, and if people are not making choices under duress, 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, indeed. 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 those who do enjoy those advantages. Thus, minorities are callously harmed by the lack of consumer protection, because they are more exposed than the average person to opportunististic behavior. The lack of consumer protection simply perpetuates 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 concentrated spatially. 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 urban 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 zip codes in the U.S., with a median household income of $13,600, 85% of the children in school are black (Wallace, 2019). Being exposed to such slums has long-term impact on everything that pertains to
success in life including earnings and education (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. Subsequently, they enter the labor force at a distinct disadvantage and mediocre schooling provides the majority an opportunity to rationalize their effective exclusion from the labor market. In such a way, markets magnify initial disadvantages, thereby erecting a daunting barrier around those born into poverty that maintains the status quo.

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. This is also an obstacle to accumulating soft skills, emotional intelligence, as well as subsequently attaining further education needed in the modern knowledge economy more than ever. 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 in turn.

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, many 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 live in inadequate school districts are constrained on a path of development that will keep them in an inefficient equilibrium of poverty indefinitely.
Moreover, learning to plan sequentially is an important part of growing up in order to succeed 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 of time. 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 Mainstream Economics

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 in the labor market are solved conveniently and swiftly by the market. There is hardly any role for a government in this fantasy economy as everything is working smoothly since there is no conflict. The takeaway impression that millions of students retain years after their coursework ended and they have become responsible members of the community is that competition solves easily and efficiently all the important economic problems.

Therefore, government itself is not only superfluous but is wasteful and only interferes with efficient outcomes. There might be discrimination, but the market will take care of that, so civil-rights laws are not essential. Pollution can be solved by taxes, so the dangers of global warming do not arise. There are no basic needs, so healthcare and food security is no concern of government. There are no children, so taxes are not needed to finance schools. In fact, there is no society at all, so investing in human capital in order to maintain social stability is pointless. There is no politics, so there is no need to nurture the social contract. In this imaginary world markets can do all the heavy lifting.
To be sure, the rich do not need public goods as much as the poor do, so the urgency of infrastructure investments, an increase in the minimum wage, public transportation, public schools, food stamps, Medicaid or other social safety nets so these government provided services can be minimized or eliminated. In this way, in mainstream classrooms the government becomes dispensable and its institutions and bureaucracy can only disturb the blissful efficiency achieved by optimizing rational agents in market processes. On academic blackboards, taxes lead to dead-weight losses and unions as well as the minimum wage create unemployment. Needless to say, this is not a reasonable description of the real-existing economy made up of powerful oligopolies rather than of perfectly competitive firms. In such an economy the unions provided essential countervailing power to offset the power of oligopolies and monopolies and without them employees, especially those unskilled are at a disadvantage that contributed to the hollowing out of the middle class.

In contrast to the mainstream contention, for minorities the government is an indispensable part of the economy. The introduction of the minimum wage, for instance, lifted millions out of poverty and its expansion in 1966 has been shown to reduce “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\(^\text{25}\) (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 each other and minorities open to discrimination need government help more than any other group in society. Markets are not good at reducing prejudice and discrimination. 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.

Unregulated markets do not serve minorities well because freedom opens up a myriad of possibilities for influential firms to exercise their power in such a way as to take advantage of the weak. Only the government can protect minorities, and generally those without access to countervailing power. Markets in which the powerful can exploit the vulnerabilities of counterparties are not truly “free” for those who do not enjoy those advantages. So, a laissez faire approach does not lead to free markets. Just the opposite. Without government oversight,
power accumulates in the hands of the few and it is government’s role to prevent such imbalances from becoming a threat to political, social, or economic stability. So, in principle we ought not to rely on markets to create a moral socioeconomic framework. Markets have limitations that effect everyone, but those limitations effect the disadvantaged minorities the most.

Conclusion

It is well known that “economics has a diversity problem” (Bayer, Hoover and Washington, 2020, p. 217). No wonder minority students shun a discipline that trivializes discrimination and dubs prejudice a “taste” or merely “statistical”. Such a discipline is unlikely to attract those who suffer from those aberrations on a daily basis. It is also 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 more than anachronistic. In the era of the BLM movement, it has to be seen as itself providing intellectual succor for systemic racism.

So that I am not willfully misunderstood, I should reiterate that mainstream economists are individually definitely not overtly racist. However, their laissez-faire theories are covertly so, in the sense that they condone and propagate an economic theory that continues to disadvantage poor people in general and ethnic minorities in particular (Bobo et al., 1997).

This is the case insofar as their “Alice-in-Wonderland” assumptions and the theories based on them provide succor for the continuation of an economic system that burdens blacks, Hispanics, and indigenous people the most, and essentially “exonerates ‘the market system” for their predicament (Koechlin, 2019, p. 562). This is a more 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).

An important reason why economic theory and the market system based on it are implicitly racist, besides the fourteen reasons noted above, is that they have a status quo bias. That implies that the 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 are unfair insofar as they have mechanisms that magnify initial advantages, thereby reinforcing the institutional structure of power and benefits.

It should be 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. If economic theory would advocate such a post-racist society, I think that more minority students would become interested in studying economics in graduate school.

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. Being human inventions, markets ought not be put on a pedestal.

It is time for economists who care about the plight of the disadvantaged to reject mainstream economic theory that neglects social and political inequities and in which there are no children, no debilitating discrimination, no gender, no color barriers, no glass ceilings, no class and hence no underclass, no emotion or intuition, no real uncertainty, and neither space nor race, and hardly any time dimension. In other words, the above 14 Achilles’ heels of mainstream economic theory invalidate most, if not all, of the takeaways from mainstream economics that are especially harmful to the poor who are disproportionally made up of ethnic minorities including African Americans, Hispanics, and Native Americans. This is no longer a tenable intellectual framework in our time. Righteousness will not flow like a mighty stream so 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.\textsuperscript{28} It is time to put racial equity on the economists’ agenda and create a post-racist economics.

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**Endnotes**

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


3 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”.


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

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

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

8 The true unemployment rate among Hispanics was 10.1%.

9 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).
To be sure, the author does add that “Discrimination is no less damaging to its victims for being statistical.”

“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).

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

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 against the descendants of American slaves and all the social injustices that stem from that (Samuelson and Nordhaus, 2009, p. 261).

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 numbers of people who can withstand the social pressure of going against the cultural norm of discrimination. So there are many reasons for refuting the theory rather than reproducing it.

The reference is to the real median weekly earnings of full-time wage and salary workers (FRED, series LES1252881600Q and LEU0252884600Q).

“…minor forms of everyday discrimination people may experience… can matter cumulatively, not just episodically (Small and Pager, 2020, p. 64).

“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).

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).

Even liberal economists confirm the conventional reasoning that market 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?

20 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).

21 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.

22 The word “culture” does not even appear in Mankiw’s Principles (Mankiw, 2018)

23 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).

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

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

26 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).

27 Paraphrasing Martin Luther King Jr.’s oft-cited quote from his letter from the Birmingham Jail.

28 Arrow knew this full well (Arrow 1978).