

Books that are noteworthy

Mark M. Michalski

Title: *Economics in America: An Immigrant Economist Explores the Land of Inequality*

By: Angus Deaton,
ISBN: 9780691247625,
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Pages: 280.

Angus Deaton, the Scottish-born winner of the 2015 Nobel Prize in economics, is the Dwight D. Eisenhower Professor of Economics and International Affairs Emeritus and Senior Scholar at Princeton University. He is the author (with Anne Case) of the New York Times bestselling book *Deaths of Despair and the Future of Capitalism* (Princeton).

Angus Deaton, the Nobel Prize winning economist (2015) and New York Times bestselling coauthor of *Deaths of Despair and the Future of Capitalism* (with Anne Case), offers candid reflections on the economics. Deaton came to the United States from Britain in the early 1980s. He was stunned by America's strengths and shocked by the great gaps between people. *Economics in America* explains in clear, candid and comprehensive terms how the field of economics addresses the most pressing issues of our time: poverty, pensions, wage disparities, hopeless health care system among others. Deaton accounts his encounters, experiences and educates us as citizens how contemporary economics is changing and changes our lives.

Excerpts from the recent (March 2024) IMF Finance and Development magazine: *Rethinking My Economics*, by Angus Deaton present a fascinating account where have we gone wrong in our "economic thinking".

"Questioning one's views as circumstances evolve can be a good thing"

Economics has achieved much; there are large bodies of often nonobvious theoretical understandings and of careful and sometimes compelling empirical evidence. The profession knows and understands many things. Yet today we are in some disarray. We did not collectively predict the financial crisis and, worse still, we may have contributed to it through an overenthusiastic belief in the efficacy of markets, especially financial markets whose structure and implications we understood less well than we thought. Recent macroeconomic events, admittedly unusual, have seen quarrelling experts whose main point of agreement is the incorrectness of others. Economics Nobel Prize winners have been known to denounce each other's work at the ceremonies in Stockholm, much to the consternation of those laureates in the sciences who believe that prizes are given for getting things right.

Like many others, I have recently found myself changing my mind, a discomfiting process for someone who has been a practicing economist for more than half a century. I will come to some of the substantive topics, but I start with some general failings. I do not include the corruption allegations that have become common in some debates. Even so,

economists, who have prospered mightily over the past half century, might fairly be accused of having a vested interest in capitalism as it currently operates. I should also say that I am writing about a (perhaps nebulous) mainstream, and that there are many nonmainstream economists.

- **Power:** Our emphasis on the virtues of free, competitive markets and exogenous technical change can distract us from the importance of power in setting prices and wages, in choosing the direction of technical change, and in influencing politics to change the rules of the game. Without an analysis of power, it is hard to understand inequality or much else in modern capitalism.

- **Philosophy and ethics:** In contrast to economists from Adam Smith and Karl Marx through John Maynard Keynes, Friedrich Hayek, and even Milton Friedman, we have largely stopped thinking about ethics and about what constitutes human well-being. We are technocrats who focus on efficiency. We get little training about the ends of economics, on the meaning of well-being welfare economics has long since vanished from the curriculum or on what philosophers say about equality. When pressed, we usually fall back on an income-based utilitarianism. We often equate well-being with money or consumption, missing much of what matters to people. In current economic thinking, individuals matter much more than relationships between people in families or in communities.

- **Efficiency is important, but we valorize it over other ends.** Many subscribe to Lionel Robbins' definition of economics as the allocation of scarce resources among competing ends or to the stronger version that says that economists should focus on efficiency and leave equity to others, to politicians or administrators. But the others regularly fail to materialize, so that when efficiency comes with upward redistribution frequently though not inevitably our recommendations become little more than a license for plunder. Keynes wrote that the problem of economics is to reconcile economic efficiency, social justice, and individual liberty. We are good at the first, and the libertarian streak in economics constantly pushes the last. After economists on the left bought into the Chicago School's deference to markets "we are all Friedmanites now" social justice became subservient to markets, and a concern with distribution was overruled by attention to the average, often nonsensically described as the "national interest."

- **Empirical methods:** The credibility revolution in econometrics was an understandable reaction to the identification of causal mechanisms by assertion, often controversial and sometimes incredible. Historians, who understand about contingency and about multiple and multidirectional causality, often do a better job than economists of identifying important mechanisms that are plausible, interesting, and worth thinking about, even if they do not meet the inferential standards of contemporary applied economics.

- **Humility:** We are often too sure that we are right. Economics has powerful tools that can provide clear-cut answers, but that require assumptions that are not valid under all circumstances. It would be good to recognize that there are almost always competing accounts and learn how to choose between them.

Second thoughts:

Like most of my age cohort, I long regarded unions as a nuisance that interfered with economic (and often personal) efficiency and welcomed their slow demise. But today large corporations have too much power over working conditions, wages, and decisions in Washington, where unions currently have little say compared with corporate lobbyists. Unions once raised wages for members and nonmembers, they were an important part of social capital in many places, and they brought political power to working people in the workplace and in local, state, and federal governments. Their decline is contributing to the falling wage share, to the widening gap between executives and workers, to community destruction, and to rising populism. Daron Acemoglu and Simon Johnson have recently argued that the direction of technical change has always depended on who has the power to decide; unions need to be at the table for decisions about artificial intelligence. Economists' enthusiasm for technical change as the instrument of universal enrichment is no longer tenable (if it ever was).

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I am much more skeptical of the benefits of free trade to American workers and am even skeptical of the claim, which I and others have made in the past, that globalization was responsible for the vast reduction in global poverty over the past 30 years. I also no longer defend the idea that the harm done to working Americans by globalization was a reasonable price to pay for global poverty reduction because workers in America are so much better off than the global poor. I believe that the reduction in poverty in India had little to do with world trade. And poverty reduction in China could have happened with less damage to workers in rich countries if Chinese policies caused it to save less of its national income, allowing more of its manufacturing growth to be absorbed at home. I had also seriously underthought my ethical judgments about trade-offs between domestic and foreign workers. We certainly have a duty to aid those in distress, but we have additional obligations to our fellow citizens that we do not have to others.

I used to subscribe to the near consensus among economists that immigration to the US was

a good thing, with great benefits to the migrants and little or no cost to domestic low-skilled workers. I no longer think so. Economists' beliefs are not unanimous on this but are shaped by econometric designs that may be credible but often rest on short-term outcomes. Longer-term analysis over the past century and a half tells a different story. Inequality was high when America was open, was much lower when the borders were closed, and rose again post Hart-Celler (the Immigration and Nationality Act of 1965) as the fraction of foreign-born people rose back to its levels in the Gilded Age.

It has also been plausibly argued that the Great Migration of millions of African Americans from the rural South to the factories in the North would not have happened if factory owners had been able to hire the European migrants they preferred. Economists could benefit by greater engagement with the ideas of philosophers, historians, and sociologists, just as Adam Smith once did. The philosophers, historians, and sociologists would likely benefit too."

Title: *The Man Who Broke Capitalism*

by: Jack Welch,

Publisher: Simon and Schuster,

ISBN 987-1-9821-7644-0,

May 2022,

Pages: 264.

Though Jack Welch passed away in 2020 (at age 84) and although he had retired more than two decades earlier, his managerial, social and overall business impact is largely felt today. Revered by some and reviled by many others, Welch served as the CEO for General Electric (GE) from 1981 to 2001. He was among the most recognized and controversial executives. In more than four decades at GE he rose from an entry level position to be youngest VP and later youngest CEO and Chairman. For two decades he held a reputation of a no-nonsense and dynamic leadership, often abrasive, yet a few would argue with the results of his unconventional leadership. GE market value grew from about \$12 bn in 1981 to over 400 bn when he left in 2001. At his retirement GE became the most valuable company in the world. In his autobiography: *Straight from the Gut*, Welch described an instance when his hockey team lost a game. He was throwing a fit. His mother met him in the locker room and confronted him in front of the entire team saying: "If you do not know how to lose, you will never know how to win. If you do not know this you shouldn't be playing" (2001).

In Gilles' book, *The Man Who Broke Capitalism: How Jack Welch Gutted the Heartland and Crushed the Soul of Corporate America and How to Undo His Legacy*, chronicles how Welch's laser focus on maximizing shareholder value. He did it by any means necessary: including layoffs, outsourcing, offshoring, acquisitions, and buybacks. His strategy soon became the new playbook in American business. Gilles demonstrates how this shareholder maximizing version of capitalism has led to the greatest socioeconomic inequality since the Great Depression and harmed many of the very companies that have embraced it. To see why our society places CEOs – bosses - up on pedestals, consider the last 100 years as the way the Americans celebrate early industrialists who rose to such great heights. We seem to have similar veneration for high tech innovators, entrepreneurs and startups who create new breakthroughs, new services and products. Gilles shows how Jack Welch became a celebrity CEO who was trying to marry the American reverence of CEOs with the modern media. In 2019, Gilles reported at the

New York Times, digging into details of Boeing after the second crash of the 737 Max. The plane's technical problem was caused by a bad piece of software that relied on one sensor on the fuselage of the plane. Over 25 years, fundamental shift inside Boeing company's priorities occurred. Gilles' understanding of cultural change became a story of Jack Welch. In 1997, three CEOs took over Boeing in short time. They deliberately tried to make Boeing more like GE. And they transformed one of the great American manufacturers, a company that for nearly 100 years had been focused on aeronautical engineering, into one that was motivated by financial engineering. The records showed that engineers and test pilots were thinking about the stock price when making decisions about safety. The awareness of the company's stock price percolated all the way down to the level of people who should be focused on the quality and safety of the plane, not Wall Street.

Those who has studied inequality, (most famously by Thomas Piketty), drew a direct line between executive compensation and its absolutely relentless upward trajectory over the last decades, and the widening gap between the haves and have-nots. Welch's own executive compensation was immense: on the Forbes list of the 400 richest Americans richest man simply for being a people manager. He was outsourcing labor to contractors, not paying nearly as good of wages as GE once did. Sending jobs overseas in search of low wages and taxes. At the same time, the American minimum wages are stuck at \$7.25 an hour (in recent years and in some cases double of that). If it had just kept pace with inflation over the last 20 years, it would be closer to \$25. Gilles included some suggestions at the end of his book. One: need to take better care of workers with better wages and better benefits. Two: need to offer them equity. The distribution of corporate profits over the last 50 years has been out of whack. There's no provision in laws that shareholders and executives are entitled to slice of the pie. There are choices that people can make about how wealth in this society is allocated. Gilles argues that Welch's philosophy has led where cities in the middle of the country are hollowed out, communities are starved for resources, and the tax base is unable to fund things like education and infrastructure. These are hard charges. Another is about stack ranking, also known as rank-and-yank. It was a popular talent management system that was popularized by Welch at GE in the '80s. Managers sorted their people into A, B and C players. The top 20% performers are

A players. The middle 70% performers are B players. The bottom 10% performers are C players. Each year, Welch called for all C players to be fired. And what was so astonishing is that not only did it take root at other big companies like Microsoft, but it continues to this day to show up in companies like Uber. The employees who experienced stack ranking at those companies talk about the absolutely corrosive effect it had on culture. It gets to the point where your job essentially becomes finding a colleague who you could make look bad to your boss in order to gain more job security.

Title: The Economics of the Parables,
By Robert A. Sirico,
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and
Title: Defending the Free Market: The Moral Case for
a Free Economy,
By: Robert A. Sirico,
May 2012,
Pages:256.

About the author - Rev. Robert A. Sirico received his Master of Divinity degree from the Catholic University of America, following undergraduate study at the University of Southern California and the University of London. During his studies and early ministry, he experienced a growing concern over the lack of training religious studies students receive in fundamental economic principles, leaving them poorly equipped to understand and address today's social problems. As a result of these concerns, Fr. Sirico co-founded the Acton Institute with Kris Alan Mauren in 1990. In April of 1999, Fr. Sirico was awarded an honorary doctorate in Christian Ethics from the Franciscan University of Steubenville, and in May of 2001, Universidad Francisco Marroquin awarded him an honorary doctorate in Social Sciences. He is a member of the prestigious Mont Pèlerin Society, the American Academy of Religion, and the Philadelphia Society, and is on the Board of Advisors of the Civic Institute in Prague. Father Sirico also served on the Michigan Civil Rights Commission from 1994 to 1998. He is also currently serving on the pastoral staff of Sacred Heart of Jesus parish in Grand Rapids, Michigan

The Economics of the Parables reveals and unveils timeless wisdom of the parables. Not only economic and social – but also much deeper – philosophical and theological wisdom. There are just thirteen parables included, or universal truths to illustrate how civilizations may come and go but these rue stories continue to teach us anew about our frail humanity. The author is helping us to get a glimpse, to glean and gain a better insight into role of money. Rev. Sirico guides his reader through timeless themes, tensions, income disparities, wealth distributions, inheritances, and lessons in caring for the poor, among others. Many well-known parables include topics such as: laborers in the vineyard, the rich fool, five talents and faithful steward. All serve as rich illustrations to rediscover and reflect on a deeper meaning of money and our interactions with one another.

As a founder and president emeritus of Acton Institute Rev. Sirico was often asked whether Acton Institute, at times, described as “libertarian” – is an accurate statement? His response:

“I have avoided the libertarian label because it is often confused with “libertine” or associated with the idea that whatever is free is good, and that is certainly not something I hold to. I rather prefer Lord Acton's insight that “liberty is

the political end of man.” The problem arises when people think that liberty is man’s telos or life’s goal. Of course, Truth is man’s telos as so clearly and repeatedly taught by St. John Paul II, who deepened my own approach to economic and political matters.” Liberty serves an option, a potential, but by itself has no content. But within the context of virtue – can be pursued and perused – it is necessary for society but not sufficient. We all seem take it for granted that economies that are politically controlled, dominated are much less free, less informed because the vital pricing signals are withheld, controlled (for the benefit of those who hold privileged information). Perfect information is hard to obtain, it is costly (though now less than before). Better knowledge allows businesses to be better servants and thus get premium, or better rewards.

The recent emergence, (or is it dominance?) of nationalist tendencies has been a deep concern to many of us. Not that such experiments have not be tried, with disastrous results, in the past. We seem to forget the critical role of centuries of constructive Christianity now and before. There is a valid criticism of “enlightenment liberalism.” The reverence for the critical role of reason, the scientific method, and human rights was not the invention of secularist humanists. For example, M. Novak defense of the free markets, the enlightenment, the competition for and in articulating best ideas helps refine our understanding of the truth of things – both economically and intellectually. J.H. Newman describes the process theologically in his work on the development of doctrine. The best solution for increase in ignorance is to grow – generate - and gain more information. The information beyond the tweets, Instagram or instant messaging. We deserve better communication and information because everything now seems increasingly insane around us. There is a clear difference between being assertive vs arrogant, tyrannical vs temperate, confident vs coercive. This is perhaps the main reason why Rev. Sirico’s book about the Parables, which employs a mode of teaching, is accessible to multiple layers of culture and intellectual levels is so relevant and readable. Their durability is the best testimony in that we are still return to and are talking about them.

Though the latter book was written more than a decade ago, *Defending the Market* holds mighty moral message that

remains timely and most relevant today. The author conveys a strong practical and ethical case for capitalism as a system based on private ownership. The system assisted and enhanced by voluntary exchange, competitive markets for prices and wages with profit motive. Three and half decades ago, the Soviet Union still existed. Communist Russia and its satellites (including Poland) claimed that “the future is ours” and that “socialism is not only inevitable” – it is the only way for the future. I still remember when as a youth we were indoctrinated to learn sacrifice present hardship for (never to come) bright future of communist paradise where every person enjoys the life to the maximum of material satisfaction. Though this dystopic prophesy might yet come true, if the American Marxists get their way, dangerous ideology of Marx has been definitively discredited for its inconsistency and empty promises (except for abolishing religion family and culture) by philosophers such as L. Kolakowski, or economists as L. von Mises, M. Friedman, or T. Sowell, just to name a few. The three most dangerous influencers in the current – and evolving drama – should include A. Gramsci, Leo Strauss and H. Marcuse who brought new collective identity. Gramsci’s *Prison Notebooks* set out the blueprint for radical philosophy that permeate culture, economics and politics. He viewed churches, charities, the media, schools and universities as key targets to be implanted by “socialist thinking”.

Robert Sirico, a onetime left-leaning idealist, shows that a free economy where prices and interest rates form freely a basis for transaction might be the best (though: not optimal) way to meet society’s needs (though not: wants). The fact that the free market system has helped many millions escape poverty, more than any alternative state known in history. While efficiency is necessary, it isn’t the only, nor sufficient virtue: economic, political and social freedoms we all value – are effectively prize. And it’s not true that it makes things more important than people just the reverse. Only if we have economic rights can we protect ourselves from government encroachment into the most private areas of our lives including our consciences. Defending the Free Market is a powerful vindication of capitalism and a timely warning for a generation flirting with disaster.