

EconoFact Chats: How False Beliefs About Meritocracy and Post-Racism Have Contributed To Unjust Socio-Economic Policies

Jeff Fuhrer, The Brookings Institution

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I'm Michael Klein, executive editor of EconoFact, a non-partisan, web-based publication of the Fletcher School at Tufts University. At EconoFact, we bring key facts and incisive analysis to the national debate on economic and social policies, publishing work from leading economists across the country. You can learn more about us and see our work at www.econofact.org.

Michael Klein

We use stories and narratives to help us make sense of a complicated world. This can be helpful in many contexts. But some misleading stories can be damaging, both to ourselves and to others. In his new book, *The Myth That Made Us: How False Beliefs about Racism and Meritocracy Broke Our Economy (and How to Fix It)*, Jeffrey Fuhrer discusses how the idea that success goes to those who work hard, failure goes to those who do not, what he calls 'the myth,' is not an accurate reflection of reality. But even more importantly, the belief in this myth has shaped policies and public perceptions in a way that has caused economic harm to millions of people.

Jeff is my guest today on EconoFact Chats to discuss his new book. He served for almost four decades in the Federal Reserve System, first at the Board of Governors in Washington, followed by more than 25 years at the Federal Reserve Bank of Boston, where he served as Research Director and later as Special Advisor to the President of that Federal Reserve Bank. Currently, Jeff is a non-resident fellow at the Brookings Institution and a Foundation Fellow at the Eastern Bank Foundation. Jeff, welcome back to Econofact chats.

Jeff Fuhrer

Thanks very much, Michael.

Michael Klein

Jeff, there's certainly some truth to what you call 'the myth' that hard work can lead to success and poor economic outcomes follow from a lack of effort. But your point is that this is only part of the story, that it's an especially smaller part of the story for blacks, Native Americans, and many other disadvantaged groups. To counter this myth in the book, you offer a wide range of statistics. To begin with, can you please discuss the extent of income inequality in the United States, and the differences in income across racial and ethnic groups?

Jeff Fuhrer

Sure. I'm hoping that more and more people are aware generally of the kind of income inequality that we see in the U.S., but just to review some of the real basic facts, U.S. income just goes way lopsidedly to the top earners in the country. So to put it simply, the top 1% of earners average about \$1.1 million a year, and that's 22 times the average for the bottom 90% of earners.

And those are the figures for all the families in the U.S., but on average, black and hispanic earners get about three-quarters of what white families earn. So I hope people have heard about that. It's important to me because I think it speaks to the country's economic values. We're kind of comfortable cheering on big economic winners even as millions of families struggle to survive.

Michael Klein

So that's one part of the story, income inequality, but perhaps an even more important part of the story is the inequality in wealth. Can you talk a little bit about how skewed the wealth is in this country?

Jeff Fuhrer

Sure. You know wealth, I think it's important. It's not a luxury, it's a necessity. It helps buffer families from declines in income or from surges in spending and it enables people to pursue long-term economic goals like owning a home or getting an education or starting a business or preparing for retirement. And the first of those three are gateways to building more wealth. So you suggested the disparities in wealth are much larger than those for income. So to put some numbers on it, the top 1% of families hold almost 40% of all wealth. The bottom half of all families hold only about 1% of all wealth and the disparities by race and ethnicity are just stark. So median net worth for black and hispanic families has been relatively stable at between one seventh and one tenth of white net worth for the past 30 years and those disparities just reflect generations of inequities in the opportunity to accumulate wealth.

Michael Klein

And these inequities manifest themselves in many ways, right?

Jeff Fuhrer

And it's absolutely true. One of the most discouraging aspects I think of our economy is the very low likelihood that families and individuals who start with low income and or low wealth would ultimately move up to something moderate or higher. So, economists call that a lack of economic mobility. I mean if low income or wealth were just a stage of life as it was for me and you and many of us in our 20s, well we'd worry a lot less about it. But low mobility means that many families struggle with inadequate income and low or no wealth really for all of their lives. I think we have to ask why that's acceptable in a country that's as wealthy as the U.S. And the inequities play out not just for family income and wealth, also we see these huge inequities for health benefits, for incarceration, and for early childhood education in the U.S. And those lag the outcomes in other capitalist countries. That, to me I think indicates that we as a nation have made specific choices about who's going to succeed and who doesn't. And those choices differ really markedly from what other developed economies have made.

Michael Klein

You know, economists prefer statistics to stories. But the important thing is that narratives are more compelling and they're more important for marshaling support. Your book includes quite a few personal stories. Jeff, can you tell us how you came to meet the people you cite through your work at the Boston Fed, and tell us a few of the stories that illustrate the statistics you just mentioned?

Jeff Fuhrer

Yeah, well in the last 15 years or so of my career at the Fed, I felt I was really fortunate to be involved in a number of economic development initiatives. They included incentivizing collaborative development solutions in Massachusetts Gateway Cities, working on the color of wealth study, which was a survey of wealth in the Boston metro area, and then trying to understand the characteristics of low-wage work in the United States. Jobs that Zeynep Ton calls just crappy jobs. I hope it's okay to say that on a con effect. That's a technical term, right?

Michael Klein

That's a technical term, right?

Jeff Fuhrer

It's probably PG or something, so I hope we're okay. But in the process of working on those projects, I met with lots of residents and worked with quite a few nonprofits in the poorer communities in New England, often communities of color, all around the six New England states. And it was through these nonprofit organizations that I was able to connect to low to moderate-income residents. In a sense, they formed a bridge of trust between me and the interviewees. I was particularly struck by two sets of interviewees. The first was a set of handful of refugees from Central America who had fled gang violence to come to the United States. They were, first of all, incredibly generous in sharing their stories, even though these were in-person interviews. And it was completely obvious to me that retelling those stories was very painful for them. In many cases, they broke down in tears. I felt sort of badly about that, but they wanted to keep going and tell me their stories. And of course, all that they wanted for their families is what we all want, which is stability and success through hard work and determination. At least they hope that was going to be the case. But of course, getting there was doubly hard for them. First, as immigrants awaiting formal refugee status. And second as people of color in the US.

The second set of interviews that really struck me were with representatives of just the very lowest income residents in our state, many of whom had been born here. They survive on incomes that most of us simply couldn't imagine. One interview had an annual income of about \$9,000. Fortunately, that was augmented a bit by rental and food assistance. But her life was just a constant juggling of bills that were due in the face of horribly inadequate resources. Do I pay the rent this month or do I pay the electricity? Do I pay my kid's doctor's bill? It's just a terrible set of trade-offs to have to make. But this person was incredibly resourceful in managing her complex circumstances. I think she was highly motivated to earn more in whatever way possible. What's remarkable to me is that in the midst of all that, she told me about the hours she spent on volunteer work, giving back to her community. Just incredible, at the same time, disheartening and inspiring.

Michael Klein

Jeff, these powerful narratives must have had a role in you changing your views about things. And also, I guess in motivating this book. You are well known as a macroeconomist who studied very complex issues related to inflation and the macroeconomy. But here you are writing about individuals' lives, and the social safety net and lack of opportunity. How did these narratives and your experience working in these programs at the Boston Fed affect you personally?

Jeff Fuhrer

Well, you know, my view of the world, frankly, was changed by coming into contact with people who lived lives that were shaped by both discrimination and poverty. In my experience, and I think the data bear this out, most everyone out there is working hard doing their best and frankly, many of the very hardest working folks are those who are poor, who have very limited resources. It's just hard to hold on to ignorant perceptions and preconceptions about the sources of poverty once you have relationships with people who live in poverty. So that was one source of a change in my way of thinking about the world. I was also influenced really importantly by discussions with some of the leading scholars in racial equity, like Derek Hamilton, Sandy Darity, Tom Shapiro, and his students, some of whom were visiting at the Boston Fed at the time. And in the book, I talk about a conversation I had with Derek Hamilton, in which he just changed my mind about the sources of wealth and income disparities. It was a years-long process of, you know, gradually becoming aware of the way our economy has been structured, consciously by those in power, to benefit a few and exclude many from opportunity and success. So I mean, I think it's great to see that today many more economists are joining the ranks of Hamilton and Darity and Shapiro and Joe Stiglitz to focus on these issues because for far too long, those issues were kind of peripheral for economics. I think a lot of us accepted the free market economic problem unthinkingly in terms of, you know, free markets and market solutions. So, I'd say markets have had a long time to solve the problems of racial discrimination and inadequate income and wealth, and they just haven't. I think more economists now recognize the need for non-market solutions in a way these issues are now moved front and center in our profession in a way that they just hadn't been previously. So I along with, I hope many other people have changed our views of the world because of those reasons, coming into contact with real people, and then getting to know the leading scholars in the areas of racial and economic equity.

Michael Klein

I'm proud to say that at a EconoFact, we've actually published a lot of work on these inequities and on poverty. We have a really good interview with Sandy Darity about reparation payments. We have work with Lisa Cook and Trevon Logan and a wide range of other people on these issues, and this has been real focus of ours. So, you know, my views have also changed, you know, not as directly in discussions with people who are poor, but more in reading the research of the work that we have on EconoFact. And you've changed your views on these issues, but more widely a central point of your book is that the myth persists, and the poor often blame for their plight, while the rich are lauded rightly or wrongly for their success. Jeff, what do you think keeps people holding on to these beliefs, even in the face of so much evidence to the contrary?

Jeff Fuhrer

Well, I think it's a bit complicated, and there are at least two important reasons, one psychological and one political for the persistence of these beliefs, despite all this evidence I think we have of their falsity. So, on the psychological side, there's a lot of interesting research that shows that it's just much easier for people to dismiss evidence that might contradict their beliefs, rather than to change their beliefs. I guess maybe that's not too surprising, maybe it's commonsensical, but the research shows that's a real thing. It's also true that people want to believe that the system in which they live is fair and just and merit based. So, there's more interesting psychological research on that, but the bottom line is that these psychological factors

make narratives sticky. It's really hard to move away from them because people want to believe in. Even if they can see evidence. It's hard for people to change their beliefs.

I'd say on the political side, so to begin with, the current system works really well for the wealthy and the powerful. So, it's in their interest to maintain the system that they've benefited from, and part of that is using narratives that are supportive of that current system, this sort of look, I worked hard, I deserve what I got, it must be a meritocracy, I'm rich and wealthy and successful, there must be a good reason for that. But there are also sort of political narratives that go with that, including we got to keep government small, we need to keep taxes low, and we need to keep the benefits to the poor as low as possible. We talked a little bit about this meritocracy narrative that when applied to the poor says, well, if people get what they deserve in this society, then it must be the poor because, well, they didn't work hard enough because that's what they deserve. Well, appealing to those benefits, politicians can appeal to the unfounded fears of many voters, I think, to push through policies that conform to their ideology, belief in small government and so on. Also, importantly, I think they appeal to a fear that the country will become a country that's no longer a majority white. And while they can't today, with impunity, make overtly racist statements, although there are some exceptions to that, they will refer indirectly to issues by saying things like, well, we need to worry about quote 'abusers of government programs' who siphon hard-earned money from the hardworking middle-class white families. That's an example of a dog whistle, this sort of coded language to an ignorant belief in the laziness of poor people of color, who might be called the undeserving poor. And by manipulating voters who hold those beliefs, politicians can keep public benefits slim and keep taxes low. And ultimately, the policies that are fueled by those narratives don't do much to benefit middle-class or low-income white families, but they keep taxes low on the richest and the most powerful, which in turn is going to keep them and some of their favorite politicians in power. So it's both psychological and political. There's an interesting dance going on there.

Michael Klein

You know, the term dog whistle is because dogs can hear at a higher frequency than humans. So there are these whistles that would call dogs that people couldn't hear. But the current dog whistles are such a low frequency, everybody can hear it. And like you said, it's becoming more and more overt. There's a long history, of course, of racial disparities. The legacy of chattel slavery, Jim Crow laws, disparities embodied in the New Deal and in the GI Bill. Bill Gale was a guest on the podcast, and he talked about sort of the public finance aspects of racial disparities. There's a strong case that this history casts a shadow over current outcomes. And of course, the work of Lisa Cook is very influential in this, as well as Trevon Logan, both of whom were guests on EconoFact Chats. What's your view about this?

Jeff Fuhrer

Well, I'm in strong agreement with the positions of Logan and Cook and Bill Gale. And I try to emphasize that point throughout the book. We, as we said earlier, we are typically blaming people of color for their outcomes, rather than acknowledge the policies that have been designed to produce those outcomes. I mean, think about this way, it took decades, post-Civil War, and for the first half of the 20th century, to put in place government policies that built wealth for many, not all, but many white Americans. So, you know, you mentioned some of them, housing subsidies, some associated with the GI Bill, agricultural aid, and all sorts of things. Those

programs were intentionally successful, primarily for whites, but it took time. So, by the same logic, families who were excluded from those wealth building programs, blacks, hispanics, some Asians, Southeast Asians, indigenous people, of course, are just many decades behind the wealthiest white families in terms of wealth building opportunity. Today's outcomes exist in the shadow of this discriminatory legacy of all of those programs, the discrepancies that reflect positive effects for white families on the one hand, from white slanted wealth building policies, and the profound, profound negative effects from denial of access to the same policies for families of color. I think it's really hard to explain the disparities without acknowledging the effects of those policies over the many decades.

Michael Klein

Beyond racial disparities, you write that one of the malignant effects of false narratives is that they create policies based on stories the well-off tell about the poor. What did you mean by that phrase, and also by your statement, that 'the dance of narrative and policy continues?'

Jeff Fuhrer

So, I think that the view of many people still today that poverty is the result of laziness or bad decisions allows many people to accept both the fact that millions live in crushing poverty, and to accept the meager resources that our country offers to lift families out of poverty.

A consequence of that narrative is that many people don't trust the poor. They would say, well, I made it, why can't they? There must be something wrong with them. And as a result, we're reluctant to provide aid because they believe that that aid is going to be squandered or misused or gamed. So, those false and misleading views are awful, but they're also enabled by the fact that the country is largely both economically and racially segregated. So, the well-off don't live near the poor, and white families don't often live near significant communities of color. The consequence of all of that, whenever the political debate turns to economic aid of a variety of types, whether it's how long unemployment benefits should last, or whether we should extend the pandemic child tax credit past 2022, or whether we should do something about education debt for low-income families, many fall back on their false narrative of the lazy poor who are likely to game the system and we better be darn careful when we extend aid to them. And I think politicians use those narratives then, as I suggested earlier, to manipulate people, to vote against any additional programs that might help to lift families out of poverty or provide opportunity so they can lift themselves out of poverty. So, I think there's this dance then, and I said the dance of narrative and policy, it's that there's an intertwining of important policy decisions with misguided memes about the poor and racial stereotypes that are used to make political gains and as a consequence poverty remains, the narrative continues, efforts to make changes to that are thwarted, and that dance goes on and on.

There are quite a few more examples of that dance, the policy dance and the narrative dance in the book, maybe the one that is as important as any other is the 1996 welfare reform, which was under President Clinton, that was a bipartisan effort, I try to make this book fairly apolitical, as best I can. That's a bipartisan example. The desire at the time was basically to move people off the welfare rules, partly because there was a false perception that there was rampant misuse and fraud in the welfare system. Turns out that was just wrong, there's not data to support that. There are also really heavy racial overtones to the characterization of welfare, prayer to welfare reform,

and you remember, I'm sure other people on podcasts have mentioned President Reagan's welfare Queen's stories, he loved to tell those. I mean, they could find a person who was like that, but they're grossly misrepresentative of what the plight of people who are on the welfare system. But so, you can imagine moving people off of welfare, if it meant they were going to get into stable employment with sustainable wages and benefits, that could have been a good thing, it could have been. But in fact, in the event, partly because of the decline of unions, which was another Reagan administration goal, there's this long speech he makes about how free markets will take care of everything, and the government has no business devising solutions. But with the decline of unions and the primacy, I would say, among large private corporations of maximizing shareholder values, another thing that we talk about in the book, instead of getting a good outcome from welfare reform, what we got was millions of people who are off the welfare rolls, and now even today, working at jobs with really poor wages and inadequate benefits of the crappy jobs we talked about earlier. That's not exactly a policy success, I would say. That's actually a significant failure, and it was heavily steered by those prevailing narratives, both about poverty and race.

Michael Klein

One of the things I like about your book, Jeff, is that you don't just identify and decry these disparities, but you also offer policies to address them. In the subtitle of your book, you have the phrase 'how to fix it,' and at the heart of this in your book is an effort to change the narrative, and you suggest that this could occur if there were more contact with those demonized by the myth, and this could happen through public schools, interaction through community groups, through religious institutions, but in a society that's as siloed as ours, it's very easy and very likely to go through day-to-day life without interacting with people from different socioeconomic groups. How can we shift the narrative?

Jeff Fuhrer

Well, I think the good news here is that some really important narratives in our history have changed. The first one I would point to is that while there are still some holdouts, most in the United States have dramatically changed their views about the LGBTQ community, and as your question suggests, the way that happened is that as some LGBTQ individuals came out over time, which took some courage, we began to realize that LGBTQ individuals are our neighbors, they're our colleagues, they're our friends, they're our family members. In other words, they're people with whom we already have a relationship, people we already care about. We kind of had to change our perception of the LGBTQ community as other, because in fact they were us. So that's the good news. We did change sort of through these relationships.

The harder news is that, as you suggest, we're largely segregated racially and socioeconomically. We don't interact that much with people who don't share our affluence or share our race or ethnicity. So in that state of ignorance, I think our false beliefs are free to flourish. The question is, how do we change that? So there is interesting research – to ground this in research, I think, on the role that social influencers play in changing social norms. That's one approach, whether it's through schools or other communities, use social influencers to change the way people think about one another. The other, I think, is for courageous and influential leaders to call out these false narratives for exactly what they are. So imagine, I'm not going to say who your favorite Fox News anchor is, I know you have one, but suppose imagine your favorite Fox News anchor

pointing out the false beliefs that we hold about the poor, things that we say all the time that are demonstrably false, or educating viewers about the history and the long-term impacts of discriminatory policies on wealth accumulation. If they weren't fired from Fox News, that could be incredibly powerful. That's kind of a media-based use of the influencer's strategy.

Michael Klein

But, you know, your example sort of shows how maybe unlikely this would be. Do you see these kinds of efforts having a chance in today's very polarized environment?

Jeff Fuhrer

I'm not so naive as to believe it would be easy. I think people are very segregated politically, and in terms of where they get their facts and news sources, there's no question about that. But I guess I have to try to remain optimistic. Fundamentally, because of this: all of this stuff that I find dismaying in the statistics that are reported in the book is a result of choices we've made over time. And so I have to believe that between both grassroots movements that could actually, yes, change narratives, and through national and state-level politics, we can, will take time, but we can actually make changes, make different choices than the ones we've made historically. That means that the outcomes in terms of race and class will look better over time. So I have to believe that. Is it easy? No, of course not. And that's one of the main reasons for writing the book. I don't pretend it's going to change the world, but maybe some people who read it will start to think differently about the narratives between that, grassroots movements, and some of the actions of some courageous leaders. We can move forward because we kind of have to. We're leaving way too many people behind.

Michael Klein

Well, Jeff, I wish you a lot of success with 'The Myth That Made Us.' I hope it gets the audience it deserves, because, as you wrote and as you said today, it speaks to this country's aspirations, and the way that reality has fallen short of those hopes and dreams. Thanks very much for taking the time to speak with me today, Jeff, and best of luck with the book.

Jeff Fuhrer

Thanks. It's great to be with you as it always is, Michael.

Michael Klein

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