

Transcript**Transcript: What's wrong with economics? With Angus Deaton**

Soumaya Keynes talks to Angus Deaton, emeritus professor of economics at Princeton University



Soumaya Keynes JULY 8 2024

This is an audio transcript of the [Economics Show with Soumaya Keynes](#) podcast episode: [‘What’s wrong with economics? With Angus Deaton’](#)

Soumaya Keynes

People just love to hate on economics. It’s had a lot of criticism over the past 15 years, but I always find it most interesting when the people leading the attack are within the profession. And on this week’s show, we are going to ask one of the world’s most celebrated economists: what is wrong with economics?

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This is *The Economics Show with Soumaya Keynes*. With me is the economist Angus Deaton, emeritus professor of economics at Princeton University. In 2015, he won what most people would call the Nobel Prize in Economics, and which some pedants on the internet would call the Sveriges Riksbank Prize in Economic Sciences in memory of Alfred Nobel. Just rolls off the tongue, doesn’t it? Angus, hello.

Angus Deaton

Hello. Thank you for having me.

Soumaya Keynes

Thanks for being here. And so you've just written a book, *Economics in America: An Immigrant Economist Explores the Land of Inequality*. Why did you write the book?

Angus Deaton

I like writing. That's perhaps the truest reason. But I also wanted to pull together some of the things I've been thinking over the years, and some of my fondness for my profession and some of my critiques for the profession. One sociologist who read it said he thought it was a love letter to my profession. I thought it wasn't exactly that, but there's humour in it too, and love for my profession.

Soumaya Keynes

OK. I mean, I have a lot of love for economists, but also get frustrated sometimes so I can identify with that. Can I just start by asking you: how would you define economics? I suppose, as it should be and as it is practised.

Angus Deaton

Well, if I start with as it's practised, we've become guardians of efficiency, of maximising GDP and making the machine work as well and as fast and as productively as it can. But I think in that process we've lost a lot that's important, that used to be part of economics. Like philosophy, like ethics, like history, psychology and sociology. There are always a price to be paid if you narrow and you get some benefits, but we've lost a lot. That's important. And that's why I wrote the book.

Soumaya Keynes

OK, so moving in the wrong direction, but that's a big claim. I want to get more specific. So I'm going to read out some criticisms of the profession, and then I want you to tell me whether you agree or disagree. So obviously I will give you the chance to talk about each one in more depth. But for now, I just want the single judgment. And as I'm feeling generous, you can say strongly agree or slightly agree or strongly disagree or slightly disagree. OK. You ready?

Angus Deaton

Yep.

Soumaya Keynes

OK. So claim 1: "Economists overestimate the benefits of immigration."

Angus Deaton

Somewhat agree. Yeah.

Soumaya Keynes

OK. "Economists have overstated the role of globalisation in cutting poverty."

Angus Deaton

Agree, I think. Yes.

Soumaya Keynes

OK. "Economists overweight the importance of poverty in poorer countries relative to poverty in America."

Angus Deaton

I think that's true too. Yes.

Soumaya Keynes

OK, great. I'm getting both sides of all of these. OK. Economists underweight the importance of ethics.

Angus Deaton

Yes, I agree with.

Soumaya Keynes

And, "Economists underweight big questions as they are too obsessed with identifying precise but specific causal effects of policies."

Angus Deaton

I agree with that. Yes.

Soumaya Keynes

Yeah. Great. 10 out of 10, or five out of five. Well done. Well done me, having done some prep. OK. Well, now let's get into each one. So the first one is immigration, right? So economists overestimate the benefits of immigration. And so here I get a sense that you've maybe changed your mind here. And so could you just walk us through perhaps what you used to think and how your views changed?

Angus Deaton

OK. So this is one of these things again where just because I'm talking about some doubts that many people have had. That doesn't mean that I'm opposed to immigration, for instance. So it's been one of the reactions to the piece that I wrote has been the, you know, anger statements against immigration. And, you know, I'm joining the Trumpists or whatever, which is not true at all. And what I'm much more worried about is that we're having this polarised debate in which one set of people, economists, say immigration is good for everybody. And there's the people on the other side who are saying we should stop immigration immediately because it's killing us. And maybe we should be able to recognise the arguments and come to a more balanced, more rounded picture, if you like.

So it's true that many of the econometric studies have looked for effects on wages, for instance, and not found very much. And that comes back to a question you asked me at the end of your deck, as it were, which is, you know, some of these slow-acting processes that take a long time. We're not very good with modern econometric — modern with heavy quotes around it — econometric techniques in picking up, because these modern econometric techniques require sharp identification, which tends to confine you to something that happens in the short term or in a specific place at a specific time. And so, you know, if there are long-run effects, we're probably not picking them up. But once again, I want to say that just if I think that maybe immigrants have helped lower wages, if more immigration has tended to cause higher inequality, that doesn't mean we should stop immigration. I'm an immigrant, for goodness' sake.

Soumaya Keynes

But I guess just to push a little bit on this idea that over the long run, the effects of immigration might be different. I mean, implicit in what you're saying, I think, is that they might be worse, right? And I suppose, though I guess the question is just what evidence is that based on other particular studies that you would point to, or are you saying it's impossible?

Angus Deaton

Yeah. Who wouldn't? No, I'm not saying it's impossible. I'm just saying that I think our blinkers, as they're called in Britain — or blinders, as we call them here — tend to shut out particular types of evidence.

For example, one piece of evidence that I think is most people don't realise there's a very famous inequality graph that was drawn by Piketty and Saez in the '90s, which showed this enormous peak in income inequality in the United States around the Gilded Age, and then falling to a nadir in the 1970s and then picking up again to today, where, it's now about the same as it was in the Gilded Age.

If you look at the fractions of the US that were born outside of the US, it's the same curve. It looks almost exactly the same. Now, it's certainly true that the coincident trends don't prove anything, but it's an interesting example. When I talk to most economists about that graph, they say, oh yes, I never put those two things together. Now when you explain those two things, it doesn't necessarily change their minds. It just says, oh, there's another thing to take into account. And that's what I'm after.

David Leonhardt has a new book in which he has a chapter on immigration that I like a lot, which says, basically, if you go back to the sort of document that gets the most weight in this debate, which is the National Academy of Sciences report, I think in 1996, which had both opponents and proponents, on it, mostly proponents. The summary of it is much more pro immigration than the evidence that that report itself offers. So what I worry about and I worry about this, a lot of things that the sort of liberal elite to which we all belong has got a message, and we tend not to think of things that are perhaps uncomfortable for that message. That's not that we should reverse the message, it's just that we shouldn't let the evidence that we consider be too influenced by the position we've taken in advance. I think we worry about the barbarians at the gate, you know, and if we consider an inch, we'll be overrun.

Soumaya Keynes

Yeah, absolutely. I would agree with that. But I guess it just does seem like a bit of a leap going from essentially two time series, eyeballing the correlation and using that to justify a major policy shift. I mean . . .

Angus Deaton

But, wait a minute, you're doing exactly what I said we shouldn't do. Which is I said that this was a piece of evidence, I didn't say we should leave from that piece of evidence into a policy stance. I gave the example of the two U-shaped curves as one piece of evidence that is not being taken into account. I mean, I could give you a lot more. David Leonhardt argues that if you look at these studies carefully, they all come out the same direction, that immigration may not reduce wages by much of the low-skilled, but it does by some.

There's also the story that the Great Migration of African-Americans to the factories in the North would not have happened if borders had not been tightly closed, and the factory owners in Milwaukee and Chicago and Philadelphia and so on would have much preferred to go on importing Serbians and Lithuanians, which they were used to, and only very, very reluctantly hired Black labour. So that's another example. I don't know if you've been to Princeton, but if you wander around Princeton, it's a town of velvet lawns. You might wonder who's maintaining those velvet lawns, who's repairing our roofs, and so on.

So I think there's lots of bits of evidence. I don't think any of it's decisive. And I'm certainly not against immigration.

Soumaya Keynes

Let us now move on from immigration to a very closely related topic, which is globalisation. And so the second claim was economists have overstated the role of globalisation in cutting poverty. It also sounds like you changed your mind on this. So again, could you walk me through how you went on that journey?

Angus Deaton

Yes. I think part of this is that, you know, I've worked with these poverty numbers for a very, very long time. Unlike my recent work that was included in a Swedish central bank prize, as you might call it. But if you look at the literature on poverty in India, for instance, the reduction in poverty in India is very strongly disputed. But the people whose work I like the best, Jean Drèze and Amartya Sen, tend to put it down mostly to changes in public services, to changes in education, laying the basis for better prosperity. So some of it is globalisation, but it's not very much. I mean, if you look at trade, Indian accounts, trade is not like the driving force in the way that it is in China.

So I think what I quoted in that number is that if you look at this immense poverty reduction, which is a wonderful, wonderful thing, I'm not against that at all. Who could be? This reduction of sort of 1.2bn people living below the World Bank destitution poverty line, about three-quarters of that comes from the combination of India and China. So I don't think India was globalisation's the major driving force. In China, it really was. I mean, in that, exporting was the basis of a lot of that poverty reduction, but that exporting in China is a very strange thing. And a lot of it's got to do with the government clamping down on domestic consumption.

So there's a counterfactual world in which China spends a lot more on its own goods and exports a lot less so that Chinese people would be better off, American workers would be better off. And no doubt, if you add it all up, you would say, well, the world as a whole would be worse off, but I'm not sure it would be a worse world. And of course, I'm not denying there are other countries like Vietnam or Bangladesh that have benefited enormously from globalisation. So once again, you know, if you question the gods, suddenly you're completely on the other side. And I'm not.

Soumaya Keynes

I guess there are a couple of things, though. One is that it's just very hard to know the counterfactual here. Right? We're making very, very big claims about very big forces.

And then I suppose there's also the sort of specific benefits of globalisation that people point to. For example, having global markets to compete on is a useful test for your domestic exporting industries that can really spur on higher productivity and kind of benefit countries' development. And so the loss of globalisation would hurt countries in some sense. So what do you make of those uncertainty, but also the kind of opportunities associated with globalisation.

Angus Deaton

It's an unfamiliar experience for me to be accused of, you know, being certain about counterfactuals and so on. I'm usually accused of being much too wishy-washy and recognising, you know, both sides of the argument. But I'm not, I think I don't know what the counterfactual was, but I don't think other people do either. And all I'm doing is sort of opening up this debate. And there's this maxim that globalisation, you know, brought 1.2bn people out of poverty. And I'm not sure that's true. When you pull that apart and look at the details. Other things were going on.

Soumaya Keynes

I suppose my worry would be that there may be inequality in the losers if we turned back on globalisation. Right? So not thinking about the past any more, but thinking about the future. You know, what if it's the smaller, poorer countries that get locked out of bigger markets like the US, that shuts off their paths to development? And so you could actually get the kind of globally inequality-increasing force.

Angus Deaton

You could . . . that could happen. But I'm not making policy at this point. I'm just making arguments. And I'm saying we have to have fuller arguments than we're actually having. This is not a reversal of policy. This is just thinking through these issues in a way that doesn't rely on stereotypes like globalisation reduces world poverty, or freer trade is better trade, or that all industrial policy is bad. And, you know, these blanket statement seemed to me almost always wrong. And they need qualification, which doesn't mean there are parts of them that are not right.

Soumaya Keynes

Yeah. OK. No, that seems very nuanced. OK. Well, can we move on to the next claim now, which is about poverty in America. So economists overweight the importance of poverty in poor countries relative to poverty in America. And obviously poverty measurement has been one of your big contributions. So would you agree that poverty has always been higher than we had measured, or that it has been rising?

Angus Deaton

I don't think either of those two things. Part of the problem is that the poverty measurement in America has become so politicised and so polarised, and you really have papers being published on a journal which says there is no poverty and there has been no poverty in America for a long time. There is no one at all. And others who say there's enormous amount of poverty. And it turns out those claims are very difficult to adjudicate and have become so politicised it's almost impossible to try.

So in the middle place, which is where I try to put myself, I've been very impressed by the work of ethnographers, some of whom are my colleagues, like Matt Desmond and Kathryn Edin and her collaborators in documenting truly awful poverty in America. And that's when you say that, you get screamed at from both the left and the right because the right says there is no poverty, we have the most successful society in the world. And on the left who say these people are not poor compared with people in Bolivia or in Africa or in Asian countries. And I don't know where the numbers are on that, but I'm certainly persuaded that there is appalling poverty in the United States.

I also think that part of what we're doing is we're measuring it wrong, so that much of the work I did, for which it was listed on my prize citation, was doing this economics thing of looking at income or consumption as pure monetary measures of poverty. And, you know, the work that I've done with Anne Case where there are people killing themselves in droves and we have a rising suicide rate in the United States at a time when world suicide rates are falling almost everywhere. Maybe, you know, if you say, OK, these people shouldn't be killing themselves. The American economy is just fine. Well, that suggests we're not getting this right. And there's a lot of community destruction. There's a lot of family destruction. If you look at almost all the health and morbidity measures in the United States, they're getting worse, too.

So, you know, I'm, to a large extent, a disciple of Amartya Sen. And the idea that you should measure poverty just by looking at money seems to be nuts, especially at this time when health measures are going in a terrible direction.

Soumaya Keynes

I suppose the question is, though, what you should do differently in terms of your outlook or, you know, your stance on international aid? I mean, is it the case that if we're overweighting the importance of poverty in other countries, therefore, once you get less aid to other countries, how should it change?

Angus Deaton

Well, I do think and I have written elsewhere and notably and in my book, *The Great Escape*, that much I hate is counterproductive, and I'm not much in favour of official-to-official aid.

I mean, in the US, I was startled the other day when eventually the Congress passed bills to send money to Israel and Ukraine. Those are aid bills. And it used to be that foreign aid at least had the purpose of trying to save lives, even if it didn't. And now this foreign aid is largely for killing people. And, you know, that's always been true in the US aid budget. So there are terrible misapprehension, about what is going on.

But I think in very poor countries in Africa, the argument there is that many governments in Africa are getting a very large share, sometimes more than half of their funding from foreign aid agencies, which makes them unresponsive to their own citizens. And the two countries that have really grown spectacularly in recent years, India and China, receive essentially no aid relative to their GDP.

Soumaya Keynes

OK. All right. Well, let's move on to the next one, which is economists underweight the importance of ethics. What do you think is the ethical framework that economists use? Is there an ethical framework that economists use?

Angus Deaton

Occasionally when it suits them, they'll appeal to something that they think of as utilitarianism. And it's certainly not consistent. Economists, by and large, endorse growth and GDP. And that's the opposite. It just says that more is better and money is god. I mean, that's not utilitarianism. Even utilitarianism. It's just, there's some weirdness. And I mean, currently, if you take the current debate, which I find very difficult. The newspapers, including your newspaper, are full of the fact that America is doing incredibly well compared with European countries. You know, America's a great economic success story, and that's true if you measure GDP. There's never any measure of who's getting what, you know, which might be the next step. There's no measure of the fact that people are dying in droves in the United States, our life expectancy has been falling like it's downers. Our suicide rates are going up. Doesn't that count somehow? Does that mean America's a great success? Because those things don't matter. And I think economists, for instance, just ignore health, for example. And if you're dead, GDP is not what you used to hear.

Soumaya Keynes

OK. Well, why don't we go into the final claim that I brought to you at the beginning. So this one is economists underweight big questions as they are too obsessed with identifying precise but specific causal effects. So this I think, you know we're coming them to your distrust or . . . OK how do you feel about randomised control trials?

Angus Deaton

Ha. How long do you have?

Soumaya Keynes

(Chuckles) Snappy would be great.

Angus Deaton

Well, I do think that there's just an area of disagreement in the small versus the large. So if you talk to the people like Jay Powell, my friends, (inaudible) in Princeton, for instance, they've explicitly argued that they should be more like plumbers, which is sort of fixing little things and making things work better. I don't think that's going to do much about reducing global poverty.

Global poverty was reduced by big things, you know, and it's to do with government and it's to do with politics and things, which you just can't really do randomised controlled trials on. So there's a scope issue there, which is that sometimes the little things are what you want to know. But I think more often in the world that I'm interested in, it's big things that you want to know. I mean, the sweep of history and not the plumbing of the National Health Service.

So that's just a disagreement of emphasis. That doesn't mean that you can't do good work. We need plumbers, but I don't think they're going to fix the big questions in life. There's a broader critique, which is that a lot of so-called modern econometric techniques and randomised controlled trials sort of fit into that, our local and they're local in the sense that they look at what's happening at a specific time or in a specific place where there's some sharp break with what's happened before, and you can study the effects of that break. And that's often very nice because you see these sort of spectacular interventions, and then you can look and see, oh, we can learn something by looking at that. Well, you can indeed learn something, but it's not always what you want to know. And so you finish up getting an answer, but it's an answer to a different question than the one you asked in the first place.

Put another way, there's a lot of discussion in econometrics these days about designs, and David Card in particular, has been pushing very hard on designs in econometrics as a way, once again, of getting a sharp, clear result. But let me give you an example of a design that's become very popular. It's called the movers design. And so you might want to see how people do when one set of papers, for instance, looks at the effect of hospitals or of Medicare and so on in different places, and people might slight. So that's not a very good answer. But they say, OK, let's look at people who moved, and they moved from a state with one sort of health administration to a state with another health administration and see what happens to them. But of course, that's very important. It's very nice to know. But once again, it doesn't tell you what the original question was. What do these hospital facilities, what do these health arrangements do for the people who live there, not just the people who moved?

So there tends to be a shift in the question, which takes us away from, you know, the question that we really started with. It's a trick that historians don't really do. I mean, historians are much more open about causality and their multidirectional causality. They realise it's very difficult to untangle these things, and they tell stories, and those stories are often very valuable.

Soumaya Keynes

I guess the concern is, though, that when you move away from a kind of almost obsession with causality and, you know, have you really identified the effects of A on B that you can just get it wrong, right, or that the, you know, it's the sort of vibes-based approach or, you know, you can make a claim, but it's not going to convince anyone who isn't already convinced.

Angus Deaton

Yeah, that's true. That's true. But that's the best we can do. I really do believe that. I mean, what we got ourselves into a situation now is we don't believe anything that doesn't use one of those techniques. And so it's like I've teased these people from the very beginning. It's like, you know, a surgeon leaves the instrument in the person's body. The answer you get depends not so much on the question you're asking, but on the way you choose to answer it. And that's a very odd way of going about our business, you know.

So you're right. Causality is incredibly important. I agree with it. But causality as it's become now is the use of a bunch of techniques which typically finish up giving you an answer different from the one you started with that you want.

Soumaya Keynes

I suppose the other fear is that if you move away from RCTs, these very careful empirical methods designed to get these very specific effects of policies, it becomes harder to be humble. Right? You sort of have to go with your gut and make big judgments. It becomes harder to be clear about the extent of uncertainty without just saying like, oh, we don't, we don't really know. Would you agree with that?

Angus Deaton

Yes, but it's a good thing. I tend to judge things by the quality of the arguments and the quality of the evidence, rather than by the techniques that people are using. So you go and take like a really good econometrics textbook from, say, the 19 . . .

Around 1970. Say Henri Theil's book on principles of econometrics. Causality does not appear anywhere in that book. And so, you know, we did without this obsession with causality for quite a long time. Now, of course, you could argue that we're getting a lot of things wrong. I'm sure that's right. I'm not convinced that we're still not getting a lot of things wrong. And I say, say, if you read good history, people raise arguments and they say, here's this effect, here's an effect that works in the other direction. How can we think about how we put these together? We often make very good use of the hypothetical deductive method, which is not like any one of these techniques. It's basically saying, if that were true, then this should happen and we don't see that happening and therefore this can't be true. That's a very different structure of argument. It's certainly not perfect, but it can be very helpful.

But also there's sort of a fake rigour about a lot of these methods, including randomised controlled trials. You know, people seem to think that randomisation creates two equal groups. So the difference between those two, one of which gets to policy and one of which doesn't, must be the truth. And that's just 100 per cent wrong. Randomisation doesn't make two equal groups. All these estimates have standard errors in them. And standard errors, it turns out even in randomised controlled trials are very hard to get right. And that's been known way back since the debates between, gosh, what's his name? Student and RA Fisher in the earliest days of randomised controlled trials. So they're much less rigorous than people think they are.

Soumaya Keynes

OK. So the kind of statistical uncertainty around the results is higher than maybe people would like to be the case.

Angus Deaton

That's true in a narrow sense, which is they're often calculating the standard errors wrong. But it's true in a broader sense, which is, you know, any randomised controlled trial has a standard error. And so it can't be revealing the truth.

Soumaya Keynes

Oh, dear. What is truth, Angus? That's where I am. At this point of our conversation ...

Angus Deaton

Truth has a standard error of zero.

Soumaya Keynes

OK, well, we should try to break now, but when we come back, I guess I'm going to ask you why you were identifying all these cracks in economics now, and also how we can do better.

[UNHEDGED TRAILER PLAYING]

Soumaya Keynes

OK, we are back from the break. OK. Angus, could you just tell us a bit about: Why now? Why do you think this is so urgent today?

Angus Deaton

Well, I could, I suppose, argue that wisdom comes with age, but that would be perhaps a little contentious. There's some of that, though. You know, I've done well in economics by doing a lot of narrow things. And as you got, you get older, you tend to broaden out and think, you know, what are the more deeper and eternal messages.

But my most concern now is that we're in this incredibly polarised state in which half the world thinks one thing and the other half thinks the other, and that we're in great danger of losing things like proper democracy and so on as a result of those divisions. And so I've come to wonder whether some of the things that I've believed without thinking about it over the years might have contributed to that, and to what extent I can actually make sense of some of the stuff that comes from the people who are saying, you know, you've no idea what you're doing. We should not have any immigrants. We should not have any trade. We should ban globalisation. All these things that people talk about. And so I've been trying to think if I can make sense of these things and whether there's some part of the argument that we haven't developed properly, or there may be some truth in those matters.

Soumaya Keynes

Can I ask how you think the economists can move forward here? Right. So accept that we could ask bigger questions, accept that we could change the way that we value the welfare of people who may have been left behind. What's your kind of blueprint for thinking about how to improve the work that economists are doing?

Angus Deaton

Well, I think broadening would be really very good thing. I think we need ethics, philosophy courses in economics departments. We need the history of economic thought to show that, you know, what we induce a little humility about what we're thinking about these days, and we need to encourage the reading of history to get a sort of broader perspective on what's going on. And, you know, some of the best economists are doing that. There's always been people on the fringes, people who are not in the mainstream, who've brought up a lot of these issues consistently from the outside. And, you know, we need to get back to this broader perspective that we used to have.

Soumaya Keynes

OK. Are you overall positive about the path of the profession?

Angus Deaton

Yes. And that's otherwise I wouldn't bother writing this stuff. Right? Because writing this stuff is sort of helping people lean on me a little bit to give them some support for what they're trying to do.

Soumaya Keynes

Angus, thanks so much for joining me.

Angus Deaton

Thank you for having me. It's been a pleasure.

Soumaya Keynes

And listeners should really check out his new book, *Economics in America: An Immigrant Economist Explores the Land of Inequality*.

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That is all for this week. You have been listening to *The Economics Show with Soumaya Keynes*. This episode was produced by Edith Rousselot. It is edited by Bryant Urstadt. Our executive producer is Manuel Saragosa. Cheryl Brumley is the FT's global head of audio. I'm Soumaya Keynes. Thanks for listening.

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